

SECTION II – SPECIFIC COMPLIANCE
FUND 20 – SPECIAL REVENUE FUND

TPAF Reimbursement (applicable to school districts/charter schools/renaissance school projects)

N.J.S.A. 18A:66-90 requires that each local board of education/board of trustees reimburse the state for the employer share of pensions, group life insurance, FICA and other benefits of the Teachers' Pension and Annuity Fund (TPAF) for TPAF members carrying out and paid from federally funded programs. It has been determined that where the district has used federal Community Development Block Grant (CDBG) funds to pay the wages of TPAF employees, those wages are not subject to this statutory reimbursement requirement. Refer to page II-10.8 of this Audit Program for additional information regarding CDBG. The reimbursement, together with supporting documentation prescribed by the Director of Pensions, must be remitted to the Department of Education within 90 days after the close of the fiscal year. Auditors should refer to the updated letter and downloadable form expected to be posted to the NJDOE website under “Most Requested Items” available July-August, 2017: <http://www.state.nj.us/education/finance/>.

Districts/charter schools/renaissance school projects were given specific guidance in a hotline dated June 29, 1993 on accruing a year-end liability for the TPAF Pension and Social Security related to salaries charged to federal grants. Pursuant to *N.J.S.A. 18A:66-90*, the reimbursement must be made by October 1 following the fiscal year end. The 2015 revision to the *Reimbursement to State of New Jersey – N.J.S.A. 18A:66-90* form which accompanies the school’s payments to the State **does not** require the signature of the Licensed Public School Accountant. In lieu of affixing his or her signature to the form, the Licensed Public School Accountant is required to review the form and issue a comment on the timeliness and accuracy of the amount of the payment in the Auditor’s Management Report (AMR). Adjustments, if necessary, may be made subsequent to the payment date and after the Licensed Public School Accountant’s review. Adjustments after payment may be made by filling out a revised *Reimbursement to State of New Jersey – N.J.S.A. 18A:66-90* form.

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

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

The blending of federal, state and local funds in the school-based budgets recorded in Fund 15 necessitates a calculation of the salary amounts paid in Fund 15, which are attributable to federal sources. This calculation is necessary to enable the district to remit the correct amount of funds to the Department of Education. This calculation pertains to schools implementing school-based budgeting for the year ended June 30, 2017 and is detailed below and illustrated at the TPAF series of schedules which are linked below.

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

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

- 1.) Perform a payroll sort from the district’s payroll system, by school, detailing the teachers at each school and each teacher’s contracted salaries paid during the year. (This amount is to be contracted base wages only and should not include stipends or extra-curricular activity payments.) This amount should be broken out between salaries paid from July 1, 2016 through December 31, 2016 and

salaries paid from January 1, 2017 through June 30, 2017. Salaries paid for the calendar year ended December 31, 2016 will also be needed to calculate the social security and Medicare portions of FICA salaries over and under \$118,500 for the 2016 calendar year.

- 2.) The total fiscal year contractual salaries must then be broken down by calendar year to determine the amount paid which is less than or equal to \$118,500 for the 2016 calendar year; the amount which exceeds \$118,500 for the 2016 calendar year; the amount paid which is less than or equal to \$127,200 for the 2017 calendar year; and the amount which exceeds \$127,200 for the 2017 calendar year. This information is necessary to calculate the social security and Medicare portions of FICA. This is most easily accomplished by sorting the information into two columns for each calendar year and totaling the columns.
- 3.) The amounts determined in 2.) above must be accumulated and multiplied by the Title I percentage calculated on the current year *Schedule of Expenditures Allocated by Resource Type* to determine the Title I proportionate share of salaries. The amounts determined in 2.) above then must be accumulated and multiplied by the “all other federal programs” rate to determine the all other federal programs proportionate share of salaries. The all other federal programs rate is the sum of the percentages calculated on the current year *Schedule of Expenditures Allocated by Resource Type* for all federal programs excluding Title I.
- 4.) The reimbursement amounts will also need to be calculated at the school level to enable the reimbursements to be recorded in the individual school’s Fund 15. The social security, Medicare and TPAF rates are then applied to the salary amounts determined in steps two and three above to calculate the social security, Medicare and TPAF reimbursements due to the Department of Education for each school-based budget school. The preliminary State payment to the Teacher’s Pension and Annuity Fund for FY 2016-17 is 19.92%. The social security rate remains at 7.65%. Consequently, estimated TPAF and FICA rates now total 27.57% and has been used for illustration purposes in the sample schedule accessible using the link on page II-20.3. **Districts should not use this estimated rate to complete the TPAF and FICA Reimbursement form. Districts must use the actual rate which will be available on the Department's website after the release of this Audit Program. When the actual 2016-17 TPAF rate is known, the sample schedule will be revised to reflect the actual TPAF rate.**

