I. DIGEST OF THE PRIVATE SCHOOL FOR THE DISABLED AUDIT REQUIREMENT N.J.A.C. 6A:23-4.9

In accordance with N.J.A.C. 6A:23-4.9(a)1, the private school for the disabled shall engage only an independent registered municipal accountant of New Jersey or an independent certified public accountant of New Jersey to conduct the annual audit, who holds a valid registration license as a public school accountant for New Jersey. The approved private school for the disabled shall ensure the independent status of the auditor in accordance with standards set forth in the Code of Professional Ethics issued by, and available from, the American Institute of Certified Public Accountants (AICPA). Additionally, upon review by the Department, an accountant shall not be considered independent, if such accountant or members of his or her firm are engaged to perform services other than the year-end audit and tax return functions for the private school for the disabled. Also, the auditor must indicate their public school accountant's license number on the Independent Auditor's Report and Auditor's Report on Internal Controls. A copy of N.J.A.C. 6A:23-4.1 through 4.16 is included in this publication as **APPENDIX A**.

The audit shall include an audit of the books, accounts and moneys and a verification of all cash and bank balances of the private school, and of any officer or employee thereof, and of any organization of private school students conducted under the auspices of the private school. The personal accounts of an officer or employee are not subject to audit. The audit shall be based on a July 1 to June 30 fiscal year, regardless of the fiscal year of the agency. The audit shall contain the following:

1) A balance sheet;

2) Statement of support and revenue, expenses, capital additions, and changes in fund balances (nonprofit) or a statement of revenue and expenses, and reconciliation of retained earnings (profit);

3) Statement of total expenditures by account series for the July through June school year. This statement must reflect the major account series detailed in the Department of Education prescribed Chart of Accounts;

4) Statement of Expenditures by Line Item, including the segregation of all administrative, instructional and health salaries by title of position for the July through June school year. Expenditures by Line Item must be reported for the entire school year in one column (no longer separate reporting for the ten month and extended school years). This statement must reflect the line item account titles detailed in the Department of Education's prescribed Chart of Accounts reflected in **APPENDIX B** and **B-1**.

   This Chart of Accounts became effective in the 2002-2003 school year. Schools having more then one of the following job titles must report these job titles by title of position and salary for individual in the title: director, executive director, assistant director, business manager, school business administrator, principal, assistant principal, and supervisor of instruction. Please refer to pages P-11 through P-18 and NP-15 through

NP-22. In addition, all consultants providing direct services to students must be identified according to the type of service(s) provided such as Occupational Therapist and Physical Therapist, etc. Please refer to pages P-11 through P-18 and NP-15 through NP-22;

5) Statement of Percentages for Cost Category Assignments (refer to **APPENDIX T**)

6) Statement of the average daily enrollment for the July through June school year. The average daily enrollment must be computed to four decimal places and computed for the July through June school year;

7) Statement of tuition rate computation for the July through June school year;

8) Statement of billing adjustments by school district for the July through June school year;

9) Statement of non-allowable costs reflecting an itemized list of the non-allowable costs, by amount, for the July through June school year;

10) Statement of Accrued Expenses and Accounts Payable;

11) Statement of Food Service, if applicable;

12) Statement of Interest/Dividends – Investment of Tuition Funds, if applicable;

13) Management's Determination of the Final Tuition Rate Charged; and

*A statement of cash flows is optional.

In accordance with N.J.A.C. 6A:23-4.9(a), regardless of the fiscal year of the school, each approved private school for the disabled shall submit to the Commissioner audited financial statements based on the July 1 to June 30 school year which must be postmarked on or before November 1, 2005. Please be advised, an audit postmarked after November 1, 2005 precludes the school from requesting a higher tentative tuition rate in accordance with N.J.A.C. 6A:23-4.9(h). Also, in accordance with N.J.A.C. 6A:23-4.9(i) failure to comply with this section may result in the Commissioner placing the approved private school for the disabled on conditional approval status that precludes the school from accepting new students.

The Independent Auditor's Report and the Auditor's Report on Internal Controls must both be signed by the individual making the audit or in charge of the audit and not by the firm or corporation which employs the auditor and include a copy of the auditor's current public school accountant's license. Please be advised, the effective date of the auditor's public school accountant's license must be prior to the start of the auditor's fieldwork for the report

An audit for each private school location must be filed with each of the following three parties: the Division of Finance in the Trenton office of the Department of Education; Office of Compliance Investigation in the Trenton office of the Department of Education and with the County Superintendent of Schools in the county in which the private school is located. For example, a private school which has two locations (Somerset county and Morris county) must file four reports with the Trenton offices: one for Somerset and one for Morris with the Division of Finance; one for Somerset and one for Morris with Office of Compliance Investigations and one with the Somerset County Superintendent of Schools and one with the Morris County Superintendent of Schools. A private school which has one location must file three reports; one with Division of Finance and one with the Office of Compliance Investigations in the Trenton offices and one with the County Superintendent of Schools in the county in which the school is located. No provision is made for the issuance of an extension beyond the statutory due date.

The private school for the disabled must file three certified signed duplicate copies of the reports and recommendations for each private school location. One with Division of Finance, one with the Office of Compliance Investigations in the Trenton offices and one with the County Superintendent of Schools in the county in which the school is located. To avoid a great many calls to the department in October and November 2005, the private schools for the disabled should provide the below list to their internal staff so they are aware of the correct address to mail the audit and the correct address for hand delivery. Listed below are the addresses.

Division of Finance Mailing Address:
James Verner, Section Supervisor
State of NJ - Department of Education
Division of Finance
Office of Fiscal Policy and Planning
P.O. Box 500
Trenton, New Jersey 08625-0500

Business Address: (For hand delivery only, that includes Fed X, Next Day Mail etc.)
James Verner, Section Supervisor
State of NJ - Department of Education
Division of Finance
Office of Fiscal Policy and Planning
100 River View Executive Plaza
Route 29
Trenton, New Jersey 08625-0500

<u>Office of Compliance Mailing Address</u>:
Lisa McCormick, Manager
State of NJ - Department of Education
Office of Compliance Investigation
Single/Grants Audit Unit
P.O. Box 500
Trenton, New Jersey 08625-0500

<u>Business Address</u>: (<u>For hand delivery only, that includes Fed X, Next Day Mail etc.</u>)
Lisa McCormick, Manager
State of NJ - Department of Education
Office of Compliance Investigation
100 River View Executive Plaza
Route 29
Trenton, New Jersey 08625-0500

<u>County Superintendent of Schools</u>

Please refer to **APPENDIX G** for the names and addresses of the County Superintendents of Schools.

II. DIRECTIVES TO THE PRIVATE SCHOOL'S GOVERNING BODY

BUDGET

The Department of Education determines each private school's tentative tuition rate for those schools that were in operation for at least two years in accordance with N.J.A.C. 6A:23-4.2(i). The private schools and public schools are notified of these tentative tuition rates in December prior to the ensuing school year. The Department of Education recommends that the private school generate an internal budget to determine the tentative tuition rate which will be charged in the ensuing school year. This budget is to be used for internal financial purposes only and is not to be forwarded to the Department of Education. If the internally budgeted tuition rate determined is less than or equal to the tentative tuition rate determined by the Department of Education, the private school has no need to contact the Department of Education. If the internally budgeted tuition rate determined is higher than the tentative tuition rate determined by the Department of Education, the private school may submit a request for a higher tentative tuition rate for the entire school no later than January 31 preceding the beginning of the ensuing school year.

New private schools for the disabled must submit budgets to the Department of Education for their first two years of operation to determine a tentative tuition rate. The tentative per diem tuition rate is based on the estimated budgeted costs plus a surcharge/working capital fund divided by the July through June estimated average daily enrollment and then divided by the number of enrolled days in the July through June school year. If the private school charges a tentative per diem tuition rate which is less than the one approved by the Department of Education, they do not waive their right to any adjustments resulting from the annual certified audit. However, if management chooses to charge a final tuition rate in excess of 10% of the tentative tuition rate charged, the school must make the proper notification to the parties in accordance with N.J.A.C. 6A:23-4.2.

Effective in the 2004-2005 school year, a new private school for the disabled (except schools operated in and affiliated with a public school) receive preliminary approval to operate for a two year period, after which the school must provide documentation that the school has a minimum average daily enrollment (ADE) of 24 public school placement students by the end of the second school year. For example, a new private school for the disabled approved for the first year of operation in 2004-2005 must attain an ADE of 24 public school placement students for the 2005-2006 school year. If the minimum ADE of 24 public school placement students is not attained in the second school year, the school will have their preliminary approval status revoked and no longer be considered an approved private school for the disabled.

Under some circumstances, a student's individual education program may require additional educational elements not ordinarily offered at the private school. If a district board of education agrees to pay for a student's extraordinary services, the district shall notify the Commissioner within 30 days of such agreement. The notification shall include the student's initials, the private school, the type of extraordinary service(s), and the cost of the additional service(s). Ordinarily the type of service approved by the district board of education is the cost of a one-to-one aide's salary and fringe benefits. For example, the district board of education may agree to pay $100 per diem for the salary and fringe benefits of a one-to-one aide, but the final rate charged is based on the certified audit report. This rate may be higher or lower than the original per diem rate of $100.

BOOKKEEPING RECORDS (N.J.A.C. 6A:23-4.4)

An approved private school for the disabled:

1. Shall maintain accounts in accordance with generally accepted accounting principles (GAAP) as defined by the American Institute of Certified Public Accountants, except as already modified under N.J.A.C. 6A:23-4.1 et seq.
2. Shall use accrual accounting on a quarterly basis
3. Shall capitalize fixed assets expenditures of $2,000 or more and depreciate such expenditures using the straight line method and using a useful life consistent with current Federal tax laws as defined in Internal Revenue Code Section 168 and class lives as defined in that section except for real property which may be depreciated using a useable life of 15 years or the term of the original mortgage, whichever is greater.
4. Shall capitalize leasehold improvements and depreciate such improvements using the straight-line method and a useful life equal to that of the lease, but not less than five years.
5. Shall maintain asset, liability and fund balance accounts, as well as expenditure and revenue accounts.
6. Shall maintain separate records if multiple sites for a private school have been approved, costs shall be segregated by site in the financial records. If the agency or private school operates more than one program (E.I.P., Title XX, etc.) costs shall be segregated by program in the financial records.

A Chart of Accounts issued by the Department of Education pursuant to N.J.A.C. 6A:23-4.4(a)7 shall be maintained, and each expenditure or revenue account utilized should be reflected on the private school's general ledger. In accordance with N.J.A.C 6A:23-4.4(a)7 and effective July 1, 2002, a uniform minimum chart of accounts consistent with Financial Accounting for Local and State School Systems 1990, commonly referred to as Handbook 2R2 and developed by the National Center for Educational Statistics, incorporated herein by reference, as amended and supplemented as prepared, published and distributed by the Commissioner for use in the accounting systems of all private schools for the disabled shall be used for financial reporting to the Department. For entities that operate other programs and the total private school tuition expenses are less than 51 percent of the entity's total expenses, the Commissioner may approve the use of an alternative chart of accounts, but the private school shall provide evidence that such chart of accounts may be cross-walked to the prescribed chart of accounts.

The private school is not required to maintain the 14 character account number such as #11-200-100-101 but the private school is restricted to those categories and account titles listed in the Department of Education prescribed Chart of Accounts. The Department of Education prescribed Chart of Accounts is included in the **APPENDIX B and B-1**. Bookkeeping records shall include, but not be limited to: 1) Cash receipts journal; 2) Cash disbursements journal; 3)

General ledger; 4) Tuition ledger; 5) Payroll journal; and 6) Fixed asset inventory. The private school may utilize other subsidiary journals based upon their individual needs.

PETTY CASH FUND

The governing body (board) shall formally approve and establish financial and bookkeeping controls for each petty cash fund in its private school when expenditures from such funds will be eventually charged against the private school general ledger accounts and become part of the Certified Actual Cost Per Student charged public school districts. The following are the recommended minimum requirements for such funds:

1) A board designated employee to administer disbursements;

2) A locked box for safekeeping of petty cash; the locked box must be exclusively maintained by the designated administrator;

3) Disbursements must be recorded chronologically in a journal showing date, vendor, purpose and amount. All purchases must be supported by either invoices or cash register receipts, and payments for personal services or employee mileage reimbursements must be supported by signed detailed vouchers;

4) The amount of any individual fund should not exceed $1,500, and the amount of any individual disbursement should not exceed $150;

5) Expenditures must be distributed to the general ledger according to the Department of Education prescribed Chart of Accounts, each time the fund is reimbursed;

6) The initial setup of the fund must be reflected in the general ledger as an asset; and

7) Petty cash fund at June 30, must be deposited in the bank and a new fund established after that date.

STUDENT ACTIVITY FUNDS

The governing body (board) shall formally approve and establish financial and bookkeeping controls for each student activity fund conducted under the auspices of the private school. These funds are established from a combination of student contributions and expenditures of public school tuition revenues and used to finance field trips, year books, and other recreational activities which are not a part of the instructional program.

Funds derived from public school tuition revenues are used only to supplement student contributions. Any surplus funds remaining at June 30 must be refunded. Expenditures of public school tuition revenues into such funds and refunds of surplus funds must be charged to accounts #11-401-100-100 or object codes #205, #232, #500, #600, and #800. Any expense charged to such funds must conform to N.J.A.C. 6A:23-4.1 et seq. and be reasonable and necessary for the activity funded. The following are the recommended minimum requirements for such funds:

1) A board designed employee to administer the fund;

2) A receipts and disbursements journal segregated by individual activity;

   RECEIPTS
   Receipts must be detailed by activity showing date, source, purpose and amount. All receipts should be promptly deposited in the bank. Bank deposits must agree with the receipts in the cash receipt book and must be traceable to definite receipts or groups of receipts;

   DISBURSEMENTS
   Disbursements must be recorded chronologically by activity showing date, vendor, check number, purpose and amount. All disbursements must be made by check and supported by invoices, cash register receipts or signed vouchers, as well as written orders of persons supervising the fund. Check should bear two or more authorized signatures;

3) A separate checking account maintained by the designated administrator. Different activity funds may be commingled in the same checking account. Book balances must be reconciled with bank balances each month. Canceled checks and bank statements must be retained for examination by the auditor; and

4) Surplus funds at June 30 must be first refunded to accounts #11-401-100-100 or object codes #205, #232, #500, #600, and #800 in an amount not in excess of contributions derived from public school tuition revenues; any remaining surplus funds must be equitably refunded to those students contributing to the fund.

RULES OF PROFESSIONAL CONDUCT

The private school auditor must follow the rules of professional conduct required by N.J.A.C. 13:29-3 et seq. and promulgated by the Board of Accountancy, Department of Law and Public Safety. The private school auditor must also follow the Department of Education criteria for determining independence as required by N.J.A.C. 6A:23-4.9(a). Independence will be determined in accordance with standards set forth in the Code of Professional Ethics issued by and available from the American Institute of Certified Public Accountants. Additionally, an accountant shall not be considered independent if such accountant or members of his or her firm are engaged to perform services other than the year-end audit and tax return functions for the private school for the disabled. Please be advised, if the year-end auditor performs any additional financial service for the private school other than the preparation of tax returns, the auditor will be considered not to be independent and the cost of audit will be considered non-allowable. Please refer to **APPENDIX O**.

COOPERATION WITH THE AUDITOR

Private school for the disabled business personnel are expected to perform the following actions in advance of the audit:

A) All cash on hand, including the petty cash fund, must be deposited in the bank depository by June 30, and all bank statements must be reconciled as of that date.

B) All entries must be posted to date and records balanced:

1) Cash record balances must be reconciled and in agreement with bank statement balances;

2) In addition to balancing the general ledger, the business personnel shall take a trial balance;

3) All entries in student activity account records shall be posted to date, balanced, reconciled to any respective bank statements, and available for audit; and

4) The payroll account must be reconciled as of June 30.

C) Assemble and have the following records available for audit:

1) Quarterly financial reports, prescribed by the Department of Education in accordance with N.J.A.C. 6A:23-4.4(a)11 (see Department of Education prescribed Financial Reports included in **APPENDIX C**);

2) All purchase orders per N.J.A.C. 6A:23-4.4(a)9 including a list of accounts payable (including the date the services were rendered or goods received) for both the beginning and ending dates of the audit;

3) All paid and voided regular and payroll checks, together with the bank statements on which they are listed, arranged by months;

4) Copies of all employees time records, together with the corresponding payrolls per N.J.A.C. 6A:23-4.4(a)10 and all payroll tax returns, arranged in chronological order;

5) Paid invoices per N.J.A.C. 6A:23-4.4(a)9 filed in order of payment or alphabetical order;

6) Monthly bank reconciliations;

7) Minutes of board meetings, which should be examined prior to the audit to determine whether the proceedings are complete and properly signed;

8) Insurance policies and pension plans, which must be reviewed for conformity with N.J.A.C. 6A:23-4.4(f) and N.J.A.C. 6A:23-4.5(a) 21, 22, 23, and 31;

9) All tuition contract agreements per N.J.A.C. 6A:23-4.4(a)13 (see Department of Education prescribed tuition contract included in **APPENDIX D**);

10) All contracts, including transportation agreements, leases, conveyances, and contracted services agreements per N.J.A.C. 6A:23-4.4(a)9;

11) Records, bills, orders and other supporting data of the petty cash fund or any other funds or activity accounts under the auspices of the private school per N.J.A.C. 6A:23-4.4(a)16;

12) Updated and complete mileage records for each school-owned vehicle, leased vehicle or vehicle contained in a related party transaction involving the purchase of transportation services per N.J.A.C. 6A:23-4.4(a)18;

13) All correspondence received from the Division of Finance relating to adjustments and tuition rate approval. This must include, if applicable, the correspondence relating to a higher tentative tuition rate for the school year. The accounting records must segregate the costs of providing extraordinary service(s) the student(s) received;

14) Documentation of cost analysis performed by the approved private school for the disabled in calculating allocation of shared organizational costs in multi-fund organizations;

15) New Jersey school registers indicating all students enrolled in the private school along with the students' classification and total number of enrolled days, per N.J.A.C. 6A:23-4.8;

16) Documentation relating to related party/less-than-arm's length transactions;

17) The bookkeeping records contained in N.J.A.C. 6A:23-4.4(a)8 which shall include but not be limited to: 1) cash receipts journal; 2) cash disbursements journal; 3) general ledger; 4) tuition ledger; 5) payroll journal; and 6) fixed asset inventory;

18) The board minutes impacting the 2004-2005 school year along with all formally adopted board policies;

19) A listing of all consultants that provide direct services to student such as Occupational Therapist and Physical Therapist, etc. These services would be charged to Special Education Instruction – Purchased Professional Educational Services account #11-200-100-320. These positions must be identified on the Statement of Expenditures by Line Item by position title;

20) If the school has a less-than-arm's length loan (related party loan), the school must provide the auditor with a copy of the department's approval letter, documentation that the proceeds of the loan were deposited into the school's checking account(s) (copy of bank statement verified through cash receipts journal) or other financial instrument and documentation that the loan was repaid in accordance with the requirements of the approval letter (copies of canceled checks);

21) Employment contracts of each school employee whose position requires a certificate, license or a bachelor's degree;

22) A copy of the school's employee handbook that outlines the school's board polices concerning employee fringe benefits;

23) Copies of any county superintendent approval(s) of an unrecognized job title(s);

24) A copy of the 2004-2005 Annual Fiscal and Program Information prepared by school management and filed with the department.

HEARING ON AUDIT

The governing body must act on the auditor's recommendations. The records of the private school should be adjusted in accordance with the audit. In accordance with N.J.A.C. 6A:23-4.9(e), within 60 days of receipt of the audit, school management shall develop a corrective action plan pursuant to this subchapter in response to recommendations contained in the year-end audit, and submit such corrective action plan to the Assistant Commissioner, Division of Finance for review and approval. A copy of the minutes of the board meeting, at which the audit recommendations were read and discussed, must be enclosed with the corrective action plan filed to the Assistant Commissioner, Division of Finance. Only that section of the minutes pertaining to the annual audit need be submitted. When the correction action is based on the requirements of this subchapter, the Assistant Commissioner, Division of Finance shall determine if the correction action is adequate, and when appropriate, require additional action.

Specific board action and disposition of each audit recommendation must be duly noted in the minutes of the board.

SEND TO: James Verner, Section Supervisor
New Jersey State Department of Education
Division of Finance
Office of Fiscal Policy and Planning
P.O. Box 500
Trenton, New Jersey 08625-0500

III. PRIVATE SCHOOL FOR THE DISABLED BOOKKEEPING AND ACCOUNTING

The list of bookkeeping and accounting requirements appears in **APPENDIX A** on pages 14 – 21. The auditor must be familiar with these requirements and their impact on the private school accounting and bookkeeping records.

The State Board of Education has prescribed a uniform system of bookkeeping for the Private Schools for the Disabled and is authorized to compel its use per N.J.A.C. 6A:23-4.1 through 4.16. Funds may be made up of restricted fund sources (public school tuition revenues) and unrestricted fund sources (private placement tuition, investment income, endowments, fund raising, etc.).

The private school's auditor shall include recommendations in the audited financial statements regarding necessary improvements to the school's bookkeeping system. Such recommendations shall facilitate financial statement preparation and bring the private school's current bookkeeping system into compliance with the uniform system of bookkeeping prescribed by the State Board of Education, as outlined in this manual. The private school's independent auditor will be most familiar with the organizations accounting needs and is best suited to make such recommendations.

PRIVATE PLACEMENT SERVICES

A private placement student is a student placed in an approved private school for the disabled by other than a New Jersey school district or a New Jersey State Agency. For tuition rate purposes for a private placement student, the approved private school for the disabled must charge not less than the audited cost per student or the private school for the disabled must have other means of financing the excess costs over the tuition rate charged. Examples of private placements are student's tuition charges which are paid (funded) by one of the following sources: 1) parent(s) or guardian(s); 2) an out-of-state school district; 3) the private school funds the tuition charges through an unrestricted fund.

When private placements are serviced in classes separate from public school placements, those services are to be accounted for as a separate program and fund. When private placements are serviced in mixed classes with public school placement students, the private school must establish sufficient controls and audit trails to ensure that public school tuition revenues are not absorbing the excess of private placement costs over private placement tuition revenue; and that private placement costs are not included in the calculation of any surcharges or working capital funds included in the Certified Actual Cost Per Student. The minimum acceptable controls are the segregation of public school placement and private school placement income on the cash receipts journal, tuition journal, and the general ledger; and for purposes of allocating costs the recording of private placement enrollment by classification according to special education class placement on separate New Jersey Registers.

<u>FUNDS - RESTRICTED AND UNRESTRICTED</u> (N.J.A.C. 6A:23-4.4)

The private school for the disabled must account for all revenues, restricted and unrestricted. Unrestricted revenue sources may be expended at the private school's discretion and are not subject to N.J.A.C. 6A:23-4.5(a). The private school should establish sufficient controls and audit trails to enable the annual school auditor to certify to the usage of both restricted and unrestricted funds. In the absence of such controls and audit trails, any surplus fund balance of a nonprofit private school will be deemed restricted and subject to limitations imposed on the Public School Placement Restricted Working Capital Fund per N.J.A.C. 6A:23-4.7.

