STATE OF NEW JERSEY
DEPARTMENT OF EDUCATION

Date Updated: 7/25/2023

2022-2023 Audit Program Narrative

I. Digest of the Approved Private School for Students with Disabilities (APSSD) Audit Requirement

In accordance with N.J.A.C. 6A:23A-18.10(a)1, the approved private school for students with disabilities (APSSD) 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 APSSD shall ensure the independent status of the auditor in accordance with standards set forth in the Code of Professional Conduct and General Principles and Responsibilities issued by and available from, the American Institute of Certified Public Accountants (AICPA). Additionally, upon review by the Department, an auditor shall not be considered independent if he or she may have been influenced by other parties, including, but not limited to, APSSD directors or other staff, or by conflicting interests such as if the independent auditor or members of his or her firm are engaged to perform services other than the year-end audit and tax return functions for the APSSD. 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.

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, 2022 to June 30, 2023 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 **Appendices B and B-1.**

   This Chart of Accounts became effective in the 2017-2018 school year. Schools having more than 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. Auditors are reminded that approved private schools for students with disabilities have been provided guidance that effective July 1, 2004, private schools for students with disabilities with multiple positions of Executive Directors, Directors and Assistant Directors must demonstrate compliance of the required job functions for these titles. Each position must perform a majority the following job functions: the formulation of school goals, plans, policies, and budgets and the recommendation of their approval to the school's board of directors; the recommendations for all staff appointments and other personnel actions, such as terminations, suspensions and compensation, including the appointment of the business manager to the school's board of directors; responsibility for school operations and programs including administration, supervision and evaluation of administrators, supervisors, and all other school staff. Beginning in the 2017-2018 school year, all directors, and assistant directors, except those employed as or otherwise serving as director or assistant director for the APSSD prior to July 1, 2017, shall hold a master's degree from an accredited institution but shall not be required to hold a certification pursuant to *N.J.A.C. 6A:9B.* The holder of this job title shall hold a bachelor's or master's degree from an accredited institution but is not required to hold a school certification. Please refer to pages P-11 through P-28 and NP-13 through NP-30. 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-29 and NP-13 through NP-31;

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

6) Statement of the average daily enrollment (ADE) for the July through June school year. The ADE 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

14) Statement of cash flows (optional).

In accordance with N.J.A.C. 6A:23A-18.10(a), regardless of the fiscal year of the school, each approved private school for students with disabilities shall submit to the Commissioner audited financial statements based on the July 1 to June 30 school year which must be submitted electronically, in Excel and PDF formats, via email to doe.pssd@doe.nj.gov on or before November 1, 2023. Please be advised, an audit submitted after November 1, 2023 precludes the private school from requesting a higher tentative tuition rate in accordance with N.J.A.C. 6A:23A-18.10(h). Also, in accordance with N.J.A.C. 6A:23A-18.10(i) failure to comply with this section may result in the Commissioner placing the approved private school for students with disabilities on conditional approval status that precludes the school from accepting new students. Please include a copy of the firm's peer review report with the audit report.

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: Division of Finance and Business Services (Finance); Office of Fiscal Accountability and Compliance (OFAC), and with the County Superintendent of Schools in the county (County Office) 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 Finance and OFAC, as well as the Somerset and Morris County Offices Superintendents of Schools. A private school which has one location must file three reports; Division of Finance and Business Services (Finance); Office of Fiscal Accountability and Compliance (OFAC), and with the County Superintendent of Schools in the county (County Office) in which the private school is located. No provision is made for the issuance of an extension beyond the statutory due date.

The private school for students with disabilities must file three certified signed duplicate copies of the reports and recommendations for each private school's location. One with the Division of Finance and Business Services, one with the Office of Fiscal Accountability and Compliance and one with the County Superintendent of Schools in the county in which the school is located. Please include a copy of the firm's peer review report with the audit report. In addition, the private school **must file, via email submission,** copies of the audited financial statements in both the **PDF and Excel** formats with the **Division of Finance and Business Services/Office of Fiscal Policy and Planning.** To avoid multiple calls to the department in October 2023, the private schools for students with disabilities administrative staff should **provide** the appropriate internal staff **and independent auditor with the** updated submission instructions.

Please note: Do not mail paper copies of the audit to the Division of Finance and Business Services or the Office of Fiscal Accountability and Compliance, rather, copies of the audit in both PDF and Excel must be emailed to doe.pssd@doe.nj.gov and Hilda.Plaza@doe.nj.gov.

County Superintendent of Schools

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

II. Directives to the APSSD'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:23A-18.3(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 requires that each private school generate a 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 and is submitted electronically to the Department of Education via the APSSD Budget and Audit System. 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 students with disabilities must submit budgets to the Department of Education for the 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 (ADE) 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:23A-18.3.

A new private school for students with disabilities (except schools operated in and affiliated with a public school) must receive preliminary approval to operate for a two-year period, after which the school must provide documentation that the school has a minimum ADE of 24 public school placement students by the end of the second school year. For example, a new private school for students with disabilities approved for the first year of operation in 2022-2023 must attain an ADE of 24 public school placement students by the 2023-2024 school year. Similarly, a new private school for students with disabilities approved for the first year of operation in 2022-2023 must attain an ADE of 24 public school placement students by the 2024-2025 school year. If the minimum ADE of 24 public school placement students is not attained in the second school year, the school will have the preliminary approval status revoked and no longer be considered an approved private school for students with disabilities.

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. The final rate charged for extraordinary services may be higher or lower than the original per diem rate of $100.

Bookkeeping Records

(N.J.A.C. 6A:23A-18.5)

An approved private school for students with disabilities:

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:23A-18.1 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:23A-18.5(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:23A-18.5(a)7 and effective July 1, 2002, a uniform minimum chart of accounts consistent with Financial Accounting for Local and State School Systems 2003 (updated July 1, 2004), 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 students with disabilities 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 no longer 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 **Appendices 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.

Auditors are advised that beginning with the 2017-2018 school year, the Department released a revised Chart of Accounts requiring that APSSDs allocate costs based on program type (i.e., Preschool Disabled; Emotional Regulation Impairment). The audit program has been revised to reflect the appropriate account numbers, but auditors should be cognizant of the classroom types approved at each APSSD and the corresponding three-digit program code in each account number when conducting the audit. The crosswalk between the 2017-2018 Chart of Accounts and the prior account numbers applicable to APSSDs is demonstrated in Exhibit D.

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, 2023 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, yearbooks, 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 #2XX, #500, #600, and #800. Any expense charged to such funds must conform to N.J.A.C. 6A:23A-18.1 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;

a. **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;

b. **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 #2XX, #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:23A-18.10(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 students with disabilities. 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 students with disabilities 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:23A-18.5(a)11 (see Department of Education Prescribed Financial Reports included in **Appendix C**);

2) All purchase orders per *N.J.A.C.* 6A:23A-18.5(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:23A-18.5(a)10 and all payroll tax returns, arranged in chronological order;

5) Paid invoices per *N.J.A.C.* 6A:23A-18.5(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:23A-18.5(f) and *N.J.A.C.* 6A:23A-18.6(a) 21, 22, 23, and 31;

9) All tuition contract agreements per *N.J.A.C.* 6A:23A-18.5(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:23A-18.5(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:23A-18.5(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:23A-18.5(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 students with disabilities 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:23A-18.9;

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

17) The bookkeeping records contained in *N.J.A.C.* 6A:23A-18.5(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 2022-2023 school year along with all formally adopted board policies;

19) A listing of all consultants that provide direct services to student would be charged to Special Education Instruction — Purchased Professional Educational Services account #11-2XX-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 for each school employee and, if applicable, copies of their New Jersey school certificate (standard, certified of eligibility (CE), certificate of eligibility with advanced standing (CEAS) and provisional for Teachers, School Nurses, Social Workers, etc.;

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) If applicable, a copy of the letter from the private school to the required parties notifying them that the private school will be charging a final tuition rate in excess of 10% of the tentative tuition rate charged in accordance with *N.J.A.C.* 6A:23A-18.3(a)2;

25) If applicable, copies of the students' income eligibility forms, daily meal counts and all paperwork regarding the funding from the Child Nutrition Program (CNP) administered by the New Jersey Department of Agriculture.

COVID-19 Paid Time Off (PTO) Policy

On March 23, 2020, the Department advised via Covid-19 guidance that APSSDs may implement a Board-approved policy to provide leave during the COVID-19 school closures pursuant to N.J.A.C. 6A:23A-18.5(f)13. APSSDs were advised to submit the Board-approved policy for Commissioner's approval as soon as possible to allow for approval prior to the close of the 2020-2021 school year. Such policies were required to conform to the following guidelines:

- APSSD staff that are currently working during the COVID-19 school closures shall document time worked pursuant to the Department's guidance, and not use COVID-19 leave time;
- APSSD staff that are not working due to an illness not related to COVID-19, or on a scheduled vacation, shall use PTO, vacation, or sick time in accordance with APSSD's existing policies, and not use COVID-19 leave time;
- For audit purposes, APSSDs shall maintain documentation of employees paid COVID-19 leave that protects employee health information and any details or delineation that may be necessary; and
- COVID-19 leave shall be used only during a mandated closure of the school due to a declared state of emergency, declared public health emergency, or a directive by the appropriate health agency or officer to institute a public-health related closure
    - APSSDs that voluntarily closed prior to such mandated closure should utilize existing PTO, sick, or other leave during that time, based on the APSSD's existing policy

A note disclosure must indicate that the Board-approved policy has been approved by 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:23A-18.10(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 and Business Services 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 with the Assistant Commissioner, Division of Finance and Business Services. Only that section of the minutes pertaining to the annual audit need be submitted. When the corrective action is based on the requirements of this subchapter, the Assistant Commissioner, Division of Finance and Business Services 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.

Email to: Elise Sadler-Williams, Planning Associate
New Jersey State Department of Education
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III. APSSD Bookkeeping and Accounting

The list of bookkeeping and accounting requirements appears in **Appendix A** on pages 31–44. The auditor must be familiar with these requirements and their impact on the private school's accounting and bookkeeping records.

The State Board of Education has prescribed a uniform system of bookkeeping for the APSSDs and is authorized to compel its use per N.J.A.C. 6A:23A-18.1 through 18.23. 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 students with disabilities any means 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 students with disabilities must charge not less than the audited cost per student or the private school for students with disabilities 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 placement students are serviced in classes separate from public school placement students, those services are to be accounted for as a separate program and fund. When private placement students 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.

Funds — Restricted and Unrestricted

(*N.J.A.C.* 6A:23A-18.5)

The private school for students with disabilities 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:23A-18.6(a). The private school should establish sufficient controls and audit trails to enable the school's independent 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:23A-18.8.

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:23A-18.8. 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.

Please note that the school may not waive negative working capital if Working Capital C is negative. A prior year Working Capital Fund which is greater than the maximum Working Capital Fund will result in a negative Working Capital A and a negative Working Capital C. When this occurs, the Total Public School Placement Expenditures on the Statement of Tuition Rate Part I must be reduced by the amount to arrive at the Total Public School Placement Expenditures and Working Capital when calculating the certified actual cost per student.

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:23A-18.7 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:23A-18.3(a). Costs described in *N.J.A.C.* 6A:23A-18.6(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 funds 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.

A nonprofit APSSD that has a positive public school placement restricted working capital fund balance and a net deficit unrestricted fund balance for more than three consecutive fiscal year-ends shall submit to the

Commissioner, or his or her designee, within 60 days after the third fiscal year's end a corrective action plan to reduce the net overall deficit fund balance. The nonprofit APSSD shall be subject to Department monitoring to ensure implementation of and adherence to the corrective action plan. If the APSSD fails to eliminate the deficit by the end of year three, the APSSD shall be placed on conditional approval status until the deficit unrestricted fund balance is eliminated.

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 students with disabilities 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]

A small nonprofit private school for students with disabilities 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 students with disabilities 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:

Operating Funds

1) Restricted - Public School Placement Fund
2) Restricted - Early Intervention Program

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

3) All Other Restricted Fund (further segregation discretionary)

4) Unrestricted Fund (further segregation discretionary)

Plant Funds (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 students with disabilities 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:23A-18.6(a) should be reflected as adjustments on the reconciliation of retained earnings.

Profit-making private schools for students with disabilities 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:23A-18.6(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.

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:23A-18.5(a)1 requires that:

> "An APSSD shall maintain accounts in accordance with Generally Accepted Accounting Principles (GAAP) as established by the Financial Accounting Standards Board (FASB) and recognized as authoritative by the American Institute of Certified Public Accountants, except as already modified in this subchapter."

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 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:23A-18.8.

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:23A-18.5(a)3, an APSSD 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

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[2] Id.

[3] Id.

defined in Internal Revenue Code Section 168 and class lives as defined in that section except for real property that may be depreciated using a useful 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 — Depreciation — Special Education Instruction account #12-2XX-100-790 or in Capital Outlay — Vocational Programs account #12-320-100-7XX. Please refer to **Appendix B**, lines 75885 – 75915. The depreciation of non-instructional equipment costing greater than $2,000 must be recorded in Capital Outlay — Undistributed account number 12-000-XXX-790. Please refer to **Appendix B**, lines 75930 through 75980. 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 number 40-701-510-790. Please refer to **Appendix B**, line 89650.

Instructional equipment costing $2,000 or less is considered Equipment and must be recorded Current Expense — Special Education Instruction - Equipment account number 11-2XX-100-730, Current Expense — Special Vocational Education Instruction - General Supplies account number 11-320-100-730, or Current Expense — Undistributed Expenditures — Educational Media Services School Library - General Supplies account number 11-000-222-730. Please refer to **Appendix B**, lines 3630, 4130, 4630, 4850, 5130, 5630, 6130, 6630, 7630, 8110, 8610, 10130, 15130 and 43590. The cost of non-instructional equipment costing $2,000 or less must be recorded in Current Expense — Undistributed Expenditures — Support Services — General Administration — Equipment account number 11-000-230-730, Current Expense — Undistributed Expenditures — Support Services — School Administration — Equipment account number 11-000-240-730, or Current Expense — Undistributed Expenditures — Central Services — Equipment — account number 11-000-251-730. Please refer to **Appendix B**, lines 45230, 46130, or 47110. Equipment for the following areas School Sponsored Co-curricular Activities, School Sponsored Athletics, Undistributed Expenditures for Attendance and Social Workers, Health Services, Speech, Occupational Therapy, Physical Therapy And Related Services, Guidance, Improvement of Instructional Services, Instructional Staff Training, Custodial Services, Care and Upkeep of Grounds, Security, Student Transportation Services, Behavior Modification, and Food Services costing $2,000 or less are not considered instructional costs and are charged to Equipment in object code number 730.

Cash Receipts Journal

(N.J.A.C. 6A:23A-18.5(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 #2XX, #580, #581, #611, #612, #730, #890);

12) Food Service Sales - Student, Staff and Other applied against Undistributed Expenditures — Food Services lines 71900 to 71980 in **Appendix B.** Refer to pages P-55 and NP-58;

13) Student Contributions — School Sponsored Co-Curricular Activities (applied against total #11-401-100-100 or object codes #199, #2XX, #500, #600, #730 #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.

Cash Disbursements Journal

(*N.J.A.C.* 6A:23A-18.5(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.

