

INSTRUCTIONS FOR THE COMPLETION OF THE INDIRECT COST RATE FORMS FOR Fiscal Year Beginning July 1, 2011

OVERVIEW OF FORMS USED IN DETERMINING INDIRECT COST RATE(S)

All calculation forms are contained in one excel file and can be downloaded at <http://www.state.nj.us/education/finance/fp/af/>. The district certification form that must accompany the calculations can also be downloaded from this website.

To ensure accuracy of the indirect cost rate calculation please complete the worksheets in the order listed below. Cells which accept data entry are highlighted in **yellow**. The Data Entry Worksheet Tab and supporting worksheets contain comments to help with the proper completion of the application. Do not attempt to change formulas embedded in the worksheets as there are links between the worksheets containing calculations using the data from these worksheets.

Districts are to enter their unallocated employee benefits costs in the Unallocated Benefits Worksheet by selecting the Unallocated Benefits Worksheet Tab. Entries to the Unallocated Benefits Worksheet flow to the Data Entry Worksheet. Districts that had employees retire under the terms of a “normal retirement” during the reporting period (2009-10 for the 2011-12 application) must check the box indicating that normal retirement terminal leave costs have been incurred during the reporting period, and complete the appropriate entries in the remaining cells. Pursuant to our five year agreement with the USDOE, beginning July 1, 2009 only costs incurred pursuant to a “normal turnover” retirement may be entered in cells D21 through D29 and D32 through D43 of the Terminal Leave Worksheet. Normal turnover costs entered on the Terminal Leave Worksheet will automatically be treated as an indirect cost for purposes of restricted and unrestricted rate determination.

Costs related to “mass or abnormal severance” e.g. ERIP (Early Retirement Incentive Programs) are entered directly as an employee benefit cost – ERIP contribution - on the Data Entry Tab and/or Unallocated Employee Benefits Tab and not on the Terminal Leave Worksheet Tab. The agreement with the USDOE beginning July 1, 2009 provides that “mass or abnormal severance” costs are treated as disallowed costs for purposes of the indirect cost rate calculation. Preparers may read more on the treatment of terminal leave payments in the Cost Policy Statement posted on our website.

When all amounts are correctly entered, the Data Entry Worksheet line entitled “Total General Fund Expenditures” should agree to the CAFR line of same name.

Amounts to be entered on these forms are as follows: **Using the GASB 34 Model, the amounts should be taken from the actual column on the “Budgetary Comparison Schedule – General Fund”, which is report C-1 of the CAFR outline.**

Data Entry Worksheet:

In cell C7 enter county and E7 enter district. Enter the 2009-10 actual data into column E, titled “FY 2009-10 Total Expenditures”, directly from the FY 2009-10 CAFR (C-1) (including allocated fringe benefits) with the exception of certain lines as summarized in the following instruction table:

Function	Object	Directions
230	100 –Salaries	Salaries for the Superintendent and staff and BOE & staff are reported separately.
230	530 – Communications/Telephone	Communications/Telephone for the BOE, the Superintendent and his/her direct staff, and all other functional areas are reported separately on two distinct lines. Allocation according to any reasonable/consistently applied method is acceptable.
291 (Unallocated Fringe Benefits)	All objects – Fringe Benefits	Access the worksheet entitled, “ <u>Unallocated Employee Benefits</u> ” and enter the unallocated benefits costs as presented in the CAFR. For districts with school based budgets, unallocated employee benefits entered into the <u>unallocated benefits worksheet</u> includes fund 15. For purposes of indirect cost rate determination, it is required that districts allocate a portion of their unallocated employee benefits to function codes 230, 251, & 252 based on a reasonable and consistently applied allocation method. Districts must maintain documentation to support their entries. Enter those amounts in the applicable sections of the <u>data entry worksheet</u>. Do not attempt to enter data into the <u>data entry worksheet</u> category titled, <i>Unallocated Benefits – Except Functions 230, 251, & 252</i> . An embedded formula will calculate the required entries for this category.
	Total General Fund Expenditures	Must equal amount in CAFR.
	Debt Service Fund	Enter the sum of objects 830, 833 and 834.
	Capital Projects Fund	Enter amount from Interest Income (30-1510).