A nonprofit school's restricted public school placement surplus fund balance is generally the Public School Placement Restricted Working Capital Fund derived from public school placement tuition and established per N.J.A.C. 6A:23-4.7. Unexpended unrestricted revenue sources may be included if the private school chooses not to establish sufficient controls and audit trails to segregate restricted and unrestricted fund balances. A nonprofit school's unrestricted surplus fund balance is composed of unexpended unrestricted revenue sources such as excess private placement tuition, investment income, fund raising, etc. Under no circumstances may unexpended public school placement revenue or Public School Placement Restricted Working Capital Fund be included in the unrestricted fund balance or other restricted fund balances of the organization.

A profit-making school's retained earnings balance is unrestricted. It may be composed of surcharges derived from public school placement tuition in accordance with N.J.A.C. 6A:23-4.6 and unexpended unrestricted revenue sources such as investment income, excess private placement tuition, etc.

The Final Tuition Rate Charged to public school districts shall only include those costs which shall be consistent with the Individualized Education Program (IEP) of a disabled student and shall be reasonable, that is ordinary and necessary and not in excess of the cost which would be incurred by an ordinarily prudent person in the administration of public funds per N.J.A.C. 6A:23-4.2(a). Costs described in N.J.A.C. 6A:23-4.5(a) are deemed non-allowable as charges against public school placement tuition and as such must be charged against unrestricted or other restricted fund sources.

Although private placement tuition is considered an unrestricted fund source, it must bear its proportionate share of allowable costs for services. Therefore only the excess of private placement tuition per student over total per student allowable costs may be expended at the private school's discretion. In addition, private placement tuition programs must be self-sufficient. Those programs that consistently result in excess expenses over revenues will be reviewed by the department to determine if the private school will continue to be approved when public school funds are being used to fund losses.

Under no circumstances may the excess of non-allowable costs over unrestricted fund sources or excess unrestricted expenses over unrestricted revenues be charged against or absorbed by restricted fund balances (Public School Placement Restricted Working Capital Funds) of the nonprofit school. If excess non-allowable costs exceed unrestricted surplus fund balances or if no unrestricted surplus fund balance exists, the unrestricted fund balance must be carried at a deficit. The private school must take steps to raise unrestricted fund sources in order to eliminate the deficit in a reasonable amount of time. In order to achieve this goal, the private school must take steps to increase the unrestricted and/or other restricted revenue fund sources and eliminate non-allowable costs. The auditor must comment on the deficit balances in unrestricted and/or other restricted fund balances and outline the steps, if any, which were taken by management to eliminate the deficit(s). If management took no action, the auditor must also comment.

An approved non-profit private school that has a positive public school placement restricted working capital fund balance and a net deficit fund balance in all other fund balances (restricted and unrestricted) for more than three consecutive fiscal year-ends shall submit to the Assistant Commissioner, Division of Finance within 60 days after the end of the third fiscal year a corrective action plan to reduce the net deficit fund balance. The private school for the disabled shall be subject to monitoring by the Department to ensure implementation of and adherence to the corrective action plan. If the private school fails to decrease the deficit within three years, the private school shall be placed on conditional approval status until such time that the deficit decreases.

When the Public School Placement Restricted Working Capital Fund contains a positive balance and other funds (unrestricted and/or restricted other) contain a net negative balance, in effect private schools for the disabled are using public school funds to subsidize other fund balance deficits. Nonprofit private schools that maintain a net deficit position in the total of unrestricted and other restricted fund balances and have a positive public school placement restricted working capital fund are precluded from incurring non-allowable costs and/or excess unrestricted expenses over unrestricted revenues in the subsequent school year.

FUND ACCOUNTING FOR NON-PROFIT ORGANIZATIONS

The fund accounting concept is one of the important differences between the accounting principles for nonprofit organizations and those for profit-making organizations. The accounting system of nonprofit organizations is organized to keep separate records of funds, i.e. resources and expenditures that are specified for certain uses. Funds have their own self-balancing set of accounts, including their own balance sheets and statement of revenues and expenses. Funds normally fall into two broad categories:

1) Unrestricted funds - which are funds available for whatever purpose the governing board designates; and

2) Restricted funds - which are funds over which the governing board has only partial control due to donor designation or federal/state law as to the use of the funds.[1]

[1]Robert M. McAdams, C.P.A., "Accounting and Financial Reporting For Nonprofit Organizations: An Overview", The Practical Accountant, January 1985.

A small nonprofit private school for the disabled that has primarily restricted resources derived from public school placement tuition and no private placements may have only one fund. Its balance sheet would not look very different from a profit-making organization's balance sheet. The fund balance would be restricted; however the disposition of any non-allowable costs must be detailed in the financial statements. The excess of non-allowable costs over unrestricted revenue sources must be segregated as a separate deficit fund balance.

Multi-funded organizations operating private schools for the disabled and private schools which raise substantial unrestricted monies through investments, fund raisers, excess private placement revenue, etc. are to maintain separate records of funds. The following is a list of funds to be maintained as applicable:

<u>Operating Funds</u>

1) Restricted - Public School Placement Fund
2) Restricted - Early Intervention Program
3) All Other Restricted Fund (further segregation discretionary)
4) Unrestricted Fund (further segregation discretionary)

<u>Plant Funds</u> (discretionary)

1) Restricted - Public School Placement Fund
2) Other Funds (further segregation discretionary)

Endowment Fund (discretionary)
Custodial Fund (discretionary)
Special Funds (discretionary)

MODIFIED FUND ACCOUNTING FOR PROFIT-MAKING ORGANIZATIONS

Although, the retained earnings of a profit-making organization are unrestricted, the usage of restricted public school placement tuition must be documented. Profit-making organizations must separately detail restricted fund sources, uses, unrestricted fund sources and uses on the "Statement of Revenue and Expenditures, and Reconciliation of Retained Earnings". This designation of restricted fund sources and uses and unrestricted fund sources and uses will not change the customary format for balance sheet presentation or reconciliation of retained earnings. It will have an impact only on the revenue and expenditure presentation.

A profit-making private school for the disabled that has primarily restricted resources derived from public school placement tuition and no private placements need not detail separately restricted fund sources and uses and unrestricted fund sources and uses on the revenue and expenditure section. When using the standard profit-making financial statement presentation, non-allowable costs per N.J.A.C. 6A:23-4.5(a) should be reflected as adjustments on the reconciliation of retained earnings.

Profit-making private schools for the disabled which provide private placement services, operate other programs not funded by public school placement tuition, or incur large sums of non-allowable costs per N.J.A.C. 6A:23-4.5(a) which are not normally adjustments to retained earnings, are to detail separately restricted fund sources and uses on the revenue and expenditure presentation. The reconciliation of retained earnings and balance sheet would be presented in the standard format.

When fixed assets are allocated between different fund sources (divisions), a separate record must be maintained detailing allocated program usage for each class of fixed assets. In accordance with N.J.A.C 6A:23-4.7(c), any gain on the sale of fixed assets originally purchased through public school restricted funds shall be added to the public school placement restricted working capital fund. The gain realized on fixed assets allocated between fund sources must be allocated between the fund sources accordingly.

FIXED ASSET ACCOUNTING

Generally Accepted Accounting Principles (GAAP) requires the capitalization of fixed asset expenditures and the depreciation of such fixed assets (see the Chart of Accounts, 700 Series explanation included in **APPENDIX B**). N.J.A.C. 6A:23-4.4(a) 1 requires that:

> "An approved private school for the disabled shall maintain accounts in accordance with Generally Accepted Accounting Principles (GAAP) as defined by the American Institute of Certified Public Accountants, except as already modified in this chapter".

In accounting for land, building and equipment purchases, some nonprofit organizations expense the costs of fixed assets in the year of purchase, rather than capitalizing them because of their concern about raising adequate cash to meet cash expenditures, which included fixed asset purchases. Since generally accepted accounting principles require the capitalization of fixed asset expenditures, these organizations should make a year-end journal entry reclassifying the expenditures as assets.[2] When both an Operating Fund and Plant Fund are utilized, this entry treats the fixed asset expenditures as transfers from the Operating Fund to the Plant Fund, rather than expense items of the Operating Fund. Another entry then sets up the fixed asset cost as an asset in the Plant Fund.

Transfers must be carefully shown in the financial statements since the statements will be misleading if transfers between funds appear to be expenses or income to the funds.[3] Transfers must be shown below the Excess (Deficiency) of Support and Revenue Over Expenses After Capital Additions line in the "Statement of Support and Revenue, Expenses, Capital Additions and Changes in Fund Balances". Transfers must be detailed in the Notes to Financial Statements.

Fixed assets of the nonprofit private school that will be depreciated/expensed and included in the Certified Actual Cost Per Student and Final Tuition Rate Charged must be segregated and

[2] Ibid.
[3] Ibid.

recorded in the appropriate fund. If a separate Plant Fund is maintained, these assets must be recorded in the Restricted - Public School Placement Fund in the Plant Fund; if only an Operating Fund is maintained, these assets must be recorded in the Restricted - Public School Placement Fund in the Operating Fund. Fixed assets shared by more than one program (fund source) must be equitably allocated between funds.

The segregation of fixed assets financed and utilized by the public school placement program is necessary because any gain realized on the disposition of these items must be returned to the program and the sum of the Restricted - Public School Placement Fund balances of both the Operating Fund and the Plant Fund must be used when calculating the Public School Placement Restricted Working Capital Fund in accordance with N.J.A.C. 6A:23-4.7.

Depreciation on fixed assets is also required if the organization's statements are to be in accordance with GAAP. Depreciation must be based on the straight-line method over the appropriate recovery period. In accordance with N.J.A.C. 6A:23-4.4(a)3, an approved private school for the disabled shall capitalize fixed assets expenditures of $2,000 or more and depreciate such expenditures using the straight line method and using a useful life consistent with current Federal tax laws as defined in Internal Revenue Code Section 168 and class lives as defined in that section except for real property which may be depreciated using a useable life of 15 years or the term of the original mortgage, whichever is greater.

The $2,000 limit is on a per item basis, and not the total amount of a purchase order. For example, if 10 computers costing $1,500 per item were purchased for a total of $15,000, this would be expensed since the item ($1,500) cost less than $2,000. The depreciation on fixed assets of the nonprofit organization is recorded in the "Statement of Support and Revenue, Expenses, Capital Additions and Changes in Fund Balances" in the fund where its related fixed asset is recorded and the accumulated depreciation is deducted from the accumulated fixed asset cost on the balance sheet. When a Plant Fund is maintained, depreciation relating to items utilized by public school placements must be recorded as expenditures in the Restricted - Public School Placement Fund in the Plant Fund. If no Plant Fund is maintained, the depreciation must be recorded as expenditures in the Restricted - Public School Placement Fund in the Operating Fund.

The depreciation of instructional equipment costing greater than $2,000 must be recorded in Capital Outlay - Special Education Instruction account #12-200-100-740 or in Capital Outlay - Vocational Programs account #12-320-100-740. Please refer to **APPENDIX B**, lines 283 and 295. The depreciation of non-instructional equipment costing greater than $2,000 must be recorded in Capital Outlay – Undistributed accounts #12-000-100-740, #12-000-210-740, #12-000-220-740, #12-000-230-740, #12-000-240-740, #12-000-262-740, #12-000-270-740, #12-000-290-740, #12-000-300-740, or #12-000-400-740. Please refer to **APPENDIX B**, lines 296 through 305. The cost of depreciation on all types of school buildings, administrative buildings costing greater than $2,000 must be recorded in Debt Service Funds – Depreciation of Buildings account #40-701-510-911. Please refer to **APPENDIX B**, line 314.

The department considers the purchase of a computer system (monitor and central processing unit/hard drive (CPU/HD)) to be one item when determining whether the purchase should capitalized or expensed. For example, the purchase of a monitor for $600 and a CPU/HD for $1,500 would be considered a total purchase of $2,100, which must be capitalized. A school cannot avoid capitalizing this purchase by issuing two purchase orders, one for $600 and one for $1,500. If separate purchase orders were issued and the monitor and CPU/HD were used for the same computer system, this purchase must be capitalized. If a school purchased 10 monitors costing $600 per item for a total of $6,000 in a separate or the same purchase order as 10 CPU/HD costing $1,500 per item for a total of $15,000, the per unit cost is $2,100 ($600 and $1,500). Therefore, the total of purchase of $21,000 must be capitalized.

Instructional equipment costing $2,000 or less is considered General Supplies and must be recorded Current Expense – Special Education Instruction - General Supplies account #11-200-100-610, Current Expense – Special Vocational Education Instruction - General Supplies account #11-320-100-610 or Current Expense – Educational Media Services School Library - General Supplies account #11-000-222-600. Please refer to **APPENDIX B**, lines 9, 140 and 201. The cost of non-instructional equipment costing $2,000 or less must be recorded in Current Expense – Undistributed Expenditures – Support Services – General Administration – Supplies and Materials account #11-000-230-600, Current Expense – Undistributed Expenditures – Support Services – School Administration - Supplies and Materials account #11-000-240-600, or Current Expense – Undistributed Expenditures – Business and Other Support Services - Supplies and Materials - account #12-000-290-600. Please refer to **APPENDIX B**, lines 223, 236 or 266.

Equipment for the following areas School Sponsored Co-curricular Activities, School Sponsored Athletics, Undistributed Expenditures for Health Services, Other Support Services Student – Related Services, Other Support Services Student – Regular, Improvement of Services, Instructional Staff Training, Student Transportation Services and Food Services costing $2,000 or less is not considered instructional costs and is charged to Supplies and Materials object code #600. In addition equipment costing $2,000 or less for Other Operations and Maintenance of Plant is charged to General Supplies object code #610.

CASH RECEIPTS JOURNAL (N.J.A.C. 6A:23-4.4(a)8)

The private school is to segregate cash receipts by source in the cash receipts journal. Each entry must contain the date and a description. The private school should establish sufficient audit trails for cross-referencing entries from the cash receipts journal to the general ledger. All cash receipts should be promptly deposited in the private school's cash accounts. The following cash receipt categories when applicable are the minimum recommended by the State Department of Education:

1) Public School Tuition - Restricted;

2) Private Placement Tuition - Unrestricted;

3) Other Local Income - Unrestricted:

    a) Investment Income;
    b) Fund Raising;
    c) Endowments; and
    d) Miscellaneous;

4) Short-Term Cash Flow Loans;

5) Loans Secured by Fixed Assets (not real property);

6) Mortgages Secured by Real Property;

7) Refunds of Current Fiscal Year Expenditures (also applied against the applicable expenditure account);

8) Refunds of Prior Fiscal Year Expenditures (also charged to Miscellaneous Income-Restricted in the general ledger and applied against aggregate current year expenditures);

9) Proceeds from the Sale of Fixed Assets;

10) Insurance Reimbursements (any reimbursement or reimbursement balance not expended on replacement of insured assets must be charged to Miscellaneous Income-Restricted in the general ledger and applied against aggregate current year expenditures);

11) Child Nutrition Program Reimbursement (also applied against total Undistributed Expenditures – Food Services expenditures #11-000-310-100 or object codes #205, #232, #600, #890);

12) Food Service Sales - Student, Staff and Other applied against Undistributed Expenditures – Food Services lines 270 to 274 in **APPENDIX B.** Refer to pages P-27 and NP-31;

13) Student Contributions – School Sponsored Co-curricular Activities (applied against total #11-401-100-100 or object codes #205, #232, #500, #600, #800. If a separate Student Body Activity fund is established, these receipts are recorded on the records of that fund not here); and

14) Miscellaneous Receipts.

<u>CASH DISBURSEMENTS JOURNAL</u> (N.J.A.C. 6A:23-4.4(a)8)

The private school is to segregate cash disbursements by category in the cash disbursements journal. Each entry must contain the date; check number, purchase order number, and a description. All disbursements must be made by check, except those made from an imprest petty cash fund.

Cash disbursements that are part of current fiscal year expenditures are to be referenced by including in the description the expenditure account number listed in the Chart of Accounts. Accrual accounting dictates the use of a "purchase" or "account payable" journal to record purchases (expenditures) on account. Distributions to both accounts payable and expenditure accounts (listed in the Chart of Accounts) would be made when entering purchases. As a result, entries in the cash disbursements journal would then be distributed to (offset) accounts payable. The following cash disbursement categories are the minimum recommended by the Department of Education:

1) Current Year Expenses;
2) Prior Year Accounts Payable;
3) Repayment of Principal - Short-Term Cash Flow Loans;
4) Repayment of Principal-Loans Secured by Fixed Assets (not real property);
5) Repayment of Principal-Mortgages Secured by Real Property;
6) Refunds Made - Current Fiscal Year Income;
7) Refunds Made - Prior Fiscal Years Income;
8) Insurance Reimbursements - Replacement of Insured Assets; and
9) Miscellaneous Disbursements.

<u>GENERAL LEDGER</u> (N.J.A.C. 6A:23-4.4(a)8)

The private school shall maintain a general ledger with asset, liability and fund balance accounts, as well as expenditure and revenue accounts. Sufficient audit trails should be established to facilitate cross-referencing between the general ledger and subsidiary journals. Multifunded organizations must maintain a general ledger that separately identifies asset, liability, fund balance, revenue, and expenditure accounts of the Public School Placement Program from other programs and funds of the organization. The following general ledger categories when applicable are the minimum recommended by the Department of Education.

Current Assets:

1) Cash in Bank-Regular;
2) Cash in Bank- Payroll;
3) Petty Cash;
4) Accounts Receivable - Public School Tuition (Restricted);
5) Accounts Receivable - All Other; and
6) Prepaid Expenses.

Investments:

1) Certificates of Deposit;
2) Municipal Bonds;
3) Stocks; and
4) Etc.

Other Assets:

1) Security Deposits; and
2) Etc.

Current Liabilities:

1) Accounts Payable - Public School Tuition (Restricted);
2) Accounts Payable - All Other;
3) Accrued Payroll Taxes;
4) Short-Term Cash Flow Loans;
5) Mortgages Secured by Real Property - Current Portion;
6) Loans Secured by Fixed Assets (Not Real Property) - Current Portion;
7) Salaries Payable; and
8) Deferred Income.

Long-Term Liabilities:

1) Mortgages Secured by Real Property - Net of Current Portion; and
2) Loans Secured by Fixed Assets (Not Real Property) - Net of Current Portion.

Fund Balances/Stockholders Equity:

1) Restricted Balance (Non-Profit) - Public School Placement Restricted Working Capital Fund;
2) All Other Restricted Balance (Non-Profit);
3) Unrestricted Balance (Non-Profit);
4) Common Stock (Profit); and
5) Retained Earnings (Profit).

Revenue Accounts:

1) Tuition from Public Schools - Restricted;
2) Tuition from Private Placements - Unrestricted;
3) Other Local Income - Unrestricted; and
4) Miscellaneous Income - Restricted (Applied against aggregate expenditures).

Expenditure accounts should be established in accordance with the Chart of Accounts (**APPENDIX B and B-1**) issued by the Department of Education and effective July 1, 2002 and updated June 30, 2003 and June 30, 2004. Beginning in the 2001-2002 school year, the private school's expenses must not be segregated between the ten month school year and the extended school year programs. All expenses for the July through June school year (whether a school has a ten month or both ten month and extended) must be reflected in one general ledger.

TUITION LEDGER **(N.J.A.C. 6A:23-4.4(a)8)**

The tuition ledger must be maintained on summary basis for each public school district. Amounts per category listed on a public school district's summary/control account must equal the sum of the amounts per corresponding category on the public school district's individual student accounts, if the private school decides to maintain a subsidiary per student tuition ledger.

The summary/control account is to indicate:

1) monthly tuition billings;
2) tuition payments received;
3) adjustments; and
4) tuition payments receivable.

The Department of Education suggests that a subsidiary tuition ledger be maintained on a per student basis. This ledger is not required by the Department of Education and it is entirely at management's discretion whether to maintain this ledger. If maintained, each student's account is to indicate:

1) student's classification;
2) date of enrollment;
3) date of termination or withdrawal, when applicable;
4) public school districts;
5) monthly tuition billings;
6) tuition payments received;
7) adjustments; and
8) tuition payments receivable.

Private placements serviced in classes with public school placements shall be recorded separately in the tuition journal and shall be arranged by special education class placement. Each student's account is to indicate:

1) student's classification per placement (special education class student spends majority of time in);
2) date of enrollment;
3) date of termination or withdrawal, when applicable;
4) monthly tuition billings;
5) tuition payments received;

6) adjustments; and
7) tuition payments receivable.

A summary/control account is to be maintained by classification per placement for all private placements. Amounts per category listed on the private placement summary/control account must equal the sum of the amounts per corresponding category on the individual private placement accounts.

FIXED ASSET INVENTORY **(N.J.A.C. 6A:23-4.4(a)8)**

The private school must maintain inventory records for fixed assets, when the depreciation from such fixed assets is charged to the Public School Placement tuition program. The inventory records shall include the following information for each fixed asset:

1) description including make, model and serial number;
2) date of acquisition;
3) location;
4) original cost;
5) depreciation in previous years;
6) balance of cost remaining;
7) life in years;
8) life remaining;
9) depreciation for current year; and
10) depreciation remaining.

If a fixed asset is shared by more than one program, the inventory records should indicate both the total fixed asset cost and allocated fixed asset cost. The private school must maintain documentation to support the allocation between programs of costs related to fixed assets.

Property, personal or real, built-in or not built-in, costing $2,000 or more must be depreciated using the straight-line method over the appropriate recovery period, as stated in federal tax regulations. Property costing under $2,000 must be expensed when placed in service.

NEW JERSEY SCHOOL REGISTER **(N.J.A.C. 6A:23-4.8)**

Each private school for the disabled shall maintain a New Jersey School Register for recording of student attendance and enrollment in accordance with N.J.A.C. 6:3-9. A private school may maintain these records in a computer file, but the information must meet, at a minimum, all of the requirements contained in a New Jersey School Register. Special education classes are subject to restrictions relating to age span and class size outlined in N.J.A.C. 6A:14.

The register must contain the following information:

1) entry status;
2) student name;

3) class type;
4) date of birth;
5) age;
6) resident public school district;
7) any explanation relating to transfers between classes or public school districts;
8) last date on roll;
9) daily attendance;
10) monthly summary; and
11) annual report.

Entry status does not begin until the date designated on the New Jersey State Department of Education Mandated “Tuition Contract”. The last date on roll is to reflect all days the sending district will be billed for in accordance with terms included in the New Jersey State Department of Education Mandated “Tuition Contract”. The monthly summary is to include the possible number of day’s attendance (number of days individual student is enrolled for service), number of day’s present, number of days absent, and times tardy. The monthly summary is to be totaled at the bottom of each page as the enrolled days are used in various financial calculations. In accordance with N.J.A.C. 6A:23-4.8(b), each approved private school for the disabled shall submit the school summary register annually to the Commissioner by September 1 to verify the average daily enrollment for the previous school year.

When completing the School Register, the private school must take the following code citations into consideration N.J.A.C. 6A:23-4.2(a)7, 4.2(s) and 4.2(t):

1). In accordance with N.J.A.C. 6A:23-4.2(a)7, the average daily enrollment for students enrolled in a program for a time period other than a full day shall be based on the total number of hours actually enrolled during the school year divided by the total possible number of hours in the school year. There are individual private schools where some students do not have the normal enrollment of either the strict full-day or half-day program. These pupils may have various types of enrollments such as: enrolled only one or two days a week, enrolled various hours for various days of the week, or enrolled days may fluctuate weekly based upon a pupil’s needs. Due to the changes in enrollment during the school year, it may be difficult for the private school to determine an ADE during the school year. In these cases, the private school may determine an ADE based on the process indicated above. However, it is important that the School Register reflect the proper enrollment when determining the total school ADE for audit purposes.