General Ledger

(*N.J.A.C.* 6A:23A-18.5(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. Multi-funded 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 (*Appendices B and B-1*) issued by the Department of Education. 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:23A-18.5(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:23A-18.5(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 Registers

(*N.J.A.C.* 6A:23A-18.9)

Each private school for students with disabilities shall maintain a New Jersey School Register for recording of student attendance and enrollment in accordance with *N.J.A.C.* 6A:32-8. 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 days of attendance (number of days individual student is enrolled for service), number of days 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:23A-18.9(b), each approved private school for students with disabilities shall submit the school summary register annually to the Commissioner by September 1 to verify the average daily enrollment (ADE) 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:23A-18.3(a)7, 18.3(s) and 18.3(t):

1) In accordance with N.J.A.C. 6A:23A-18.3(a)7, the ADE for students enrolled in a program for a time period other than a full day or a half-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:23A-18.3(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 an approved private school for students with disabilities 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 approved private school for students with disabilities, 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:23A-18.3(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 approved private school for students with disabilities shall compute the tuition rate as follows: 1) the approved private school for students with disabilities 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:23A-18.5)

An approved private school for students with disabilities 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 students with disabilities 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:23A-18.1 through 18.23 and recommend that the school use the prescribed format or request Commissioner approval of an alternative form.

An approved private school for students with disabilities 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 students with disabilities *(***other than the independent auditor***)* must prepare a financial report for all quarters including the quarter ending June 30, 2023. 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:23A-18.5(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:23A-18.6(a)37 and 39. 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:23A-18.6(a)40.

An approved private school for students with disabilities shall execute an employment contract annually with each school employee, which contains the following information: 1. Name of employee; 2. Dates of employment; 3. Work hours; 4. Certification(s) and/or degree(s) held; 5. Job description; 6. Job title; 7. Salary and if applicable, 8. Percentage of time allocation for shared employees and/or employees with multiple position titles. The employment contract should be signed and dated by the director and staff member and an employment contract for a director and an executive director should be signed by a member of the board of directors.

IV. Scope of Funds to be Audited

The audit must include the books, accounts, and moneys of the private school for students with disabilities 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 students with disabilities 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

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

The funds of teacher organizations and parent teacher units are **generally 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 for Immediate Purchase of Tickets

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 APSSD Audit

The 2022-2023 audits of the private schools for students with disabilities must be prepared in accordance with N.J.A.C. 6A:23A-18.1 through 18.23 and this manual. It is important that the auditor become familiar with this manual and N.J.A.C. 6A:23A-18.1 through 18.23. These regulations appear in **Appendix A**. If anyone has questions concerning this manual, please contact Elise Sadler-Williams at doe.pssd@doe.nj.gov.

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 for the auditor 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 students with disabilities 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 **Appendices A through V**. 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:23A-18.1 through 18.23.

Special-Purpose/Component Financial Statements[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 refer to a presentation of financial data, including accompanying notes, based on the presentation of financial 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. The cost of ownership form must be completed for *all* less-than-arm's length (related party) transactions.

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

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 of 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:23A-18.1 through 18.23 (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 this Section.

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:23A-18.1 through 18.23 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:23A-18.7 and 18.8 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:23A-18.10(d), the APSSD 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 APSSD 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:23A-18.10(f) the APSSD 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.

Expenditures

In accordance with *N.J.A.C.* 6A:23A-18.3(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 clarified by the Revised Frequently Asked Questions Regarding the Provision of Related Services for Students Placed by Local Education Agencies in NJ Approved Private Schools for Students with Disabilities.

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 students with disabilities accrual accounting as analogous to commercial accounting (FASB), since both commercial enterprises and private schools for students with disabilities 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 2022-2023 school year, but the students did not use the textbooks there would be no benefit in the 2022-2023 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 2022-2023 school year would not be recognized as an expense since they did not contribute to revenue because there was no benefit in the 2022-2023 school year. However, in a private school for students with disabilities the approach "let the expense follow the revenue" is reversed since the expenses drive the revenues. Private schools for students with disabilities 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 an expenditure in the 2022-2023 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 expenditures 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 **only** 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 with the quantitative basis used to allocate shared organizational costs that equitably and fairly distributes such costs between benefiting fund sources.

In accordance with *N.J.A.C.* 6A:23A-18.3(c), an APSSD shall record, in the prescribed bookkeeping and accounting system pursuant to *N.J.A.C.* 6A:23A-18.5(a)8, all direct costs that can be specifically attributed to a program and/or revenue source. 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:23A-18.3(d), for indirect costs that are incurred for a common or joint purpose but are not readily assignable to an APSSD and/or its program and/or a revenue source, an APSSD may establish indirect cost pools as appropriate for allocation to the APSSD at the end of the fiscal year, as follows:

1. The expenditures included in the indirect cost pool shall be related to the APSSD's function(s), operation(s), and/or program(s); and
2. Salary expenditures and associated fringe benefits included in an indirect cost pool shall be for individuals who are assigned, pursuant to a contract and/or job description, to perform work related to the APSSD's function(s), operation(s), and program(s).

There are three types of private schools for students with disabilities: 1) entities that operate only as a private school for students with disabilities; 2) entities that operate only as a private school for students with disabilities and operate one or more tuition programs at one or more locations; and 3) entities that operate other programs in addition to a private school for students with disabilities 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:23A-18.3(e), for an entity that operates only as an APSSD and operates one or more tuition programs at one or more locations, indirect costs that are incurred for a common or joint purpose but are not readily assignable to an APSSD and/or its program and/or a revenue source are calculated in accordance with either of the following:

(1) An equitable allocation plan approved in writing by the Commissioner, or his or her designee;

(2) Ratio of direct costs for each program determined pursuant to N.J.A.C. 6A:23A-18.3(c) to total direct costs; or

(3) Ratio of ADE for each program to total ADE.

In accordance with N.J.A.C. 6A:23A-18.3(f), for an entity that operates other programs in addition to an APSSD program(s) at one or more locations shall charge their indirect costs as follows:

1. Indirect cost centers established as follows:
   i. A cost center that shall include indirect costs that are allowable costs in accordance with this subchapter; and
   ii. A cost center that shall include indirect non-allowable costs that are not chargeable as allowable costs in accordance with this subchapter.
2. Allowable indirect costs charged pursuant to (1) above may be included on a consistent basis in the respective actual cost per student in accordance with:
   i. An equitable allocation plan approved by the Commissioner, or his or her designee;
   ii. Ratio of direct costs for each program determined pursuant to N.J.A.C. 6A:23A-18.3(c) to total direct costs; or
   iii. Ratio of ADE for each program to total ADE.

In cases where the majority of a specific cost is associated with a program other than the private school for students with disabilities 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 students with disabilities 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 a 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:23A-18.3(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:23A-18.3(a)1, N.J.A.C. 6A:23A-18.6(a), or any other provision of the regulations. One example is where an agency includes a donation of $5,000 to the local Fire Company; because this cost cannot be specifically attributed to any one or more of the organization's 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:23A-18.6(a)13 restricts contributions to a total of $750.

A private school which incurs indirect costs that would be considered non-allowable in accordance with N.J.A.C. 6A:23A-18.3(a) and N.J.A.C. 6A:23A-18.6(a)47 must apply those costs to a separate indirect cost center that will not be charged to the private school for students with disabilities 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:23A-18.3(a) and N.J.A.C. 6A:23A-18.6(a)50.

Individual private schools for students with disabilities 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:23A-18.3(g), whenever a facility used by an APSSD 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 ratio of the portion of the facility used for activities associated with the APSSD program(s), operation(s), and/or function(s) to the square footage of the total facility. Indirect costs for using the APSSD's facility in any other manner shall not be included in the certified actual cost per student.

Enclosed for your information, as **Appendix Q** is the Office of Management Budget OMB Uniform Guidance at 2 CFR 200. Please be advised, OMB Uniform Guidance at 2 CFR 200 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 your information, **Appendix R** reflects the private schools for students with disabilities that receives menu approval and/or Child Nutrition Funds for the 2022-2023 school year.

As stated earlier in II. Directives to the APSSD'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 **must not 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.

Non-Allowable Costs

The list of non-allowable costs appears in Section *N.J.A.C.* 6A:23A-18.6(a) in **Appendix A-1** on pages 44 through 60. 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 *N.J.A.C.* 6A:23A-18.2 Definitions, which in some cases provide additional information for individual non-allowable costs. In accordance with *N.J.A.C.* 6A:23A-18.3(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 all costs required to implement all students' IEPs and all related services, 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, and 5) based on goods actually received and placed in service in the fiscal year they are expensed.

Non-Allowable Costs

Costs that are not allowable in the calculation of the Certified Actual Cost Per Student include but are not limited to the following:

Item 1

In accordance with *N.J.A.C.* 6A:23A-18.6(a)1, administrative costs in excess of and/or instructional cost less than the percentages indicated in N.J.A.C. 6A:23A-18.3(a)3. Private schools for students with disabilities must meet minimum instructional cost percentages and may not exceed a maximum administrative cost percentage as defined in the chart of accounts. For the 2022-2023 school year, these percentages are as follows: a minimum of 57.5 percent for instruction and a maximum of 22.5 percent for administration. Please refer to pages P-30 to P-45 and NP-32 to NP-47 and **Appendices T-1, T-2, and T-3**.

Item 2

In accordance with *N.J.A.C.* 6A:23A-18.6(a)2, costs for maintaining an administrative office in a private home or other residence.

Item 3

In accordance with N.J.A.C. 6A:23A-18.6(a)3, advertising costs in excess of 0.5 percent of the APSSD's actual allowable costs not including advertising costs. "Advertising costs" are costs "associated with promoting, marketing or public relations for the APSSD's programs and/or services." For example, if a school's actual allowable costs were $1,000,000, advertising costs could not exceed $5,000 ($1,000,000 times 0.005 equals $5,000). Please refer to account #11-000-230-891 for restrictions on advertising costs in **Appendices B and B-1**. Note: The costs associated with website development for parent information such as parent portals are not included as advertising.

Item 4

In accordance with N.J.A.C. 6A:23A-18.6(a)4 and 5, any cost associated with lobbying including salaries and fringe benefits. All costs associated with lobbying are non-allowable.

Item 5

In accordance with N.J.A.C. 6A:23A-18.6(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 or master's degree required in accordance with N.J.A.C. 6A:23A-18.2. Prior to the 2006-2007 school year, there may have been staff members that did not hold a bachelor's degree or the appropriate bachelor's degree for the director, assistant director, executive director, or business manager positions as defined in N.J.A.C. 6A:23A-18.1. Effective in the 2006-2007 school year, the salary and associated fringe benefits for a staff member holding one of these positions without the proper bachelor's degree must be considered non-allowable costs. Beginning in the 2017-2018 school year, all business managers, except those employed by the APSSD as a business manager or otherwise serving as business manager with the APSSD prior to July 1, 2017, shall hold a master's degree in business, accounting, finance, economics, or a related field from an accredited institution; a standard school business administrator's certificate issued pursuant to N.J.A.C. 6A:9B-12.7, as amended or supplemented; or a certified public accountant certificate. Also beginning in the 2017-2018 school year, all directors and assistant directors, except those employed as or otherwise serving as director or assistant director for the APSSD prior to July 1, 2017, shall hold a master's degree from an accredited institution but shall not be required to hold a certification pursuant to *N.J.A.C. 6A:9B.* Additionally, in accordance with N.J.A.C. 6A:23A-18.2(o) an APSSD shall comply with the maximum salaries determined in accordance with N.J.A.C. 6A:23A-18.3(o) and (p) and restricted in accordance with N.J.A.C. 6A:23A-18.6(a) 6, 8 and 9 regardless of the job titles used and whether these job titles comply with the list of job titles published by the Commissioner.

The job functions of the assistant director, business manager, director and executive director are listed in N.J.A.C. 6A:23A-18.2 - Definitions along with the type of degree or credentials that is required for each job title. In accordance with N.J.A.C. 6A:23A-18.5(l), a private school for students with disabilities shall ensure that individuals who are newly employed by the APSSD or new to the positions on or after July 1, 2017 possess the appropriate master's degree as defined in N.J.A.C. 6A:23A-18.2. In addition, private schools for students with disabilities shall ensure that employees functioning in these positions on or before June 30, 2001 currently possess the appropriate bachelor's degree or other required degree or certification as defined in N.J.A.C. 6A:23A-18.2 or will be removed from the position. Finally, an APSSD shall ensure that those new to the position after July 1, 2017 meet the appropriate degree or credential requirements as outlined in the revised definitions. If the required degree or credential is not held by the employee, the employee's salary and fringe benefits are considered non-allowable costs.

As a reminder, auditors are advised that APSSDs have been provided guidance that an individual functioning in a position that requires certification should not be hired without providing evidence of actually being in possession 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.*

As a reminder, the certification requirements to justly hold the position title of TOSD are different from TOH. As such, to avoid the determination of disallowed costs in accordance with N.J.A.C. 6A:23A-18.6(a)6, these position titles shall not be used interchangeably when executing employment contracts, as well as, completing the supporting documents in the new APSSD budget and audit system, audit, or other required documentation.

As a reminder, the salaries and fringe benefit costs associated with dual or multiple positions are to be allocated to expenditure line items based on documented percentages of time worked in each position. These percentages are to be derived from employee time records maintained during the school year. The number of hours worked for individuals working more than one job must be recorded on separate employee time records or on separate line items if one time record is prepared for all staff members.

As a reminder, auditors are advised that APSSDs have been provided guidance that beginning January 7, 2008, "county substitute teacher's credential" is a temporary certificate issued by the executive county superintendent which allows the holder to temporarily perform the duties of a fully licensed and regularly employed teacher when none is available. Substitute credential applications can be obtained through local school district offices. When an individual is hired in a position that requires school certification and the individual holds only a substitute teacher's credential, the private school for students with disabilities must adhere to the following restrictions contained on the county substitute certificate:

> "This credential will be issued for a five-year period, and the holder may serve for no more than 20 instructional days in the same position in one school district during the school year. The executive county superintendent of the employing district has the authority to approve one extension of twenty days for a total of forty days. Such credentials, which are issued by the county superintendent of schools, are designed only for emergency purposes when the supply of properly certificated substitutes is inadequate to staff the school. Such credentials are intended only for the persons temporarily performing the duties of a fully certificated and regularly-employed teacher."

Based on the above, any individual that works in a position that requires school certification and holds only a substitute teacher's credential may only work 20 instructional days in the same position in the same private school unless the county superintendent of schools has approved an extension of twenty days for a total of forty days. If the individual works in excess of 20 instructional days in the same position in the same private school, the salary and associated fringe benefits must be considered non-allowable costs for those days in excess of 20 instructional days if they do not have an extension for forty days. For individuals holding an extension for forty days, the salary must be considered a non-allowable cost for those days in excess of 40 instructional days.

Item 6

In accordance with N.J.A.C. 6A:23A-18.6(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:23A-18.6(a)55 and 56.

In order for a staff member to be paid, the individual must have actually performed services for the private school for students with disabilities and if applicable, outlined in their employee contract in accordance with N.J.A.C. 6A:23A-18.5(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.

Item 7

In accordance with N.J.A.C. 6A:23A-18.6(a)8, a salary in excess of the associated maximum allowable salary determined in N.J.A.C. 6A:23A-18.3 (o), (p) and (q) for a staff member or consultant whose position requires certification, license or a bachelor's or master's degree including a director, assistant director, executive director, and business manager. An APSSD shall prorate salaries for such part-time or split-time positions including in entities described in N.J.A.C. 6A:23A-18.3(e) and (f). The mechanism to calculate the part-time and split-time maximum allowable salary is reflected in N.J.A.C. 6A:23A-18.6(a)8ii. Additionally, in accordance with N.J.A.C. 6A:23A-18.3(o) an APSSD shall comply with the maximum salaries determined in accordance with N.J.A.C. 6A:23A-18.3(o) and (p) and restricted in accordance with N.J.A.C. 6A:23A-18.6(a)6, 8 and 9 regardless of the job titles used and whether these job titles comply with the list of job titles published by the Commissioner. Please also note that APSSDs may seek approval from the Commissioner or his or her designee for a salary higher than the maximum allowable salary for no more than two non-administrative employees pursuant to N.J.A.C. 6A:23A-18.3(r).