The federal program salaries calculated for each school in steps one through four will then be entered onto the worksheet entitled *SBB TPAF and FICA Calculation to Comply with N.J.S.A. 18A:66-90* in the applicable column and should be included in the salary amounts reported on the reimbursement form entitled, *Reimbursement to State of New Jersey – N.J.S.A. 18A:66-90*. The district should retain the worksheet and the individual school calculations as supporting documentation of the school-based budget salaries included in the amounts reported on the reimbursement form. The district’s public school accountant will need to verify these calculations prior to signing off on the reimbursement form. The auditor signature is no longer required on the reimbursement form. The district’s public school accountant will need to verify these calculations and prepare a comment in the AMR.

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

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

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

[TPAF 2016-17 SBB districts](#)

Restricted State Aid

Overview

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

Year-end encumbrances are included in the special revenue fund as budgetary expenditures (Exhibit C-2) for the year end June 30, 2016 and are reported as GAAP expenditures (Exhibit B-2) in the subsequent year.

June State Aid Payments (School Districts Only)

Districts prepare their budgets based on state aid revenue paid over 20 cash payments. Beginning in fiscal year 2002-03, the state determined that the last payment would not be paid until July of the subsequent year. Beginning with 2012-13, the last two state aid payments were not paid until July of the subsequent year. GASBS 33 requires that the provider government and recipient government recognize a payable and receivable in the same fiscal period. *N.J.S.A. 18A:22-44.2* requires that districts include the last two state aid payments as revenue for budgetary purposes only. There may be a year-end difference between the revenue for GAAP reporting and revenue for budgetary comparisons for any fiscal year in which the last state aid payments are deferred to the subsequent fiscal year. Chapters I-8 provides an in depth discussion of the budget to GAAP reconciliation.

FEMA Reimbursements (School Districts Only)

Unrestricted reimbursements are reported as an “other financing source” in the general fund. However, if the FEMA reimbursement is received pursuant to the school district having submitted a project worksheet for expenditures related to a disaster (e.g. Project SERV funds), eligible obligations/expenditures must be specifically identified and reported in the special revenue fund. Documentation in support of eligible obligations/expenditures must be maintained for audit. Districts should have recorded those obligations/expenditures in fund 20 with a unique program code in the 290-299 range. The FEMA reimbursement is recorded and reported as “Other Restricted Grants-in-Aid from the Federal Government through the State” in the special revenue fund. Use newly created Audsum line 817, “Super Storm Sandy - FEMA and Other Restricted Recovery Sources” (20- 4526) for this purpose.

Below is a link to the April 30, 2013 notification of grant awards provided to certain school districts for the purpose of assisting those school districts through the reimbursement of expenditures in support of activities intended address the super storm’s after effects. The notification includes a sample listing of the types of expenditures that were considered for reimbursement.

<http://www.state.nj.us/governor/news/news/552013/approved/20130430a.html>

Preschool Education Aid (PEA) (Applicable to School Districts/Charter Schools Only)

Pursuant to *N.J.S.A. 18A:7F-54*, districts with high concentrations of low income students shall establish preschool for all three- and four-year-olds and full day kindergarten for all five-year-olds. The program objective under the School Funding Reform Act (SFRA) is for district factor group A and B school districts, and district factor group CD school districts with a concentration of at-risk children equal to or greater than 40 percent, to provide free access to full-day preschool for all three- and four-year-old

children. All other school districts shall provide free access to full-day preschool for at-risk children. The program objective is to be met by the 2016-17 school year. For the 2016-17 fiscal year, only districts receiving preschool aid prior to the passage of the SFRA received Preschool Education Aid. In the 31 SBB districts and in the 4 former Early Childhood Program Aid (ECPA) districts previously approved to expand their program, Preschool Education Aid shall reflect the cost of the child's placement in a district program, a licensed child care provider program, or a Head Start Program which provides high quality full-day preschool in accordance with the Commissioner's regulations.