2). In accordance with N.J.A.C. 6A:23-4.2(s), for students who are transitioning back to a program of the sending district board of education for a portion of the enrolled school day, or to a third party location and require the services of a private school staff person, the ADE for tuition rate purposes shall be computed as follows: 1) regardless of the time period that a student is enrolled in a program outside the private school, the student shall be considered a full-time student of the private school, the student’s ADE shall be considered as 1.0 and the sending district board of education shall pay the full-time tuition rate, 2) the sending district board of education shall pay all costs associated with the transition service if it involves a third party.

3). In accordance with N.J.A.C. 6A:23-4.2(t), for students who are transitioning back to a program of the sending district board of education for a portion of the enrolled school day or to a third party location the private school shall compute the tuition rate as follows: 1) the private school shall calculate the student's ADE based on the number of hours enrolled in the program relative to the total number of possible hours of the program, 2) the sending district board of education shall pay all costs associated with the transition service if it involves a third party.

OTHER RECORDS (N.J.A.C. 6A:23-4.4)

An approved private school for the disabled shall prepare a payroll that is supported by an accurate employee time record in a format prescribed or approved by the Commissioner, signed by the employee and supervisor, prepared in the time period in which the work was done and completed at minimum semi-monthly. An employee time record shall be prepared for all employees of the private school for the disabled including all administrative employees. Copies of the two prescribed formats are included in **APPENDIX F**. Private schools that desire to use an employee time record different than those found in **APPENDIX F** must receive Commissioner approval prior to using an alternative form. If a private school is using an alternative form without Commissioner approval, the auditor must indicate this in the Notes to Financial Statements in the items contrary to N.J.A.C 6A:23-4.1 through 4.16 and recommend that the school use the prescribed format or request Commissioner approval of an alternative form.

An approved private school for the disabled shall prepare a financial report in a format prescribed or approved by the Commissioner each quarter at a minimum for the school program (September, December, March and including June). An employee or consultant hired by the private school for the disabled (other than the independent auditor) must prepare a financial report for all quarters including the quarter ending June 30, 2005. The reports shall be submitted to the school's governing body and its acceptance shall be documented in the minutes of the meetings. A copy of the format is included in **APPENDIX C**.

A mileage record shall be maintained on a trip by trip basis and include any personal use including to/from work commutation. The mileage record must include the vehicle make, model, color, and year and license number and include the following information for each trip: date of trip, purpose of trip, business or personal usage, destination, beginning and ending odometer readings and driver of the vehicle. The mileage record shall be maintained for each school-owned vehicle, leased vehicle or vehicle contained in a related party transaction involving the purchase of transportation services in a format prescribed by the Department of Education. At the end of the fiscal year, the percentage determined by the total personal miles to total miles shall be applied to all costs associated with the vehicle(s) and those costs shall be excluded from the actual allowable costs. Vehicle costs may include but are not limited to the following: deprecation, lease costs, gas, oil, repairs and maintenance, insurance and car phone. If a school does not maintain the proper mileage record, the auditor must disallow all costs associated with the vehicle including depreciation or lease costs if applicable, gas, oil, insurance, repairs and maintenance, car phone and interest on a vehicle loan, if applicable. Please refer to **Appendix U**. Any cost associated with travel to and from the officer's or employee's home and the school or agency and personal use of school-owned or leased vehicle, which includes to/from commutation as determined in accordance with N.J.A.C. 6A:23-4.4(a)18 are considered non-allowable and must not be included in the calculation of the Certified Actual Cost Per Student in accordance with N.J.A.C. 6A:23-4.5(a)40 and 42. Costs associated with a school-owned vehicle, leased vehicle or vehicles contained in a related party transaction involving the purchase of transportation services where a mileage record was not maintained are considered non-allowable and must not be included in the calculation of the Certified Actual Cost Per Student in accordance with N.J.A.C. 6A:23-4.5(a)43.

IV. SCOPE OF FUNDS TO BE AUDITED

The audit must include the books, accounts and moneys of the private school for the disabled organization, any officer or employee, or any organization conducting business under the auspices of the private school. The personal accounts of an officer or employee are not subject to audit. Only the financial statements relating to the private school for the disabled need be submitted (see Special Purpose/Component Financial Statements in Section V).

SCOPE OF FUNDS TO BE AUDITED (When Applicable)

1) Operating Fund;
2) Plant Fund;
3) Endowment Fund;
4) Custodial Fund;
5) Special Funds;
6) Trust and Agency Funds (include schedule of receipts and disbursements for each fund);
7) Student Activity Funds (include schedule of receipts and disbursements for each fund);
8) Fixed Assets Account Group; or
9) Long-Term Debt Account Group.

ORGANIZATIONS UNDER THE AUSPICES OF THE SCHOOL

An organization which is officially recognized by the school as part of the activity program of the school and the private school is at least indirectly responsible for supervision and control. When, in the conduct of such an organization, moneys are collected and disbursed for the activities of the organization, accounts must be kept, and such accounts must be audited.

FUND RAISING IN SCHOOLS BY OUTSIDE ORGANIZATIONS

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

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

Any collector should understand that they are collecting voluntarily as a citizen and not as a teacher or student and that the private school has no responsibility for the protection of moneys so collected.

FUNDS BELONGING TO OUTSIDE ORGANIZATIONS SHOULD NOT BE DEPOSITED IN THE CENTRAL ACTIVITY FUND OF THE SCHOOL

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

FUNDS OF TEACHER ORGANIZATIONS AND PARENT TEACHER UNITS NOT SUBJECT TO AUDIT

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

FUNDS COLLECTED BY TEACHERS FROM STUDENTS FOR IMMEDIATE PURCHASE OF TICKETS NEED NOT BE AUDITED

Teachers may receive money from children to buy magazines, tickets, etc., in lots in order to save the children money. It is our opinion that in so doing the teacher represents the children and not the school and assumes full responsibility for the transactions. If moneys were deposited in a student activity account or school fund they would be subject to audit.

V. CONDUCTING THE PRIVATE SCHOOL AUDIT

The 2004-2005 audits of the private schools for the disabled must be prepared in accordance with N.J.A.C. 6A:23-4.1 through 4.16 and this manual. It's important that the auditor become familiar with this manual and N.J.A.C. 6A:23-4.1 through 16. These regulations appear in **APPENDIX A**. If the auditor has questions concerning this manual, please contact Jim Verner at (609) 984-4229 or Elise Sadler-Williams at (609) 777-4483.

The audit shall be based on a July 1 to June 30 fiscal year, regardless of the fiscal year of the agency. The audit shall contain the schedules included in the "Sample of Audit Report" detailed later in this manual. The auditor must express an opinion as to the fairness of financial information on all schedules included in the audit. The auditor's opinion regarding expenditures should be limited to final expenditures incurred. A separate opinion related to the organization's internal controls must also be included and signed by the individual making the audit or in charge of the audit and not by the firm or corporation that employs the auditor.

It is considered an audit function to determine if non-allowable costs were charged by the private school as allowable costs in the school's accounting records and report such costs in the year-end report. If during the course of the auditor's testing, non-allowable costs are found charged as allowable costs in the private school's accounting records, these costs must be shown in the report as non-allowable costs and they must not be charged in the calculation of the Certified Actual Cost Per Student. These costs must be reflected on the "Statement of Non-allowable Costs" and charged to an unrestricted fund or other restricted fund in an audit of a non-profit school or charged to the retained earnings in an audit of a profit school. If the private school charged non-allowable costs to an unrestricted fund or a fund other than the private school for the disabled restricted fund during the school year, the auditor must not consider these costs as non-allowable in the report.

The auditor is to familiarize himself/herself with all information in Sections I through VII, which includes the "Sample of Audit Reports", and **APPENDIX A through U**. The auditor shall include in the audit a section of recommendations, if applicable. The recommendations should be included after the Notes to Financial Statements. Recommendations must address deficiencies noted in bookkeeping procedures, internal controls, and standard business practices; violations of the New Jersey Administrative Code (included in **APPENDIX A**), and payment of any refunds due public school districts. A recommendation must be reflected for each item contrary to N.J.A.C. 6A:23-4.1 through 4.16.

<u>SPECIAL-PURPOSE/COMPONENT FINANCIAL STATEMENTS</u>[4]

An auditor may be engaged to express an opinion on the financial statements of a component of an organization (such as the restricted public school placement fund) presented separately from the financial statements of the organization as a whole. The term financial statements refers to a presentation of financial data, including accompanying notes, based on the presentation of finan-

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[4] AICPA Nonprofit Organizations Subcommittee, <u>Audits of Certain Nonprofit Organizations</u>, (New York: AICPA, 1981).

cial data, including accompanying notes, based on the review and analysis of accounting records and intended to communicate an entity's economic resources or obligations at a point in time, or the changes therein for a period of time, in accordance with a comprehensive basis of accounting.

If the auditor has not examined the financial statements of the entire organization, he/she may have to apply additional procedures to obtain reasonable assurance that transactions relating to the component (fund) are not recorded in the records of other parts of the organization. In addition, the auditor would have to obtain information concerning other matters, such as transactions with other components (funds or divisions) and allocations of common costs that could affect the presentation of the financial statements of the component (fund) and the disclosures therein. Thus auditing procedures often may have to be applied with respect to the records pertaining to the other components of the organization.

The financial statements of the component (fund) should clearly indicate what part of the organization is included and, when a misunderstanding could result, what parts are not included. The financial statements should disclose such matters as the existence of affiliated or controlling interests and the nature and volume of material transactions with related parties and any allocations of common expenses. All less-than-arm's length (related party) transactions including loans and leases must be detailed in the Notes to Financial Statements. Such notes should identify the names of the related parties, owners of the related entities (if profit making), type of entity (corporation-profit or nonprofit, partnership, etc.), item(s) rented, the dollar amount of each transaction, the cost of ownership to the property owner and the rental costs included in the tuition rate calculation and for a lease and names of the related parties, owners of the related parties, dollar amount, interest rate, and purpose for a loan.

In other circumstances, the auditor may be engaged to express an opinion on a special-purpose financial presentation, such as a statement of revenues and allowable expenses relating to an individual program or the computation of tuition rates for an individual program. When an auditor is requested to examine and express an opinion on special-purpose financial presentations, the measurement of materiality should be related to the presentation taken as a whole. The auditor's report should include an opinion on the fairness of the presentation of the information in conformity with generally accepted accounting principles or other comprehensive basis of accounting. To avoid any implication that the special-purpose financial statement being reported on is intended to present financial position, results of operations, or changes in financial position, the auditor's report should state what the statement is intended to represent, and the auditor should be satisfied that the statement is suitably titled. The special-purpose financial statement should differ from a complete financial statement only to the extent necessary to meet the special purpose for which the presentation was prepared; accordingly, in all other respects, including matters of informative disclosures, generally accepted accounting principles or the specified other comprehensive basis of accounting should be followed.

SCHOOL'S GOVERNING BODY MINUTE RECORDS

The proceedings of the meetings of the school's governing body are to be recorded in a bound or a loose-leaf type minute book and signed by the designated secretary. The auditor must review the minutes of all of the governing body's minutes. This procedure is necessary to check the submission of quarterly financial reports, board policies and other financial matters of importance to the auditor.

BUDGETS

A statement of budget versus final revenue and expenditures, and the disposition of interest earned and unexpended contract funds must be included in the audit when applicable for the Early Intervention Program. The state funded Early Intervention Program and the federally funded E.C.I.A. Chapter I, P.L. 89-313 and P.L. 89-750 must be reported separately on a statement of budget versus final revenue and expenditures.

REVENUES AND RECEIPTS

All revenues accruing to the organization for the period under audit must be verified. All receipts for the year and accounts receivable at the close of the year must be verified as to source and disposition. The auditor must comment in detail on any irregularity in the method of handling receipts and revenues.

The use of public school tuition revenues is subject to restrictions outlined in N.J.A.C. 6A:23-4.1 through 4.16 (included in **APPENDIX A**) and as such must be accounted for separately on the profit-making school's "Statement of Revenue and Expenses, and Reconciliation of Retained Earnings" and on the nonprofit school's "Statement of Support and Revenue, Expenses, Capital Additions and Changes in Fund Balances". The retained earnings of the profit-making school are not restricted. The nonprofit school's Public School Placement Restricted Working Capital Fund derived from public school tuition revenues is restricted. The auditor should carefully review the explanations of FUNDS-RESTRICTED AND UNRESTRICTED and FUND ACCOUNTING FOR NON-PROFIT ORGANIZATIONS contained in Section III, PRIVATE SCHOOL FOR THE DISABLED BOOKKEEPING.

TUITION

The audited financial statements will determine the Certified Final Cost Per Student for the July through June school year. The per student amount determined for the July through June school year is based on the actual allowable costs per N.J.A.C. 6A:23-4.1 through 4.16 plus the maximum applicable surcharge for a profit organization or public school placement restricted working capital fund for a nonprofit organization per N.J.A.C. 6A:23-4.6 and 4.7 respectively. It is a management decision to determine the Final Tuition Rate Charged to the sending districts based on the Certified Actual Cost Per Student. Management must elect to charge an amount equal to or less than the Certified Actual Cost Per Student. When a tuition rate is determined by management (Final Tuition Rate Charged), the same rate must be charged to all sending districts regardless of the student's classification. The original tentative tuition rate charged by the private school has no impact on the final rate (Final Tuition Rate Charged) management determines to charge as a result of this audit. The Final Tuition Rate Charged determined by management may be less than, equal to or greater than the original tentative tuition rate determined by the Department of Education, a higher tentative tuition rate approved by the Department of Education or the tentative tuition rate actually charged by the private school as long as the Final Tuition Rate Charged is less than or equal to the Certified Actual Cost Per Student.

In accordance with N.J.A.C. 6A:23-4.9(d), the approved private school for the disabled's management representatives shall discuss with the auditor the results of the auditor's determination of the Certified Actual Cost Per Student in order for management to determine the Final Tuition Rate Charged as a result of the audit. The approved private school for the disabled shall ensure the audit report shall contains a letter (Management's Determination of Final Tuition Rate Charged) signed by both the school auditor and an authorized school representative indicating that both parties have met and discussed the audit, and that the determination of the Final Tuition Rate Charged was a management decision. An example of this letter is contained in the "Sample of Audit Report". Audits filed which do not include this letter and are not signed by both parties will not be accepted until such time as the Department receives this letter.

It is very important that the school's management determines the Final Tuition Rate Charged, since in accordance with N.J.A.C. 6A:23-4.9(f) the approved private school for the disabled is precluded from amending the Final Tuition Rate Charged after the Commissioner has certified the Final Tuition Rate Charged.

Tuition rates for the July through June school year are to be calculated using the "Statement of Tuition Rate Computation", which is outlined later in this section.

<u>EXPENDITURES</u>

In accordance with N.J.A.C. 6A:23-4.2(a)5, the private school shall not bill the sending district board of education separately for related services that are required by a student's initial or subsequent IEP. All costs for related services, which include but are not limited to the following: speech, psychological services, occupational and physical therapy services, counseling services and social worker services must be charged to the appropriate line item in the general ledger to determine the total costs for all students.

As background information, the AICPA first established GAAP for private enterprises. Over the years this authority was given to various groups within the AICPA and eventually transferred outside the AICPA to the Financial Accounting Standards Board (FASB). FASB was founded to provide the responsibility of establishing GAAP for the private sector. FASB deals with commercial accounting, which operates on the full accrual basis of accounting "where the measurement focus is on the determination of net income rather than the flow of financial resources". Under this system, "the importance is in matching revenues and expenses of the period regardless of when monies are available to fund the activity".

The department considers private school for the disabled accrual accounting as analogous to commercial accounting (FASB), since both commercial enterprises and private schools for the disabled use depreciation expense in their operating statements and the measurement focus is on net income. On the full accrual basis of accounting, an item is expensed in the period that is benefited. As an example, if textbooks were ordered, delivered and paid for in the 2004-2005 school year, but the students did not use the textbooks there would be no benefit in the 2004-2005 school year. Therefore, this disbursement would appear as a prepaid expense on the school's financial statements. In order for a transaction to be expensed in a particular school year, the goods and/or services must benefit that school year, regardless if paid in the school year.

For years accountants have been using the matching principle, which matches efforts (expenses) with accomplishments (revenues). The following is taken from Conceptual Framework Underlying Financial Accounting:

> "In recognizing expenses, accountants attempt to follow the approach of "let the expense follow the revenues'. Expenses are recognized not when the wages are paid, or when the work is performed, or when a product is produced, but when the work (service) or the product finally makes its contribution to revenue. Thus expense recognition is tied to revenue whenever it is reasonable and practicable to do so".

Based on the matching principle, the textbooks that were ordered delivered and paid for in the 2004-2005 school year would not be recognized as an expense since they did not contribute to revenue because there was no benefit in the 2004-2005 school year. However, in a private school for the disabled the approach "let the expense follow the revenue" is reversed since the expenses drive the revenues. Private schools for the disabled are on an actual cost tuition system and are reimbursed based on actual allowable costs plus the applicable maximum surcharge/working capital fund divided by the average daily enrollment. Since the expenses drive the revenues in this system, it is incumbent upon the school and the independent auditor to determine that expenses are recognized in the time period, which received the benefit.

In a public school, the above example concerning the purchase of textbooks would be treated as expenditure in the 2004-2005 public school budget. However, public schools maintain their financial records consistent with GAAP promulgated by GASB. A district board of education maintains their accounting system on a fund basis and the purchase of textbooks would fall under the general fund, which is maintained, on the modified accrual basis of accounting. Under the modified accrual basis of accounting, goods and/or services that are received during the fiscal year are considered expenditure charged to the current school year budget.

An issue is constantly raised concerning the timing of expenditures and is there a cutoff date during the school year which would be the last day that a school could order goods and/or services to be chargeable to the current school year? There is no such "magic date", however a private school must report an expense <u>only</u> in the period that is benefited.

The auditor shall obtain reasonable assurance that expenses are authorized or approved by management, are supported, are properly classified, are recognized in the appropriate period, and (when presented on a fund basis) are properly allocated between funds. The auditor should be satisfied that quantitative bases used to allocate shared organizational costs, equitably and fairly distribute such costs between benefiting fund sources.

In accordance with N.J.A.C. 6A:23-4.2(c), a private school shall record direct costs that can be specifically attributed to a program and/or revenue source, in the prescribed bookkeeping and accounting system pursuant to N.J.A.C. 6A:23-4.4(a)8. Whenever it is not possible to charge a direct cost the school must allocate its indirect costs based on the department regulations. In accordance with N.J.A.C. 6A:23-4.2(d), for indirect costs which are incurred for a common or joint purpose and not readily assignable to a program and/or a revenue source, a private school for the disabled may establish indirect cost pools as appropriate for allocation between common or joint purposes at the end of the fiscal year.

There are three types of private schools for the disabled; 1) entities that operate only as a private school for the disabled, 2) entities that operate only as a private school for the disabled and operates one or more tuition programs at one or more locations and 3) entities that operate other programs in addition to a private school for the disabled at one or more locations. For all private schools, direct costs must be charged as indicated in the above paragraph.

In accordance with N.J.A.C. 6A:23-4.2(e), indirect costs must be allocated as follows for entities that operate only as a private school for the disabled and operate one or more tuition programs at one or more locations shall share their costs as follows:

1. Indirect costs on a consistent basis in the respective actual cost per student in accordance with an equitable allocation plan approved by the Commissioner, or in accordance with either of the following ratios:

   a. Direct costs for each program determined pursuant to N.J.A.C. 6A:23-4.2(c) to total direct costs; or

   b. Average daily enrollment for each program to total average daily enrollment.

In accordance with N.J.A.C. 6A:23-4.2(f), indirect costs must be allocated as follows for entities that operate other programs in addition to a private school for the disabled programs at one or more locations shall share their costs as follows:

1. Indirect cost centers established as follows:

   a. A cost center, which shall include indirect costs that are allowable costs in accordance with N.J.A.C. 6A:23-4; and

   b. A cost center, which shall include indirect non-allowable costs that are not chargeable as allowable costs in accordance with N.J.A.C. 6A:23-4.

2. Allowable indirect costs shall be included on a consistent basis in the respective actual cost per student in accordance with an equitable allocation plan approved by the Commissioner or in accordance with either of the following ratios:

   a. Direct costs for each program determined pursuant to N.J.A.C. 6A:23-4.2(c) to total direct costs; or

   b. Average daily enrollment for each program to total average daily enrollment.

In cases where the majority of a specific cost is associated with a program other then the private school for the disabled tuition program, the private school must use the reasonableness test and make an effort to determine whether to charge a portion of the cost directly to the private school for the disabled tuition or to include the cost as an indirect cost subject to a cost allocation. For example, if a private school purchases $5,000 of paint for the entire agency building, but will only use small portion paint in the private school, the school should make an effort to determine a reasonable amount to charge the private school. It should not include the $5,000 as an indirect cost because they couldn't determine an exact amount to charge the private school. The school should determine whether it is reasonable to include the entire $5,000 as an indirect cost when only a very small portion can be attributed to the private school. Please refer to page 7 in N.J.A.C. 6A:23-4.2(f) in **APPENDIX A**.

When a private school charges costs to an indirect cost area to be allocated, the school must first take into consideration whether the cost is an allowable cost in accordance with N.J.A.C. 6A:23-4.1(a)1 and N.J.A.C. 6A:23-4.5(a). For instance, an agency that includes a private school for the disabled donates $5,000 to the local Fire Company. Because this cost can't be specifically attributed to any one or more of the organizations 10 funding sources, the cost is charged to an indirect cost center that will eventually be allocated across all of the funding sources. In this case, the private school indirect cost rate is 40% which results in $2,000 being charged to the private school tuition rate when N.J.A.C. 6A:23-4.5(a)13 restricts contributions to a total of $1,500.

A private school which incurs indirect costs that would be considered non-allowable in accordance with N.J.A.C. 6A:23-4.2(a) and N.J.A.C. 6A:23-4.5(a)50 must apply those costs to a separate indirect cost center that will not be charged to the private school for the disabled tuition program. This includes but is not limited to costs such as administrative salaries, which are in excess of the maximum salaries prior to being allocated, fringe benefits, interest costs, legal fees, and insurance costs. The auditor's non-allowable cost test must include a sample of individual charges to the indirect cost center to determine if such costs are allowable in accordance with N.J.A.C. 6A:23-4.2(a) and N.J.A.C. 6A:23-4.5(a)50.

Individual private schools for the disabled may be operated from a facility that is also used for unrelated activities and/or enterprises by related parties or unrelated parties. In accordance with N.J.A.C. 6A:23-4.2(g), whenever a facility used by an approved private school for the disabled is also used for unrelated activities and/or enterprises by related or unrelated parties, all costs, direct or indirect, associated with such facilities and operations shall be charged according to the associated activities and/or enterprises which they benefit. Indirect costs shall be distributed in accordance with an equitable allocation plan approved by the Commissioner.

Enclosed for your information, as **APPENDIX Q** is the Office of Management Budget Circular A-133. Please be advised, Circular A-133 established audit requirements and defines federal responsibilities for implementations and monitoring such requirements for institutions of higher education and other nonprofit institutions receiving federal awards.
For you information, **APPENDIX R** is enclosed which reflects the private schools for the disabled that received Child Nutrition Funds for the 2004-2005 school year.
As stated earlier in the DIRECTIONS TO THE PRIVATE SCHOOL'S GOVERNING BODY, a board of education may approve to pay a higher tentative tuition rate for a particular student. The extraordinary services must be identified in the school's accounting records and <u>must not</u> be included in the Total Expenditures contained in the audit when calculating the Certified Actual Cost Per Student. As an example, the salary and fringe benefits for the one-to-one services of an aide must be segregated and excluded when calculating the total expenditures.