Please be advised, the maximum salaries pertain to consultants whose position require certification, license or a bachelor's or master's degree. For example, a staff member hired as a consultant as a Physical Therapist, or a School Nurse is subject to the maximum salaries for these job titles published in accordance with N.J.A.C. 6A:23A-18.3(o) and (p).

Salaries paid in excess of those listed in **Appendix I**, by county, except when approved in writing pursuant to N.J.A.C. 6A:23A-18.3(r), must be considered non-allowable when calculating the Certified Actual Cost Per Student. If a private school has locations in more than 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 students with disabilities: 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 $147,768 and in Camden County is $148,052. The maximum salary allowable for Burlington County is half of $147,768 or $73,884 and in Camden County is half of $148,052 or $74,026. If the individual earns a total of $148,052, the private school may charge $74,026 to the school located in Camden County and $73,884 to the school located in Burlington County as allowable costs. The difference between $74,026 and 73,884 or $142 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 $259,005 and $168,849, respectively. If a private school pays the Director $229,005 and the Assistant Director $188,849, the $30,000 under the maximum salary for the Director may not be used to increase the Assistant Director's salary above the maximum of $168,849. Therefore, $20,000 of the $188,849 paid to the Assistant Director is a non-allowable cost. This is true for all position titles and across all counties.

Section 18.3(o) bases maximum salaries by job title and county according to the job titles contained in N.J.A.C 6A:9B which pertain to private schools for students with disabilities. 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:23A-18.3(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 18.3(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:23A-18.2 which pertain to private schools for students with disabilities. 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:23A-18.3(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 18.3(o) contains various qualifications for maximum salaries beginning with the 2017-2018 school year. Effective July 1, 2017, through June 30, 2024 maximum allowable salaries for the job titles contained in N.J.A.C. 6A:9B shall be published at the rates contained in the maximum allowable salary list published for the 2016-2017 school year, with the following exceptions:

i. Beginning July 1, 2017, the maximum published salaries for the job titles of occupational therapist, physical therapist, and speech language specialist shall increase annually from the 2016-2017 published list of maximum allowable salaries by CPI determined consistent with N.J.S.A. 18A:7F-45.

ii. Beginning July 1, 2017, the Commissioner, or his or her designee, shall publish a maximum allowable salaries list that contains the total maximum hourly rate for occupational therapists, physical therapists, and speech language specialists contracted by APSSDs as purchased service providers or independent contractors. The published total hourly rates shall include an allowance of 35 percent more than the maximum allowable salary rate otherwise published for these position titles. The total maximum hourly rates shall be applicable only to contracted service providers.

iii. Beginning July 1, 2017, an APSSD may contract with an approved clinic or agency pursuant to N.J.A.C. 6A:14-5.1(c) and 5.2 and may pay the approved clinic or agency for the contracted services at a rate above the maximum allowable salary published rate, so long as the APSSD:

   (1) Acquires quotes for the contracted services from at least three approved clinics or agencies prior to contracting with an approved clinic or agency. If any of the three approved clinics or agencies are a related party, the APSSD shall contract with the lowest of the three quotes; and

   (2) Provides documentation of the three quotes to the Department upon request.

APSSDs must provide to the auditor and the Department upon request, at least three quotes for the contracted services, which must be dated prior to the contract with the approved clinic or agency to substantiate that the quotes were properly acquired pursuant to N.J.A.C. 6A:23A-18.3(o)1iii. In addition, if any of the three approved clinics or agencies from whom quotes are received are a related party, the auditor must ensure the private school contracted with the clinic or agency with the lowest of the three quotes and/or limit the amount included in the calculation of the certified actual cost per student to the lowest of the three quotes.

Item 8

In accordance with N.J.A.C. 6A:23A-18.6(a)9, a salary of an employee not covered by 18.6(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:23A-18.3(o), (p) and (q) whose position does not require certification, license or bachelor's or master'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:23A-18.2. An APSSD shall prorate salaries for such part-time or split-time positions including in entities described in N.J.A.C. 6A:23A-18.3(e) and (f). The mechanism to calculate the part-time and split-time maximum allowable salary is reflected in N.J.A.C. 6A:23A-18.6(a)9ii. Additionally, in accordance with N.J.A.C. 6A:23A-18.3(o) an APSSD shall comply with the maximum salaries determined in accordance with N.J.A.C. 6A:23A-18.3(o) and (p) and restricted in accordance with N.J.A.C. 6A:23A-18.6(a) 6, 8 and 9 regardless of the job titles used and whether these job titles comply with the list of job titles published by the Commissioner.

The maximum allowable salary for a staff member whose position **does not** require certification, license or bachelor's or master'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:23A-18.2, 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:23A-18.3(r). Additionally, in accordance with N.J.A.C. 6A:23A-18.3(r), if an APSSD hires staff in administrative or support job titles such as but not limited to Chief Executive Officer or Chief Financial Officer, the maximum salaries of such job titles shall be limited to the maximum salary of a director in accordance with N.J.A.C. 6A:23A-18.3(p). An APSSD shall prorate salaries for such part-time or split-time positions including in entities described in N.J.A.C. 6A:23A-18.3(e) and (f). The mechanism to calculate the part-time and split-time maximum allowable salary is reflected in N.J.A.C. 6A:23A-18.6(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:23A-18.2 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. 6A:23A-18.6(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 $259,005 and 10 percent of an individual's salary is allocated to the private school, then any amount charged in excess of $25,901 would be a non-allowable cost. Using this example, a CEO earning a salary of $265,000 who works 10 percent of the time in the private school may only charge $25,901 to the private school which would result in a $599 ($26,500 less $25,901) non-allowable cost. Please refer to N.J.A.C. 6A:23A-18.3(r). 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.

Item 9

In accordance with N.J.A.C. 6A:23A-18.6(a)10, the cost of fringe benefits when based on and/or associated with a non-allowable salary. The auditor must treat all fringe benefits based on non-allowable salaries as a non-allowable cost.

Item 10

In accordance with N.J.A.C. 6A:23A-18.6(a)12, consultant fees for services that are not detailed in an executed written contract that includes a detailed description of the nature of the services to be provided; the duration of the contract; detailed fee information; fee payment schedule(s); the approximate number of days to complete the work; and the anticipated product or outcome of the work. Such costs are also non-allowable if performed by a consultant who does not possess the appropriate school certification when such certification exists.

Item 11

In accordance with N.J.A.C. 6A:23A-18.6(a)13, total contributions, donations, awards, and scholarships in excess of $750. These types of costs would be charged to account #11-000-230-890. The private school may make a total of $750 in contributions, donations, awards, and scholarships, but anything in excess of that amount must be considered a non-allowable cost. The total of $750 includes funds paid to organizations such as a Fire Company and local civic organizations.

Item 12

In accordance with N.J.A.C. 6A:23A-18.6(a)14, depreciation that is unacceptable under N.J.A.C. 6A:23A-18.5(a)3 and (a)4, and depreciation: i. on donated goods and assets; ii. not based on estimated straight-line method; iii. on automobiles in excess of the dollar or percentage limitation contained under Internal Revenue Service Code (IRC) 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 IRC Section 318 for Constructive Ownership of Stock. For a nonprofit organization, Section 318 will apply to the members of the board of directors or related parties as defined in IRC Section 267(b) or 267(c) 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 IRC Section 1014.

Item 13

In accordance with N.J.A.C. 6A:23A-18.6(a)15, the cost of depreciation associated with the purchase and ownership of any passenger vehicle not used for transporting students or supplies purchased on or after July 1, 2017, if:

(1) the depreciable basis upon which depreciation is calculated exceeds $30,000;

(2) the depreciation expensed exceeds allowable depreciation calculated on a straight-line basis over a period of not less than five years; or

(3) the depreciation expensed is attributable to a passenger vehicle that has been assigned to, or used on a regular basis by, an APSSD staff member who is not the APSSD executive director, director, and/or owner.

Also, non-allowable in accordance with N.J.A.C. 6A:23A-18.6(a)15, vehicle lease payments made pursuant to the lease agreement entered into on or after July 1, 2017, when:

(1) the annual lease payment(s) exceeds the annual depreciation allowable on an owned passenger vehicle with a maximum depreciable basis of $30,000; or

(2) the lease payments are for a leased passenger vehicle that has been assigned to, or used on a regular basis by, an APSSD staff member who is not the APSSD executive director, director, and/or owner.

Item 14

In accordance with N.J.A.C. 6A:23A-18.6(a)17, total costs in excess of $500 incurred for entertainment expenses. “Entertainment expenses” means the cost of providing any type of food/beverage to APSSD officers, APSSD directors/trustees, consultants, and/or individuals providing services to the APSSD at any time or to APSSD employees after school hours. Please refer to N.J.A.C. 6A:23A-18.2. 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 $500 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 $500 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 $500, 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**.

Item 15

In accordance with N.J.A.C. 6A:23A-18.6(a)18, the total costs of food/beverages in excess of $1,500 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 $1,500 limitation. This is account #11-000-218-894.

Item 16

In accordance with N.J.A.C. 6A:23A-18.6(a)19, the total costs from a fine or penalty resulting from a violation of, or failure by, the APSSD 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.

Item 17

In accordance with N.J.A.C. 6A:23A-18.6(a)20, meal costs in excess of the limits set forth in N.J.A.C. 6A:23A-18.23.

APSSDs may provide meals to students that align to the Dietary Guidelines for Americans, using United States Department of Agriculture's meal patterns reviewed and/or approved by the New Jersey Department of Agriculture. The costs associated with providing meals may be included in the certified actual cost per student if the following requirements are met:

Nonprofit APSSDs shall: (i) Ensure the menu is approved by the New Jersey Department of Agriculture; (ii) Apply for an received funding from the Child Nutrition Program administered by the New Jersey Department of Agriculture; (iii) Charge students for a reduced and/or paid meal; and (iv) Not have total food service costs, net of the reimbursement and/or sales pursuant to (iii) that exceed the maximum daily price schedule for a high school published annually by the New Jersey Department of Agriculture. Excess expenditures are non-allowable costs, except for where they are solely attributable to substitutions to meals when the disability restricts the child's diet.

For-profit APSSDs shall: (i) Ensure the menu is approved by the New Jersey Department of Agriculture; (ii) Charge students for a reduced and/or paid meal; and (iii) Not have total food service costs, net of the reimbursement and/or sales indicated above, that exceed the maximum daily price schedule for a high school published annually by the New Jersey Department of Agriculture. Excess expenditures are non-allowable costs, except for where they are solely attributable to substitutions to meals when the disability restricts the child's diet.

As a reminder, auditors are advised that approved private schools for students with disabilities have been provided guidance that if food is served to students, **all** food service-related costs including salaries and fringe benefits must be charged to account #11-000-310-XXX in a non-profit school. The auditor must review copies of the students' income eligibility forms, the daily meal counts and all paperwork regarding the funding from the Child Nutrition Program (CNP). The Community Eligibility Provision (CEP) may be used to provide meals free of student charge where the not-for-profit PSSD has been accepted into CEP by the New Jersey Department of Agriculture. For information on accounting and reporting of meals for those participating PSSDs, please see the Community Eligibility Provision Schools (CEP) section of this Audit Program on pages N-74 and N-75. CEP is administered by the New Jersey Department of Agriculture. For additional information on the CEP please refer to the New Jersey Department of Agriculture's **child nutrition website** and the Department of Education's **APSSD CEP website** If the private school did not apply and receive funding from the CNP, and/or charge students for reduced and/or paid meals, the auditor must review copies of the sending board of education resolutions that resolve the board of education does not require the private school to apply for and receive funding from the Child Nutrition Program and/or charge students for reduced and/or paid meals.

As a reminder, auditors are advised that approved private schools for students with disabilities have been provided guidance that if food is served to students, *all* food service-related costs including salaries and fringe benefits must be charged to account #11-000-310-XXX in a profit school. The auditor must review copies of the students' income eligibility forms and the daily meal counts. Please note that for-profit APSSDs are not exempt from any of the requirements set forth in N.J.A.C. 6A:23A-18.23 based on obtaining sending board of education resolutions.

For both nonprofit and for-profit schools, auditors must ensure food service costs do not exceed the allowable total food service costs for the school. For APSSDs serving lunch only, the allowable total food service costs are calculated based on the per diem price for lunch, plus the per diem price for breakfast for high school published annually by the New Jersey Department of Agriculture, multiplied by average daily enrollment (ADE) for the fiscal year. For APSSDs serving lunch and breakfast, the allowable total food service costs are calculated based on the per diem price for lunch, plus the per diem price for breakfast multiplied by two, for high school published annually by the New Jersey Department of Agriculture, multiplied by ADE for the fiscal year. Any expenditures, net of all revenue from charging students and the CNP, in excess of the allowable total food service costs, will be deemed non-allowable costs. For the 2022-23 school year, the calculation of allowable total food service costs is ($9 times ADE) for APSSDs serving only lunch and ($12.75 times ADE) for APSSDs serving breakfast and lunch. Please note that excess expenditures are permitted where they are solely attributable to substitutions to meals when the disability restricts the child’s diet.

Auditors are advised that APSSDs have been provided guidance that proper documentation must be maintained supporting substitutions to meals when the disability restricts the child’s diet, including, but not limited to: (1) medical documentation from the student’s health provider supporting the meal substitution; and (2) invoices or other records detailing the expenditures related to each student’s meal substitutions.

The Notes to Financial Statements must include a Child Nutrition Program footnote (see pages NP-64, NP-65, and P-5). The footnote must include disclosures addressing whether the Statement of Food Service reflects expenditures that are included in the calculation of the certification actual cost per pupil; if the eligible non-profit private school has applied for and received funding from the Child Nutrition Program or participates in the Community Eligibility Provision Schools (CEP) which allows high poverty schools and districts to serve *breakfast and lunch* free of charge to all on-roll students without the need to collect and perform eligibility verification procedures related to the traditional school meal eligibility form, “The Household Application for Free and Reduced Price Meals and Free Milk,” see pages N-74 and N-75.

If the private school also operates a residential center, the revenue received from other agencies to provide meals to residential students must be netted against expenditures, as well as disclosed in the Notes to Financial Statements. Please refer to item #17, pages N-83 and N-84 under Notes to Financial Statements.

If the Statement of Expenditures by Line Item does not reflect cost associated with serving food to students, please disclose the reason(s) in the Notes to Financial Statements.

Additionally, the cost of meals for staff shall not be included in the certified actual cost per student.

Please note that following the effective date of the regulations, July 1, 2017, APSSDs no longer have the option to opt out of complying with allowable meal costs by obtaining board resolutions from sending district boards of education, as that provision has been deleted from the regulations. APSSDs must follow N.J.A.C. 6A:23A-18.6(a)20 and N.J.A.C. 6A:23A-18.23.

Item 18

In accordance with N.J.A.C. 6A:23A-18.6(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.

Item 19

In accordance with N.J.A.C. 6A:23A-18.6(a)22, the cost of an employee's life insurance coverage, both term and whole life policies, in excess of 3.5 times the employee's 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.