For 2016-17 the department reviewed and issued approvals for Preschool Education Aid budgets for 78 charter schools, the 31 SBB districts and the 4 former ECPA districts that were approved to expand their preschool programs. The department also reviewed/approved the preschool operational plan updates and budgets for the other former ECPA districts and the ELLI districts receiving 2016-17 Preschool Education Aid.

Charter schools that are located in preschool-eligible districts may apply to the Department of Education, Division of Early Childhood Education and Family Engagement to operate a preschool program. For FY 2016-17, eight charter schools are currently operating approved preschool programs: Learning Community Charter School and Golden Door Charter School located in Jersey City; Red Bank Charter School located in Red Bank, Vineland Charter located in Vineland; Phillips Charter School, Newark Educators' Charter School, Greater Oaks Legacy Charter School, and University Heights Charter School located in Newark.

Funding for preschoolers with disabilities is provided separately from PEA. When budgeting for classrooms that include both general education and inclusion students, K-12 base aid funding provided for preschool students with disabilities must be combined with PEA in order to cover the full general education cost of those inclusion classrooms. Districts with preschool inclusion programs have been instructed to transfer the state aid received for these students for the general education portion of their education from the general fund into the special revenue fund. The following memo provides additional guidance [PEAAccountingClarification Memo.pdf](#)

Districts/charter schools must appropriate Preschool Education Aid in the special revenue fund for expenditures. Any Preschool Education Aid not expended during the budget year may be carried forward. Preparation of the year end schedule for Preschool Education Aid is contained on the next page in this Audit Program. Preschool Education Aid may be transferred to the general fund to support kindergarten through grade 12 if the district has served all eligible preschool children and provided the program as required. The district must request and obtain approval by the Commissioner. For 2016-17, no transfer approvals were granted.

Revenue that was not expended or encumbered by June 30 of the budget year shall be classified as deferred revenue in the financial accounts and statements of the district/charter school and added to the revenue of the subsequent year preschool education budget. As part of the June 30 CAFR districts/charter schools are required to prepare a budgetary basis schedule for Preschool Education Aid expenditures using the minimum outline required for the special revenue fund, including a calculation of the unbudgeted Preschool Education Aid funds along with June 30, 2017 unexpended/unencumbered funds.

It is incumbent upon the school district auditor to verify that the Actual Budgetary Carryover (reported on Line 8 of the PEA Schedule- see below) is computed correctly and agrees with the carryover reported in Audsum. There is a separate data entry line in Audsum for the reporting of PEA budgetary carryover. This amount must agree to Line 8 of the PEA Schedule. Annually, the department will compare the budgetary PEA carryover reported in Audsum to the budgetary PEA carryover reported on Line 8 of the PEA Schedule in the CAFR. In the event that differences exist, those discrepancies must be resolved by the school district and the school district auditor. Discrepancies will generate correspondence from the department and will only be resolved through the re-transmission of Audsum

and/or the revision of the PEA Schedule Exhibit-2. Note that unbudgeted Preschool Education Aid is included in the carry-forward computation.

Auditors should verify that the funds were expended only for approved Preschool Education Aid programs pursuant to *N.J.S.A. 18A:7F-54* and are in compliance with the department approved 2015-2020 Five-Year Preschool Program Plan. Auditors should verify that the 2016-17 Preschool Education Aid plan was amended to reflect audited carryover balances. See the *State Aid/Grant Compliance Supplement* for the applicable year available on the NJ Treasury (OMB) and NJ Department of Education websites for further audit procedures.