<u>NON-ALLOWABLE COSTS</u>

The list of non-allowable costs appears in **APPENDIX A**, Section N.J.A.C. 6A:23-4.5(a) Non-allowable costs on pages 22 through 30. <u>When performing the sampling of non-allowable costs, the auditor must be familiar with these non-allowable costs and the application of such. The auditor must be familiar with Section N.J.A.C. 6A:23-4.1 Definitions, which in some cases, provide additional information for individual non-allowable costs.</u> In accordance with N.J.A.C. 6A:23-4.2(a) When determining the actual allowable costs for the program, the board of directors shall ensure that such costs are: 1) based on all costs required for student instruction from July 1 through June 30, 2) consistent with the student's individualized education programs (IEP), 3) inclusive of al costs required to implement all students' IEPs and all related services, and 4) reasonable, that is, ordinary and necessary and not in excess of the cost which would be incurred by an ordinarily prudent person in the administration of public funds.

<u>Costs that are not allowable in the calculation of the Certified Actual Cost Per Student includes but is not limited to the following</u>:

1. In accordance with N.J.A.C. 6A:23-4.5(a)1, an administrative cost in excess of and/or instructional cost less than the percentages indicated in N.J.A.C 6A:23-4.2(a)3. Private schools for the disabled must meet minimum instructional cost percentages and may not exceed a maximum administrative cost percentage as defined in the chart of accounts. For the 2004-2005 school year, these percentages are as follows: a minimum of 55 percent for instruction and a maximum of 25 percent for administration. Please refer to pages P-19 to P-25 and NP-23 to NP-29 and **APPENDIX T-1, T-2 and T-3**.

2. In accordance with N.J.A.C. 6A:23-4.5(a)2, the cost of maintaining an administrative office in a private home or other residence.

3. In accordance with N.J.A.C. 6A:23-4.5(a)3, an advertising cost in excess of 0.5 percent of the private school's actual allowable costs not including advertising costs. "Advertising costs" are costs incurred for, but not limited to, the following: cable television, videos, open houses, marketing and public relations. The cost of a web site, the printing of descriptive brochures, newspaper advertising and advertising in a telephone book are not included in this definition. For example if a school's actual allowable costs were $1,000,000, advertising costs could not exceed $5,000 for cable television, videos, open houses, marketing and public relations ($1,000,000 times 0.005 equals $5,000.) Please refer to account #11-000-230-891 for restrictions on advertising costs in **APPENDIX B and B-1**.

4. In accordance with N.J.A.C. 6A:23-4.5(a)4, any cost associated with lobbying including salaries and fringe benefits. All costs associated with lobbying are non-allowable.

5. In accordance with N.J.A.C. 6A:23-4.5(a)6, the salary 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 or bachelor's degree required in accordance with N.J.A.C. 6A:23-4.1.

The job functions of the assistant director, business manager, director and executive director are listed in N.J.A.C. 6A:23-4.1 - Definitions along with the type of bachelor's degree that is required for each job title. In accordance with N.J.A.C. 6A:23-4.4(l), a private school for the disabled shall ensure that employees which are new to the positions on or after July 1, 2004 possess the appropriate bachelor's degree as defined in N.J.A.C. 6A:23-4.1. In addition, private schools for the disabled shall ensure that employees functioning in these positions on or before June 30, 2001 either currently possess the appropriate bachelor's degree as defined in N.J.A.C. 6A:23-4.1 or, will obtain the proper bachelor's degree no later than June 30, 2006, or will be removed from the position. If the required bachelor's degree is not held by the employee, the employee's salary and fringe benefits are considered non-allowable costs.

An individual functioning in a position that requires certification should not be hired without providing evidence of the proper certification for the position. If an individual is functioning in a position that requires certification and does not hold the proper certification, but has a teaching degree and/or an application of certification pending before the department's licensing bureau, the individual's salary and fringe benefits must still be considered non-allowable from the time the individual began working in the position until the date they are considered properly certified which appears on their certificate.

The holder of a substitute certificate who is hired as a substitute is only eligible to work 20 consecutive days under the substitute certificate. However, this doesn't allow the individual to work 19 days in one position, be absent or transferred to another job title for one or two days and then come back to the original position. If this occurs, the auditor must consider the salary and fringe benefits after the 20th day to be non-allowable costs. In addition, an individual working as a long term substitute must hold the appropporiate certification for the position held; a substitute certificate must not be accepted by the auditor.

Governor James E. McGreevey issued Executive Order #138 which can be found on the Internet at http://www.nj.gov/infobank/circular/eom138.htm regarding the issuance of school certifications in 2004-2005. This order allows teachers who had an application filed for a teaching certificate with the Department of Education as of August 1, 2004 to retain in the same position in the same school for an additional 30 school days, provided that the school district agrees to pay these individuals the agreed upon salary for teaching staff members retroactive to the beginning of the 2004-2005 school year after they receive a New Jersey teaching certificate. This order only applies to those staff members who had applied for a New Jersey school certification for the 2004-2005 school year prior to August 1, 2004. <u>For those individuals who hadn't applied for school certification prior to August 1, 2004 for the 2004-2005 school year and were employed as a substitute in 2004-2005, the previous paragraph applies. They are restricted to 20 days.</u>

6. In accordance with N.J.A.C. 6A:23-4.5(a)7, the salary and fringe benefits of a staff member for time not expended and/or services not performed except in accordance with N.J.A.C. 6A:23-4.5(a)58 and 59.

In order for a staff member to be paid, the individual must have actually performed services for the private school for the disabled and if applicable, outlined in their employee contract in accordance with N.J.A.C. 6A:23-4.4(c). To substantiate that work was performed, the private school must provide to the auditor the Employee Time Record signed by both the employee and supervisor. In addition, if a staff member is paid for services performed at an off-site business office, the auditor must take sufficient auditing steps to determine that actual services were performed.

7. In accordance with N.J.A.C. 6A:23-4.5(a)8, a salary in excess of the associated maximum allowable salary determined in N.J.A.C. 6A:23-4.2(o), (p) and (q) for a staff member or consultant whose position requires certification, license or a bachelor's degree including a director, assistant director, executive director and business manager. An approved private school for the disabled shall prorate salaries for such part-time or split-time positions including in entities described in N.J.A.C. 6A:23-4.2(e) and (f). The mechanism to calculate the part-time and split–time maximum allowable salary is reflected in N.J.A.C. 6A:23-4.5(a)8ii.

Salaries paid in excess of those listed in **APPENDIX I**, by county, must be considered non-allowable when calculating the Certified Actual Cost Per Student. If a private school has locations in more then one county, the maximum salary for the same job title in each county is based the amount listed on **APPENDIX I** on a county by county basis. For example, a corporation has two private schools for the disabled: one in Burlington County and one in Camden County. A Supervisor works 50% of their time in each county. The maximum allowable salary in Burlington County is $128,074 and in Camden County is $121,042. The maximum salary allowable for Burlington County is half of $128,074 or $64,037 and in Camden County is half of $121,042 or $60,521. If the individual earns a total of $128,074, the private school may charge $64,037 to the school located in Burlington County as an allowable cost and $60,521 to the school located in Camden County. The difference between $64,037 and $60,521 or $3,516 is considered a non-allowable cost in the private school located in Burlington County.

In addition, the maximum salary is by individual, by job title, by county and is based on the actual salary paid to the individual which also must be the same amount reflected on the audited financial statements. An amount paid under the maximum salary for one job title **may not** be used to increase the maximum salary in another job title. For example, the maximum salaries for a Director and Assistant Director are $172,916 and $129,780. If a private school pays the Director $160,000 and the Assistant Director $142,696, the $12,916 under the maximum salary for the Director may not be used to increase the Assistant Director's salary above the maximum of $129,780. Therefore, $12,916 of the $142,696 paid to the Assistant Director is a non-allowable cost. This is true for all positions titles and across all counties.

Section 4.2(o) bases maximum salaries by job title and county according to the job titles contained in N.J.A.C 6A:9 which pertain to private schools for the disabled. Except for administrative job titles, maximum allowable salaries are based on the highest contracted salaries (not including payment of unused sick and vacation days and severance pay) of certified staff by job title in a district board of education for any prior year indexed by the average increase in salary between the two preceding school years for each job title. Salaries are based on a 12-month school contract period from July 1 through June 30, and the maximum allowable salary of a private school staff member shall be prorated for staff employed for less than 12 months. The maximum allowable salaries calculated cannot be less than the previous year for the same job title and county. Unrecognized job titles shall be correlated to similar job titles in public schools based on their functional activities. The maximum allowable salary of a staff member holding a part-time or split-time position shall be prorated including the salary of a staff employed in entities defined in N.J.A.C. 6A:23-4.2(e) and (f). Salaries paid in excess of those listed in **APPENDIX I** must be considered non-allowable in the calculation of the Certified Actual Cost Per Student.

Section 4.2(p) bases maximum salaries by administrative job titles and county according to the job titles contained in N.J.A.C 6A:9 and N.J.A.C. 6A:23-4.1 which pertain to private schools for the disabled. Maximum allowable salaries are based on the highest contracted salary (not including payment of unused sick and vacation days and severance pay) by administrative job title for the entire State in a district board of education, special services school district board of education and educational service commissions with comparable average daily enrollments for any prior year indexed by the average increase in salary between the two preceding school years for each job title. Salaries shall be based on a 12-month school contract period from July 1 through June 30 and the maximum allowable salary of a private school staff member shall be prorated for staff employed for less than 12 months. Each district board of education, special services school district board of education and educational service commissions with an ADE equal to or less than the highest private school ADE will be considered comparable. The maximum salaries calculated cannot be less than the previous year for the same job title and county. The maximum allowable salary of a staff member holding a part-time or split-time position shall be prorated including the salary of a staff employed in entities defined in N.J.A.C. 6A:23-4.2(e) and (f). Salaries paid in excess of those listed in **APPENDIX I** must be considered non-allowable in the calculation of the Certified Actual Cost Per Student.

Section 4.2(q) contains various qualifications for maximum salaries for the 2004-2005 school year. For the 2004-2005 school year and years thereafter:

1. For a staff member who was employed by the private school prior to the 2004-2005 school year whose salary is greater than the maximum allowable salary in accordance with N.J.A.C. 6A:23-4.2(o) and (p), such salary shall be frozen at the 2003-2004 salary level or until such time as the maximum allowable salary in accordance with N.J.A.C. 6A:23-4.2 (o) and (p) exceeds the 2003-2004 salary level;
2. For a staff member who was employed by the private school prior to the 2004-2005 school year whose salary is less than the maximum allowable salary in accordance with N.J.A.C. 6A:23-4.2 (o) and (p), the maximum salary shall be determined in accordance with N.J.A.C. 6A:23-4.2 (o) and (p); and
3. For a staff member in a new private school opening on or after July 1, 2004, for a staff member whose employment commences on or after July 1, 2004 at private schools existing as of June 30, 2004 and for a staff member employed by a private school prior to June 30, 2004 whose job title changes effective July 1, 2004 or any time thereafter, the maximum salaries shall be determined in accordance with N.J.A.C. 6A:23-4.2 (o) and (p).

8. In accordance with N.J.A.C. 6A:23-4.5(a)9, a salary of an employee not covered by 4.5(a)6 in excess of the lowest maximum allowable salary in the same county according to the list of maximum allowable salaries determined in N.J.A.C. 6A:23-4.2(o), (p) and (q) whose position does not require certification, license or bachelor's degree, including an individual with the director, assistant director, executive director, or business manager job title whose function(s) are not consistent with those functions described in N.J.A.C. 6A:23-4.1. An approved private school for the disabled shall prorate salaries for such part-time or split-time positions including in entities described in N.J.A.C. 6A:23-4.2(e) and (f). The mechanism to calculate the part-time and split–time maximum allowable salary is reflected in N.J.A.C. 6A:23-4.5(a)9ii.

The maximum allowable salary for a staff member whose position <u>does not</u> require certification, license or bachelor's degree is the lowest maximum salary in the county in which the school is located on the list of maximum allowable salaries published by the Commissioner. If a staff member has the director, assistant director, executive director, or business manager job title and whose function(s) are not consistent with those functions described in N.J.A.C. 6A:23-4.1, the individual's salary in excess of the lowest maximum allowable salary in the county in which the school is located on the list of maximum salaries published by the Commissioner is considered a non-allowable cost. The list is published in accordance with N.J.A.C. 6A:23-4.2(r). An approved private school for the disabled shall prorate salaries for such part-time or split-time positions including in entities described in N.J.A.C. 6A:23-4.2(e) and (f). The mechanism to calculate the part-time and split–time maximum allowable salary is reflected in N.J.A.C. 6A:23-4.5(a)9ii. Salaries paid in excess of those listed in **APPENDIX I** must be considered non-allowable in the calculation of the Certified Actual Cost Per Student.

The auditor must refer to N.J.A.C. 6A:23-4.1 in the definitions section regarding the job functions of the assistant director, business manager, director and executive director. In order to be an assistant director, business manager, director and executive director, the individual must perform the majority of job functions indicated in the regulations. The maximum salaries for those staff members in the assistant director, business manager, director and executive director job titles that do not perform the majority of the job functions indicated in the regulations for the job title will be based on the lowest maximum salary in the county in accordance with N.J.A.C. A:23-4.5(a)9.

Part-time or split-time positions shall be prorated which not only pertains to employees working part-time in an agency, but employees in multi-funded agencies whose salaries are allocated across multiple funding sources. An individual's salary allocated to the private school cannot exceed the maximum salary in the county times the allocated percentage. For example, if the maximum salary of a director is $150,000 and 10 percent of an individual's salary is allocated to the private school, then any amount charged in excess of $15,000 would be a non-allowable cost. Using this example, a CEO earning a salary of $200,000 who works 10 percent of the time in the private school may only charge $15,000 to the private school would result in a $5,000 non-allowable cost. This also holds true for staff whose total salaries are charged to an indirect cost center. The salary charged to the indirect cost center to be allocated across various funding sources may not exceed the maximum salary for the job title. Salaries paid to directors in excess of those listed in **APPENDIX I** must be considered non-allowable in the calculation of the Certified Actual Cost Per Student.

9. In accordance with N.J.A.C. 6A:23-4.5(a)10, the cost of fringe benefits that are based on a non-allowable salary. The auditor must treat all fringe benefits based on non-allowable salaries as a non-allowable cost.

10. In accordance with N.J.A.C. 6A:23-4.5(a)12, a consultant fee for services that are not detailed in an executed written contract that includes a list of the nature of the services provided, the approximate number of days to complete the work, the charge per day and the product or outcome of the consultation and are performed by a consultant who does not possess the appropriate school certification when such certification exists.

11. In accordance with N.J.A.C. 6A:23-4.5(a)13, total contributions, donations, awards and scholarships in excess of $1,500. These types of costs would be charged to account #11-000-230-890. The private school may make a total of $1,500 in contributions, donations, awards and scholarships, but anything in excess of that amount must be considered a non-allowable cost. The total of $1,500 includes funds paid to organizations such as a Fire Company and local civic organizations.

12. In accordance with N.J.A.C. 6A:23-4.5(a)14, Depreciation that is unacceptable under N.J.A.C. 6A:23-4.4(a)3 and (a)4, and depreciation: i. on donated goods and assets; ii. that is not based on estimated straight-line method; iii. on autos in excess of the dollar or percentage limitation contained under Internal Revenue Service Code Section 280F including any passenger vehicle not used in transporting students or supplies without regard to weight class exceptions defined in Section 280F(d)(5)(A); iv. on a stepped up basis resulting from the sale to a related party as defined in Internal Revenue Service Code Section 318 for Constructive Ownership of Stock. For a not-for-profit organization, Section 318 will apply to the members of the Board of Directors or related parties as defined in Section 267(b) or 267(c) of the Internal Revenue Code unless the gain from such a sale was used to offset tuition for a prior year; and v. on a stepped up basis from transfer from one spouse to another upon death as defined in Internal Revenue Code Section 1014;

13. In accordance with N.J.A.C. 6A:23-4.5(a)15, the yearly cost of a lease for a vehicle in excess of the maximum depreciation allowed in any given year without regard to special deductions allowed by the Internal revenue Service Code under Section 280F(a) (1) (A) (for example: $4,100 for the second year can be applied to all years of the lease) including the amortization of the lease down payment over the term of the lease. This applies to any passenger vehicle not used for transporting students or supplies without regard to the weight class exceptions under 280F (d) (5) (A).

14. In accordance with N.J.A.C. 6A:23-4.5(a)17, total costs in excess of $1,000 incurred for entertainment expenses. "Entertainment expenses" means the cost of providing any type of food/beverage to school officers, school directors/trustees, consultants, and/or individuals providing services to the school at any time or to school employees after school hours. Please refer to N.J.A.C. 6A:23-4.1. This is account #11-000-230-892.

The auditor must take the appropriate action during the testing of line items for non-allowable costs to determine that the school is not accumulating charges to various line items in excess of the $1,000 limitation. Costs incurred for entertainment would include but not be limited to the cost of meals for school employees, accountant, auditor, attorney, any other professionals, consultants and members of the board of directors. In addition, the accumulated costs in excess of $1,000 of meals for school employees, professionals, consultants or members of the board of directors while discussing school business would be considered a non-allowable cost. For example, if the school had accumulated costs in excess of $1,000, the $25 cost of a lunch with the school director and auditor to discuss the results of the school audit would be considered a non-allowable cost when calculating the Certified Actual Cost Per Student. Please refer to account #11-000-230-892 in **APPENDIX B**.

15. In accordance with N.J.A.C. 6A:23-4.5(a)18, the total costs of food/beverages in excess of $3,000 for activities such as, but not limited to staff meetings, parent/teacher meetings, workshops and professional development seminars for parents or teachers. The auditor must take the appropriate action during the testing of line items for non-allowable costs to determine that the school is not accumulating charges to various line items in excess of the $3,000 limitation. This is account #11-000-218-894.

16. In accordance with N.J.A.C. 6A:23-4.5(a)19, the total cost of a fine or penalty which results from a violation of, or failure by, the school to comply with a Federal, State and/or local law or rule. For example, a private school that incurs fines and/or penalties for late filing of any Federal or State payroll taxes or late payment or real estate taxes.

17. In accordance with N.J.A.C. 6A:23-4.5(a)20, the cost of meals for students when the meals do not meet the nutritional requirements of the Child Nutrition Program as administered by the New Jersey Department of Agriculture. In order for the cost of meals to be considered an allowable cost, the private school must provide the auditor with a letter from the Child Nutrition Program that the meals served met the nutritional requirements of the Child Nutrition Program for the fiscal year audited.

18. In accordance with N.J.A.C. 6A:23-4.5(a)21, the cost of keyman insurance except where a term insurance policy is required by a lender as collateral for a loan. Keyman insurance means insurance on staff members for which the school is the beneficiary of the life insurance policy. Regardless of when a private school initiated a keyman insurance policy, which may have been allowable prior to 2001-2002, keyman insurance is a non-allowable cost.

19. In accordance with N.J.A.C. 6A:23-4.5(a)22, the cost of an employee's life insurance coverage, both term and whole life policies, in excess of 3.5 time their gross salary. Regardless of when a private school initiated either a whole life or a term life insurance policy for a staff member(s), if coverage exceeds 3.5 times the individual's gross salary, the coverage in excess of 3.5 of the individual's gross salary in considered a non-allowable cost.

20. In accordance with N.J.A.C. 6A:23-4.5(a)23, fringe benefits when the benefits are determined in an arbitrary or capricious manner including, but not limited to, class of employee whether by title or position rather than on an existing written uniform policy based on an equitable standard of distribution, such as years of service or education. The criteria cannot be exclusionary regardless if based on an equitable standard of distribution, such as years of service or education. In addition, these costs are non-allowable when the fringe benefit has not been adopted by the school's Board of Directors at a board meeting prior to the implementation of the benefit, documented in the board minutes and the employees were not made aware of the policy and when the benefit is not listed in N.J.A.C. 6A:23-4.4(f) or not approved by the Commissioner. In order for a fringe benefit to be considered an allowable cost, the criteria must be based on an equitable standard of distribution that is attainable for all full-time staff members. The criteria can not be exclusionary whether through years of service or education or other criteria.

Therefore, the criteria for employer paid life insurance may not be based on 20 or greater years of service when only one or two staff members meet the criteria and the rest of the staff have only 1 – 15 years of service. In addition, the criteria for employer paid health insurance may not be a Masters Degree when only one or two individual's job functions in the organization would require a Masters Degree.

This criterion is also true for all pension plans <u>except</u> defined benefit plans (referring to the employer contributions for an employee and not whether an employee qualifies for the plan). A defined benefit plan allows the pension benefit for each qualified employee to be based on their length of service divided by 55 times their highest three year average salary. In this type of plan there is no additional contribution at management discretion when it comes to the employer contributions. The greater the salary and/or length of service, the higher the employer contribution.

Regardless whether a school's pension plan meets the requirements of ERISA, the school must also meet the above requirements in N.J.A.C. 6A:23-4.5(a)23. For example, a school may not contribute (charge as an allowable cost) a higher percentage of salary to the pension plan for the following: an individual, a class of individuals, or job title(s). As an example, the directors or selected individuals may not receive an additional 5% contribution over all other staff; the administrative staff may not receive an additional 5% contribution over all other staff; or all principals may not receive an additional 4% over all other staff. This is true whether or not the additional contribution was contractually agreed upon with the school and employee.

As an example of what appears to be an existing written uniform policy based on an equitable standard of distribution is a staggered system of additional pension contributions such as length of service as follows: up to five years of service; greater than five years and up to 10 years; greater than 10 years and up to 15 years; greater than 15 years and up to 20 years; and those over 20 years. The auditor must then determine the number of employees that fall within the steps and whether or not it's an exclusionary standard. A school that allows an additional employer contribution over a certain salary amount is subject to the determination whether the plan is based on an equitable standard of distribution and whether or not it's an exclusionary standard, <u>regardless if the plan is in accordance with ERISA.</u> The criteria still may not be based on an equitable standard of distribution since it is exclusionary and therefore non-allowable.

21. In accordance with N.J.A.C. 6A:23-4.5(a)24, the cost of fund raising, such as a financial campaign, an endowment drive or solicitation of a gift and bequest that is done to raise capital or obtain a contribution. If a private school incurs any type of costs for fund raising, those costs must be considered non-allowable costs.

22. In accordance with N.J.A.C. 6A:23-4.5(a)26, interest costs on loans when the loan is a less-than-arm's length transaction which has not been previously approved by the department and has not been repaid in accordance with the Department's approval letter. If an auditor determines that interest has been paid to a related party in a loan which is a less-than-arm's length transaction which was not previously approved by the department, the auditor must treat these as non-allowable costs and exclude these amounts when calculating the Certified Actual Costs Per Student.