Item 20

In accordance with N.J.A.C. 6A:23A-18.6(a)23, costs for 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 according to 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 APSSD's board of directors at a board meeting prior to the benefit's implementation, documented in the meeting minutes and the employees were not made aware of the policy or when the benefit is not listed in N.J.A.C. 6A:23A-18.5(f) or not approved by the Commissioner, or his or her designee. 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 cannot 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 Master's Degree when only one or two individual's job functions in the organization would require a Master's Degree.

This criterion is also true for all pension plans *except* 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's discretion when it comes to the employer contributions.

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:23A-18.6(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 is 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 is an exclusionary standard, regardless of whether or not the plan is in accordance with ERISA. The criteria still may not be based on an equitable standard of distribution since it is exclusionary and therefore non-allowable.

Item 21

In accordance with N.J.A.C. 6A:23A-18.6(a)24, the cost of fundraising, including, but not limited to, costs for a financial campaign, an endowment drive or solicitation of a gift and bequest to raise capital or obtain a contribution. If a private school incurs any type of costs for fundraising, those costs must be considered non-allowable costs.

Item 22

In accordance with N.J.A.C. 6A:23A-18.6(a)26, interest costs on loans when: (i) interest is in excess of the general prevailing rate at the time the loan was taken; (ii) the loan is a less-than-arm’s length transaction that has not been previously approved by the department and has not been repaid in accordance with the Department’s approval letter; or (iii) the loan is not exclusively used to meet educational program needs. 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 students with disabilities 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.

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, 2022 and the loan was repaid by the June 30, 2023 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, 2022. 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, 2022 and the loan was repaid by the April 30, 2023 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, 2022 and the proceeds of the loan were deposited into the school's checking account.

Item 23

In accordance with N.J.A.C. 6A:23A-18.6(a)28, if a loss was incurred on the sale or exchange of fixed assets between related parties.

Item 24

In accordance with N.J.A.C. 6A:23A-18.6(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 IRC Section 415(c)) as the lesser of 100 percent of the employee's compensation or $53,000;

iv. For a defined benefit plan in excess of an amount, by employee, that 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:23A-18.6(a)23 even if in compliance with Employee Retirement Income Security Act of 1974 (ERISA). Such excess contributions 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 APSSD;

vii. Not paid in accordance with the fringe benefits criteria in N.J.A.C. 6A:23A-18.6(a)23;

viii. If applicable, not in conformance with a church plan as defined in ERISA.

A private school for students with disabilities may have a retirement plan that prior to 2006-2007 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:23A-18.5(f).

Item 24

In accordance with N.J.A.C. 6A:23A-18.6(a)29, costs of the write-offs of uncollected accounts receivable (bad debts) before three years has elapsed and before a reasonable effort has been made to collect such accounts receivable. Reasonable efforts to collect shall include but not be limited to documented monthly or quarterly invoices, emails, and memorandums supplemented with a detailed log.

In addition, pursuant to N.J.A.C. 6A:14-2.3, if the sending district or the APSSD discovers enrollment has ceased due to the actions of the parent(s)/guardian(s) or pupil other than in accordance with N.J.A.C. 6A:14-7.7, the sending district shall be responsible for tuition for the number of enrolled days within the fifteen calendar day notification period after written notification of termination has been given to the APSSD and the parent(s)/guardian(s). If the APSSD does not notify the sending district upon five consecutive daily absences by this pupil, the APSSD waives their right to tuition beyond the five consecutive daily absences, if the pupil does not return. A review of the submitted documentation does not demonstrate written notification of five consecutive daily absences given to the sending district within the required fifteen-day notification period pursuant to N.J.A.C. 6A:14-2.3. The five-day notice is required if the school desires to invoke this provision and the APSSD must document reasonable efforts to collect the receivables. Invoking this provision does not eliminate the requirement that the APSSD meet the provision of N.J.A.C. 6A:23A-18.6(a)29. Additionally, the sending district shall be responsible for tuition for the number of enrolled days within the fifteen-calendar day notification period after written notification of termination has been given to the approved private school and the parent(s)/guardian(s) pursuant to N.J.A.C. 6A:14-2.3. If the approved private school does not notify the sending district upon five consecutive daily absences by this pupil, the approved private school waives their right to tuition beyond the five consecutive daily absences, if the pupil does not return.

Item 25

In accordance with N.J.A.C. 6A:23A-18.6(a)32, costs of a contingent pay increase or merit pay award when the amount(s) was not in accordance with N.J.A.C. 6A:23A-18.5(a)14 or 15 or the contingent pay increase or merit pay award(s) is inconsistent with the plan(s) submitted to and approved by the Commissioner, or his or her designee, prior to implementation. Any contingent pay increase or merit pay award not approved by the Commissioner, or his or her designee, prior to implementation must be considered a non-allowable cost including any plan that was initiated prior to 2004-2005 that has not been approved by the Commissioner, or his or her designee.

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, or his or her designee. 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, or his or her designee.

In accordance with N.J.A.C. 6A:23A-18.5(a)14, an APSSD that incurs contingent pay increases shall have an employee contract that contains the criteria by which the increase will be paid. Under no circumstances shall the APSSD employee's salary plus the contingent pay increase exceed the maximum allowable salary determined pursuant to N.J.A.C. 6A:23A-18.3(o), (p), or (q). The criteria shall be submitted to the Commissioner for approval prior to implementation. The APSSD shall make payment of the contingent pay increase upon achievement of the contractual contingencies as set forth in the approved plan. The payment shall be based upon measurable criteria and shall not be at management's discretion. The employee contract shall contain the following: i. The date and signature of both the staff member and authorized APSSD representative; ii. The ADE contingency the APSSD 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:23A-18.5(a)15, an APSSD that incurs merit pay increases shall have adopted a formal policy that outlines the criteria of the merit pay plan(s). The APSSD employee's salary plus the merit pay shall not exceed the maximum allowable salary determined pursuant to N.J.A.C. 6A:23A-18.3(o), (p), or (q). The plan(s) shall be submitted for approval to the Commissioner, or his or her designee, prior to implementation. The APSSD shall accrue the merit pay and any resultant employer payroll tax expense in the fiscal year in which the merit pay is awarded. Payment of such merit pay increase upon achievement of the criteria set forth in the approved plan shall occur no later than the following January 31. The payment shall not be at management's discretion. 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 approval and date of initiation of the plan(s).

Commissioner approval prior to implementation of both a contingent pay increase and a merit pay increase became effective in the 2004-2005 school year. There may be private schools that incurred allowable costs for these programs prior to the 2004-2005 school year that do not have Commissioner approval of such plans. Since the requirement of prior approval by the Commissioner became effective in the 2004-2005 school year, no plan has been approved by the Commissioner. Therefore, the Notes to Financial Statements should not include a comment that the private school has a contingent pay increase and a merit pay increase in place.

Item 26

In accordance with N.J.A.C. 6A:23A-18.6(a)33, a payment of a bonus. A bonus means payment to an employee that meets any of the following: 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; or 4) is paid solely at the discretion of management.

Please note that APSSDs have been provided with guidance that the definition of "bonus" does not include additional payments to employees for stipends for added job responsibilities, or for the waiver of health care coverage. APSSDs should include the payment in the employee's executed contract or an addendum, is not arbitrary, and is not paid solely at the discretion of management. APSSDs also should follow other regulations that apply to the specific type of payment for such payments to be considered allowable, such as N.J.A.C. 6A:23A-18.5(k).

Item 27

In accordance with N.J.A.C. 6A:23A-18.6(a)35, costs associated with a research activity, including, but not limited to, staff salaries, supplies, or printing and reproduction of a material.

Item 28

In accordance with N.J.A.C. 6A:23A-18.6(a)36, the payment of Federal, State, and local income taxes on income other than tuition. In accordance with N.J.A.C. 6A:23A-18.7, for for-profit APSSDs, the allowable Federal, State, and local income tax liability in N.J.A.C. 6A:23A-18.6(a)36 is computed using only the public-school placement tuition income and all allowable and non-allowable private school for students with disabilities 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. An APSSD may not create a tax liability and charge tax expenses (account #11-000-251-898) that does not exist by excluding non-allowable costs on their Federal, State, and local income tax returns. For example, an APSSD 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 #11-000-251-898 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).

Item 29

In accordance with N.J.A.C. 6A:23A-18.6(a)38 and 39, costs 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:23A-18.5(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.

Item 30

In accordance with N.J.A.C. 6A:23A-18.6(a)40, any costs associated with a school-owned or -leased vehicle or a vehicle contained in a related party transaction involving the purchase of transportation services where a detailed daily mileage log documenting vehicle usage 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:23A-18.5(a)18.

Item 31

In accordance with N.J.A.C. 6A:23A-18.6(a)42, 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, 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.

Item 32

In accordance with N.J.A.C. 6A:23A-18.6(a)43, rental costs for buildings and equipment when the lessor is not a separately identifiable legal entity. An APSSD 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.

Item 33

In accordance with N.J.A.C. 6A:23A-18.6(a)44, 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, transactions between divisions of an institution; institutions or organizations under common control through common officers, directors, members, or owners; 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:23A-18.6(a)44, 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 students with disabilities with the final cost of ownership for the July 1 through June 30 time period regardless of the fiscal year of the related party. As a reminder, auditors are advised that approved private schools for students with disabilities have been provided guidance that if the financial information is not forwarded to the private school or to the Department upon request, 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: *Please note that offsite business offices require county office approval pursuant to N.J.A.C. 6A:23A-18.5(d).*

1. 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.
2. 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.
3. 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.

Item 34

In accordance with N.J.A.C. 6A:23A-18.6(a)47, indirect and direct costs that are: (i) for unrelated activities or enterprises as defined in N.J.A.C. 6A:23A-18.3(g); or (ii) Unrelated to the function, operations, and/or program of an APSSD as defined in N.J.A.C. 6A:23A-18.3(d).

Item 35

In accordance with N.J.A.C. 6A:23A-18.6(a)51, a salary or payment made to a member(s) of the board of directors/trustees for services performed in his or her 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.

Item 36

In accordance with N.J.A.C. 6A:23A-18.6(a)52, cost of a pension plan contribution made on behalf of, and/or medical benefits for, current or retired members of the board of directors/trustees. The cost of a pension plan contribution made on behalf of, 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.

Item 37

In accordance with N.J.A.C. 6A:23A-18.6(a)53, 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 APSSD and have less than 10 years of service in an APSSD. If an APSSD 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.

Item 38

In accordance with N.J.A.C. 6A:23A-18.6(a)54, costs of salaries and fringe benefits of unrecognized position titles that are not properly approved pursuant to N.J.A.C. 6A:9B-5.5. On May 29, 2001, June 11, 2002, June 12, 2003, June 18, 2004, June 17, 2005, June 26, 2006, July 5, 2007, September 19, 2008, June 19, 2010, July 12, 2011, May 24, 2012, June 12, 2013, June 11, 2014, April 1, 2015, July 7, 2016, January 5, 2017 and June 12, 2018 APSSDs were advised that they must only hire staff or consultants in job titles that require certification or a bachelor's or master'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:9B-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. If the report contains an unrecognized job title that is not contained in **Appendix N**, the auditor or private school for students with disabilities must provide a copy of the county superintendent's approval of the job title to the Department of Education.

The job titles of registered, licensed practical nurses and Board-Certified Behavior Analyst (BCBA) 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:9B-5.5. These job titles are allowed in accordance with N.J.A.C. 6A:16-2.1 and N.J.S.A. 17:48E-35.33.

Beginning with fiscal year 2014-2015, approved private schools for students with disabilities were advised that an individual employed as a Board-Certified Behavior Analyst (BCBA) is required to hold a Behavior Analyst Certification Board (BACB) certification. Based upon the nature of the services provided by BCBA staff, i.e.

direct instruction with students, approved private schools for students with disabilities were provided guidance that the salary may be recorded as instructional costs in Undistributed Expenditures — Other Support Services — Students — Speech, Occupational Therapy and Related Services in account number 11-000-215-100 (Speech/OT/PT) or as support costs in Undistributed Expenditures — Other Support Services — Students — Regular in account number 11-000-218-104 (Guidance). The fringe benefits associated with the instructional position should be recorded in the appropriate object code in accounts #11-000-215-210 through 299. Fringe benefits associated with a support position should be recorded in the appropriate object code in accounts #11-000-218-210 through 299. Consistent with N.J.A.C. 6A:23A-18.6(a)9, the salary of a BCBA staff member cannot be 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:23A-18.3(o), (p) and (q).

Additionally, understanding that the role of the BCBA may vary based upon program, the Department advised approved private schools for students with disabilities that if the BCBA is not providing direct instructional or support services to students, but rather is providing administrative oversight, the salary and fringe benefits must be recorded in Undistributed Expenditures — Support Services — School Administration in account numbers 11-000-240-104 (Salaries of Other Professional Staff), and in the appropriate object code in accounts #11-000-240-210 through -299.

Item 39

In accordance with N.J.A.C. 6A:23A-18.6(a)55, 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' salary 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.

Item 40

In accordance with N.J.A.C. 6A:23A-18.6(a)56, 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 an APSSD 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.

Item 41

In accordance with N.J.A.C. 6A:23A-18.6(a)57, cost of a salary or consultant fee paid to a full-time employee for performing more than one administrative function in the APSSD. For example, the full-time director of an APSSD 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.

Item 42

In accordance with N.J.A.C. 6A:23A-18.6(a)59, cost of compensation increases paid after the start of the fiscal year not in accordance with N.J.A.C. 6A:23A-18.5(k). A private school may choose 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. Regardless of the anniversary date of the employee, increases to an employee's compensation should be effective on July 1 to avoid incurring non-allowable costs pursuant to N.J.A.C. 6A:23A-18.6(a)59, unless it meets one of the specific exceptions set forth in that regulation.

A private school for students with disabilities shall issue salary increases after the start of the fiscal year only in accordance with N.J.A.C. 6A:23A-18.5(k) 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 due to a staff member's additional job responsibilities such as a coach, advisor, or mentor; 4. Is in accordance with N.J.A.C. 6A:23A-18.5(a)14 or 15 (contingent and merit pay increases); or 5. Has been approved by the Department after review of a formal written request to the Commissioner, or his or her designee, documenting the facts supporting the increase, if none of the above applies.

Item 43

In accordance with N.J.A.C. 6A:23A-18.6(a)61, costs including salaries and fringe benefits of employees providing services not in compliance with N.J.A.C. 6A:23A-18.5(e)2. In accordance with N.J.A.C. 6A:23A-18.5(e)2, an APSSD shall ensure that its employees provide all administrative and business functions on the APSSD's premises whether the premises are owned or leased by the APSSD, and during the APSSD's normal hours of operation with the exception of meetings and/or conferences held offsite related to the job function. If the APSSD's facilities are not deemed feasible for any administrative or business function, the APSSD shall provide written justification to the Commissioner, or his or her designee, and request approval of a reasonable alternative work location.

The auditor must determine that the employees of an APSSD 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.

Please also refer to N.J.A.C. 6A:23A-18.6(a)73 detailed in this section in item #54.

Item 44

In accordance with N.J.A.C. 6A:23A-18.6(a)62, the cost of a violation in accordance with N.J.S.A. 18A:6-7.5 for any staff member who does not have: i. a criminal history clearance prior to starting employment or; ii. an application for employment on an emergent basis in accordance with N.J.S.A. 18A:6-7.1c.