PREPARING THE PRESCHOOL EDUCATION RESTRICTED AID SCHEDULE (Applicable to School Districts/Charter Schools Only)

The Schedule of Preschool Education Aid is prepared from the district/charter school records and is the responsibility of the district/charter school. This schedule is to be included in the Special Revenue Fund section of Other Supplementary Information. All districts/charter schools eligible for Preschool Education Aid were required to track Preschool Education Aid expenditures in the special revenue fund using the uniform grant project budget statement coding structure. The following sample schedules are presented in the required format for reporting Preschool Education Aid expenditures for 2016-17.

The format of the schedule was designed to provide an audit trail of the actual versus budgeted expenditures as well as calculate deferred revenue and carryover. This schedule is to be prepared on the budgetary basis where “actual” equals the 2016-17 expenditures less the reversal of the prior year end encumbrances (6/30/16) plus encumbrances at June 30, 2017. These encumbrances must be liquidated within 60 to 90 days of the current year end. The “budgeted” amounts can be obtained from the district’s/charter school’s 2016-17 certified Detailed Appropriations lines 13010 – 13300 adjusted for any approved carryovers and/or transfers. At the bottom of the schedule is a calculation of the 2016-17 Available & Unbudgeted funds and the Actual Budgetary Carryover as of June 30, 2016.

Line (1) represents the total 2016-17 Preschool Education Aid (PEA) allocation. This amount can be obtained from the district’s/charter school’s “Estimated 2016-17 State School Aid/State Aid Summary” (NET) and is a budgetary amount.

Line (2) represents the actual audited PEA carryover as of June 30, 2017. Carryover balances may have been anticipated in the 2016-17 original budget. Districts/charter schools were instructed to utilize a Carryover Funds form to request use of June 30, 2017 balances or to adjust prior estimates. Copies of the approved request should be on file at the district/charter school.

Line (3) represents the budgeted transfer from the general fund to fund preschool programs. This amount can be obtained from Line 511 (Account 20-5200) in the 2016-17 certified advertised revenues.

Line (4) represents the total 2016-17 funds available for the 2016-17 preschool education budget (sum of lines 1-3).

Line (5) represents the amount the district/charter school included in its Preschool Education Aid budget for the fiscal year 2016-17, including contribution to charter schools, but not including a transfer to the general fund for preschool programs.

Line (6) represents the difference between Line (4) and Line (5). If a district/charter school did not revise its budgeted original allocation (if different) or revise its budgeted June 30, 2017 carryover, then this amount is considered Available and Unbudgeted as of June 30, 2017. Line (6) is then considered a component of the Actual Carryover – Preschool Education Aid of June 30, 2017.

Line (7) represents the actual June 30, 2017 Unexpended Preschool Education Aid from the variance column of the Budgetary Basis Schedule of Preschool Education Aid. This amount represents the 2016-17 unexpended/unencumbered Preschool Education Aid.

Line (8) represents Commissioner approved transfers to the general fund for kindergarten. Auditors must verify that only Commissioner approved transfers are entered on this line.

Line (9) represents the 2016-17 Carryover of Preschool Education Aid Programs to 2017-18 Preschool Education Aid Programs calculated as Line (6) plus Line (7) minus Line (8). This line is the total Actual Budgetary Carryover – Preschool Education Aid as of June 30, 2017. There is a collection line in Audsum for Actual Budgetary PEA Carryover at June 30, 2017. **The carryover reported on this line of the CAFR schedule and the carryover reported in AUDSUM must agree.** Unbudgeted PEA is included in the carryover computation.

Line (10) 2016-17 Preschool Education Aid Carryover from Line (9) that has been budgeted for preschool Programs in 2017-18 can be found in the 2017-18 Preschool Education Aid “Additional Information” from the 2017-18 certified budget. If the (budgetary) actual carryover transferred to Preschool Programs (Line 9) differs from the budgeted carryover on line 10, the district/charter school should consider contacting the program office to discuss a revision to their 2017-18 Preschool Education Program budget.