A private school for the disabled which has received department approval of a related party loan must comply with the directives in the approval letter in order to claim the interest expense as an allowable cost. The approval letter indicates that the approval is contingent on the loan being repaid on or before a specified date and if the loan is not repaid in its entirety by the specified date, all interest payments associated with the loan will be considered non-allowable costs. The auditor must verify that the school has complied with the directives in the approval letter that would include that the school repaid the loan by the specified date through reviewing canceled checks. In addition, the auditor must verify that the proceeds of the loan from the related party were deposited into the school's checking account or other school account. If the loan was not repaid, but rolled over to the subsequent school year any interest charges are considered non-allowable costs. The audit must contain a Note to Financial Statements using the items listed below as examples. If the due date of the related party loan(s) is a date other than June 30, the auditor must verify and comment on the above items for all loans maturing and executed during the July 1 through June 30 time period. Please refer to example C in those cases.

The following are examples of loans between related parties that would appear in the Notes to Financial Statements.

A) The loan payable stockholder is a related party loan between the ABC Private School, Inc. and John Doe, the sole stockholder of both corporations. The loan of $30,000 at 10% interest per annum was taken for cash flow purposes. The school requested and was granted approval by the department prior to borrowing the funds on July 1, 2002 and the loan was repaid by the June 30, 2003 due date. The proceeds of the loan were deposited into the school's checking account and the loan was repaid in accordance with the terms contained in the department's approval letter.

B) The loan payable stockholder is a related party loan between the ABC Private School, Inc. and John Doe, the sole stockholder of both corporations. The loan of $30,000 at 10% interest per annum was taken for cash flow purposes and executed on July 1, 2002. The Department of Education did not previously approve this transaction and therefore the interest incurred is a non-allowable cost.

C) The loan payable stockholder is a related party loan between the ABC Private School, Inc. and John Doe, the sole stockholder of both corporations. The loan of $30,000 at 10% interest per annum was taken for cash flow purposes. The school requested and was granted approval by the department prior to borrowing the funds on May 1, 2002 and the loan was repaid by the April 30, 2003 due date. The proceeds of the loan were deposited into the school's checking account and the loan was repaid in accordance with the terms contained in the department's approval letter. In addition, a loan of $30,000 at 10% interest per annum was taken for cash flow purposes the school requested and was granted approval by the department prior to borrowing the funds on May 1, 2003 and the proceeds of the loan were deposited into the school's checking account.

23. In accordance with N.J.A.C. 6A:23-4.5(a)31, retirement plan costs that are:

i. Not in conformance with the Employee Retirement Income Security Act of 1974, P.L. 93-406, and its successor legislation and that exceed costs allowed by the Internal Revenue Service;

ii. For a non-qualified retirement plan(s);

iii. 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 $40,000;

iv. 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;
v. For contributions to a retirement plan that are not applied consistently in accordance with N.J.A.C. 6A:23-4.5(a)23 even if in compliance with ERISA. Such excess contributions as determined will be deemed a non-allowable cost;
vi. Not paid to a qualified plan within nine months of the end of the fiscal tax year of the approved private school for the disabled; and
vii. Not paid in accordance with the fringe benefits criteria in N.J.A.C. 6A:23-4.5(a)23.

A private school for the disabled may have a retirement plan that prior to 2004-2005 was considered an allowable cost, but if the plan is considered non-qualified, the cost of the plan is considered a non-allowable cost. In addition, a retirement plan(s) is considered a fringe benefit in accordance with N.J.A.C. 6A:23-4.2(f).

24. In accordance with N.J.A.C. 6A:23-4.5(a)33, the costs of a contingent pay increase or merit pay award when such amount(s) were not in accordance with N.J.A.C. 6A:23-4.4(a)14 or 15 or the contingent pay increase or merit pay award(s) are not consistent with the plan(s) submitted to and approved by the Commissioner prior to implementation. Any contingent pay increase or merit pay award not approved by the Commissioner prior to implementation will be considered a non-allowable cost.

A contingent pay increase means a staff salary increase of either a certain dollar amount or percentage of contracted salary that is paid to all staff in the event that the private school attains the predetermined average daily enrollment for the school year that was filed with and approved by the Commissioner. A merit pay increase means a staff salary increase of either a certain dollar amount or percentage of contracted salary that is based on specific performance criteria that was previously submitted to and approved by the Commissioner.

In accordance with N.J.A.C. 6A:23-4.4(a)14, an approved private school for the disabled that incurs contingent pay increases shall have in place an employee contract that contains the criteria by which the increase will be paid. <u>The plan shall be submitted to the Commissioner for approval prior to implementation.</u> The private school shall make payment of such increase upon achievement of the contractual contingencies as set forth in the approved plan. Such payment shall not be at the discretion of management. The employee contract shall contain the following: i. The date and signature of both the staff member and authorized school representative; ii. The average daily enrollment contingency the private school must achieve in order to generate the increase; and iii. The specific dollar amount or percentage of original contracted salary to be paid pursuant to (a)14ii above.

In accordance with N.J.A.C. 6A:23-4.4(a)15, an approved private school for the disabled that incurs merit pay increases shall have adopted a formal board policy that outlines the criteria of the merit pay plan(s). <u>The plan(s) shall be submitted for approval to the Commissioner prior to implementation.</u> The private school shall make payment of such merit pay increase upon achievement of the criteria set forth in the approved plan, but no later than the following January 31st. Such payment shall not be at the discretion of management. The plan(s) shall include the following: i. Eligibility for all employees; ii. Basis by which the pay is earned; iii. The amount of the awards by plan(s); iv. The maximum number of awards to be given by plan(s) for each year; and v. The date of board approval and date of initiation of the plan(s).

25. In accordance with N.J.A.C. 6A:23-4.5(a)35, the cost of meals and hotel accommodations associated with daily or overnight travel in excess of those contained in New Jersey Office of Management and Budget (OMB) Circular Letter 98-03 OMB as amended and supplemented. Please refer to **APPENDIX E** for further information.

26. In accordance with N.J.A.C. 6A:23-4.5(a)36, a payment of a bonus. A bonus means any payment to an employee which: 1) is not part of the employee's executed contracted salary, 2) is not part of the employee's base salary in the subsequent school year, 3) is arbitrary and not based on any specific criteria or qualifications; and 4) is paid solely at the discretion of management.

27. In accordance with N.J.A.C. 6A:23-4.5(a)38, the cost of staff salaries, supplies or printing and reproduction of a material for a research activity.

28. In accordance with N.J.A.C. 6A:23-4.5(a)39, the payment of Federal, State and local income taxes on income other than tuition. In accordance with N.J.A.C. 6A:23-4.6, for profit-making schools, the allowable Federal, State and local income tax liability in N.J.A.C. 6A:23-4.5(a)39 is computed using only the public school placement tuition income and all allowable and non-allowable private school for the disabled expenses that are allowable tax deductions on the school's Federal, State and local income tax returns.

The calculation of any Federal, State and local income taxes charged to the certified actual cost per student must exclude any other income including but not limited to interest, dividends, and gain on the sale of assets. In addition, the determination of a school's allowable taxes charged in the certified actual cost per student must include all non-allowable costs associated with the school which are considered tax deductions on the school's Federal, State and local income tax returns. A private school may not create a tax liability and charge tax expenses (account #11-000-290-895) that don't exist by excluding non-allowable costs on their Federal, State and local income tax returns. For example, a private school has revenue of $1,025,000 based on allowable costs of $1,000,000 but also incurred non-allowable salaries and fringe benefits of $24,000. The allowable tax liability and tax expense charged to account #11-000-290-895 would be based on a net income of $1,000 ($1,025,000 less $1,024,000). The school may not base their tax liability and expense on a net income of $25,000 ($1,025,000 less $1,000,000).

29. In accordance with N.J.A.C. 6A:23-4.5(a)40 and 42, any cost associated with travel to and from the officer's or employee's home and the school or agency and personal use of a school-owned or leased vehicle, which includes to/from work commutation as determined in accordance with N.J.A.C. 6A:23-4.4(a)18. For example, if a school director or employee drives a school owned or leased vehicle to and/or from the officer's or employee's home and the school agency, the cost of this commute is considered a non-allowable cost. The total percentage of personal miles to the total miles for the vehicle must be determined and then applied to all costs associated with the vehicle. These costs would include but not be limited to the following costs: gas, oil, repairs and maintenance, insurance, and car phone.

30. In accordance with N.J.A.C. 6A:23-4.5(a)43, any costs associated with a school-owned vehicle, leased vehicle or vehicle contained in a related party transaction involving the purchase of transportation services where a mileage log was not maintained. A school must maintain a mileage log for every vehicle identified above or the total costs associated with that vehicle will be considered a non-allowable cost. A mileage log is required to be maintained in accordance with N.J.A.C. 6A:23-4.4(a)18.

31. In accordance with N.J.A.C. 6A:23-4.5(a)45, transportation costs for a student to and from school, except where the student's IEP requires after school activities. Unless a student's IEP requires after school activities, the to and from transportation for private school students must be provided by the student's resident district. If costs are incurred by a private school for transportation for to and from school, the costs must be considered non-allowable.

32. In accordance with N.J.A.C. 6A:23-4.5(a)46, rental costs for buildings and equipment when the lessor is not a separate legal entity. A private school for the disabled which is using a building owned by the parent company which is not separately incorporated may charge the depreciation, interest on the mortgage and other costs of ownership to the correct line item in the private school chart of accounts. The private school may not pay the parent company for the rental of the building or equipment.

33. In accordance with N.J.A.C. 6A:23-4.5(a)47, costs related to transactions between related parties in which one party to the transaction is able to control or substantially influence the actions of the other are restricted. 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.

Any related party transaction must be detailed in the Notes to Financial Statements to include the names of the related entities, owners of the related entities (if profit making), type of entity (corporation-profit or nonprofit, partnership, etc.), item(s) rented, the dollar amount of each transaction, the cost of ownership to the property owner, the dollar amount of any non-allowable cost (if applicable) and the rental costs included in the tuition rate calculation. **IMPORTANT**: According to N.J.A.C. 6A:23-4.5(a)47, the dollar amount of the item(s) rented in a related party transaction are limited to the final cost of ownership incurred by the related property owner including a 2.5% return calculated on the final costs of ownership incurred by the related property owner. Final costs of ownership include, but are not limited to: straight-line depreciation; mortgage interest; real estate taxes; property insurance; repairs and maintenance costs. Rental costs in excess of the final cost of ownership are considered non-allowable costs and must not be included in the certified final cost per student.

The related party must supply the private school for the disabled with the final cost of ownership for the July 1 through June 30 time period regardless of the fiscal year of the related party. If the financial information is not forwarded to the private school, the entire cost of the related party transaction must be considered non-allowable and must be excluded from the certified final cost per student.

The following are examples of a related party transaction regarding the lease of a school building or equipment, which would appear in the Notes to Financial Statements:

A) The ABC Private School, Inc. leases a school building in a related party transaction from the XYZ School Buildings Unlimited, Inc. The ABC Private School, Inc. and the XYZ School Buildings Unlimited, Inc. are profit making corporations owned by Joseph and Adele Administrator. The building was leased from XYZ School Buildings Unlimited, Inc. for $51,250 that was included in the audited tuition rate calculation. For purposes of the certified final cost per student calculation and the Final Tuition Rate Charged, the lease expense is limited to the final cost of ownership of $50,000 plus a return of $1,250 that is based on 2.5 percent of the final cost of ownership. The final cost of ownership of School Buildings Unlimited, Inc. was $50,000, which was based on financial information supplied by XYZ School Buildings Unlimited, Inc.

B) The Special Education School, Inc. leases a school building in a related party transaction from the School Building Owners, Inc. The Special Education School, Inc. a nonprofit corporation and School Building Owners, Inc. a profit corporation share the same board of directors. The building was leased from School Building Owners, Inc. for $75,000 and the entire amount was reflected as an allowable cost in the financial records.

   For purposes of the certified final cost per student calculation and the Final Tuition Rate Charged, the lease expense is limited to the final cost of ownership of $60,000 plus a return of $1,500 that is based on 2.5% of the final cost of ownership. The $13,500 difference between the $75,000 lease and the $61,500 included in the audited tuition rate calculation is considered a non-allowable cost. The final cost of ownership to Building Owners, Inc. was $60,000, which was based on financial information supplied by School Building Owners, Inc.

C) The MLA Private School, Inc. leases computers in a related party transaction from Lewis Computers, Inc. The MLA Private School, Inc. and Lewis Computers, Inc. are profit making corporations owned by John Smith. Lewis Computers, Inc. refused to supply the required financial information to document the final cost of ownership of the computers. Therefore, the $10,000 paid to Lewis Computers, Inc. is considered a non-allowable cost.

34. In accordance with N.J.A.C. 6A:23-4.5(a)50, indirect and direct costs associated with unrelated activities or enterprises as defined in N.J.A.C. 6A:23-4.2(g).

35. In accordance with N.J.A.C. 6A:23-4.5(a)54, a salary or payment made to a member(s) of the board of directors/trustees for services performed in their capacity as member of the board of directors/trustees. Any salary or payments made to a member(s) of the board of directors/trustees for services performed as a member of the board of directors/trustees is a non-allowable cost.

36. In accordance with N.J.A.C. 6A:23-4.5(a)55, cost of a pension plan and/or medical benefits for current or retired members of the board of directors/trustees. The cost of a pension plan and/or medical benefits for member(s) of the board of directors/trustees for services performed in their capacity, as a member of the board of directors/trustees is a non-allowable cost.

37. In accordance with N.J.A.C. 6A:23-4.5(a)56, cost of medical benefits for retired employees who have not reached the age of 55 and who were employed a combination of less than 25 years in a New Jersey public school, a New Jersey public agency or a New Jersey approved private school for the disabled and have less than 10 years of service in a approved private school for the disabled. If a private school for the disabled has a medical plan for retirees that don't meet each one of these criteria, the medical costs for the retirees are non-allowable. For accounting purposes, the cost of medical benefits for retirees should be expensed on the cash basis of accounting which is consistent with the treatment of sick and/or vacation leave.

38. In accordance with N.J.A.C. 6A:23-4.5(a)57, costs of salaries and fringe benefits of unrecognized position titles that are not properly approved in accordance with N.J.A.C. 6A:9-5.5. On May 29, 2001, June 11, 2002, June 12, 2003 and June 18, 2004, private schools for the disabled were advised that they must only hire staff or consultants in job titles that require certification or a bachelor's degree if such titles are included on the list in **APPENDIX N**, or if such titles are unrecognized job titles for instruction that are approved in accordance with N.J.A.C. 6A:9-5.5. The salaries and fringe benefits for staff in unrecognized job titles which have not been approved by the county superintendent's office must be considered non-allowable costs. Retroactive approvals of unrecognized job titles will not be granted beginning in the 2004-2005 school year. If the report contains an unrecognized job title that is not contained in **APPENDIX N**, the auditor or private school for the disabled must provide a copy of the county superintendent's approval of the job title to the Department of Education.

The job titles of registered and licensed practical nurses do not require a school certification and therefore are not considered unrecognized job titles and are not subject to approval by the county superintendent in accordance with N.J.A.C. 6A:9-5.5. These job titles are allowed in accordance with N.J.A.C. 6A:16-2.1 Health Services Personnel.

39. In accordance with N.J.A.C. 6A:23-4.5(a)58, cost of employee severance pay in excess of four weeks' salary and if, in addition, the costs of a buyout of the employee's contract. Severance pay means compensation in addition to regular salaries and wages that are paid by a school to an employee whose services are being terminated. A private school may pay an employee severance pay up to four weeks' salary. However, a school may not pay an employee severance pay up to four weeks' and buyout the employee's contract. Any salary paid in excess of the four weeks is considered a non-allowable cost and if the employee's contract is being bought out, the buyout of the contract is a non-allowable cost.

40. In accordance with N.J.A.C. 6A:23-4.5(a)59, cost of a buyout of an employee contract in excess of 90 days and if, in addition, the cost of the employee's severance pay. If a private school for the disabled chooses to buyout an employee's contract, any buyout in excess of 90 days is considered a non-allowable cost. However, a school may not buyout an employee's contract and pay the employee severance pay. Any buyout of an employee's contract in excess of 90 days is considered a non-allowable cost and if the employee is being paid a severance pay, the severance pay is a non-allowable cost.

41. In accordance with N.J.A.C. 6A:23-4.5(a)60, cost of a salary or consultant fee paid to a full-time employee for performing more than one administrative function in the private school. For example, the full-time director of a private school may not also be paid as the school's business manager. Any salary and fringe benefits paid to the director, as the school's business administrator must be considered non-allowable.

42. In accordance with N.J.A.C. 6A:23-4.5(a)62, cost of a salary increase paid after the start of the fiscal year not in accordance with N.J.A.C. 6A:23-4.4(k). A private school may chose to contract with employees for the following time periods: July through June (12 months), July through August (2 months) and September through June (10 months), or based on each employees' anniversary date (12 months). The intent of this regulation is to limit the private schools to one salary increase per 12 month time period.

A private school for the disabled shall issue salary increases after the start of the fiscal year only in accordance with N.J.A.C. 6A:23-4.2(q) and when the increase: 1. Is due to a staff member(s) promotion that results in additional job responsibilities; 2. Is due to a staff member(s) attaining a higher degree or certification; 3. Is in accordance with (a)14 or 15 above; or 4. Has been approved by the Department after review of a formal written request to the Assistant Commissioner, Division of Finance documenting the facts supporting the increase, if none of the above applies.

43. In accordance with N.J.A.C. 6A:23-4.5(a)64, costs including salaries and fringe benefits of employees providing services not in compliance with N.J.A.C. 6A;23-4.4(e)2. In accordance with N.J.A.C. 6A:23-4.4(e)2, an approved private school for the disabled shall ensure that its employees provide all administrative and business functions on premises that are either owned or leased by the private school, and during the private school's normal hours of operation with the exception of meetings and/or conferences held offsite related to the job function. If this is not deemed feasible for any administrative or business function, the school shall provide written justification to the Assistant Commissioner, Division of Finance and request approval of any reasonable alternative work location.

The auditor must determine that the employee's of a private school are providing the school's instructional program during the hours the school is in session and if all the administrative and business functions are performed on the premises either owned or leased by the private school during the private school's normal hours of operation with the exception of meetings and/or conference held offsite related to an employee's job function. Any salaries and associated fringe benefits paid to employees contrary to the above must be considered non-allowable costs.

44. In accordance with N.J.A.C. 6A:23-4.5(a)65, costs found to be patiently unreasonable by the Commissioner or his or her representative(s) or the independent auditor/accountant. The list of non-allowable costs in N.J.A.C. 6A:23-4.5(a) is by no means an all-inclusive list of non-allowable costs. An auditor may determine a cost to be non-allowable based on the intent of the regulations or the cost was not in accordance with N.J.A.C. 6A:23-4.2(a)1.

Earned vacation and/or sick leave must not be accrued beginning in the 2001-2002 school year. Expenses for vacation and/or sick leave may only be expensed <u>when actually paid</u>. For example, a staff member who earned but did not use 10 sick days or 10 vacation days as of June 30, 2005 would maintain the right to use these days in the future, but only in the event the private school has an approved Board policy allowing this practice. However, these days would not be expensed in the June 30, 2005 school year. They would only be expensed when actually paid to the staff member in the future. In addition, a staff member that earns 10 vacations days for the 2004-2005 school year but only uses 6, the 4 unused days <u>are not expensed in 2004-2005 and not accrued</u> on the June 30, 2005 balance sheet. If a staff member carries over unused vacation and/or sick days from 2004-2005 to a subsequent school year, the days are expensed only when used or paid.

STATEMENT OF EXPENDITURES BY LINE ITEM

The auditor shall include in the audit a "Statement of Expenditures by Line Item" including the segregation of all salaries by title of position in the following areas:

Special Education Instruction

Salaries of Teachers		#11-200-100-101
Salaries of Other Professional Staff		#11-200-100-104
Other Salaries for Instruction		#11-200-100-106
Special Vocational Programs – Instruction		
Other Salaries for Instruction		#11-320-100-106
Undistributed Expenditures		
Attendance and School Social Worker Services (except School Social Worker	Salaries	#11-000-211-100
School Social Worker Salaries	Salaries – Social Workers	#11-000-211.1-100
Health Services (except school nurse)	Salaries	#11-000-213-100
Health Services – School Nurse	Salaries – School Nurse	#11-000-213.1-100
Other Support Services Student – Related Services	Salaries	#11-000-216-100
Other Support Services Student – Regular	Salaries of Other Professional Staff	#11-000-218-104

Other Support Services Student - Regular	Other Salaries	#11-000-218-110
Improvement of Instructional Services	Salaries of Supervisor	#11-000-221-102
Educational Media Services/School Library	Salaries	#11-000-222-100
Instructional Staff Training Services	Salaries of Supervisor of Instruction	#11-000-223-102
Instructional Staff Training Services	Salaries of Other Professional St.	#11-000-223-104
Instructional Staff Training Services	Other Salaries	#11-000-223-110
Support Services – Gen. Admin.	Salaries	#11-000-230-100
Support Services – Sch. Admin.	Salaries of Principals/Asst. Prin.	#11-000-240-103
Support Services – Sch. Admin.	Salaries of Other Prof. Staff	#11-000-240-104
Support Services – Sch. Admin	Other Salaries	#11-000-240-110
Business & Other Support Services	Salaries	#11-000-290-100

In the Undistributed Expenditures - Support Services - General Administration, School Administration, Business and Other Support Services and Improvement of Instructional Service areas, if the school has more than one of the same job titles, that job title must be indicated separately by salary by job title. Please refer to pages P-14 & 15 and NP-18 & 19. Listed below is the required format as shown below:

Supervisor of Instruction	36,000
Supervisor of Instruction	10,000
Director	169,684
Director	169,684
Assistant Director	120,000
Assistant Director	120,000

In addition, all consultants providing direct services must be identified according to the type of service(s) provided such as Occupational Therapist and Physical Therapist, etc. Consultants providing direct or related services must be charged to Special Education Instruction – Purchased Professional – Educational Services account #11-200-100-320 and identified by type of consultant. Please refer to pages P-11 and NP-15. Listed below is the required format:

Occupational Therapist	5,600
Physical Therapist	5,600

In addition, Other Support Services Students – Related Services account #11-000-216-320 must also be identified by type of consultant. Please refer to pages P-13 and NP-17. Listed below is the required format:

Counselors (Guidance)	20,000
Learning Consultant	15,000

Occupational Therapists	15,000
Physical Therapist	20,000
School Psychologists	15,000
Speech Language Specialist	22,100

Each private school for the disabled prepared a 2004-2005 Annual Fiscal and Program Information form and forwarded it to the department. This is information prepared by the private school that includes various types of data including staff information such as: employees name, position title, total agency salary, total school salary, whether full or part time, number of months worked, total hours per week, certifications held, highest degree held and all licenses held. There are separate pages for the following type of staff members: 1) Administration - General Administrative, School Administrative, Business and Other Support Services, 2) Instruction - Classroom Instruction, and 3) Support Services.