Completion of the Terminal Leave Worksheet Tab:

All preparers must check the appropriate box indicating whether or not the district is reporting terminal leave payments made during the fiscal year.

The Cost Principles for State, Local and Indian Tribal Governments at 2 CFR, Part 225, (OMB Circular A-87) establish standards for determining costs on Federal awards carried out through grants, cost reimbursement contracts, and other agreements. Attachment B of the Circular addresses selected items of cost and paragraph 8.g. provides the criteria for severance pay as follows:

- 1) Payments in addition to regular salaries and wages made to workers whose employment is being terminated are allowable to the extent that, in each case, they are required by (a) law, (b) employer-employee agreement, or (c) established written policy.
- 2) Severance payments (but not accruals) associated with **normal** turnover are allowable. Such payments shall be allocated to all activities of the governmental unit as an indirect cost.
- 3) **Abnormal or mass severance** pay will be considered on a case by case basis and is allowable only if advance approval is received by the cognizant Federal agency.

How to Report Normal Turnover Severance Payments:

Normal severance costs are payments (but not accruals) to separating employees for termination benefits and/or unused leave associated with normal turnover. In accordance with the Chart of Accounts for New Jersey LEAs (2003 and 2008 editions) and the Budget Guidelines for New Jersey LEAs, districts generally post normal turnover severance payments to the applicable salary/wage general ledger account. As part of the application completion process, districts that incurred normal turnover severance costs during fiscal 2009-10, must check the box at the top of the Terminal Leave Worksheet indicating that the district paid normal terminal leave during 2009-10. The preparer must then manually enter the normal retirement costs by function code directly on the Terminal Leave Worksheet. The restricted rate and unrestricted rate determination forms R-1 and U-1 respectively, are designed to treat the normal retirement costs entered by the preparer on the Terminal Leave Worksheet as indirect costs when computing the restricted (R-1) and unrestricted (U-1) indirect cost rates with one exception.

The exception is encountered only where a separating employee's regular wages are classified as an indirect cost for purposes of determining the Unrestricted Rate, and are classified as a direct cost for purposes of determining the Restricted Rate. This situation occurs for wages paid to the superintendent and the superintendent's staff. Those wages are reported on line 230-100 of the Data Entry Form. There is not a line for entering the terminal leave costs for function 230 on the Terminal Leave Worksheet. This is because the restricted rate determination form (R-1) and the unrestricted rate determination form (U-1) are designed to treat regular wages and normal turnover payments paid to the superintendent and the superintendent's staff as a direct cost for purposes of computing

the restricted indirect cost rate and as an indirect cost for purposes of computing the unrestricted indirect cost rate. Because regular and terminal wages are afforded the same treatment, the preparer does not need to manually separate the general ledger postings to 230-100.

In the sections titled “Instruction – Normal Terminal Leave Payments Except Sick Time” and “Undistributed Expenditures – Normal Terminal Leave Except Sick Time” the preparer enters in column 4, “FY 2009-10 Terminal Leave”, normal turnover terminal leave benefits that are recorded in any of the listed function codes and in object codes 101-199 (salaries/wages). In the section titled “Unallocated Employee Benefits Representing Payments of Unused Sick Time Pursuant to a Normal Retirement” the preparer enters any payments representing unused sick time paid pursuant to a normal retirement recorded in object 290 that relate to all employees except those in functions 230 (Support Services – General Administration), 251 (Central Services), & 252 (Administrative Information Technology). Normal sick time payments allocated to function codes 230, 251, & 252 are not subject to the same categorization on the R-1 and U-1 forms as sick payments not allocated to 230, 251, & 252 and therefore must be entered manually by the preparer on lines 291/230 – 290, 291/251-290, & 291/252-290 of the Data Entry Worksheet.

Note that payments to separating employees for unused leave must not be charged as direct costs to any federal award.

