
INDIRECT COSTS AND STATE AID AND SCHOOL FINANCE 57TH ANNUAL FALL CONFERENCE - SDASBO



south dakota
DEPARTMENT OF EDUCATION
Learning. Leadership. Service.

AGENDA

- **Indirect Costs**
- Office of State Aid & School Finance Updates/Reminders

OVERVIEW OF DIRECT AND INDIRECT COSTS

- In general, a program will have both direct and indirect costs.
- How a cost is identified depends on the program, function or activity it benefits rather than the nature of the goods or services themselves.

Total Costs = Direct Costs + Indirect Costs



INDIRECT COSTS (2 CFR § 200.414) ON FEDERAL PROGRAMS

- Indirect costs are defined as costs that are incurred for the benefit of more than one cost objective, but are not readily assignable to any program
 - Typically covers costs which serve a common or joint purpose, such as fiscal services
- Examples of Indirect costs:
 - Procurement
 - Fringe Benefits
 - Human Resources
 - Utilities
 - Facilities Management

INDIRECT COST RATE CALCULATIONS

- The sources of information utilized to determine indirect cost rates are the LEA's Annual Financial Report (AFR) and the detail accounts.
- It is **ESSENTIAL** that LEAs classify expenditures uniformly and consistently utilizing the SD Department of Legislative Audit School District Accounting Manual.
 - <https://legislativeaudit.sd.gov/resources/schools/accountingmanual/accountingmanual.aspx>
- All expenditures detailed in the AFR must have been incurred and records supporting the costs must be maintained by the LEA.

INDIRECT COST RATE CALCULATIONS

- The rates that South Dakota issues to school districts/cooperatives are considered a rolling average predetermined discounted rate
 - Annual rate is calculated based on the annual financial report data submission
 - Rates are calculated based on specific expenditure functions being identified as indirect, direct or excluded
 - $\text{Indirect costs} \div \text{Direct Costs} = \text{Rate}$
 - Most recent 5-year period of rates is averaged
 - 5-year average is then discounted to 95%
 - Rates are issued on an annual basis using the most recent 5-year period

INDIRECT COST RATE CALCULATIONS

- Once the 5-year rolling average has been calculated and discounted, SD DOE will send out a DocuSign agreement for superintendents to sign. This agreement shows the unrestricted and restricted rate for the next fiscal year.
- If your district chooses NOT to sign the agreement, you can NOT utilize the indirect cost rate on any award including your Medicaid payments from DSS or any other agency.
- Look for changes to this process in the upcoming year.

USEFUL TIPS

The costs you exclude when developing your rate are the same costs you exclude when applying your rate for reimbursement

FUTURE RATE CALCULATION CHANGES

- Restricted Rate
 - Head of Component Units (based on school district size) – impacts the 2520 fiscal services function
 - School districts with enrollment greater than 2,500 need to clearly identify business manager wages and benefits in 2521.
 - School districts with enrollment less than 2,500 should use 2529 for business office costs.
 - Support Services Central (function 2600) – reclassification of specific functions
 - Functions 2640 and 2660 are indirect pool, the rest are shifting to direct cost base.
 - Exclusion of sub-awards/sub-contracts in excess of \$25,000 from the base in the rate calculation
- Unrestricted Rate Calculation
 - Same adjustments listed above
 - Space allocation study to allocate the Operation and Maintenance of Plant expenditures between the indirect and direct cost pool
- Full implementation in each of these areas must be in place before our next US DOE proposal is submitted for FY2026 rates

FAQ – CONTRACTS OVER \$25K

- When (and why) do I have to exclude contract costs over \$25k?
 - Exclusions from MTDC Base (200.68)
 - Equipment
 - Capital Expenditures
 - Charges for patient care
 - Rental Costs
 - Tuition remission
 - Scholarships and fellowships
 - Participant Supper Costs
 - **Subawards (subcontracts) in Excess of \$25,000**
 - Other items with approval of cognizant agency for IC

SUBAWARD

- Federal agencies, including US ED, have interpreted “subawards” broadly to include certain professional service agreements as distorting items that must be excluded. Therefore, whether the amounts above \$25,000 under certain contracts must be excluded from the calculation and recover of indirect costs will depend on your approved rate, as negotiated with the awarding agency.

WHAT US ED SAYS....