In accordance with N.J.A.C. 6A:23-4.4(c), an approved private school for the disabled shall execute an employment contract annually with each school employee whose position requires a certificate, license, or a bachelor's degree which contains the following information: name of employee; dates of employment; work hours; certification(s) and/or degree(s) held; job description; job title; and salary. The form prepared by the private school must reflect the same job title and certification(s) held that is contained on each employee's contract. <u>When the auditor prepares the Statement of Expenditures by Line Item, the job titles reflected on the 2004-2005 Annual Program & Fiscal Information forms, the staff members' contract and the audited financial statements must agree. It's not within the auditor's discretion to reflect a different job title on the audited financial statements than is reflected on the staff members' contract and the Annual Program & Fiscal Information forms. During the department's desk review of a private school's 2004-2005 audited financial statements, the job titles contained on the 2004-2005 Annual Program & Fiscal Information forms will be compared to the audited financial statements and any discrepancies will be considered a non-compliance item.</u>

In accordance with N.J.A.C 6A:23-4.5(a)56, a private school for the disabled may include in the certified actual cost per student the cost of medical benefits for retirees that meet the following criteria: employees who have reached the age of 55 and who were employed a combination of at least 25 years in a New Jersey public school, a New Jersey public agency or a New Jersey approved private school for the disabled and with at least 10 years of service in an approved private school for the disabled. These costs **MUST NOT** be charged to the function and object code where the retiree worked while employed by the private school. For example, if a teacher of the handicapped retired and received such benefits, the private school **MUST NOT** charge these medical benefits to account #11-200-100-205 – Employee Benefits (except pension) or Unallocated Benefits #11-000-291-270 Health Benefits to be allocated across all cost categories. Since the costs of retired school district employees' medical benefits are not paid by public school districts and are not part of the Comparative Spending Guide, these costs **ARE CONSIDERED** outside the cost category calculation for private schools for the disabled. For these reasons, the cost of medical benefits for retired staff must be charged to Unallocated Benefits – Health Benefits for Retired Staff, line #280.1 account #11-000-291-271 in **APPENDIX B** and **APPENDIX B-1** which are outside the cost category calculation.

This statement must reflect the line item accounts detailed in the Department of Education prescribed Chart of Accounts (**APPENDIX B).** Please be advised, an audit that does not reflect the formats contained on pages P-10 through P-18 or NP-14 through NP-22 or the above format will be considered in non-compliance.

Beginning in the 2001-2002 school year, a private school must maintain their accounting records and general ledger based on the July through June school year with no regard to the ten month and extended school years. Even if a private school has a ten month school year program and an extended school year program, the private school would have one general ledger. Beginning in the 2001-2002 school year, expenditures by line item must be reported in only one column, which would reflect the July through June school year. Expenses for ten month and extended school years are no longer segregated.

Costs described in N.J.A.C. 6A:23-4.5(a) are deemed non-allowable and shall not be included on this statement for the July through June school year. The auditor is to sample expenditures from each line item when test checking for non-allowable costs. For example a line item is as follows: #11-000-100-101, #11-200-100-104, #11-200-100-106, #11-200-100-205, #11-200-100-232, #11-200-100-320, #11-200-100-340, #11-200-100-500, #11-200-100-610, #11-200-100-640 and #11-200-100-800. The auditor's sample should include no less than 10 percent of the total expenses (dollar value) within a line item. For example, account #11-200-100-500 Special Education – Other Purchased Services has a total expense of $100,000, the auditor must test a minimum of $10,000 of expenses within this account number. An expense item is defined as lines 1 through 314 on **APPENDIX B.**

If the auditor determines costs originally charged to the education program to be non-allowable and in excess of 1% of the total program costs (excluding salaries and fringe benefits), then the total sample must be increased from 10% to 20% of all program costs incurred. The audit sample must be increased by 10% increments (20, 30, 40. . .) if the auditor determines costs originally charged to the education program are non-allowable in excess of 10% of the audit sample times the total program costs incurred. The auditor must comment in the Notes to Financial Statements concerning all samples in excess of 10%.

EXAMPLE

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Sample	Total Program Costs	10% of Sample (1) x 10%	Maximum Non-Allowables Prior to Sample Increase (2) x (3)	Audited Non-Allowable Costs	Non-Allowable in Excess of 10% Sample	Increase Sample To
10%	$500,000	1%	$5,000	$6,000	Yes	20%
20%	$500,000	2%	$10,000	$11,000	Yes	30%
30%	$500,000	3%	$15,000	$13,000	No	Comment in Notes

In accordance with N.J.A.C. 6A:14-5.1, district boards of education and approved private schools for the disabled can only contract for the specific services identified. Except as indicated in N.J.A.C. 6A:14-5.1 a private school for the disabled is precluded from sub-contracting educational services from a third party (including public school districts and other private schools for the disabled). The school may sub-contract for related services such as occupational therapy, physical therapy, counseling and speech-language services. Educational services would include but not be limited to services for English, math, science, vocational school instruction and home instruction. The school auditor must review accounts #11-200-100-320 Special Education – Instruction - Purchased Professional Services and #11-320-100-320 Special Vocational Programs - Purchased Professional Services and the cash disbursements journal for payments to public schools, other private schools for the disabled and vocational schools for sub-contracting. If a private school is sub-contracting educational services to a third party (except those allowed in N.J.A.C. 6A:14-5.1), the auditor must disallow all payments to the third party along with the cost of transporting the student(s) to the third party location when calculating the Certified Actual Cost Per Student.

Costs described in N.J.A.C. 6A:23-4.5(a)6, 7, 8, and 9 relate to maximum salaries and certification of professional staff. A schedule detailing maximum salaries on a county basis by title of position for fiscal year 2004-2005 is included as **APPENDIX I**.

All salaries to be charged to the Restricted-Public School Placement Fund must be reviewed for compliance with the maximum salaries listed on the schedule in **APPENDIX I**. The maximum salaries of less than full-time employees should be compared on an hourly basis in accordance with the regular full-time workweek for the title of position being reviewed. The regular full-time week should be no less than 35 hours and no more than 40 hours. Maximum salaries of all employees are based on 52 weeks work. The auditor must disallow for any employee that portion of salary in excess of the full-time or prorated maximum salary listed for the employee's job title and the related employer paid fringe benefits. This also pertains to those employees in job titles that don't require a school certification or bachelor's degree whose maximum salary is identified on **APPENDIX I** under the column heading "Lowest Maximum Salary." The amounts disallowed must be reflected on the "Statement of Non-Allowable Costs".

Professional staff positions not generally used by most public school districts are not reflected on the maximum salary schedule. Such employees are to be paid according to the category that most closely corresponds to their job description. Job descriptions of such employees in unlisted job titles must be necessary for the execution of educational services; otherwise the entire salary may be non-allowable per N.J.A.C. 6A:23-4.5(a)6.

The auditor must review on a test check basis certificates held by employees functioning in professional positions. The auditor is to review the certifications of at least one employee in each professional category utilized, and should review no less than 25% of the certifications of professional staff members. If the initial sample indicates a high percentage of improperly certified employees, the auditor must carefully review the certifications of all professional employees. The certifications are to be maintained on file in the private school's business office. If the certifications are not maintained on file, the auditor should allow the private school's administrator a reasonable time to obtain copies of all required certifications from the County Office of Education.

The auditor must disallow the entire salary and the related employer paid fringe benefits of any professional employee functioning in a professional title without the corresponding certification. Please be advised, evidence of a teaching degree and/or a copy of an application of certification is not considered holding the proper certification. An individual functioning in a position, which requires certification, should not be hired without providing evidence of the proper certification for the position. If an individual is functioning in a position that requires certification and does not hold the proper certification, but has a teaching degree and/or an application of certification pending before the department's licensing bureau, this is not considered holding the proper certification and the individual's salary and fringe benefits must be considered non-allowable from the time the individual began in the position until the date they are considered properly certified which appears on their certificate. The amounts disallowed must be reflected on the "Statement of Non-Allowable Costs".

An important audit function is determining if the expenses are properly charged to the correct line items. This will have an impact on the cost category percentages if expenses are incorrectly charged between the administration, classroom instruction and support services areas. One issue is that of secretarial and clerical salaries and fringe benefits. Secretarial and clerical salaries are not considered classroom instruction and must not be charged to the classroom instruction cost category through salary or any other means. The auditor must be knowledgeable of and perform the proper testing to ensure that secretarial and clerical salaries and fringe benefits are not charged to the classroom instruction cost category.

In addition, an auditor must be knowledgeable of and perform the proper testing to ensure that secretarial and clerical salaries and fringe benefits are properly charged within the administration and support services line items. The auditor must test the secretarial and clerical staff functions and determine the staff for whom the secretarial/clerical staff are performing work and to determine if their salaries and fringe benefits are properly charged. It is highly unusual that a private school could operate with professional staff in Support Services - General Administration, and/or Support Services – School Administration and/or Business and Other Support Services with little or no secretarial and/or clerical staff assigned to these areas. If secretarial and clerical staff is performing duties for staff across cost categories, their salaries and fringe benefits **must** be allocated across the cost categories.

Undistributed Expenditures – Other Support Services – Students – Regular account #11-000-218-xxx is used to record the costs associated with guidance services and any other activities supplemental to the teaching process that are designed to assess and improve the well-being of students other than 1) attendance and social work services, 2) health services, or 3) other support services - students - special. Guidance services include counseling with students and parents, consulting with other staff members on learning problems, evaluating the abilities of students, assisting students in personal and social development, providing referral assistance, and working with other staff members in planning and conducting guidance programs for students. Guidance services also include record maintenance services - the compiling, maintaining, and interpreting of records of individuals for such factors as physical and medical status, standardized test results, personal and social development, school performance, and home background. The secretarial and clerical staff in this area supports the professionals and without professional staff members to support there should be no or limited secretarial and clerical salaries and fringe benefits in this area. The school auditor must review line accounts #11-000-218-104, 105, 110, 205, 232 and 320 to determine if the charges to secretarial and clerical salaries and fringe benefits are properly charged.

The expenditures listed in the "Statement of Expenditures by Line Item" will be an integral part of the final audited tuition rate determined by the certified audit. The auditor must express an opinion as to the fairness of expenditures listed on this statement.

STATEMENT OF TOTAL EXPENDITURES

The auditor shall include in the audit a "Statement of Total Expenditures". This schedule shall reflect total expenditure amounts by major account series from the "Statement of Expenditures by Line Item" for the July through June school year. The following account series detailed in the Department of Education prescribed Chart of Accounts shall be reflected on this schedule:

CURRENT EXPENSE

Special Education Instruction
Special Vocational Programs - Instruction
School-Spon. Cocurricular Activities. - Instructional
School-Sponsored Athletics - Instruction
Attend. & Social Work Services (except Social Worker salary & fringe benefits)
Social Worker Salaries & Fringe Benefits (only)
Health Services (except School Nurse salary & fringe benefits)
Health Services - School Nurse's Salary & Fringe Benefits only
Other Support Services Students-Related Services
Other Support Service Students-Regular
Improvement of Instructional Services
Edu. Media Services/School Library (except Librarian's salary & fringe benefits)
School Librarians Salary and Fringe Benefits (only)
Instructional Staff Training Services
Support Services - General Administration
Support Services - School Administration
Other Operation & Maintenance of Plant
Student Transportation Services
Business & Other Support Services
Food Services

CAPITAL OUTLAY

Special Education - Instruction

Vocational Programs

Undistributed

DEBT SERVICE

STATEMENT OF PERCENTAGES FOR COST CATEGORY ASSIGNMENTS

This statement was required beginning in the 2002-2003 school year. The line numbers on this statement correspond to the line numbers used in **APPENDIX B.** Various line numbers are missing from this statement (12-132, 284-294 and 171-173) since these numbers are only for those schools that have multiple program types and charge separate rates by program type and are for one to one aides.

This statement reflects the calculation of the cost category percentages which is used to determine if the private school has met the requirements of N.J.A.C. 6A:23-4.2(a)3. In the 2004-2005 school year, the private school must incur minimum instruction costs of 55% and no greater than a maximum administrative costs of 25% based on this calculation. If the private school doesn't meet the cost percentage requirements of 55% and/or 25%, it will result in non-allowable costs.

The statements on pages P-19 to P-25 and NP-23 to NP-29 reflect the cost category assignments for each line item in the chart of accounts, except as noted above. The Grand Total in the Total Cost column must equal the Grand Total on the Statement of Expenditures by Line Item. Except for amounts charged to Unallocated Benefits lines 275 to 282, if an amount is in the Cost Category Column (column 3), the same amount must be in either columns 4 through 9 as indicated on these statements. The total of columns 4 through 9 must equal the total of column 3 and the total of columns 3 through 10 must equal the Total Cost in column 2. If an amount is in Total Column (2) and is not in column 3, the amount is considered a Cost Outside the Cost Category Calculation and is not part of cost category percentage calculation and must appear in column 10.

The auditor must place all costs for a private school in the correct columns as indicated on these statements. All columns must be totaled and the total by column is inserted on the Grand Total line by column. To determine the Cost Percentages by Cost Category, the total of columns 4 through 9 must be divided by the Grand Total in column 3 and the resultant percentages must be inserted on the line Cost Percentages by column. The percentages must be calculated to 2 decimal places. For example, on NP-29 the totals of classroom instruction and administration of $1,050,830 and $444,750 are divided by the Cost Category Total of $1,802,620, which results in 58.29% for instruction and 24.67% for administration. As illustrated on pages P-25 and NP-29, the ABC Private School for the Disabled meets the percentage requirements and there are no non-allowable costs as a result.

For examples of non-allowable costs as a result of this calculation, please refer to **APPENDIX T-1** for an example of the calculation of non-allowable costs for excess administration costs, **APPENDIX T-2** for an example of the calculation of non-allowable costs for deficient instruction costs and **APPENDIX T-3** for an example of the calculation of non-allowable costs for excess administration and deficient instruction costs. The calculation of non-allowable cost is based on the percentage of over 25% for administration and less than 55% for instruction times the Cost Category Total.

For example, T-1 indicates an administration percentage of 35.65% which is 10.65% in excess of the maximum of 25%. The excess of 10.65% times the Cost Category Total of $1,808,620 equals non-allowable costs of $192,618. T-2 indicates an instruction percentage of 50.91% which is 4.09% less than the minimum required of 55%. The deficient percentage of 4.09% times the Cost Category Total of $1,737,870 equals non-allowable costs of $71,079. T-3 indicates an instruction percentage of 48.89% which is 6.11% less than the minimum required of 55% and an administration percentage of 36.23% which is 11.23% in excess of the maximum of 25%. The deficient percentage of 6.11% times the Cost Category Total of $1,804,620 equals non-allowable costs of $110,262 and the excess percentage of 11.23% times the Cost Category Total of $1,804,620 equals non-allowable costs of $202,659 for total non-allowable costs of $312,921.

The total non-allowable costs calculated based on **APPENDIX T** which includes deficient instruction and/or excess administration costs must be reflected on the Statement of Non-Allowable Costs. Examples of these are shown on the last page of **APPENDIX T-1**, **T-2** and **T-3** as Statement of Non-Allowable Costs. The calculation of the Certified Actual Cost Per Student, Working Capital Fund Computation and Surcharge must be net of any non-allowable costs determined on the Statement of Percentages for Cost Category Assignments. Please refer to pages 16 and 17 in **APPENDIXES T-1, T-2 and T-3**.

Since the costs of retired school district employees' medical benefits are not paid by a school district and are not part of the Comparative Spending Guide, these costs **ARE CONSIDERED** outside the cost category calculation. For these reasons, the cost of retiree medical benefits must be charged to Unallocated Benefits – Health Benefits for Retired Staff, line #280.1 account #11-000-291-271 in **APPENDIX B** which is outside the cost category calculation.

If a private school's year-end financial records reflect costs charged to Unallocated Benefits that have not been allocated to the various Functions, the auditor must allocate these costs <u>except for #11-000-291-232 pension contributions and #11-000-291-271 Health Benefits for Retired Staff which are not allocated and are outside the cost category calculation</u>. The costs by line item would be allocated based on the total amount of salaries in the Function area to the total of all salaries. For example, if the total amount of salaries in Salaries of Teacher #11-200-100-101, Salaries of Other Professional Staff #11-200-100-104 and Other Salaries for Instruction #11-200-000-106 is $100,000 and the total of all salaries is $1,000,000 then 10% of all Unallocated Benefits **<u>(except pension)</u>** would be allocated to Classroom Instruction in the Cost Category Calculation.

<u>STATEMENT OF ENROLLMENT</u>

The auditor shall include in the audit a "Statement of Enrollment". The enrollment for public school placements is to be calculated for each public school district. The enrollment for private placements whether paying tuition or funded by the private school, serviced in classes with public school placements are to be calculated and entered on the schedule after the total for public school placements. The districts making up the Total Public School Students are either New Jersey public schools or placements made by a New Jersey state agency such as the Department of Human Services. Audits that include districts other then New Jersey public schools and New Jersey state agencies, such as an out-of-state public school in the Total Public School Students will result in an error in the calculation of the Certified Actual Cost Per Student and a notification of audit non-compliance. Enrollments are necessary to determine tuition rates and billing adjustments.

A private placement student means a student placed in an approved private school for the disabled by other than a New Jersey school district or a New Jersey State agency. For tuition rate purposes for a private placement student, the approved private school for the disabled must charge not less than the audited cost per student or the private school for the disabled must have other means of financing excess costs over the tuition rate charged.

The tuition rates are based on the enrollment for the July through June school year and must reflect the Average Daily Enrollment (ADE) for the services provided between July 1 and June 30. The ADE per public school district or private placements is calculated by adding the total enrolled days (possible days) for all students received from the same public school district and dividing that total by the number of days the private school was in session between July 1 and June 30 rounded to the nearest four decimal places. A student enrolled in a preschool program (ten hours per week of student instruction), a half-day program or enrolled in a full-day program on a shared time basis shall not have a maximum average daily enrollment in excess of 0.5 if the pupil is enrolled in a private school that only has a ten month school year. The ADE will be less than 0.5 if the pupil is <u>only enrolled</u> in the ten month school year of a private school that has both a ten month and extended school year.

Enrolled days (possible days) are the total days both present and absent from the time a student is enrolled on the New Jersey school register for services (date services are to commence per New Jersey State Department of Education Mandated "Tuition Contract") until the student is terminated by the private school or withdrawn by the sending district (see New Jersey State Department of Education Mandated "Tuition Contract" included in **APPENDIX D** for billing and enrollment procedures upon termination or withdrawal). The number of days the private school was in session for the July through June school year program shall equal the total possible days any one student could have received services between July 1 and June 30, except as for days closed for holidays, snow, facility problems, weekends, etc.

N.J.A.C. 6A:23-4.2(a)1 states when determine the actual allowable costs for the program, the board of directors shall ensure that such costs are based on all costs required for student instruction from July l through June 30. Due to this requirement, when calculating the ADE for the July through June school year, the number of days the private school was in session shall never be less than 180 and under no circumstances may a student have an ADE equal to 1.000 if there are less than the required 180 days. If a private school's ten month program is less than 180 days of student instruction, the final number of days in session must be included in the notes to financial statements. Please refer to **APPENDIX M** for further information.

The "Statement of Enrollment" shall include the following information for each school district and private placements for the July through June school year:

1) Final Enrollment (total of all students enrolled per number of names entered on the New Jersey school register); and

2) Total ADE.

The auditor should refer to the New Jersey School Register section concerning the following: students that are not enrolled for either a full-day or half-day program and students transitioning back to the sending district with the services of a private school staff person. These issues will impact on the school register and the Statement of Enrollment.

STATEMENT OF TUITION RATE COMPUTATION – PARTS I & II

The auditor shall include in the audit the "Statement of Tuition Rate Computation Parts I & II" for the July through June school year. Since the tuition rates are based on the July through June school year, Rates A, B (if applicable) and C would be the number of possible enrolled days in the ten month and extended school years for one pupil times the tentative per diem rate charged. The schedule contained in the "Sample of Audit Report" includes instructions and guidelines for calculating the Certified Actual Cost Per Student and the Final Tuition Rate Charged for the July through June school year.

The following is an explanation of the "Statement of Tuition Rate Computation - Part I". When private placements are serviced in classes with public school placements, enter Total Expenditures as reflected on the "Statement of Expenditures by Line Item". Divide the Total Expenditures by the Total All Pupils ADE (July through June ADE, including private placements) as reflected on the "Statement of Enrollment" to determine the Average Cost Per Student. Multiply the Average Cost Per Student by the Total Public School Pupils ADE as reflected on the "Statement of Enrollment" to determine the Total Public School Placement Expenditures.

If there are no private placements serviced in classes with public school placements, the auditor may enter the Total Expenditures reflected on the "Statement of Expenditures by Line Item" on the Total Public School Placement Expenditures line. Start the tuition rate computation at that point.

The purpose of the "Statement of Tuition Rate Computation – Part I" is to determine the Certified Actual Cost Per Student – Per Diem Rate and Total School Year Rate. Nonprofit schools must enter the Working Capital C on the Add: Working Capital Fund line. The amount to be included is calculated on the "Working Capital Fund Computation" (see instructions). Profit-making schools must enter the Maximum Surcharge on the Add: Surcharge line. The amount to be included is calculated on the "Surcharge Computation" (see instructions).

Add Total Public School Placement Expenditures to Surcharge/Working Capital Fund to determine Total Public School Placement Expenditures and Surcharges/Working Capital Fund. Divide the amount by the July through June school year Total Public School Pupils ADE to determine the Certified Actual Cost Per Student – Totals School Year Rate (Rate D). The Certified Actual Cost Per Student – Total School Year Rate is the July through June maximum tuition rate that may be charged the public school districts. Divide the Certified Actual Cost Per Student – Total School Year Rate by the number of enrolled days for one student in the July through June school year. The result is the Certified Actual Cost Per Student – Per Diem Rate (Rate D1).

The following is an explanation of the "Statement of Tuition Rate Computation - Part II". Part II compares (Rate A) the Tentative Public School Placement Tuition Rate determined by the Department of Education, (Rate B) if applicable - the Higher Tentative Public School Placement Tuition Rate approved by the Department of Education, (Rate C) the Tentative Public School Placement Tuition Rate charged by the private school, (Rates D and D1) the Certified Actual Cost Per Student – Total School Year Rate and the Certified Actual Cost Per Student – Per Diem Rate determined by the annual audit, and (Rate E and E1) the Final Tuition Rate Charged – Total School Year Rate and Final Tuition Rate Charged – Per Diem Rate. The Final Tuition Rate Charged (Per Diem and Total School Year) is the tuition rate that management of the private school chooses to charge, which may not exceed the Certified Actual Cost Per Student. Rate E1 must be less than or equal to Rate D1. The Final Tuition Rate Charged - Total School Year must be equal to the Final Tuition Rate Charged - Per Diem Rate times the number of enrolled days for one pupil in the July through June School year.

Calculate the total year's Public School Tuition by multiplying the Final Tuition Rate Charged – Total School Year Rate by the corresponding Total Public School Pupils ADE. Subtract any adjustments, if applicable determined from the "Statement of Billing Adjustment" to arrive at the Adjusted Audited Tuition Billing. This amount must agree with the tuition revenue reflected on the "Statement of Support and Revenue, Expenses, Capital Additions and Changes in Fund Balances" or "Statement of Revenue and Expenses and Reconciliation of Retained Earnings".

In accordance with N.J.A.C. 6A:23-4.2(a)2, if the private school for the disabled proposes to charge a final tuition rate in excess of 10 percent above the tentative tuition rate charged, the private school shall notify each sending district board of education and the Assistant Commissioner, Division of Finance that such an increase will be charged and the reason for the increase on or before the following dates: December 15th for the first quarter, March 15th for the second quarter, June 15th for the third quarter and September 15th for the fourth quarter, or the next business day when applicable. If the sending district board of education and the Assistant Commissioner, Division of Finance are not notified on or before the dates noted above, the private school shall charge an increase not to exceed 10 percent of the tentative tuition rate charged. In order for the 2004-2005 audit to reflect a final tuition rate charged in excess of 10% of the tentative tuition rate charged, the private school must have notified the proper parties in accordance with N.J.A.C. 6A:23-4.2(a)2. Failure to do so will restrict the final tuition rate charged to a maximum of 10% of the tentative tuition rate charged.