The Budgetary Preschool Education Aid Carryover 2016-17 (line 9) is for budgetary purposes and will differ from the June 30, 2017 Preschool Education Aid deferred revenue reported on (GAAP) Schedule B, *Schedule of State Financial Assistance* by the amount of the 2016-17 last two state aid payments. The Schedule of State Financial Assistance (GAAP) will not include the amount of the last state aid payment but instead will include this amount in the MEMO column under “Budgetary Receivable.” This state aid adjustment is required because the revenue recognition of the last two state aid payments in 2016-17 is not in conformity with GAAP revenue recognition based on GASBS 33; however, districts are legally required to recognize the revenue of the last two state aid payments for fiscal year 2016-17 in their budgetary schedules. The Schedule of State Financial Assistance does not include the last two payments for 2016-17 (received in July 2017) in the beginning balance deferred revenue, but does include it in the cash received column.

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

**Anytown School District/Charter School
Special Revenue Fund
Schedule of Preschool Education Aid
Budgetary Basis
For the Fiscal Year Ended June 30, 2017**

	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
EXPENDITURES:			
Instruction:			
Salaries of Teachers	\$ 808,955	\$ 743,268	\$65,687
Other Salaries of Instruction	250,000	250,000	0
Purchased Professional and Educational Services	30,474	22,365	\$ 8,109
Other Purchased Services (400-500 series)	325,000	315,000	10,000
Tuition to Other LEAs within State-Regular			
General Supplies	110,500	82,500	28,000
Other Objects			
Total Instruction	<u>1,524,9299</u>	<u>1,413,133</u>	<u>111,796</u>
Support Services:			
Salaries of Supervisors of Instruction			
Salaries of Program Directors			
Salaries of Other Professional Staff			
Salaries of Secr. & Clerical Assistants			
Other Salaries			
Salaries of Community Parent Involvement Specialists			
Salaries of Master Teachers			
Personal Services – Employee Benefits	142,071	136,589	5,482
Purchased Educ. Services – Contracted Pre-K			
Purchased Ed. Services- Head Start			
Purchased Professional – Educational Services	25,000	5,689	19,311
Other Purchased Professional - Services			
Cleaning, Repair & Maintenance Services			
Rentals			
Contr. Transportation Service (Betw. Home & Sch.)			
Contr. Transportation. Service (Field Trips)			
Travel			
Miscellaneous Purchased Services			
Supplies & Materials			
Other Objects			
Total Support Services	<u>167,071</u>	<u>142,278</u>	<u>24,793</u>
Facilities Acquisition and Const. Services:			
Instructional Equipment	15,000	10,000	5,000
Noninstructional Equipment	-	-	-
Total Facilities Acquisition and Const. Services	<u>15,000</u>	<u>10,000</u>	<u>5,000</u>
Contribution to Charter Schools	<u>20,000</u>	<u>20,000</u>	<u>-</u>
Total Expenditures	<u>\$1,727,000</u>	<u>\$1,585,411</u>	<u>\$141,589</u>

EX E-2 (cont'd)

CALCULATION OF BUDGET & CARRYOVER

Total revised 2016-17 Preschool Education Aid Allocation	\$ 1,642,835	(1)
Add: Actual ECPA/PEA Carryover (June 30, 2016)	212,404	(2)
Add: Budgeted Transfer from the General Fund 2016-17	42,835	(3)
Total Preschool Education Aid Funds Available for 2016-17 Budget	<u>1,898,074</u>	(4)
Less: 2016-17 Budgeted Preschool Education Aid (Including Prior year budget carryover)	<u>(1,700,000)</u>	(5)
Available & Unbudgeted Preschool Education Aid Funds as of June 30, 2017	198,074	(6)
Add: June 30, 2017 Unexpended Preschool Education Aid	134,589	(7)
Less: 2016-17 Commissioner-approved Transfer to the General Fund	<u>(34,000)</u>	(8)
**2016-17 Carryover – Preschool Education Aid Programs	<u>298,663</u>	(9)
2016-17 Preschool Education Aid Carryover Budgeted for Preschool Programs 2017-18	<u>\$ 50,000</u>	(10)

**** Enter Line(9) as the 2016-17 Preschool Aid Carryover on Line 90005 of the district Audsum**

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