Item 45

In accordance with N.J.A.C. 6A:23A-18.6(a)63, legal costs for an APSSD and/or for an APSSD representative(s), including an owner, employee or agent who has plead guilty and/or is found to be guilty or liable in a case involving the misuse of funds, fraud (criminal or civil), endangerment or abuse of a child(ren).

Item 46

In accordance with N.J.A.C. 6A:23A-18.6(a)64, the salary in excess of the associated maximum salary identified in N.J.A.C. 6A:23A-18.3(r) and determined in accordance with N.J.A.C. 6A:23A-18.5(o) and (p).

Item 47

In accordance with N.J.A.C. 6A:23A-18.6(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:23A-18.6(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:23A-18.3(a)1.

In accordance with N.J.A.C. 6A:23A-18.5(i), an APSSD that allows employees to accumulate and carryover from year to year unused sick and/or vacation leave shall do so in accordance with Financial Accounting Standards Board Statement No. 43 Accounting for Compensated Absences (FASB; 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116) incorporated herein by reference and as amended and supplemented, and shall include these costs in program expenses only when the compensation is actually paid. Expenses for vacation and/or sick leave may only be expensed when actually paid. For example, a staff member who earned but did not use 10 sick days or 10 vacation days as of June 30, 2023 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, 2023 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 2022-2023 school year but only uses 6, the 4 unused days are not expensed in 2022-2023 and not accrued on the June 30, 2023 balance sheet. If a staff member carries over unused vacation and/or sick days from 2022-2023 to a subsequent school year, the days are expensed only when used or paid.

Item 48

In accordance with N.J.A.C. 6A:23A-18.6(a)66 cost(s) of payments made to an individual employee(s) for earned unused sick benefit that is in excess of 2.2 percent of the individual employee’s contracted salary amount during the fiscal year in which the payment is made.

Auditors are advised that N.J.A.C. 6A:23A-18.6(a)66 applies to all staff beginning with the 2017-18 school year, and that APSSDs have been advised of the following guidance:

Accrued sick leave earned and credited to the benefit of an individual employee prior to July 1, 2017 and remaining earned and credited to the benefit of an individual employee upon that employee’s effective date of retirement from the APSSD is not limited by the sick pay regulations at N.J.A.C. 6A:23A-18.6(a) 66 the maximum salary regulations at N.J.A.C. 6A:23A-18.3(o), (p), or (q); N.J.A.C. 6A:23A-18.5(o); nor N.J.A.C

6A:23A-18.6(a) 8., 9., and 10. Sick leave earned and credited to the benefit of an individual employee after June 30, 2017 and paid to an employee on or after the effective date of retirement is subject to the limitations of the sick pay regulations at N.J.A.C. 6A:23A-18.6(a) 66. To illustrate:

For payments of accrued sick time made pursuant to an APSSD employee's retirement on or after July 1, 2017, a one-time payment of earned and unused sick leave benefit upon that employee's separation from service due to a retirement from the APSSD may be an allowable cost and is calculated using two measures:

1. Time accrued prior to July 1, 2017 is calculated in accordance with individual annual employment contracts and APSSD board policy in effect for that fiscal year. Payment to an individual employee of time earned and unused (accrued) prior to July 1, 2017 and remaining to the credit of the employee upon retirement, is not subject to the 1 percent limitation at N.J.A.C. 6A:23A-18.6(a)66.

2. Time accrued on or after July 1, 2017 is calculated in accordance with individual annual employment contracts and APSSD board policy in effect for that fiscal year and remaining to the credit of the individual employee upon retirement, is subject to the 1 percent limitation at N.J.A.C. 6A:23A-18.6(a)66 in the year of payment.

3. Accrued sick leave paid upon retirement, calculated pursuant to 1. and 2. above, is not subject to the maximum salary regulations at N.J.A.C. 6A:23A-18.3(o), (p), or (q); N.J.A.C. 6A:23A-18.5(o); or N.J.A.C 6A:23A-18.6(a) 8., 9., and 10.

To ensure that payments of accrued sick leave were not made in violation of N.J.A.C. 6A:23A-18.6(a)66 and to facilitate the prompt completion of desk reviews, the following is required:

- Allowable expense incurred for sick time payments made pursuant to a bona-fide retirement must be remitted within 30 days of the employee's separation from service. Although not an allowable expense until and unless paid, the APSSD must disclose the total year-end earned but unpaid sick leave liability in the footnotes to the annual financial statements; and

- The APSSD must be prepared to provide complete documentation in support of the calculation, including, but not limited to, the APSSD sick leave policy(s) in effect throughout the term of the retired employee's employment; annual time award and leave records of the retired employee; and all annual sick pay buy-back payments made to the retired employee.

Annual sick leave buy-back programs are intended to encourage employees to come to work during the current fiscal year. Accordingly, payments made pursuant to a sick leave buy-back must be for sick time earned and returned to the ASPPD within a single fiscal year. Such annual payments, beginning with the 2017-18 fiscal year, are subject to the limitations imposed by the sick pay regulations at N.J.A.C. 6A:23A-18.6(a)66, but will not be limited by the maximum salary regulations at N.J.A.C. 6A:23A-18.3(o), (p), or (q); N.J.A.C. 6A:23A-18.5(o); and N.J.A.C 6A:23A-18.6(a)8, 9, and 10. To illustrate:

Under annual sick leave buy-back agreements, beginning with the 2017-18 fiscal year, the annual payment of sick leave made pursuant to APSSD policy, and the terms of an individual employment contract is subject to the 1 percent limitation in N.J.A.C. 6A:23A-18.6(a)66. Such payments are not subject to the maximum salary regulations at N.J.A.C. 6A:23A-18.3(o), (p), or (q); N.J.A.C. 6A:23A-18.5(o); and N.J.A.C 6A:23A-18.6(a)8, 9, and 10. To be considered as an allowable cost, beginning with the 2017-18 fiscal year, the annual payment of earned but unused sick leave must be made pursuant to the terms and conditions of an annual leave incentive program that includes only sick leave earned and unused in a single fiscal year. Accordingly, such payments may not include payment for time earned any time prior to July 1, 2017. Because the determination of eligibility and the election to exercise the buy-back provision may occur subsequent to year-end, allowable payments may be accrued in the financial statements of the APSSD and must be remitted within 30 days of year-end to be considered an allowable cost. The APSSD must be prepared to provide complete documentation of the calculation and provide documentation in support of the calculation, including, but not limited to, APSSD sick leave policies in effect for the fiscal year, and annual time award and leave records of the retired employee.

Any payments of earned unused sick benefit that exceed the 2.2 percent limitation are non-allowable costs. For any employee that meets one of the exceptions noted above, the auditor must verify the existence of appropriate documentation justifying the payment of unused earned sick benefit in an amount in excess of 2.2 percent of annual salary.

Generally, in the absence of the written approval of the Commissioner, Paid Time Off (PTO) is not an allowable employee benefit cost pursuant N.J.A.C. 6A:23A-18.5(f). However, beginning with the 2018-2019 school year, APSSDs may include as an allowable cost the payment of earned unused paid time off (sick, vacation, personal, or paid time off (PTO)) to the extent it is used to comply with the provisions of P.L. 2018, c. 10, up to the 2.2 percentage limitation in N.J.A.C. 6A:23A-18.6(a)66 as proposed for amendment.

Item 49

In accordance with N.J.A.C. 6A:23A-18.6(a)67, proportional costs of salary and fringe benefits for any administrative staff member, as defined in N.J.A.C. 6A:23A-18.3(o), with the exception of principal and unrecognized position titles in the administrative category, that are in excess of a total of 3.0 FTE administrative positions per APSSD, per fiscal year. If the combined administrative positions exceed 3.0 FTE, the disallowed amount will be apportioned equally across all of the positions.

The limit on the number of full-time equivalent administrative positions in N.J.A.C. 6A:23A-18.6(a)67 will be applied per APSSD. As to the determination of 3.0 FTE, length of the school year, contract term, and whether the individual has permanently separated from service should all be considered when determining full-time. For example, a director with an 11-month contract that remained in service throughout the term of that contract must be considered 1.0 FTE. The calculation of the maximum salary and the determination of FTEs are treated differently because they are separate issues.

Item 50

In accordance with N.J.A.C. 6A:23A-18.6(a)68, costs associated with travel, defined in N.J.A.C. 6A;23A-18.21, that: (i) exceed .0025 of the total actual allowable costs, less travel costs, in a fiscal year for an APSSD, or $20,000, whichever is less; and/or (ii) violate the provisions of N.J.A.C. 6A:23A-18.21(g).

As provided in N.J.A.C. 6A:23A-18.21(b), travel expenditures shall be defined as the costs paid by the APSSD, whether directly by the APSSD or by employee reimbursement, for travel by APSSD employees to training and seminars, conventions and conferences, and APSSD-sponsored events or attendance at meetings or conferences. Costs may include transportation, meals, lodging, and registration or conference fees directly related to participation in an event. Travel expenditures should be recorded in account #11-XXX-XXX-580. Travel expenditures shall **not include** the cost of mileage reimbursement or tolls for travel carried out in the performance of regularly assigned job functions, such as, but not limited to, travel between commonly owned APSSDs. Since such travel for regular business is not included in the definition of “travel expenditures,” it is not included in the limitation set forth in N.J.A.C. 6A:23A-18.21(d). Travel for regular business should be charged to account #11-XXX-XXX-581.

N.J.A.C. 6A:23A-18.21(g) indicates that the following types of expenditures shall not be eligible for inclusion in the certified actual cost per student:

1. Travel expenditures by employees whose duties are unrelated to the travel event's purpose or who are not required to attend to meet continuing education requirements or to comply with law or regulation;
2. Travel by spouses, civil union partners, domestic partners, immediate family members, or other relatives or unrelated persons who are not school employees;
3. Costs for employee attendance for coordinating other attendees' accommodations at the travel event;
4. Lunch or refreshments for training sessions, professional development, and retreats held within the APSSD, including in-service days beyond the limitations at N.J.A.C. 6A:23A-18.6(a)18;
5. Training to maintain a certification that is not required as a condition of employment;
6. Charges for laundry, valet service, or entertainment;
7. Limousine services and chauffeuring costs to or during an event;
8. Alcoholic beverages;
9. Entertainment costs, including, but not limited to, amusement, diversion, and social activities, and any directly associated costs;
10. Gratuities or tips on excess of those permitted by the Federal per diem rates;
11. Hospitality rooms;
12. Souvenirs, memorabilia, promotional items, or gifts;
13. The cost associated with a conference, meeting, or seminar held in countries not contiguous to the United States; and
14. Other travel expenditures that are unnecessary and/or excessive.

Auditors are reminded that APSSDs have been advised that if restraints training, CPR, and other forms of lifesaving and injury-prevention certifications are necessary for paraprofessionals, and cannot be met by other staff members, APSSDs should make such certifications a condition of employment for paraprofessionals and the associated costs will be considered allowable.

Pursuant to N.J.A.C. 6A:23A-18.21(e) APSSDs may apply for a waiver of the travel expenditure limitation in (d). Waiver requests shall be in writing and submitted to the Commissioner, or his or her designee, prior to the end of the fiscal year for which the waiver is sought. Waiver requests shall be submitted in advance of the travel and will be approved only in instances where the APSSD demonstrates that, due to the limitations imposed under (d), APSSD staff attendance at a necessary or required professional development opportunity or training will result in non-allowable costs. The waiver requests must include:

1. The name, location, and date(s) of the event supported by a copy of the agenda or program for the event;

2. A statement justifying the necessity for each staff member(s) attendance, including the primary purpose for the event, the relevance of the event to the staff member's work duties, and how the event will improve instruction or the operation of the APSSD; and

3. A detailed budget for the event, including, but not limited to, the travel method(s) and cost, identification of the hotel or other accommodation and the rate per night, total meal allowance, and the cost of registration.

Any travel expenditures that exceed the limits in (d) without an approved waiver shall be considered a non-allowable cost in accordance with N.J.A.C. 6A:23A-18.6(a)68. Waivers will be approved in writing by the Commissioner, or his or her designee and auditors must verify the existence of a waiver and the amount that is subject to the waiver prior to including any amount that exceeds the travel expenditure limitation in the certified actual cost per student. **No waivers from the travel expenditure limitation were granted in the 2022-2023 school year.**

Item 51

In accordance with N.J.A.C. 6A:23A-18.6(a)69, costs associated with waiver of health insurance coverage that violate the provisions of N.J.A.C. 6A:23A-18.5(f)1. N.J.A.C. 6A:23A-18.5(f)1 requires that payments to employees for a complete waiver of health insurance coverage must comply with the following: (i) the payment for waiver of health insurance coverage shall not exceed $5,000 per year; and (ii) the employee shall provide, and the APSSD shall keep on file, documented evidence the employee had other valid health insurance coverage during the fiscal year.

Payment to an employee for waiver of health insurance coverage in excess of $5,000 per year or without documented evidence of other valid health insurance coverage during the fiscal year must be considered non-allowable costs and may not be included in the certified actual cost per student. Auditors should verify the existence of the documented evidence the employee had other valid health insurance coverage during the fiscal year for any such waiver payments. This information should be available for review by the Department upon request.

Item 52

In accordance with N.J.A.C. 6A:23A-18.6(a)70, costs associated with depreciation of leasehold improvements that violated N.J.A.C. 6A:23A-18.5(a)4.

For leasehold improvements, N.J.A.C. 6A:23A-18.5(a)4 provides that an APSSD shall:

Capitalize leasehold improvements made to an existing structure leased by the APSSD and depreciate the improvements using the straight-line method and a useful life equal to the lease's remaining term and any extension(s), but not less than five years;

i. Depreciate any leasehold improvement(s) to which a related party(ies) is the lessor using the straight-line method and a useful life equal to the lease's remaining term and any extension(s), but not less than 10 years;

ii. Not depreciate a leasehold improvement(s) made to a structure for any month(s) the structure is not in service as an APSSD, or in excess of amounts determined under (a)4i or (a)4ii above for any fiscal year.

iii. Not depreciate a leasehold improvement(s) made to a structure that does not directly benefit public school placement students being education or that is excess of amounts determined pursuant to (a)4i, (a)4ii, or (a)4ii above.

Item 53

In accordance with N.J.A.C. 6A:23A-18.6(a)71, costs of the salary, benefits, or other compensation provided to an APSSD employee or contractor/consultant who is receiving retirement benefits as a result of his or her retirement from the APSSD after two calendar years has expired since the individual began retirement.

N.J.A.C. 6A:23A-18.6(a)71 only restricts the **simultaneous** payment of salary, benefits or other compensation *and* retirement benefits as a result of retirement beginning two years after the individual has retired from the APSSD. Auditors should note that this rule expressly includes contractors/consultants, so it includes consultation services by retired persons at APSSDs more than two years after the date of retirement.

Item 54

In accordance with N.J.A.C. 6A:23A-18.6(a)73, costs associated with the failure to comply with the requirements of N.J.A.C. 6A:23A-18.5(d).

Pursuant to N.J.A.C. 6A:23A-18.5(d), an APSSD that operates its education program outside of a public school district shall request Departmental approval to purchase or rent an administrative or business office at a location outside of the APSSD's educational facility. Once received, an approval shall not require renewal, unless and until the APSSD changes the location of its educational or administrative facility. At the Department's request:

1. The county office of education may conduct an on-site facility review to determine if there is sufficient space at the APSSD's educational facility for these operations; and/or
2. The APSSD shall submit to the Commissioner, Division of Finance, or his or her designee, documents that substantiate the need for additional space.