If the Final Per Diem Tuition Rate Charged – Per Diem Rate determined by the school's management is in excess of 10 percent of the tentative per diem tuition rate charged, the auditor must determine the point during the 2004-2005 school year that the private school's possible year-to-date per diem tuition rate (cost plus surcharge/working capital fund) was in excess of 10 percent of the tentative per diem tuition rate charged. The auditor must review the private school's quarterly financial reports for the first quarter of 9/30/2004, the second quarter of 12/31/2004, the third quarter of 3/31/2005 and fourth quarter of 6/30/2005. The school must have notified the proper parties on or before the following dates: December 15, 2004 for the first quarter, March 15, 2005 for the second quarter, June 15, 2005 for the third quarter and September 15, 2005 for the fourth quarter, if the school's YTD Per Diem Tuition Rate on this report is in excess of 10 percent of the tentative per diem tuition rate charged and the private school plans to charge the increased amount. An auditor <u>must</u> not reflect a Final Tuition Rate Charged in excess of 10% of the tentative tuition rate charged unless the private school notified the proper parties in accordance with N.J.A.C. 6A:23-4.2(a)2.

The auditor must include a **SUMMARY OF TUITION RATES CHARGED** on the Statement of Tuition Rate Computation Part II. This information must include both the tentative tuition rates charged and the final tuition rates charged for both the ten month and extended school years. Under Tentative Tuition Rates Charged, for the ten month school year indicate the total number of enrolled days for one pupil times the tentative per diem tuition rate charged to equal the total tentative tuition rate for the ten month school year. For the extended school year indicate the total number of enrolled days for one pupil times the tentative per diem tuition rate charged to equal the total tentative tuition rate for the extended school year. Add the ten month and extended school year rates to determine the Tentative Tuition Rate Charged – Total School Year.

Under Final Tuition Rate Charged, for the ten month school year indicate the total number of enrolled days for one pupil times the final tuition rate charged - per diem rate to equal the total final tuition rate charged for the ten month school year. For the extended school year indicate the total number of enrolled days for one pupil times the final tuition rate charged - per diem rate to equal the total tuition rate charged for the extended school year. Add the ten month and extended school year rates to determine the Final Tuition Rated Charged - Total School Year

<u>STATEMENT OF TUITION RATE COMPUTATION - WORKING CAPITAL COMPUTATION</u>

Nonprofit private schools can include a Public School Placement Restricted Working Capital Fund (Working Capital Fund) in the tuition rate charged to public school districts as allowed per N.J.A.C. 6A:23-4.7. The amount of Working Capital Fund to be included in the tuition rate is calculated on the "Statement of Tuition Rate Computation - Working Capital Fund

Computation". The purpose of this statement is to determine the maximum working capital that can be included in the Certified Actual Cost Per Student. If the Prior Year Working Capital Fund Balance from June 30, 2004 is in excess of 15 percent times the Total Public School Placement Expenditures, this excess must be used to reduce the Total Public School Expenditures to determine the Certified Actual Cost Per Student.

Beginning in the 2001-2002 school year, a nonprofit private school for the disabled may include in the Certified Actual Cost Per Student a Working Capital Fund equal to the lesser of the following: 15 percent times the Total Public School Placement Expenditures less the Prior Year Working Capital Fund Balance or 2.5 percent times the Total Public School Placement Expenditures. If 15 percent times the Total Public School Placement Expenditures less the Prior Year Working Capital Fund Balance results in a negative amount, the Total Public School Placement Expenditures is reduced by this amount to determine the Total Public School Placement Expenditures and Working Capital.

Enter the Total Public School Placement Expenditures for the July through June school year as reflected on the "Statement of Tuition Rate Computation-Part I". Multiply the Total Public School Placement Expenditures by 15 percent (0.15) to determine the Maximum Working Capital Fund Balance. Enter this amount on the Maximum Working Capital Fund Balance line. The Maximum Working Capital Fund Balance is the maximum amount of Working Capital Fund that a nonprofit private school for the disabled may accumulate at the end of the audited fiscal year.

To determine Working Capital A, insert the June 30, 2003 Working Capital Fund Balance from the June 30, 2004 audited financial statements on the line Less: Prior Year Working Capital Fund Balance. The Prior Year Working Capital Fund Balance is the Working Capital Fund Balance from the balance sheet from the prior year audited financial statements (June 30, 2004) and the beginning Public School Restricted Fund Balance from the Statement of Support and Revenue, Expenses, Capital Additions and Changes in Fund Balances. If such balances exist in both the Operating and Plant Funds, use the sum of these balances for this calculation. Subtract the Prior Year Working Capital Fund Balance from the Maximum Working Capital Fund Balance and insert the result on the Working Capital A line.

To determine Working Capital B, multiply the Total Public School Placement Expenditures by the Maximum Annual Working Capital Fund Percentage of 2.5 percent. The result is Working Capital B.

Working Capital C is the lesser of Working Capital A and Working Capital B. Working Capital C is the maximum amount of Working Capital Funds the private school may include in the Certified Actual Cost Per Student. As stated earlier, Working Capital C may be a negative amount. Enter Working Capital C on the Add: Working Capital Fund line on the "Statement of Tuition Rate Computation - Part I". The results of the Maximum Working Capital Fund Balance, Working Capital A, B and C calculations will change from year-to-year and the results from one year are not used in a subsequent year (emphasis added).

STATEMENT OF TUITION RATE COMPUTATION - SURCHARGE COMPUTATION

Profit-making private schools can include a surcharge in the tuition rate charged to public school districts as allowed per N.J.A.C. 6A:23-4.6. The amount of surcharge to be included in the tuition rate is calculated on the "Statement of Tuition Rate Computation - Surcharge Computation". The purpose of this statement is to determine the Maximum Surcharge that can be included in the Certified Actual Cost Per Student.

Enter the Total Public School Placement Expenditures as reflected on the "Statement of Tuition Rate Computation - Part I". Multiply the Total Public School Placement Expenditures by 2.5 percent (0.025) to determine the Maximum Surcharge. Enter the Maximum Surcharge on the Add: Surcharge line on the "Statement of Tuition Rate Computation - Part I".

EXTRAORDINARY SERVICES - STATEMENT OF EXPENDITURES BY LINE ITEM

If a public school district(s) has contracted with the private school for the services of a one-to-one aide these costs must be segregated from the costs for all students and **must not** be included in the calculation of the Certified Actual Costs Per Student on pages P-27 and NP-31, the Statement of Expenditures by Line Item on pages P-10 to P-18 and NP-14 to NP-22 or the calculation of the Cost Category Percentages on pages P-19 to P-25 and NP-23 to NP-29. These services are considered extraordinary services and the auditor must reflect the cost of such services, by pupil, by district on this statement. These costs of these services must be segregated by salary and fringe benefits. Please refer to page P-30 & P-31 for a profit school and NP-34 & NP-35 for a nonprofit school. Please be advised, the format shown in this manual indicates pupils from the same sending district are segregated by pupil, but the auditor may chose to combine all pupils from one sending district into one column when reporting.

STATEMENT OF EXTRAORDINARY SERVICES - TUITION RATE COMPUTATION & SURCHARGE/WORKING CAPITAL FUND

A private school may charge the public school district, by pupil the actual allowable costs of the extraordinary services provided plus a surcharge of 2.5 percent for a profit school and a working capital fund charge of no greater than 2.5 percent times the allowable costs (subject to management's application of the prior year working capital fund balance) for a nonprofit school. Regardless of the tentative tuition rate charged for these services, the private school may charge the school district any amount up to and including the Certified Actual Cost Per Student. The Expenditures, (by student, by district), from the Extraordinary Services – Statement of Expenditures By Line Item must be reflected on the Statement of Extraordinary Services Tuition Rate Computation and Surcharge/Working Capital.

For a profit school, the Expenditures (by pupil, by district) must be multiplied by 2.5 percent to determine the maximum surcharge allowable (by pupil, by district). The surcharge is added to the Expenditures to determine the Expenditures and Surcharge (by pupil, by district), which is the Certified Actual Cost Per Student – Rate D, the maximum tuition rate that may be charged by pupil, by district. The Final Tuition Rate Charged – Rate E is the tuition rate determined by management that will be charged by pupil by district. This amount must be equal to or less than the Certified Actual Cost Per Student – Rate D.

For a nonprofit school, the maximum working capital fund by pupil is limited to the lesser of the following: expenditures by pupil times 15% less any prior year working capital fund balance applied, by pupil (if management chooses to apply an amount to the extraordinary services working capital fund calculation) compared to the expenditures by pupil times 2.5%. In the example on page NP-35, the Less: Prior Year Working Capital Balance is zero (0) for all the pupils and districts. However, management may chose to apply a Prior Year Working Capital Balance to decrease the working capital fund that may be included in the extraordinary services tuition rates. The working capital computation on NP-33 contains a Prior Year Working Capital Balance of $160,634. Management may chose to apply part of this amount in the extraordinary services computation which would decrease the amount applied to determine the Certified Actual Cost Per Student on page. In any case, the total of the Prior Year Working Capital Balances reflected on NP-33 and NP-35 must equal the June 30, 2004 Public School Placement Restricted Working Capital Fund Balance.

The Working Capital Fund is added to the Expenditures to determine the Expenditures and Working Capital (by pupil, by district), which is the Certified Actual Cost Per Student – Rate D, the maximum tuition rate that may be charged by pupil, by district. The Final Tuition Rate Charged – Rate E are the tuition rates determined by management that will be charged, by pupil by district. This amount must be equal to or less than the Certified Actual Cost Per Student – Rate D. Please be advised, the format shown in this manual indicates pupils from the same sending district are segregated by pupil, but the auditor may chose to combine all pupils from one sending district into one column when reporting.

STATEMENT OF BILLING ADJUSTMENT

The audit shall include a "Statement of Billing Adjustment". This statement is to designate billing adjustments for the July through June school year and, when applicable, for extraordinary services. The "Statement of Billing Adjustment" must designate the net (over)/under charge by Total School Year and if applicable, extraordinary services tuition by public school district.

Tuition (over) charges from a prior audit that was applied as a credit to the current tuition billings must be included in the district's original tuition billing on the "Statement of Billing Adjustment". For example, the 2003-2004 audit indicated the ABC School over charged Atlantic City $100. Atlantic City had one student enrolled the entire 2004-2005 school year at $10,000 per year. The September tuition bill for Atlantic City should reflect the monthly tuition charge of $1,000, a credit of $100 representing the prior year overcharge, and a payment due of $900. The Statement of Billing Adjustment would reflect a total annual original tuition billing of $10,000 for Atlantic City. No adjustment should be made to current year tuition revenue due to prior year adjustments.

Tuition payment from a prior year received in the current year which cannot be applied to tuition receivable on the balance sheet must be reflected on the "Statement of Revenue and Expenses and Reconciliation of Retained Earnings" or "Statement of Support and Revenue, Expenses, Capital Additions, and charges in Fund Balances" as Tuition - Prior Year.

The first column on this schedule is the Audited Tuition Billing. The Total School Year tuition by district amounts reflected in this column must equal the product of the Final Tuition Rate Charged – Total School Year Rate (Rate E) from the "Statement of Tuition Rate Computation - Part II" times each district's ADE from the "Statement of Enrollment". The Total School Year is tuition for the July through June school year and includes tuition for both the ten month and, if applicable, extended school years. The "Statement of Enrollment" reflects enrollments by public school district. The total of the Audited Tuition Billing column must agree with the 20__ - 20__ Public School Tuition Total on the "Statement of Tuition Rate Computation - Part II".

The second column of this schedule is the Original Tuition Billing. Amounts reflected in this column are to be the amounts billed the public school districts by the private school for services during the July through June fiscal year. Include tuition billings whether paid or receivable for the July through June school year.

The third column of this schedule is the Under Charge. This column is the Audited Tuition Billing less the Original Tuition Billing column. If the Audited Tuition Billing is greater than the Original Tuition Billing column, the third column would be a positive amount. Amounts listed in this column reflect tuition payments due the private school for the disabled from the public school districts.

The fourth column of this schedule is the (Over) Charge. Amounts listed in this column must reflect tuition refunds due the public school districts from the private school for the disabled. This column is the Audited Tuition Billing less the Original Tuition Billing column. If the Audited Tuition Billing is less than the Original Tuition Billing column, the fourth column would be a negative amount and the amount must be bracketed. Amounts listed in this column reflect tuition payments due to the public school districts from the private school for the disabled.

The fifth column of this schedule is the Net (Over)/Under Charge. Amounts listed in this column must reflect the net differences between columns three and four, by district. Over charges must be entered in brackets. The total of the net over charge of all districts (current year) must appear on the balance sheet as accounts payable-tuition. The net over charge of $10 or less would not be included since it would be adjusted by the net (over)/under charge adjustment column.

The sixth column of the schedule is the Net (Over)/Under Charge Adjustments. In accordance to N.J.A.C. 6A:23-4.9(g), any adjustments that result from the certified audit or a tuition audit performed by the Commissioner that are in excess of $10.00 per sending district board of education will be paid in accordance with N.J.A.C. 6A:23- 4.2(l) and (m). Therefore, net (over)/under charges of $10 or less by district are not necessary. The net adjustments by district in this column must be less than or equal to $10. When the net (over)/under charges by district in column five is equal to or less than $10, the adjustment in this column is the opposite. Example if $10 appears in column five then ($10) would appear in column six. Other than for adjustments of plus or minus $10, a private school for the disabled may not waive under or over charges.

The seventh column of this schedule is the Adjusted Audited Tuition Billing. Amounts listed in this column must reflect the Audited Tuition Billing column one plus or minus the Total Net (Over)/Under Charge Adjustments in column six. The amount reflected in column seven (7), Adjusted Audited Tuition Billing must be reflected as current year revenue on the "Statement of Support and Revenue, Expenses, Capital Additions and Changes in Fund Balances" or the "Statement of Revenue and Expenses and Reconciliation of Retained Earnings."

The "Statement of Billing Adjustment" determines the tuition funds that are either payable to or due from each district board of education. Unless otherwise adjusted, the private school for the disabled shall pay the net amount in column five, which is in brackets (over charge), to the district board of education no later than June 30 of the school year in which the audit is received or no later than 30 days after an appeal on an audit is finally resolved. The method of payment shall be mutually agreed upon by the private school and district board of education. Unless otherwise adjusted, the district board of education shall pay the private school for the disabled the net amount in column five, which is not in brackets (under charge), on a date between July 1, 2006 and June 30, 2007 which is reflected in the individual New Jersey State Department of Education Mandated Tuition Contract (section 9a) for each district board of education. The private school for the disabled shall notify the district board of education by means of billing the additional net tuition charge contained on this statement. If the Audited Tuition Billing for a district board of education is adjusted by either column six or seven use the following methods to determine final payable or receivables:

1) No adjustment is necessary for a district if column two Original Tuition Billing is equal to column eight Adjusted Audited Tuition Billing;

2) Tuition funds are due to the district board of education if column two Original Tuition Billing is greater than column eight Adjusted Audited Tuition Billing in the amount of the difference; and

3) Tuition funds are due to the private school for the disabled if column eight Adjusted Audited Tuition Billing is greater than column two Original Tuition Billing in the amount of the difference.

STATEMENT OF NON-ALLOWABLE COSTS

If during the course of the auditor's testing, costs that are found to be charged to the private school for the disabled tuition program (N.J.A.C. 6A:23-4.1 through 4.16) must be shown in the report as non-allowable costs and they must not be charged in the calculation of the Certified Actual Cost Per Student. These costs must be reflected on a "Statement of Non-allowable Costs" and charged to an unrestricted fund or other restricted fund in an audit of a non-profit school or charged to the retained earnings in an audit of a profit school. If the Statement of Percentages for Cost Category Assignments in the school's report (pages P-25 and NP-29) indicates non-allowable costs due to excess administrative costs and/or deficient instructional costs these amount(s) must appear on this statement. Please refer to pages 16 and 17 in **APPENDIX T-1, T-2 and T-3** which include various examples.

Costs that a private school determines are not consistent with N.J.A.C. 6A:23-4.1 through 4.16 and during the course of the year doesn't charge these costs to the financial records for the private school for the disabled tuition program (N.J.A.C. 6A:23-4.1 to 4.16) but to another fund (non-profit) or retained earnings (profit school) <u>should not</u> be considered as non-allowable costs in this report. As an example, a private school pays a school director $182,916 for the 2004-2005 school year and charges $172,916 to the financial records for the private school for the disabled tuition program (N.J.A.C. 6A:23-4.1 to 4.16) and $10,000 to an unrestricted fund (non-profit) or retained earnings (profit). The $10,000 is not considered a non-allowable cost in this report.

A "Statement of Non-Allowable Costs" showing an itemized list of the non-allowable costs by amount shall be included with the audit statements. Non-allowable costs of the nonprofit private school are to be recorded as expenditures in the unrestricted fund on the "Statement of Support and Revenue, Expenses, Capital Additions, and Changes in fund Balances;" except when the private school uses only one restricted fund, in which case the disposition of non-allowable costs must be separately detailed on the financial statements. Non-allowable costs of the profit-making school are to be shown as adjustments to retained earnings on the "Statement of Revenue and Expenses, and Reconciliation of Retained Earnings;" except when the profit-making school operates programs funded by other sources, in which case non-allowable costs not generally treated as adjustments to retained earnings are to be recorded as expenditures in the unrestricted revenue and expense column. Audits, which do not include non-allowable costs, must include the individual page in the audit and indicate the statement is not applicable.

Non-Allowable costs reflected on the statement must not be reflected on the "Statement of Expenditures by Line Item" or the "Statement of Total Expenditures".

The "Sample of Audit Report" includes a "Statement of Non-Allowable Costs" and presents examples of the types costs, which are considered non-allowable. All costs determined to be non-allowable in accordance with N.J.A.C. 6A:23-4.5(a) must be reflected on the statement and must not be included in the calculation of the Certified Actual Cost Per Student. On pages 22-30 of **APPENDIX A –** N.J.A.C. 6A:23-4.5 contains a list of non-allowable costs.

Uncertified staff reflected on the "Statement of Non-Allowable Costs" must include the name(s) of the individual(s), title of position(s), time period in which costs were considered non-allowable, beginning and ending date(s), and non-allowable dollar amounts by individual(s) for salary and employer paid fringe benefits.

<u>STATEMENT OF FOOD SERVICE</u>

Food Services are those activities which have as their purpose the preparation and serving of breakfast and/or lunch per N.J.A.C. 6A:23-4.5(a)20. The costs for meals for students when the meals do not meet the nutritional requirements of the Child Nutrition Program as administered by the New Jersey Department of Agriculture are considered non-allowable and must not be included in the calculation of the Certified Actual Cost Per Student unless the meal(s) meet the nutritional requirements of the Child Nutrition Program. Private schools, which include the cost for meals in the Certified Actual Cost Per Student, must receive prior approval from the Department that the meals meet the nutritional agreements of the Child Nutrition Program.

A “Statement of Food Service” is required for all schools that operate a Food Service program. The statement must include the income and expenses and a net loss or profit from operations. Those programs, which operate at a profit, must not include food service costs in the Certified Actual Cost Per Student and must not reflect charges to the Undistributed Expenditures - Food Service from lines 270 through 274 on **APPENDIX B** on the “Statement of Expenditures by Line Item”. All Food Services income, both sales and Child Nutrition Program reimbursement must be applied as a refund against the Food Services expenditures. The food service expenditures reflected on the Statement of Expenditures by Line Item must be net of income received from sales and/or Child Nutrition Program reimbursement. Please refer to the Statement of Food Service - Income and Expenses for profit and nonprofit schools on pages P-35 and NP-40. Excess expenditures over revenues must be reported on the Statement of Expenditures by Line Item, but excess revenues over the expenditures would appear on the “Statement of Support and Revenue, Expenses, Capital Additions and Changes in Fund Balances” as unrestricted in a profit school and on the “Statement of Support and Revenue, Expenses, Capital Additions and Changes in Fund Balances in a non-profit school.

STATEMENT OF INTEREST/DIVIDENDS EARNED – INVESTMENT OF TUITION FUNDS

A “Statement of Interest/Dividends Earned – Investment of Tuition Funds” is required for those non-profit private schools that earn interest and/or dividends on the investment of tuition funds regardless if the school has incurred any interest expenses. In accordance with N.J.A.C 6A:23-4.7(b), interest and/or dividends earned from the investment of tuition fund shall be netted against the school’s total allowable costs incurred in account numbers classified as undistributed expenditures – business and other support services when calculating the Certified Actual Cost Per Student.

If the private school segregates their tuition funds (cash and investments) from all other cash and investments, the allocation generated from this statement is not necessary. However, the auditor must indicate the total earnings (interest/dividends) from the investment of tuition funds on this statement on the line Interest/Dividend Allocated to Public School Restricted and apply that amount against #11-000-290-832, #11-000-290-891 and #11-000-290-831 or other expenditures in the #290 Function Code as indicated on NP-39.

If the private school doesn’t segregate tuition funds from other funds and/or it’s not possible to determine the interest and/or dividends earned from tuition funds, the auditor must determine the interest and/or dividends earned on the investment of tuition funds through the indicated allocation method. Please refer to page NP-39 for the format. The purpose of this calculation is to determine the estimated cash balance of the public school restricted funds at the end of each quarter. These amounts, by quarter, will then be applied to the total cash balance available and the percentage of estimated cash balance of the public school restricted fund to the total cash balance will be applied to any interest/dividends earned for the quarter.

The public school restricted fund balances as of June 30, 2004, September 30, 2004, December 31, 2004 and March 31, 2005 must be determined. On a quarterly basis, the private school's cash received from tuition for the quarter is added to the beginning fund balance, less cash disbursed for the tuition program in the quarter, plus the quarterly depreciation expense, less the quarter ending tuition accounts receivable balance. The following example is for the first quarter of the school year: July 1, 2004 through September 30, 2004. For example, the public school restricted fund balance as of June 30, 2004 of $500,000 is added to the cash received from tuition payments of $400,000 which is totals to $900,000. Cash disbursed of $300,000 for the tuition program is subtracted from the $900,000 and the quarterly depreciation expense of $10,000 is added which results in a total of $610,000. The quarter ending tuition accounts receivable is then subtracted from the $610,000 which results in an Estimated Cash Balance Public School Restricted of $410,000.

A percentage is determined by taking the amount calculated ($410,000) divided by the total of all cash balances for the quarter ending ($1,000,000) which results in 41%. This amount is then multiplied by the combined amount of interest/dividends earned during July 1, 2004 through September 30, 2004 of $10,000 which results in an amount of $4,100. This calculation must be completed by quarter to determine the total 12 month dollar amount. In the example, $2,500 is netted against account #11-000-290-832, then $3,500 is netted against #11-000-290-890 and the remaining $3,129 is netted against #11-000-290-891 which leaves a net charge of $5,000 to #11-000-290-831. If the net interest/dividends earned is greater than the aggregate of these account titles, then the difference must be applied to other account titles in the #290 Function code or #40-701-510-911.