How to Report Mass or Abnormal Severance Costs:

Do not report costs associated with mass or abnormal severance on the Terminal Leave Worksheet. Due to administrative burden, the NJ DOE will **not** issue advance approvals to charge mass or abnormal severance costs to federal programs as an indirect cost. As stated in number 3 above, OMB Circular A-87 requires such advance approval as a requirement of treating mass or abnormal severance as an indirect cost. Accordingly, all costs associated with mass or abnormal severance will be treated as disallowed costs for purposes of calculation of the restricted and unrestricted indirect cost rates. The restricted rate (R-1) and unrestricted rate (U-1) determination forms have been specifically designed to treat early retirement incentive payments (ERIP) costs entered by the preparer on the Data Entry Form or on the Unallocated Benefits Worksheet as disallowed costs for purposes of the restricted and unrestricted indirect cost rate calculations. You may refer to the various ERIP cost lines of the R-1 and the U-1.

Other Terminal Leave Information for the Preparer:

GASB 47:

Under GASB Statement 47 (Accounting for Termination Benefits, effective for periods beginning after June 15, 2005) employers must consider the circumstances surrounding the termination of employment and apply judgment to determine whether the benefits offered the employees are an inducement to retire, which is a termination benefit, or alternatively are benefits earned during employment (compensation for employee services). Termination benefits include early-retirement incentives, severance benefits, and other termination-related benefits.

Chart of Accounts and Budgetary Guidance:

The Chart of Accounts for New Jersey LEAs (2003 and 2008 editions) and Budget Guidelines for New Jersey LEAs require that when an LEA determines that it has made a short-term offer of termination benefits to an employee “normal turnover”, and the offer is accepted the current portion of the offer is recorded in the applicable salary/wage general ledger account. However, unused sick leave for retirees or employees that terminate is recorded in Other Employee Benefits, 11-000-XXX-290.

2011-12 Form R-1 (Restricted):

The only data entry required by the preparer on the R-1 is to enter in column 5, “Direct/Disallowed Costs” for object code 330 (Purchased Professional Services) used with function code 251 (Central Services) any costs incurred during 2009-10 for **public relations** that fall under the definition of unallowable costs in OMB Circular A-87 Attachment B (2)(e). **In cell E57 of the R-1 the preparer must enter the dollar amount incurred or must enter \$0 if no public relations costs were incurred.** No other data entry is necessary on form R-1.

Note regarding interest calculations on the R-1 form: The sum of Lease Purchase Agreement and Debt Service Fund interest, less any interest earned in the Capital Projects Fund, is direct/disallowed. If the interest earned is greater than the interest expense, then the amount is excluded. Formulas on the interest expense lines will reflect the direct/disallowed amounts and the excluded amounts based on calculations using interest income entered on the Data Entry Worksheet.

2011-12 Form U-1 (Unrestricted):

There is no data entry required by the preparer.

Note regarding interest calculations on the U-1 form: The sum of Lease Purchase Agreement and Debt Service Fund interest, less any interest earned in the Capital Projects Fund, is direct/disallowed. If the interest earned is greater than the interest expense, then the amount is excluded. Formulas on the interest expense lines will reflect the direct/disallowed amounts and the excluded amounts based on calculations using interest income entered on the Data Entry Worksheet.

Instructions for Completion of the CFC Forms, UCFC Forms – Reconciliation Between Estimated and Actual Expenditures:

Current Year Carryforward Provision:

Application year 2009-10 was estimated based upon expenditures reported in the 2007-08 CAFR. Now that the exact expenditures have been subject to an independent audit, it is necessary to reconcile the actual with the estimated and factor in an adjustment for the difference between the estimated expenditures (based on the 2007-08 CAFR) and the actual 2009-10 expenditures reported in the 2009-10 CAFR. The remaining forms provide the necessary reconciliation between the estimated and the actual expenditures. **If you did not apply for an**

indirect cost rate in FY 2009-10 then no data entry is necessary on the CFC-Restricted and CFC-Unrestricted forms.

How to Complete the Carry-Forward Computation (CFC) – Restricted:

Enter in column 2 (FY 2009-10) to the left of letter (A) the amount of **Direct/Disallowed Costs** from your FY 2009-10 **approved Restricted** indirect cost rate application (Grand Total - column 5). Enter in column 1 (FY 2009-10) to the right of the cell titled, “Indirect Costs,” the amount of **Indirect Costs** from your FY 2009-10 **approved Restricted** indirect cost rate application (Grand Total - column 7). **If you did not apply for an indirect cost rate in FY 2009-10 please leave these cells blank.** The computed percentage under the column labeled “Subsequent Year” letter (C) is the adjusted (for carry-forward) restricted indirect cost rate for the application year.