The Department provided APSSD's with the 2022-2023 Offsite Administrative and/or Business Office Application ("Offsite Application"). This form must be completed by APSSDs that are operating programs in an educational facility that is not located in a public school district building and are also maintaining or planning to maintain administrative and/or business office space outside of the APSSD's educational facility. Inclusive of APSSDs that are sharing space with another APSSD, costs associated with offsite office space must be supported by the pre-approval form the county office which then documents the related costs as necessary, allowable costs. A business and/or administrative office located in a different building on the same land parcel as the APSSD is not considered an offsite business and/or administrative office requiring county office approval. This form is not intended to replace the Related Party Transaction Cost of Ownership form, which is required in addition to the Offsite Application, where applicable. Where the purchase of the building took place or the lease began prior to July 1, 2017, the APSSD must still complete the Offsite Application to provide documentation of approval under the prior version of N.J.A.C. 6A:23A-18.5(d) and submit it to the Department. APSSDs unable to provide documentation of an offsite approval prior to July 1, 2017 must complete the entire form and submit it to the county office for a decision. For the 2022-2023 school year, county approval of an Offsite Application must have been pre-approved to include the offsite administrative or business office in the certified actual cost per student. If the Offsite Application is denied, the school may not include the cost of the offsite administrative or business office in the certified actual cost per student. An application that has been approved by an appropriate county office official remains effective for all of 2022-2023 and also for future fiscal years unless and until a triggering event result in the need to re-apply for approval. Additionally, for each new offsite administrative or business office, or each renewal of a lease for a current office, the APSSD must submit and obtain approval for the new office before including it in non-allowable costs.

The cost of an offsite administrative or business office at a location outside of the APSSD's education facility is a non-allowable cost without approval. Auditors should verify an APSSD including the cost of an offsite administrative or business office has an approved Offsite Application.

Statement of Expenditures by Line Item

The auditor shall include in the audit a "*Statement of Expenditures by Line Item*" which includes the segregation of each salary by title of position, and by program type for Special Education — Instruction account numbers, in the following areas:

Special Education Instruction — Insert Program Type

(Separate each program type, i.e., Intellectual Disability - Mild)

Salaries of Teachers	#11-2XX-100-101
Other Salaries for Instruction	#11-2XX-100-106

Special Vocational Programs — Instruction

Salaries of Teachers	#11-320-100-101
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	#11-000-212-100
Health Services (except school nurse)	Salaries	#11-000-213-100
Health Services — School Nurse	Salaries — School Nurse	#11-000-214-100
Other Support Services Student —Related Services	Salaries	#11-000-215-100
Other Support Services Student — Regular	Salaries of Other Professional Staff	#11-000-218-104
Other Support Services Student — Regular	Salaries of Secretarial and Clerical Assistants	#11-000-218-105
Other Support Services Student — Regular	Other Salaries	#11-000-218-110
Improvement of Instructional Services	Salaries of Supervisor	#11-000-221-102
Improvement of Instructional Services	Salaries of Other Professional Staff	#11-000-221-104

Improvement of Instructional Services	Salaries of Secretarial and Clerical Assistants	#11-000-221-105
Improvement of Instructional Services	Other Salaries	#11-000-221-110
Educational Media Services/School Library	Associate School Library Media Specialist	#11-000-222-100
Educational Media Services/School Library	Other Salaries	#11-000-222-101
Instructional Staff Training Services	Salaries of Supervisor of Instruction	#11-000-223-102
Instructional Staff Training Services	Salaries of Other Professional Staff	#11-000-223-104
Instructional Staff Training Services	Salaries of Secretarial and Clerical Assistants	#11-000-223-105
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.	Salaries of Secretarial and Clerical Assistants	#11-000-240-105
Support Services — Sch. Admin	Other Salaries	#11-000-240-110
Other Operations & Maintenance	Salaries	#11-000-262-100
Student Transportation	Salaries of Non-Instructional Aides	#11-000-270-107
Student Transportation	Salaries for Pupil Transportation	#11-000-270-109
Business & Other Support Services	Salaries	#11-000-290-100

Appendix N contains a listing of the recognized job titles. The job titles reflected on P-11 through P-29 and NP-13 through NP-31 are examples of recognized job titles from **Appendix N** but this statement is not intended to be boilerplate nor inclusive of every situation. There may be job titles on employment contracts that are not reflected in these pages and the auditor must reflect the job title from the employment contract on this statement; not choose a job title in the example that is the closest to that on the employment contract.

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-22 - 24 and NP-24 - 26. The required format is 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 — Program Type — Purchased Professional — Educational Services account #11-2XX-100-320, separated by program type, and identified by type of consultant. Please refer to pages P-11-18 and NP-13-20. Listed below is the required format:

Occupational Therapist	5,600
Physical Therapist	5,600

In addition, Other Support Services Students — Related Services account #11-000-215-320 must also be identified by type of consultant. Please refer to pages P-20 and NP-22. 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

Due to the transition to the new web based APSSD budget and audit system, APSSDs did not prepare a 2022-2023 Annual Fiscal and Program Information form. However, APSSDs have entered information for the 2022-2023 school year into the APSSD budget system, including support documents with 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. Schools also must choose the appropriate account numbers for the employee's salary and benefits. The entered data in the 2022-2023 APSSD budgets will be copied into the 2022-2023 audit system for the ease of APSSDs and school auditors. APSSDs will be advised that prior to auditor's certification of the audit system, the APSSD must revise the copied data from the 2022-2023 budget system, which may include deleting terminated staff and adding new staff employed in the 2022-2023 Audit system.

In accordance with N.J.A.C. 6A:23A-18.5(c), an APSSD shall execute an employment contract annually with each school employee which contains the following information: name of employee; dates of employment; work hours; certification(s) and/or degree(s) held; job description; job title; salary, and if applicable, percentage allocation of time for shared employees and/or employees with multiple position titles. The support documents prepared by the private school must reflect the same job title and certification(s) held that is contained on each employee's contract. When the auditor prepares the Statement of Expenditures by Line Item, the job titles reflected on the 2022-2023 support documents in the audit software as entered by the APSSD, the staff members' contract, and the audited financial statements must agree. It is not within the auditor's discretion to reflect a different job title on the audited financial statements than what is reflected on the staff members' contracts and in the audit software. During the department's desk review of a private school's 2022-2023 audited financial statements, the job titles contained in the support documents for the 2022-2023 audit software will be compared to the audited financial statements and any discrepancies will be considered non-compliance items. The source document for an employee's job title is their employment contract and the auditor must not deviate from the job title reflected on the employment contract.

In accordance with N.J.A.C. 6A:23A-18.6(a)53, a private school for students with disabilities 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 APSSD and have at least 10 years of service in an APSSD. 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 #11-2XX-100-210 — Group Insurance 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 students with disabilities. For these reasons, the cost of medical benefits for retired staff must be charged to Unallocated Benefits — Health Benefits for Retired Staff, line #71182 account #11-000-291-271 in **Appendices B and 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-29 through P-45 or NP-31 through NP-47 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:23A-18.6(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: #11-201-100-104, #11-201-100-106, #11-201-100-199, #11-201-100-210, #11-201-100-220, #11-201-100-320, #11-201-100-340, #11-201-100-500, #11-201-100-730, #11-201-100-640 and #11-201-100-800. The auditor’s sample should include no less than 10 percent of the total expenses (dollar value) within a line item. For example, account #11-201-100-500 Special Education — Intellectual Disability - Mild — 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) Sample	**(2)** Total Program Costs	**(3)** 10% of Sample (1) × 10%	**(4)** Maximum Non-Allowables Prior to Sample Increase (2) × (3)	**(5)** Audited Non-Allowable Costs	**(6)** Non-Allowable in Excess of Sample	**(7)** 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 students with disabilities can only contract for the specific services identified. Except as indicated in N.J.A.C. 6A:14-5.1 a private school for students with disabilities is precluded from sub-contracting educational services from a third party (including public school districts and other private schools for students with disabilities). 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 #11-2XX-100-320 Special Education — Instruction — Intellectual Disability - Mild — 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 students with disabilities 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:23A-18.6(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 2022-2023 is included as **Appendix I.**

Charges to Health Services — School Nurse's Salary & Fringe Benefits only — Salaries — School Nurse (account #11-000-214-XXX) are for the instructional salaries and fringe benefits of a "School Nurse" that holds the New Jersey school certification as a School Nurse. Unless the individual holds a School Nurse certification, individuals holding a Registered Nurse (RN) license, a Licensed Practical Nurse (LPN) license or a New Jersey school certification as a School Nurse/Non-Instructional **may not** be charged to accounts #11-000-214-XXX. Individuals holding a RN license, a LPN license or a New Jersey school certification as a School Nurse/Non-Instructional would be charged to Health Services (except School Nurse Salary & Fringe Benefits) in accounts #11-000-213-XXX.

If the auditor determines that a staff member is charged to account #11-000-214-100, but the staff member has a contract as a Nurse and holds a Registered Nurse certificate, the salaries and fringe benefits must be charged to Health Services — (except School Nurse Salary & Fringe Benefits) in accounts #11-000-213-XXX. However, if the auditor determines that a staff member is charged to account #11-000-214-100, and the staff member has a contract as a School Nurse and holds a Registered Nurse certificate (doesn't hold a school nurse certification), the salary and fringe benefits must be considered non-allowable costs in accordance with N.J.A.C. 6A:23A-18.6(a)6 and 10.

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 or master'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 private schools for students with disabilities are not reflected on the maximum salary schedule. The private school for students with disabilities must contact the department for the correct maximum salary for that job title. 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:23A-18.6(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, 172, 173 and fringe benefit account numbers 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-Sponsored. Co-curricular 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 Librarian's 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
- Vocational Programs
- Special Education - Instruction
- 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 (say 1-3499, 3501-3519 etc.) 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:23A-18.3(a)3. In the 2022-2023 school year, the private school must incur minimum instruction costs of 57.5% and no greater than a maximum administrative costs of 22.5% based on this calculation. If the private school doesn't meet the cost percentage requirements of 57.5% and/or 22.5%, it will result in non-allowable costs.

The statements on pages P-30 to P-45 and NP-32 to NP-47 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 71000 to 71227, if an amount is in the Cost Category Column (column 3), the same amount must be in either columns 4 through 10 as indicated on these statements. The total of columns 4 through 10 must equal the total of column 3 and the total of columns 3 through 11 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 11.

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 10 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-47 the totals of classroom instruction and administration of $1,064,813 and $378,021 are divided by the Cost Category Total of $1,811,588, which results in 58.78% for instruction and 20.87% for administration. As illustrated on pages P-45 and NP-47, the ABC Private school for students with disabilities 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 22.50% for administration and less than 57.50% for instruction times the Cost Category Total.

For example, T-1 indicates an administration percentage of 23.46% which is 0.96% in excess of the maximum of 22.50.%. The excess of 0.96% times the Cost Category Total of $1,811,588 equals non-allowable costs of $17,414. T-2 indicates an instruction percentage of 55.47% which is 2.03% less than the minimum required of 57.50%. The deficient percentage of 2.03% times the Cost Category Total of $1,811,588 equals non-allowable costs of $36,850. T-3 indicates an instruction percentage of 55.74% which is 1.76% less than the minimum required of 57.50% and an administration percentage of 24.22% which is 1.72% in excess of the maximum of 23%. The deficient percentage of 1.76% times the Cost Category Total of $1,754,916 equals non-allowable costs of $30,936 and the excess percentage of 1.72% times the Cost Category Total of $1,754,916 equals non-allowable costs of $30,165 for total non-allowable costs of $61,101.

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 **Appendices 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 39 and 40 in **Appendices 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 #71182 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 except for #11-000-291-249 pension contributions and #11-000-291-271 Health Benefits for Retired Staff which are not allocated and are outside the cost category calculation. 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 *(except pension)* would be allocated to Classroom Instruction in the Cost Category Calculation.

Statement of Enrollment

Beginning in the 2007-2008 school year, the district code, and the name of the county where the district is located is required on the Statement of Enrollment. The county code is two numbers, and the district code is four numbers. Please refer to profit page P-46 and non-profit page NP-48 for examples. **Appendix V** contains each school district's county code, district code in alphabetical order starting with Atlantic County.

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 than 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 APSSD by other than a New Jersey school district or a New Jersey State agency. For tuition rate purposes for a private placement student, the APSSD must charge not less than the audited cost per student or the private school for students with disabilities 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 *only enrolled* 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:23A-18.3(a)1 state when determining 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 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". Reduce the Expenditures by the total Payroll Protection Program (PPP) Loan(s) received and used in the current year's operation. This will offset the amount that was included in the Statement of Revenue and Expenses. 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.

In lieu of reducing expenditures by the amount of the PPP funds, a note disclosure, and explicit assurances that the repayment of PPP and any related costs are perpetually excluded from the calculation of the Certified Actual Cost Per Student are required, refer to pages N-84 and N-85 for note disclosure requirements.

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:23A-18.3(a)2, any of the APSSD's quarterly financial reports, completed pursuant to N.J.A.C. 6A:23A-18.5(a)11, demonstrates the year-to-date per diem rate exceeds the tentative tuition rate for the year by more than 10 percent, the private school shall notify each sending district board of education and the Commissioner, or his or her designee, that such an increase will be charged and the reason for the increase on or before the following dates: December 15 for the first quarter, March 15 for the second quarter, June 15 for the third quarter and September 15 for the fourth quarter, or the next business day when applicable. If the sending district board of education and the Commissioner, or his or her designee, are not notified on or before the dates noted in (a)2, the APSSD may charge an increase that shall not exceed 10 percent of the tentative tuition rate charged. The notification required in (a)2 shall contain a detailed statement outlining changing costs and/or enrollment, the reasons for the changes, including management's response to same, and the reason(s) the changes are not offset by decreases in costs. If the notification does not include this statement, the Commissioner, or his or her designee, may prohibit an APSSD from charging an increase above 10 percent.

As a reminder, auditors are advised that approved private schools for students with disabilities have been provided guidance that if a school's YTD Per Diem Tuition Rate is in excess of 10 percent of the Tentative Per Diem Tuition Rate Charged, the notification must be filed by the date indicated in the regulation. The directions indicate the following on page 5, item #7K, "If the YTD Per Diem Tuition Rate is greater than 10% of the Tentative Per Diem Tuition Rate Charged, the private school must comply with N.J.A.C. 6A:23A-18.3(a)2 in order to charge a Final Tuition Rate in excess of 10% of the Tentative Tuition Rate Charged." Please refer to **Appendix C**. Therefore, when a school's YTD Per Diem Rate is in excess of 10 percent of the Tentative Tuition Rate Charged, it triggers the requirement that the PSSD make the required notification to the parties in accordance with N.J.A.C. 6A:23A-18.3(a)2. The timing of the notification is not at management's discretion. In addition, in accordance with N.J.A.C. 6A:23A-18.5(a)11, the school's quarterly financial report must be both submitted to the school's governing body and its acceptance shall be documented in the governing body's meeting minutes.

If the sending district board of education and the Commissioner, or his or her designee, 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 2022-2023 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:23A-18.3(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 2022-2023 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 9/30/2022, the second quarter of 12/31/2022, the third quarter of 3/31/2023 and fourth quarter of 6/30/2023. The school must have notified the proper parties on or before the following dates: December 15, 2022 for the first quarter, March 15, 2023 for the second quarter, June 15, 2023 for the third quarter and September 15, 2023 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 **must** 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:23A-18.3(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.