EARLY INTERVENTION PROGRAM

Individual nonprofit private schools for the disabled receive Early Intervention Program funds from the State of New Jersey and/or E.C.I.A. Chapter I Program funds from the federal government through the State of New Jersey. If the above mentioned fund(s) were received, the auditor must determine if a financial and compliance audit must be performed pursuant to The Single Audit Act Amendments of 1996, P.L. 104-156, OMB Circular 133, *Audits of States, Local Governments and Non-Profit Organizations* and State OMB Circular Letter: 98-07 as revised. The audit must conform to standards established by the U.S. Comptroller General. The current audit standards are specified by Government Auditing Standards. (Comptroller General of the U.S. 1994 Revision; available from the Superintendent of Documents: Stock Number 020-000-00265-4).

A statement of budget versus final revenue and expenditures, and the disposition of interest earned and unexpended contract funds must be included for all private schools receiving Early Intervention Program funds. This statement shall reflect the restricted state funded portion of the private school's Early Intervention Program and if applicable the federally funded E.C.I.A. Chapter I, P.L. 89-313 and P.L. 89-750.

The Early Intervention Program fund balances shall be reflected as a separate restricted fund on the balance sheet. The "Statement of Revenue, Expenses, Capital Additions and Changes in Fund Balances" must segregate the revenues and expenses for the state and if applicable federal program. Each program stands alone and transfers shall not be made between the state and federal programs to cover deficits or transfers to other funds. The state funded Early Intervention Program stands alone on a year-to-year basis. A deficit in the prior year's state funded Early Intervention Program funds must be funded in the current year through a transfer of unrestricted funds. Therefore, a deficit in the state funded Early Intervention Program fund balance must only be current revenues less current expenses.

Interest earned on advances of contract funds and unexpended contract funds must be remitted to the N.J.D.O.E. Equipment and renovations are expenses when purchased in accordance with the approved application. The auditor should perform sufficient tests to assure compliance with the terms of the contract and approved application. The terms and conditions of the state and federal contracts may be different.

REVENUES, EXPENSES, FUND BALANCES, AND RETAINED EARNINGS

Nonprofit private school audits shall include a "Statement of Support and Revenue, Expenses, Capital Additions, and Changes in Fund Balances". Profit-making private school audits shall include a "Statement of Revenue and Expenses, and Reconciliation of Retained Earnings".

Regarding nonprofit schools, amounts listed in the restricted pubic school placement column(s) must reflect those revenues and expenses related to public school placements for the July through June school year program. Public school placement current year revenue listed in the restricted column(s) must be in agreement with the 20__ - 20__ Public School Tuition or if applicable the 20__ - 20__ Adjusted Audited Tuition Billing reflected according to program on the "Statement of Tuition Rate Computation - Part II" and also agree in total with the Adjusted Audited Tuition Billing total reflected on the "Statement of Tuition Rate Computation - Part II" and also agree in total with the Adjusted Audited Tuition Billing total reflected on the "Statement of Billing Adjustment". Expenditures listed in the restricted column(s) must be in agreement with the Total Public School Placement Expenditures reflected on the "Statement of Tuition Rate Computation - Part I". Nonprofit schools utilizing a plant fund must enter public school placement expenditures net of depreciation in the Restricted - Pubic School Placement Fund in the Operating Fund, and the depreciation must be entered in the Restricted - Pubic School Placement Fund in the Plant Fund.

Regarding profit-making schools, public school placement revenue listed on the "Statement of Revenue and Expenses, and Reconciliation of Retained Earnings" must be in agreement with the 20__ - 20__ Public School Tuition or if applicable the 20__ - 20__ Adjusted Audited Tuition Billing reflected according to program on the "Statement of Tuition Rate Computation - Part II" and also agree in total with the Adjusted Audited Tuition Billing total reflected on the "Statement of Billing Adjustments". Expenditures listed must be in agreement with the Total School Placement Expenditures reflected on the "Statement of Tuition Rate Computation - Part I".

Private placement revenue and expenses are entered in the unrestricted funds of the private school. When private placements are serviced in classes with public school placements, the private placement expenditures listed in the unrestricted funds must equal Total Expenditures less Total Public School Placement Expenditures, both of these totals are listed in the "Statement of Tuition Rate Computation - Part I". Nonprofit schools utilizing a plant fund must see the following calculation to determine expenditures net of depreciation and depreciation related to private placements serviced in classes with public school placements:

1) Total Expenditures must equal sum of Public School Placement Expenditures and Private Placement Expenditures; and

2) Average Cost Per Student is always equal for public school placements and private placements serviced in same classes.

Transfers must be carefully shown in the financial statements since the statements will be misleading if transfers between funds appear to be expenses or income to the funds. Transfers as well as adjustments must be shown below the Excess (Deficiency) of Support and Revenue Over Expenses after Capital Additions line in the "Statement of Support and Revenue, Expenses, Capital Additions and Changes in Fund Balances". All transfers and adjustments must be detailed in the Notes to Financial Statements.

STATEMENT OF ACCRUALS AND ACCOUNTS PAYABLE

The audit shall include a listing, by account category, of all accrued expenses and accounts payable listed on the balance sheet. This listing shall include all trade accounts payable such as rent and supplies; accrued salaries and payroll taxes. The total contained on this listing must agree with the total of accrued expenses and accounts payable reflected on the balance sheet. Please refer to pages P-9 and NP-13 for examples.

A Statement of Accruals and Accounts Payable that includes salaries must identify the circumstances for the accrual or accounts payable in the Notes to Financial Statements. For instance, if teachers' salaries are earned over ten months (September through June), but paid over twelve months (September through August), there must be a comment outlining the circumstances. A comment must be made disclosing the circumstances of any accrued salary or accounts payable salary.

Effective July 1, 2001, an approved private school for the disabled that accumulates sick and/or vacation leave shall only include these costs in program expenses when the compensation is actually paid. A private school may no longer accrue unused sick and/or vacation pay on the balance sheet except the amounts that had been accrued as of June 30, 2001.

SINGLE AUDIT ACT OF 1996

The Single Audit Act Amendments of 1996, P.L. 104-156, were signed into law in July 1996 and effective for the year ended June 30, 1997. Auditors must follow these amendments during the performance of their audits and should also be aware that not all applicable regulatory agreements, contracts, or grants have been updated to reflect the amendments. Also, the Federal Office of Management and Budget issued a revised Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* that expanded the scope of the Circular to cover state and local governments and was effective for the year ended June 30, 1997. According to the Single Audit Act of 1996, the threshold of the federal single audit has been raised to $300,000. However, the auditor must review the revisions to both Circular A-133 and the new Circular Letter: 98-07 to determine if a single audit is required for the auditee.

Circular Letter: 98-07 (Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid Payments) issued by the State Office of Management and Budget establishes state policy and procedures and outlines the responsibilities of state agencies and grant recipients to ensure that recipient single audits are performed according to Federal and State requirements. This Circular Letter requires auditors to test and report on State grant and State Aid compliance during the performance of recipient single audits. The revised policy will require private schools for the disabled expending $300,000 or more in federal or State financial assistance within their fiscal year to have an annual single audit performed in accordance with the Act, Amendments, U.S. OMB Circular A-133 Revised and State policy for the fiscal year. Private schools for the disabled expending less than $300,000 in federal or State financial assistance within their fiscal year but $100,000 or more in State and/or federal financial assistance within their fiscal year must have an annual financial statement audit performed in accordance with Government Auditing Standards (Yellow Book) or a program-specific audit performed in accordance with the Act, Amendments, U.S. OBM Circular No. A-133 Revised and State policy.

The Department of Education is deemed the cognizant agency in the enforcement of the Single Audit Act for private schools for the disabled when over 50% of their State and Federal funds are education grants (tuition funds are not considered education grants). Private schools for the disabled, which meet the above criteria, shall file a single audit with the Department of Education in accordance with “Financial Accounting for New Jersey Private Schools for the Disabled - The Audit Program” and the Circulars mentioned in the first paragraph. The private schools which receive State and/or Federal grants through state departments other than the Department of Education shall properly reflect these grants individually in the single audit of the private school for the disabled. For example, if a private school for the disabled meets the requirements to file a single audit with the Department of Education and the school receives an Early Intervention grant through the Department of Education and two grants through the Department of Human Services, all three grants must be properly and individually identified in the single audit filed with the Department of Education.

Private Schools that the Department of Education is not the cognizant agency for shall comply with the Single Audit Act of 1996 and properly account for all State and Federal grants in accordance with the Circulars mentioned in the first paragraph. If the Department of Education is not the cognizant agency for the enforcement of the Single Audit Act, the private school shall either file a separate statutory audit with the department in accordance with “Financial Accounting for New Jersey Private Schools for the Disabled - The Audit Program” or incorporate all the statutory audit requirements from this publication in the agency's single audit and file a copy with the Department of Education as well as the cognizant agency.

This publication does not reflect the samples of reports required when preparing an audit under the Single Audit Act of 1996. For examples of the required reports, please refer to "Auditors" Reports in Audits of State and Local Governmental Units" which can be found in the AICPA Audit and Accounting Guide, "Audits of State and Local Governmental Units" and related AICPA Statements of Position (SOP). The auditor should reference the related SOP for the appropriate reports to be issued based on the circumstances of the audit.

BALANCE SHEET

The audit shall include a "Balance Sheet" reflecting the organizations financial position at June 30. The balance sheet of the nonprofit school should be presented on a fund basis (operating, plant, etc.), with each fund's restricted-public school placement financial information segregated from the unrestricted and other restricted financial information presented.

As stated in the "Statement of Billing Adjustment" section, the total of the net over charges of all districts (current year) must appear on the balance sheet as accounts payable-tuition. If applicable, prior year(s) accounts payable-tuition must be segregated and identified by year on the balance sheet. This would only occur if the prior year audit were in the appeal process, since prior year accounts payable-tuition must be paid by the end of the current year.

In accordance with N.J.A.C. 6A:23-4.4(i), an approved private school for the disabled that accumulates employee sick/or vacation leave shall do so in accordance with Financial Accounting Standards Board Statement No. 71 and shall include these costs in program expenses only when compensation is actually paid. Beginning in the 2001-2002 school year, the balance sheet must not show accruals for accumulated sick and/or vacation time earned but not paid in 2001-2002 and thereafter. Effective July 1, 2001, these costs must not be charged on the accrual basis of accounting. The 2004-2005 balance sheet may only show accruals for sick and/or vacation time accrued for June 30, 2001 and prior years. Accumulated sick and/or vacation leave, regardless of the dollar amount, must be treated on a cash basis and would only be expensed when actually used or paid.

REPORTING REQUIREMENTS FOR NON-PROFIT ORGANIZATIONS

The Financial Accounting Standards Board (FASB) has issued the following Statements of Financial Accounting Standards (SFAS): No. 116 Accounting for Contributions Received and Contribution Made and No. 117 Financial Statements of Not-for-Profit Organizations in July of 1993. The statements are effective for fiscal years beginning after December 15, 1994.

The above identified FASB's have not been incorporated into this Audit Program and will not be required by the department. SFAS No. 117 concerns the presentation and terminology of the balance sheet and statement of revenues and expenses and changes in fund balances. The implementation of SFAS No. 117 would eliminate segregating specific funds or fund balances, which are a key requirement under the department's regulations in calculating a school's certified final cost per student using the public school, restricted fund (working capital fund). Audits filed in conformity with SFAS No. 116 and 117 will be accepted by the department, however the audit must include a schedule which segregates fund balances and the beginning and ending public school restricted balances must be identified along with the public school restricted fund revenues (tuition) and expenses. (Both operating and plant funds for public school restricted fund balances.)

NOTES TO FINANCIAL STATEMENTS

The audit shall include "Notes to Financial Statements". Examples of such notes are included in the "Sample of Audit Report". The notes should include areas in non-compliance with N.J.A.C. 6A:23-4.1 et seq. and other guidelines issued by the Department of Education and required as recommended GAAP disclosures. The recommendation section of the audit must contain a recommendation for each item in non-compliance with N.J.A.C. 6A:23-4.1 et seq. and the notes must contain a note for each recommendation. Please be advised, the notes indicted are not an all inclusive list but is meant to serve as examples of individual notes. The Department of Education requires full GAAP disclosure and an auditor shall not exclude a required GAAP disclosure from the private school audit because it is not one of the below examples.

The notes must also include but not be limited to the following areas:

1) Transfers, and/or adjustments on the Statement of Support and Revenue, Expenses, Capital Additions and Changes in Fund Balances;

2) Related party transactions (Note: Identify the names of the related entities, owners of the related entities (if profit making), type of entity (corporation-profit or nonprofit, partnership, etc.), item(s) rented, the dollar amount of each transaction, the cost of ownership to the property owner and the rental costs included in the tuition rate calculation. Refer to the "Sample of Audit Report" and the expenditures section which addresses related party transactions in the Audit Program;

3) The statutory basis of accounting referred to in the opinion. Refer to Note 2 in the profit school "Sample of Audit Report" and Note 3 in the nonprofit school "Sample of Audit Report;"

4) Audit samples in excess of 10% due to the identification of excessive non-allowable costs;

5) Details of any current or long-term note receivable or payable and/or any long-term debt or other obligation to include the following:

   a. The precise name and description of the note or debt;
   b. Amount of the note or debt;
   c. Repayment terms and maturity dates;

- d. Effective interest rate;
- e. Segregation of type not or debt;
  1. Trade;
  2. Banks;
  3. Items collaterized;
  4. Related parties-stockholders, directors, officers or employees; and
  5. Intercompany.
- f. Assets pledged; restrictions on dividends, retained earnings or fund balances, sinking fund requirements, etc.

6) Details of any note, loan or accounts receivable from officers, employees, affiliated enterprises, or related parties shall be shown separately and not included under a general heading such as notes receivable or accounts receivable. The disclosure shall include the following:

   a. The nature of the relationship;
   b. A description of the transaction;
   c. The amount of the note, loan or receivable; and
   d. Repayment terms, maturity notes and interest rate.

7) Details of contingent pay increases, which shall include at least the following information:

   a. Whether the contingent pay increase was in compliance with N.J.A.C. 6A:23-4.4(a)14;
   b. Date of the Commissioner's approval letter;
   c. The dates the contractual agreements were signed;
   d. The average daily enrollment the private school must achieve in order to generate the increase;
   e. The specific dollar amount or percentage of original contracted salary to be paid pursuant to N.J.A.C. 6A:23-4.4(a)14ii.

8) Details of any merit pay increase(s) that shall include at least the following information by plan:

   a. Whether the merit pay increase was in compliance with N.J.A.C. 6A:23-4.4(a)15;
   b. Whether the merit pay increase was paid in accordance with the board policy filed with the Commissioner;
   c. Date of the Commissioner's approval letter;
   d. Eligibility for all employees
   e. Basis by which the pay is earned;
   f. The amount of the award(s) by plan(s);
   g. The maximum number of awards top be given by plan(s) for each year; and
   h. The date of board approval and date of initiation of the plan.

9) Details of any accrued salary or accounts payable salary must be identified. For instance, school employees who provide services to the school over the ten month school year have the option to have their salaries paid over twelve months. The accrued salaries as of June 30, 2005 represent salaries earned by the employees, which will be paid in July and August.

10) If a nonprofit school has a positive public school restricted fund balance and a net deficit position in unrestricted and other restricted fund balances combined, the auditor must comment on the amount of the deficit, the number of years the funds have been in a deficit position and the steps management has taken to fund the deficit. If there is a deficit fund balance and management has not taken steps to fund the deficit, the auditor must comment as such.

11) Details of the school's retirement plan(s) that shall include the following information for each plan:

   a. The type of plan (defined benefit, defined contribution);
   b. Whether the plan is qualified (<u>non-qualified plans are non-allowable</u>);
   c. Whether the plan is contributory or non-contributory;
   d. The date the plan was established;
   e. The criteria for eligibility (such as an employee becomes eligible for the plan after completing a year of service during which pay was received for at least 1,000 hours of service);
   f. A statement in the notes indicating that the retirement costs are in conformance with the Employee Retirement Income Security Act of 1974 and its successor legislation (for each plan);
   g. A statement in the notes indicating that the school's retirement plan meets the standards in N.J.A.C. 6A:23-4.5(a)31 as an allowable cost for a retirement plan and meets the standards of N.J.A.C. 6A:23-4.5(a)23 as an allowable cost as a fringe benefit;
   h. The total dollar contribution made by the school for private school employees only;
   i. If the plan is a deferred compensation plan, the note must indicate the number of employees involved and the total amount of the deferral; and
   j. The percentage of compensation the employee and/or the employer may contribute to the plan.

12) The Office of Compliance Investigation performs fiscal monitoring reports of private schools. The auditor must comment in the Notes to Financial Statements if the private school is being monitored by the Office of Compliance Investigation, regardless if the department has issued a report. Once the comments and recommendations of a fiscal monitoring report have been accepted by the private school, the auditor must comment concerning the findings of the fiscal monitoring report and if the private school's corrective action plan is being implemented. In addition, if the department has issued

the fiscal monitoring report but the report has not been accepted by the private school, the auditor must still comment on the contents of the report.

13) If the private school loaned funds to any party in which interest was not being charged to the party;

14) If the school did not maintain, prepare or distribute the following records:

a. Employee time record prescribed by the Commissioner or approved by the Commissioner (N.J.A.C. 6A:23-4.4(a)11);
b. Mandated tuition contract prescribed by the Commissioner (N.J.A.C. 6A:23-4.4(a)13);
c. An employment contract for each employee whose position requires a certificate, license or a bachelor's degree with the following information: name of employee, dates of employment, works worked, certification and/or degree(s) held, job description, job title and salary (N.J.A.C. 6A:23-4.4(c));
d. An employee handbook to all staff which outlines of all the fringe benefits available to staff which were adopted by the Board of Director's (N.J.A.C. 6A:23-4.4(f));
e. The criteria for eligibility (such as an employee becomes eligible for the plan after completing a year of service during which pay was received for at least 1,000 hours of service);
f. A financial report prepared in a format prescribed by the Commissioner or approved by the Commissioner for each quarter at a minimum, submitted to the schools governing body and the acceptance documented in the minutes of the meeting.

15) If the private school did not prepare the prescribed financial report for all four quarters including the June 30, 2004 forth quarter.

RECOMMENDATIONS

This report shall contain a recommendation for each item outlined in the Notes to Financial Statements as contrary to N.J.A.C. 6A:23-4.1 et seq. In addition, there must be disclosure of the current year status of prior years' comments and recommendations. The auditor must review the prior years' comments and recommendations and determine if corrective action was taken concerning the prior years' recommendations. Any recommendation(s) which are recurring must be reflected under the title, Current Year Status of Prior Years' Comments and Recommendations and include the number of years the recommendation(s) has appeared in prior year reports. When the auditor reviews the prior years' Comments and Recommendations and determines there were none recurring, the auditor must include the Current Year Status of Prior Years' Comments and Recommendations and reflect the following: A review was performed in all prior years recommendations and corrective action was taken on all such recommendations.

AUDIT SUMMARY WORKSHEET

In the 2004-2005 school year, the independent auditor will be required to input audited financial information into a computer file for each private school for the disabled that is audited and forward the information to the department. This Audit Summary Worksheet information will include, but not limited to the July through June audited expenses by line item. The preliminary format for this worksheet is shown in **APPENDIX S**. The final computer file will be in the Microsoft Excel format and will be available either in a floppy format or from the department's website at www.state.nj.us/education in October 2005.

LISTING OF COMMON NON-COMPLIANCE ERRORS IN 2003-2004 REPORTS

Below is a listing of the most common non-compliance errors that were found during the desk reviews of the audited financial statements for the 2003-2004 school year. This listing should be used to avoid possible non-compliance issues as a result of the desk review of the 2004-2005 audit. Please pay particular attention to items #4, #12 and #13.

1. Statement of Support, Revenue and Expenses and Changes in Net Assets
Or Statement of Retained Earnings

- Omitted non-allowable expenses.

2. Statement of Total Expenditures

- Failed to properly record each expenditure category. The total of each expenditure category didn't agree with the Statement of Expenditures by Line Item.

3. Statement of Expenditure by Line Item

- Account #11-000-230-892 – Entertainment was in excess amount of the $1,000 maximum and/or account #11-000-218-894 – Miscellaneous Expenditures – Meetings/Other was in excess of the $3,000 maximum.
- Position titles in the audit report didn't agree with those position titles reflected on the 2003-2004 Annual Program and Fiscal Information form prepared by the private school for the disabled.
- This statement reflected account title(s) and/or number(s) not reflected on the Department's Charts of Accounts.
- Reflected unapproved unrecognized position titles or staff holding a county superintendent approved title but didn't hold the school certification determined by the county superintendent.
- Didn't agree with statement of Interest/Dividends Earned.
- Failed to reduce expenditures by interest/dividends earned with tuition funds.
- Failed to properly segregate salaries by title of position.

4. Statement of Percentage for Cost Category Assignments

- Incorrect cost category placements such as: #11-000-211.1-100 or 205 charged to support services (should be instruction); : #11-000-213.1-100 or 205 charged to support services (should be instruction); #11-000-216-600 or 800 charged to instruction (should be support services); #11-000-230-332 charged to administration (should be outside calculation, in column 10); #11-000-230-820 charged to administration (should be outside calculation, in column 10); #11-000-230-893 charged to administration (should be outside calculation, in column 10); #11-000-262-441 charged to operations and maintenance (should be outside calculation, in column 10); #11-000-290-831 or 832 or 895 charged to administration (should be outside calculation, in column 10).
- Cost Outside Cost Category Calculation (column 10) Undistributed Expenditures incorrectly assigned in the Cost Category Totals (column 3) (for example Pension Contribution).
- Costs Outside the Calculation (column 10) were included when calculating the cost category percentages.
- Unallocated Benefits incorrectly allocated within the category assignments.
- The placement in this statement didn't agree with the title and account number on the Statement of Expenditures by Line.

5. Statement of Tuition Rate Computation – Part II

- Incorrect Public School Tuition and an adjustment.
- Incorrect Final Rate Actual Charge – Per Diem Rate - Rate E.

6. Statement of Tuition Rate Computation Working Capital Fund

- Working Capital A was calculated incorrectly.

7. Statements of Extraordinary Services – Expenditures by Line Item

- Failed to include this statement.

8. Statements of Extraordinary Services – Tuition Rate Computation – Parts I, II and Surcharge and Statement of Extraordinary Services – Tuition Rate Computation & Working Capital

- Incorrect Final Tuition Rate Charged – Rate E. The Final Tuition Rate Charged Rate - E can not be in excess of the Certified Actual Cost Per Student Rate - D.

9. Statements of Billing Adjustments

- Incorrect audited tuition billing.
- Waived undercharges or overcharges in excess of +/- $10.
- Failed to include a separate line to identify the tuition waiver amounts.
- Incorrect original tuition billing.

10. Statements of Interest/Dividend Earned – Investment of Tuition Funds

- Failed to indicate the account that interest earned was netted against.

11. Notes to Financial Statements

- Failed to identify the circumstances for salary accruals.
- Failed to properly disclose merit pay increase, contingent pay increases, details of pension plan, related party transactions, circumstances regarding the deficit fund balance, prior period adjustments.
- Failed to indicate items contrary to N.J.A.C. 6A:23-4.1 et seq.

12. Recommendations

- Failed to include a recommendation for each item contrary to N.J.A.C. 6A:23-4.1 to 15.

13. Management's Determination of the Actual Tuition Rate Charged

- Incorrect tentative tuition per diem rate and total school year rate.
- Omitted the per diem rates for Tentative Tuition Rate Charged, Certified Actual Cost Per. Student and the Final Tuition Rate Charged.
- Missing signatures of the auditor and the school's representative.

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