How to Complete the Carry-Forward Computation (CFC) – Unrestricted:

Enter in column 2 (FY 2009-10) to the left of letter (A) the amount of **Direct/Disallowed Costs** from your FY 2009-10 **approved Unrestricted** indirect cost rate application (Grand Total - column 5). Enter in column 1 (FY 2009-10) to the right of the cell titled, “Indirect Costs,” the amount of **Indirect Costs** from your FY 2009-10 **approved Unrestricted** indirect cost rate application (Grand Total - column 7). **If you did not apply for an indirect cost rate in FY 2009-10 please leave these cells blank.** The computed percentage under the column labeled “Subsequent Year” letter (C) is the adjusted (for carry-forward) unrestricted indirect cost rate for the application year.

Prior Year Carryforward Provision- Limited Use Forms

Carry-Forward Computation (UCFC)-Restricted and (UCFC) – Unrestricted, UCFC-Data Entry, UCFC-R1, UCFC-U1:

These forms are used to compute a carry-forward in the **situation where the district has filed an application based on an estimation of expenditures for a given application year, but does not file a subsequent application for the year when reconciliation would have occurred. These forms are only used if the district did not file an indirect cost application reconciliation (estimated as compared to actual expenditures) for a year in which an estimated rate was computed based on CAFR expenditures two years prior to the application year as displayed on the chart below. The first year for which this reconciliation form is applicable is application year 2002-03.** For example, a district estimated expenditures for their 2002-03 application using actual expenditures for fiscal year 7/1/00 through 6/30/01. The application for year 2004-05 should have been the reconciling year because the actual expenditures from 7/1/02-6/30/03 are used in the application. However, the district did not file an application for 2004-05 meaning the reconciliation for 2002-03 was not completed. The preparer must now perform a reconciliation using the above referenced forms and include those forms in their indirect cost application package for the year that an application is ultimately filed. Note: If actual allocations (for benefits, communications, etc.) are not available due to the passage of time, the district may apply the same percentages to their carry-forward (UCFC) forms as used in their current year application.

Schedule of Application Year, Estimation Year, and Reconciliation Year:

Application Year	Estimation Year Used in Application – CAFR FY	Reconciliation Year – Application Fiscal Year
FY 2008-09	CAFR 6/30/07 (7/1/06-6/30/07)	2010-11
FY 2009-10	CAFR 6/30/08 (7/1/07-6/30/08)	2011-12
FY 2010-11*	CAFR 6/30/09 (7/1/08-6/30/09)	2012-13
FY 2011-12*	CAFR 6/30/10 (7/1/09-6/30/10)	2013-14
FY 2012-13*	CAFR 6/30/11 (7/1/10-6/30/11)	2014-15
FY 2013-14*	CAFR 6/30/12 (7/1/11-6/30/12)	2015-16
FY 2014-15*	CAFR 6/30/13 (7/1/12-6/30/13)	2016-17

* Current Indirect Cost Agreement runs from 7/1/09 to 6/30/14.

Submission of Forms:

After completion of all forms as described above, email the indirect cost forms excel file to Michael.Mindlin@doe.state.nj.us. We ask that you make every attempt to submit your application on or prior to the June 30, 2011 due date for application year 2011-12. In addition, the certification form must be signed by the Chief School Administrator and School Business Administrator/Board Secretary and submitted to:

New Jersey Department of Education
Fiscal Policy & Planning, Division of Finance
PO Box 500
Trenton, New Jersey 08625-0500
Attention: Michael Mindlin, CPA

After the forms have been reviewed, you will receive the “APPROVAL FOR INDIRECT COST RATE” form, which will contain your approved restricted and unrestricted indirect cost rates. The restricted rate is found in the excel file on the tab entitled “CFC-Restricted”, column 4 item (C). The unrestricted rate is found in the excel file on the tab entitled “CFC-Unrestricted”, column 4 item (C).