Statement of Tuition Rate Computation - Working Capital

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:23A-18.8. 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, 2023 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 students with disabilities 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 students with disabilities may accumulate at the end of the audited fiscal year.

To determine Working Capital A, insert the June 30, 2022 Working Capital Fund Balance from the June 30, 2022 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, 2022) 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).

The calculation of the Working Capital Fund for June 30, 2023 is a standalone calculation which is not impacted by the calculations on pages NP-51 or NP-53 from the prior year audit June 30, 2022. The total Working Capital Fund Balance is generated from excess revenues over expenses from both the 12 Month School Year tuition rate charged and the Extraordinary Services tuition rate(s) charged. The application of the Less: Prior Year Working Capital Fund Balance to the working capital calculation for the Extraordinary Services is at the discretion of management. Some private schools never reflect amounts in the Less: Prior Year Working Capital Fund Balance for Extraordinary Services while others always reflect an amount. Please refer to page NP-53. The calculation of the Working Capital Fund for Andover Regional from the June 30, 2022 audit has no impact on the calculation of the Working Capital Fund for Andover Regional in the June 30, 2023 audit.

In addition, the Less: Prior Year Working Capital Fund Balance must be an amount less than or equal to the Maximum Working Capital Fund but an amount not less than zero. As an example, under the Working Capital Computation, the Less: Prior Year Working Capital Fund Balance for Andover Regional (NP-53) must be an amount from zero to $2,154.

As a reminder, auditors are advised that APSSDs have been provided guidance that private schools with Extraordinary Services must take into consideration the impact the calculation for Extraordinary Services has on the working capital calculation for the 12-month school year. The Statement of Extraordinary Services — Tuition Rate Computation & Working Capital, reflected on page NP-53 *does not* reflect amounts in the Less: Prior Year Working Capital Fund Balance for any of the sending districts. However, if an amount *was* reflected in the Less: Prior Year Working Capital, that amount must be subtracted from the June 30, 2020 Working Capital Fund Balance when calculating the Less: Prior Year Working Capital Fund Balance for the 12-month school year in the working capital calculation. In this manual, the Prior Year Working Capital Fund Balance is $204,135.

If the calculation of the Working Capital Fund for Andover Regional indicated a Less: Prior Year Working Capital Fund of $2,154 which results in a Working Capital A of zero, the Less: Prior Year Working Capital applied to the calculation of the 12-month tuition rate would be $201,981 ($204,135 less $2,154). Please refer to page NP-51 Statement of Tuition Rate Computation — Working Capital Fund Computation. In addition, the "Total" column of the Less: Prior Year Working Capital Fund from page NP-53 must be subtracted from the June 30, 2023 Working Capital Fund Balance in order to insert the correct amount as the Less: Prior Year Working Capital Fund Balance on page NP-51 when calculating the Working Capital A and Working Capital C for the 12-month school year.

Statement of Tuition Rate Computation - Surcharge

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:23A-18.7. 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.

In accordance with N.J.A.C. 6A:23A-18.7:

1) For profit-making APSSDs, the tuition rate may include an annual surcharge up to 2.5 percent of the APSSD's allowable actual costs,

2) For profit-making APSSDs, interest earned in accordance with N.J.A.C. 6A:23A-18.3(h) is an unrestricted revenue and not part of the school's surcharge computation,

3) For profit-making schools, the allowable Federal, State, and local income tax payment in N.J.A.C. 6A:23A-18.6(a)36 shall be computed using only the public-school placement tuition income and all allowable and non-allowable APSSD expenses that are allowable tax deductions on the school's Federal, State, and local income tax returns, and

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-47 and NP-49, the Statement of Expenditures by Line Item on pages P-11 to P-28 and NP-13 to NP-30 or the calculation of the Cost Category Percentages on pages P-29 to P-45 and NP-31 to NP-47. 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-50 & P-51 for a profit school and NP-52 & NP-53 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 choose 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-53, the Less: Prior Year Working Capital Balance is zero (0) for all the pupils and districts. However, management may choose 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-53 contains a Prior Year Working Capital Balance of $204,135. Management may choose 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-51 and NP-53 must equal the June 30, 2022 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 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. Please be advised, the format shown in this manual indicates pupils from the same sending district are segregated by pupil, but the auditor may choose 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 2022-2023 audit indicated the ABC School over charged Atlantic City $100. Atlantic City had one student enrolled the entire 2022-2023 school year at $10,000 per year. The September 2022 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 2022 - 2023 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 students with disabilities 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 students with disabilities. 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 students with disabilities.

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 with N.J.A.C. 6A:23A-18.10(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:23A-18.3(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 students with disabilities 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 students with disabilities 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 students with disabilities the net amount in column five, which is not in brackets (under charge), on a date between July 1, 2023 and June 30, 2024 which is reflected in the individual New Jersey State Department of Education Mandated Tuition Contract (section 9a) for each district board of education. As a reminder, auditors are advised that approved private schools for students with disabilities have been provided guidance that in accordance with N.J.A.C. 6A:23A-18.3(m), if the tentative tuition rate for the school year established by written contractual agreement is less than the final tuition rate charged for the school year, the APSSD may charge each sending district board of education all or part of the difference owed, but the same final tuition rate shall be charged to each sending district board of education. The sending district board of education shall pay the difference on a mutually agreed upon date during the second school year following the year for which the actual cost per student is certified. The private school for students with disabilities 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 students with disabilities 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 APSSD tuition program (N.J.A.C. 6A:23A-18.1 through 18.23) 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-45 and NP-47) 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 **Appendices 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:23A-18.1 through 18.23 and during the course of the year doesn't charge these costs to the financial records for the private school for students with disabilities tuition program (N.J.A.C. 6A:23A-18.1 to 18.23) but to another fund (non-profit) or retained earnings (profit school) *should not* be considered as non-allowable costs in this report. As an example, a private school pays a school director $269,005 for the 2022-2023 school year and charges $259,005 to the financial records for the private school for students with disabilities tuition program (N.J.A.C. 6A:23A-18.1 to 18.23) and $10,000 to an unrestricted fund (non-profit) or retained earnings (profit). The $10,000 is 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 type's costs, which are considered non-allowable. All costs determined to be non-allowable in accordance with N.J.A.C. 6A:23A-18.6(a) must be reflected on the statement and must not be included in the calculation of the Certified Actual Cost Per Student. The list of non-allowable costs appears in Section N.J.A.C. 6A:23A-18.6(a) in **Appendix A** on pages 44 through 60.

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.

Statement of Food Service

Food Services are activities related to the preparation and serving of breakfast and/or lunch to students per N.J.A.C. 6A:23A-18.23 and N.J.A.C. 6A:23A-18.6(a)20. Additionally, auditors are reminded that the management of approved private schools for students with disabilities have been provided guidance that food costs **must not** be recorded as Behavior Modification or other instructional costs, except where they meet the specific criteria set forth in N.J.A.C. 6A:23A-18.22. Please refer to pages N-39, N-40, NP-62, NP-63, and P-58, as well as N-83 regarding the restrictions on allowable costs for Food Services programs effective since the 2007-2008 school year.

A "Statement of Food Service" is required for all schools that operate a Food Service program. The statement must include the calculation of the allowable total food service costs, 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 71900 through 71980 on **Appendix B** on the "Statement of Expenditures by Line Item." Those 41programs, which operate at a loss, would include the net loss in the food service section in the Certified Actual Cost Per Student and reflect charges to the Undistributed Expenditures - Food Service from lines 71900 through 71980 on **Appendix B** on the "Statement of Expenditures by Line Item." If the Food Service operates at a loss, the total amount of lines 71900 through 71980 must agree to the net loss on page P-55 for a profit school or NP-58 for a non-profit school.

All Food Services income; sales, revenue received from other agencies to provide meals to residential students in accordance with N.J.A.C. 10:127-6.11 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 revenue received from other agencies, 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-55 and NP-58. 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.

Total food service costs, net of the reimbursement from the Child Nutrition Program and/or from sales charging students for reduced and/or paid meal, that exceed the allowable total food service costs, are non-allowable costs, except for where they are solely attributable to substitutions to meals when the disability restricts the child's diet. These costs must be reported on the "Statement of Non-allowable Costs," must not be charged in the calculation of the Certified Actual Cost Per Student and must be 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. Please refer to item #17, pages N-83 and N-84 under Notes to Financial Statements.

For excess food service costs expenditures that are solely attributable to substitutions to meals when the disability restricts the child's diet, auditors are advised that APSSDs have been provided guidance that proper documentation must be maintained supporting substitutions to meals when the disability restricts the child's diet, including, but not limited to: (1) medical documentation from the student's health provider supporting the meal substitution; and (2) invoices or other records detailing the expenditures related to each student's meal substitutions. If an APSSD is incurring excess expenditures that are solely attributable to substitutions to meals when the disability restricts the child's diet, the auditor must include a Note to Financial Statements detailing such excess expenditures and the documentation supporting such expenditures.

As a reminder, APSSDs have been provided guidance that if this statement does not reflect expenditures associated with providing meals to students; the report must include a Note to Financial Statements detailing how meals were provided to students (i.e., parent/guardian provided, CEP participation). Please refer to item #17, pages N-83 and N-84 under Notes to Financial Statements.

Community Eligibility Provision Schools as administered by the Department of Agriculture

The Community Eligibility Provision (CEP) is an option that allows high poverty schools and districts to offer *breakfast and lunch* free of charge to all on-roll students without the need to collect and perform eligibility verification procedures related to the traditional school meal eligibility form, "The Household Application for Free and Reduced-Price Meals and Free Milk". Any school with 40 percent or more "identified students" is eligible to participate in CEP. School districts with 40 percent or more identified students may participate district-wide or may group schools together to reach the 40 percent identified student threshold. Identified students include those children who are directly certified (through data matching) for free meals because they live in households that participate in the Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), or Food Distribution Program on Indian Reservations (FDPIR), as well as children who are certified for free school meals without submitting a paper application because of their status as being in foster care, enrolled as homeless, runaway, or migrant students. Please refer to Community Eligibility Guidance Form 220 for additional program information.

The New Jersey Department of Agriculture issues a determination as to whether an APSSD is eligible to participate in the Community Eligibility Program (CEP). Once approved to participate in the CEP, all students attending the CEP school will receive a free meal through the Child Nutrition Program. CEP eligibility information is available at the USDA CEP website at the NJDOA CEP website.

Although all children in a CEP school are eligible for receipt of a free meal, the CEP school was advised of the requirement to maintain equivalent meal count records as those schools that are not participating in CEP. Accordingly, auditors are advised that the meal count testing procedures applicable to a non-CEP school are the same procedures that must be applied to the meals served in a CEP school.

The CEP school's meal count records are subject to the following auditing procedures:

Meal Count Records
(Daily meal count records must be maintained by all schools where food is served including CEP schools) Review meal count records on a school-by-school basis to verify meals claimed on a reimbursement claim. Edit Check Worksheet(s) must be completed for every breakfast and lunch reimbursement claim submitted and the following required comparisons made before completing the reimbursement claim:

- The daily meal count records number of meals served must be compared to the enrollment for reasonableness.
- The daily meal count records number of students served meals must be compared to the enrollment times the school's attendance factor for reasonableness.
- Comments, and findings and recommendations should be reported in relation to the daily meal count records when either of the following two conditions are found:
    i. The number of meals served exceeds the daily enrollment, or

ii. The number of students served meals exceeds the enrollment multiplied by the school's attendance factor.

- Verify that the daily counts of breakfast and lunch meals served have been accurately transferred to the school's reimbursement vouchers.

Note: For CEP participating schools, all meals are reported in the "Free" meal category.

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:23A-18.8(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 #11-000-251-832, #11-000-251-890 and #11-000-251-831 or other expenditures in the #251 Function Code as indicated on NP-57.

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-57 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, 2022, September 30, 2022, December 31, 2022, and March 31, 2023 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, 2022 through September 30, 2022. For example, the public-school restricted fund balance as of June 30, 2023 of $500,000 is added to the cash received from tuition payments of $400,000 which totals $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, 2022 through September 30, 2022 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 #11-000-251-832, then $3,500 is netted against #11-000-251-890 and the remaining $3,129 is netted against #11-000-251-831 which leaves a net charge of $5,000 to #11-000-251-

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 #251 Function code or #40-701-510-790.

Early Intervention Program

Individual nonprofit private schools for students with disabilities 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, 2 CFR 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, the August 2017 Compliance Supplement, and NJ OMB Circular Letter 15-08 as revised. The audit must conform to standards established by the U.S. Comptroller General. The current audit standards are specified by *Generally Accepted* Government Auditing Standards. (U.S. Government Accountability Office, 2019 most current revision).

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 NJDOE. 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 public school placement column(s) must reflect those revenues and expenses related to public school placements for the July through June school year program. Funds received by the school under the Payroll Protection Program must be included here as 'Other Miscellaneous Restricted Revenue' and included in the calculation of Total Support and Revenue for the school. Public school placement current year revenue listed in the restricted column(s) must be in agreement with the 2022 - 2023 Public School Tuition or if applicable the 2022 - 2023 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”, which reflects a reduction of total expenditures by the amount of Payroll Protection Program (PPP) funds received and used during the current year’s operation, unless the school’s management opted to exclude repayment and related PPP costs from the calculation of the Certified Actual Cost Per Student. Nonprofit schools utilizing a plant fund must enter public school placement expenditures net of depreciation in the Restricted — Public School Placement Fund in the Operating Fund, and the depreciation must be entered in the Restricted — Public 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 2022 - 2023 Public School Tuition or if applicable the 2022 - 2023 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.” Funds received by the school under the Payroll Protection Program (PPP) must be included on Statement of Revenue and Expenses, and Reconciliation of Retained Earnings as ‘Other Miscellaneous Restricted Revenue’ and included in the calculation of Total Support and Revenue for the school. Expenditures must be in agreement with the Total School Placement Expenditures reflected on the “Statement of Tuition Rate Computation — Part I.” The Total Expenditures are reduced by the PPP funds used in the current year’s operation unless the school’s management opted to exclude repayment and related PPP costs from the calculation of the Certified Actual Cost Per Student.

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-11 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 APSSD 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.

State of New Jersey Single Audit Act

New Jersey Office of Management and Budget (NJOMB) Circular Letter 15-08, S*ingle Audit Policy for Recipients of Federal Grants, State Grants and State Aid* supersedes NJOMB 04-04 and establishes State policy and procedures regarding audits of grant and State aid recipients, and outlines the responsibilities of state agencies and grant recipients to ensure that recipient audits are performed according to Federal and State requirements. The revision raises the threshold for a single audit to $750,000 or more expended in federal financial assistance or State financial assistance within the recipient's fiscal year. This revision did not change the requirement that recipients which expend *less than* the threshold of $750,000 in federal or State financial assistance within their fiscal year, but expend *$100,000 or more* in State and/or federal financial assistance within their fiscal year, must have either a financial statement audit performed in accordance with *Generally Accepted Government Auditing Standards (Yellow Book)* or a program specific audit performed in accordance with the Act, Amendments, the Uniform Administrative Requirements and State policy. Compliance requirements for the Department of Education (and other departments) are contained in the State Grant Supplement which is published to assist auditors in testing recipient compliance with state grant and State aid financial assistance programs and applicable laws and regulations.

The Department of Education is deemed the cognizant agency in the enforcement of the Single Audit Act for private schools for students with disabilities when over 50% of their State and Federal funds are education grants (tuition funds are not considered education grants). APSSDs, 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 Students with Disabilities - The Audit Program" and the Circulars and Uniform Guidance 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 students with disabilities. For example, if an APSSD 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 students with disabilities - 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.

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:23A-18.5(i), an APSSD that allows employee to accumulate and carryover from year to year unused sick/or vacation leave shall do so in accordance with Financial Accounting Standards Board Statement No. 43 Accounting for Compensated Absences, as amended and supplemented, and shall include the costs in program expenses in the appropriate cost category only in the year of payment. 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 2022-2023 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:23A-18.1 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:23A-18.1 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) Whether there are items contrary to N.J.A.C. 6A:23A-18.1 et. seq, see Note 2 on pages NP-62 and P-57;

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

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

6) 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 of note or debt;
   f. Trade;
      1. Banks;
      2. Items collateralized;
      3. Related parties-stockholders, directors, officers or employees; and
      4. Intercompany.
   g. Assets pledged; restrictions on dividends, retained earnings or fund balances, sinking fund requirements, etc.

7) 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, including imputed interest pursuant to N.J.A.C. 6A:23A-18.5(g).

8) 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:23A-18.5(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:23A-18.5(a)14iii.

9) 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:23A-18.5(a)15;

b. Whether the merit pay increase was paid in accordance with the 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 to be given by plan(s) for each year; and

h. The date of board approval and date of initiation of the plan.

10) 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, 2023 represent salaries earned by the employees, which will be paid in July and August;

11) 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;

12) 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 (non-qualified plans are non-allowable);

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:23A-18.6(a)31 as an allowable cost for a retirement plan and meets the standards of N.J.A.C. 6A:23A-18.6(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.

13) 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;

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

15) 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:23A-18.5(a)10);

b. Mandated tuition contract prescribed by the Commissioner (N.J.A.C. 6A:23A-18.5(a)13);

c. An employment contract for each with the following information: name of employee, dates of employment, works worked, certification and/or degree(s) held, job description, job title, salary and if applicable percentage of time allocation for shared employee and/or employees with multiple position titles (N.J.A.C. 6A:23A-18.5(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:23A-18.5(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.

g. A copy of all the employees' school certifications.

16) If the private school did not prepare the prescribed financial report for all four quarters including the June 30, 2023 fourth quarter;

17) In order for the auditor to reflect a final tuition rate in excess of 10% of the tentative tuition charged, the school must be in compliance with N.J.A.C. 6A:23A-18.3(a)2. If the private school charges a final tuition rate in excess of 10% of the tentative tuition charged, the auditor must indicate that the excess charge was

in compliance with N.J.A.C. 6A:23A-18.3(a)2 and indicate the date of the required correspondence to the required parties.

18) If the Statement of Food Services reflects expenditures that are included in the calculation of the certified actual cost per pupil, the auditor must include a note indicating the following:

a. If applicable, explanation detailing the deficient food service related revenue in terms of limited sales for reduced and paid meals, as well as if non-profit, lack of Child Nutrition Program reimbursement revenue,

b. If applicable, an explanation detailing the reason(s) that the Statement of Expenditures by Line Item does not reflect cost associated with serving meals/food to students,

c. If applicable, an explanation detailing the amount of revenue received from other agencies to provide meals to residential students. Please note that the revenue received must be netted against total food costs expenditures on the Statement of Food Service, see pages NP-35 and N-40, and

d. If applicable, an explanation detailing the participation in CEP by the eligible non-profit private school as administered by the Department of Agriculture, see pages N-74 and N-75 for additional information.

e. If applicable, an explanation detailing any excess expenditures that are solely attributable to substitutions to meals when the disability restricts the child’s diet, and the documentation supporting such substitutions, including, but not limited to: (1) medical documentation from the student’s health provider supporting the meal substitution; and (2) invoices or other records detailing the expenditures related to each student’s meal substitutions.

19) Details of the APSSD’s Behavior Modification policy to include:

a. The date the board adopted the policy;
b. If the policy which defines the procedures, evidence-based strategies, techniques, and approaches used;
c. The total amount of expenditures; and
d. If the expenditures met the provisions of N.J.A.C. 6A:23A-18.22.

20) Details of the APSSD's Payroll Protection Program (PPP) activity including:

a. Whether or not the school applied for PPP funds;

b. The total amount received;

c. The amount used for payroll purposes;

d. The amount used for other (non-APSSD) purposes;

e. The amount of qualified expenditures to be forgiven;

f. Whether or not the school applied, or intends to apply for forgiveness from the lender, the exact amount to be forgiven, the specific amount of principal and interest related to the Payroll Protection

Program (PPP) loan included as allowable costs, the approval or rejection status, and disclosure that the school will repay the loan according to its terms utilizing unrestricted funds, if applicable.

g. Submission of the school's application for forgiveness and resultant determination from the lender.

h. Assurances that repayment of a PPP loan is perpetually excluded from the calculation of the Certified Actual Cost Per Student, if applicable. This is in connection with school management's election to forego the reduction of total expenditures by the PPP funds received.

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:23A-18.1 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 Software

Beginning with the 2017-2018 school year, each APSSD and independent auditor will be required to input and certify the audited financial information into the audit portion of the web based APSSD Budget and Audit System. The audit system includes audited fiscal data, revenue, expenses and supporting documentation for the period of July through June. The audited financial information will be entered directly into the Department's system audit system which is accessible through the Department's homeroom and is submitted electronically on or before November 2, 2023.

COVID-19 Guidance

The APSSD's PTO policy, board minutes, and implementation plan must be available to the Department upon request. Please refer to Section II. Directives to the Directors of the Board for more information on how costs relating to COVID-19 may be included in allowable costs for 2022-2023.

Annual Disclosure Statement

Annually, each APSSD shall file a management disclosure of information statement with the Department on a form prescribed by the Commissioner, or his or her designee. The statement shall be signed by the director, owner, or president of the APSSD who is filing the statement. The signature shall constitute a representation of the accuracy of the statement's contents. All disclosure statements filed shall include, but shall not be limited to, salary, pension, and other information regarding staff members, related staff, related parties, vendors, and business interests. Annual disclosure statements shall be filed on (the first November 1 following enactment of this rule) and, thereafter, on or before November 1 of each subsequent calendar year. All annual disclosure statements filed shall be considered public records. An APSSD that fails to file a statement, or files an annual disclosure statement containing information the statement filer knows to be false, shall be subject to reporting to appropriate State agencies and/or be assessed non-allowable costs documented in its annual audited financial statements as applicable in this subchapter. Nothing in this subsection shall be construed to prevent or limit criminal prosecution.

Nepotism

Each APSSD shall develop and implement a nepotism policy to be included in the employee handbook, pursuant to N.J.A.C. 6A:23A-18.5(f). The policy shall include the following: a definition of “relative” consistent with N.J.S.A. 52:13D-21.2 and N.J.A.C. 6A:23A-1.2, and a definition of “member of immediate family” consistent with N.J.S.A. 52:13D-13 and N.J.A.C. 6A:23A-1.2; a provision prohibiting any relative of an APSSD official from being employed in an office or position at the APSSD, unless the relative is properly qualified for the position; the relative is properly licensed for the position; and the relative’s salary and fringe benefits are comparable to a person of like experience and education. Nepotism shall be disclosed in the annual disclosure statement filed pursuant to N.J.A.C. 6A:23A-18.19. If the relative relationship is unknown at the time the disclosure form is filed, the APSSD shall file an updated annual disclosure form immediately upon the statement filer obtaining knowledge of the relationship.

FASB — ASC 842

The Financial Accounting Standards Board (FASB) issued its new standard on accounting for leases, Accounting Standards Update (ASU) 2016-02, codified as Accounting Standards Codification (ASC) 842 under U.S. Generally Accepted Accounting Principles (GAAP). This new standard takes effect for APSSDs beginning after the fiscal year December 31, 2022. ASC 842 changes the accounting guidance governing substantially all leases, including building and equipment leases, and significantly expands lease disclosure requirements.

APSSDs have a fiduciary duty to provide transparency to the Department and public school sending districts that need to understand year-over-year changes in lease-related assets and liabilities, including to assess whether those changes are result of shifts in the school’s leasing strategy such as changes in duration, quality, or quantity of leased space or equipment (Page 25, FASB-ASC 842). Therefore, this new standard for leases brings all operating leases onto the balance sheet, where previously only capital leases have been accounted for. In addition, capital leases are now classified as financing leases.

Lessee Schools

All leases, whether classified as an operating or finance lease must be recorded as a Right-of-Use (ROU) asset and a lease liability, except for operating leases with a term of 12 months or less. For both operating and finance leases, APSSDs are required to calculate the present value of future lease payments in order to determine the amount of the lease liability and ROU asset to be recorded on the balance sheet. This is accomplished by using the payments and terms specified in the lease and a rate of return implicit in the contract, the organization's incremental borrowing rate, or a risk-free rate of return determined based on the classification of the underlying asset. For finance leases, lessees must recognize interest expense on the lease liability and amortize the ROU asset separately based on the present value calculation. For operating leases, lessees will recognize a single periodic lease expense, equal to the interest and amortization allocated over the lease term.

Lessor Schools

Although it is uncommon for APSSD's to be the lessor in a transaction, it is possible, and as such, accounting for operating leases by the lessor remains similar to the rules under ASC 840, and lessors will still record revenue according to each lease's classification as either sales-type, direct financing, or operating leases. ASC 842 updates the classification guidelines for specific leases with collectability uncertainties, non-reimbursable costs, variable lease payments, and sale and leaseback arrangements; and it changes the definition of initial direct costs to exclude legal fees and internal overhead expenses.

Please refer to NP-7 and NP-8 for an example of FASB-ASC 842 Balance Sheet presentation in Non-Profit APSSDs, and P-7 for an example of FASB-ASC 842 Balance Sheet presentation in For-Profit APSSDs. In addition, please ensure that FASB — ASC 842 is disclosed in Note 1- Summary of Significant Accounting Policies under Recently Adopted Accounting Guidance in the Notes to the Financial Statements, as well as appropriately disclosing all operating and finance leases in the Notes to the Financial Statements under ‘Leases’; see Note 13 of the Non-Profit School Cover Pages and Note 12 of the Profit School Cover Pages for examples.

Finally, all of the APSSD’s leases, whether as a lessee or lessor, must be available to the Department upon request.

Additional or Compensatory Special Education and Related Services (ACSERS) Program related to P.L. 2021, c.109 (S6207) for APSSDs

Pursuant to P.L. 2021, c.109 (S6207), APSSD’s may include expenditures used in order to serve certain students who attain the age of 21 during the 2021-2022 and 2022-2023 school years in the Certified Actual Cost Per Student. Tuition received related to S6207 is recorded as revenues received from other sources and recorded in line number 170 in the APSSD Budget and Audit System. In the certified audited financial statements, S6207 related tuition revenue is reported as Tuition Revenue — ACSERS related to S6207 on the Statement of Revenue and Expenses and Reconciliation of Retained Earnings, see page P-8 and/or Statement of Support and Revenue, Expense, Capital Additions and Changes in Fund Balances, see pages NP-9 and/or NP-10. Expenditures related to ACSERS - S6207 are recorded using the appropriate account numbers aligned with the program offered by the APSSD. Expenditures related to S6207 must be reported separately on the Statement of ACSERS for S6207 using the respective instructional account numbers from the Statement of Expenditures by Line Item; see page P-56 and/or page NP-61. In addition, the Statement of Expenditures by Line Item includes a summary of expenditures to disaggregate S6207, see page P-29 and NP-31. Expenditures related to S6207 are reported separately on the Statement of Tuition Rate Computation — Part I as Expenditures Related to S6207, refer to page P-47 and/or NP-49.

Listing of Non-Compliance Errors in Audit Reports

The most common compliance errors found in the previous year's audited financial statements were as follows:

1. The job titles reflected on the audited financial statements do not agree with the staff members’ employment contracts. The job titles reflected on the audited financial statements must agree with the staff members’

employment contracts and/or *the supporting documents entered into the budget and audit system and revised by the APSSD for the 2022-2023 audit*.

2. In accordance with N.J.A.C. 6A:23A-18.5(c), an APSSD shall annually execute an employment contract with each school employee which contains the following information: the employee's name; dates of employment; work hours/durational term of employment; certification(s) and/or degree(s) held; certification(s) required for the job title; job description; job title; all fringe benefits; and salary. In many cases, the contracts that were sent to the department to document job titles did not meet the above requirements and there was no comment or recommendation in the Notes to Financial Statements indicating that the school's employment contracts were not prepared in accordance with N.J.A.C. 6A:23A-18.5(c).

3. A final tuition rate in excess of 10% of the tentative tuition rate was charged without the proper notification in accordance with N.J.A.C 6A:23A-18.3(a)2. APSSDs are required to include a detailed statement outlining changing costs and/or enrollment, the reasons for the changes, including management's response to same, and the reason(s) the changes are not offset by decreases in costs in the notification sent to sending districts.

4. Incorrect cost category placements of expenditures on the Statement of Percentages for Cost Category Assignments.

5. Failure to segregate salaries by position title.

6. Reported secretarial/clerical staff in areas without professional staff.

7. Missing recommendation for each item contrary to N.J.A.C. 6A:23A-18.1 through 18.23.

8. Incorrectly carryover the working capital fund balance for a sending district or sending district(s) for extraordinary services from the previous year to the same sending district(s) to generate a working capital fund calculation in the current school year. There is **no carryover** of working capital funds from the prior year working capital calculation by sending district for extraordinary services.

9. Failure to reduce Total Expenditures for excess administrative costs and/or deficient instructional costs when calculating the certified actual cost per student (see Appendices T-1, T-2, and T-3).

10. Failure to calculate the excess administrative cost and/or deficient instructional costs to *two decimal places* and net the non-allowable costs when calculating the certified actual cost per student.

11. The net loss total reflected on the Statement of Food Service does not agree with the amount reflected on the Statement of Expenditures by Line Items.

12. A staff member's salary is reflected in two or more account numbers with one contracted position title.

13. Calculation errors throughout the report that result from failure to change figures from prior year.

14. Omission of required statements.

15. Improper note disclosure regarding food services, see sample Note number17 on page N-83, as well as pages N-38, N-39, N-73, N-74 and N-75, NP-61, and P-38.

16. Failure to submit annual documentation in a timely manner.

17. Failure to properly classify position titles in the appropriate category (Instructional, Administrative, Support Services, Operation & Maintenance, Food Services and Extra Curricular position titles) pursuant with the prescribed Chart of Accounts.

18. Multiple Directors and Assistant Directors with duplicate responsibilities.

19. Data entry submitted in electronic data collection which does not agree with the expenditures reflected in the audited financial statements.

20. Failure to obtain county office approval for use of an unrecognized position title.

21. A staff member hired in a position title without the proper provisional/standard credential.

22. Failure to indicate in the Auditor's Report on Internal Controls that certain matters involving internal control over financial reporting have been reported to the school's management in the respective comments and recommendations sections of the report when contrary items are listed in the Notes to Financial Statements.

23. Failure to classify expenditures according to the Chart of Accounts.

24. Improper inclusion of consultant fees for services in the calculation of the certified actual cost per student without an executed written contract pursuant with N.J.A.C. 6A:23A-18.6(a)12.

25. Failed to disclose if there were items contrary to N.J.A.C. 6A:23A-18.1 et. seq. Refer to Note 2, pages NP-62 and P-57.

26. Failure to provide written documentation of efforts to collect uncollected account receivable (bad debt) over three years and day. Reasonable efforts to collect shall include but not be limited to documented monthly or quarterly invoices, emails, and memorandums supplemented with a detailed log over the three year and a day timeframe.