- “When we talk about subawards, we are talking about subgrants and subcontracts.”
- Whether the portion over \$25k will be excluded “depends upon the amount of administrative handling involved in that subaward or subgrant”
- ED links to DOL’s guide:
 - As a general rule...only the first \$25,000 of each subcontract, subgrant and professional service agreement should be included in the distribution base. This recognizes that grantees/contractors expend a minimal amount of indirect costs on subcontracts.

| Subcontract | Professional Services | Flow-through (Pass-through) |
|---|--|--|
| <p>A contract is for the purpose of obtaining goods and services for the non-Federal entity's own use and creates a procurement relationship with the contractor. See <u>2 C.F.R. §200.1 Contract</u>.</p> | <p>Costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the non-Federal entity, are allowable, subject to paragraphs (b) and (c) when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the Federal Government. See <u>2 C.F.R. § 200.459 Professional service costs</u>.</p> | <p>Flow-through (passthrough) costs are excluded from the indirect cost rate calculation with approval from the cognizant agency for indirect costs. See <u>2 C.F.R. § 200.1 Modified Total Direct Cost</u></p> |
| <p>(1) Provides the goods and services within normal business operations; (2) Provides similar goods or services to many different purchasers; (3) Normally operates in a competitive environment; (4) Provides goods or services that are ancillary to the operation of the Federal program; and (5) Is not subject to compliance requirements of the Federal program as a result of the agreement, though similar requirements may apply for other reasons.</p> | <p>(b) In determining the allowability of costs in a particular case, no single factor or any special combination of factors is necessarily determinative. However, the following factors are relevant: (1) The nature and scope of the service rendered in relation to the service required. (2) The necessity of contracting for the service, considering the non-Federal entity's capability in the particular area. (3) The past pattern of such costs, particularly in the years prior to Federal awards. (4) The impact of Federal awards on the non-Federal entity's business (i.e., what new problems have arisen). (5) Whether the proportion of Federal work to the non-Federal entity's total business is such as to influence the non-Federal entity in favor of incurring the cost, particularly where the services rendered are not of a continuing nature and have little relationship to work under Federal awards. (6) Whether the service can be performed more economically by direct employment rather than contracting. (7) The qualifications of the individual or concern rendering the service and the customary fees charged, especially on non-federally funded activities. (8) Adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions). (c) In addition to the factors in paragraph (b) of this section, to be allowable, retainer fees must be supported by evidence of bona fide services available or rendered.</p> | <p>(1) Non-federal entity acts as a conduit of grant funds which “flow through” to other entities. In such cases, the activities supported by the funds generally require minimal administrative benefit. (2) If the flow-through (pass-through) funding were included in the indirect cost rate calculation, they would distort the calculation.</p> |
| <p>Generally, subject to \$25,000 exclusion <u>2 CFR §200.1 Modified Total Direct Cost</u></p> | <p>Generally, not subject to exclusion of amounts over \$25,000 when providing an auxiliary expertise normally provided inhouse.</p> | <p>Generally, excluded from the direct cost base with approval from the cognizant agency for indirect costs.</p> |

HOW DO I GET AN INDIRECT COST RATE?

- LEA's will work with the state to get their rates.
- The SEA will perform the duties of a cognizant agency for the LEA.



INDIRECT COST RATE CHANGES

- Moving to application process for FY25.
 - Look for Notice of Intent to be sent around October 15th
 - Request adjustments for Head of Components and contracts over \$25,000
 - Notice of Intent needs to be received at DOE by December 31st.
 - Analysis of data by DOE staff
 - Rates will be issued around March/April for following fiscal year.
 - If no application is received by SD DOE, you won't receive a rate which could affect other federal funding use of indirect cost rates. (DSS-Medicaid administrative claiming)

NOTICE OF INTENT

Notice of Intent form will be quick and easy **however** there will be a spreadsheet for your contract adjustments that will need to be filled out and returned as well

South Dakota Department of Education
Notice of Intent to Apply for Indirect Cost Rate
For School Year 2024-2025 utilizing FY23 data

Legal Name of Organization: _____

Address: _____

City: _____ State: _____ Zip: _____

Phone Number: _____

Type of Organization: Local Education Agency (LEA) Cooperative



Superintendent/CEO:
Name: _____

Email Address: _____ Phone number: _____

Business official:
Name: _____

Email Address: _____ Phone Number: _____

Alt Contact:
Name: _____

Email Address: _____ Phone Number: _____

(Signature)

(Date)

CONTRACT ADJUSTMENTS

| Fund | Function | Object number | Contract Identification Number | Vendor Names | Total Contract Amounts | Period of Performance | Current FY Expenditures | First \$25,000 Contract Payments | Amount in Excess of \$25,000 | Contract Description |
|------|----------|---------------|--------------------------------|--------------|------------------------|-----------------------|-------------------------|----------------------------------|------------------------------|--------------------------|
| | | | | | \$ - | | \$125,000 | \$25,000 | \$100,000 | Special Program Experts |
| | | | | | - | | 23,000 | 23,000 | - | Special Program Research |
| | | | | | - | | - | - | - | |
| | | | | | - | | - | - | - | |

- Attached to your notice of intent will be a spreadsheet similar to this.
- Every contract will need its own line
- All fields must be filled in or it will delay the indirect cost calculation process

QUESTION!!

- I have an indirect cost rate. Do I have to utilize it?
 - No. Non-federal entities are not required to take indirect costs, they can direct charge all allowable costs.

AGENDA

- Indirect Costs
- **Office of State Aid & School Finance Updates/Reminders**

ANNUAL FINANCIAL REPORT SUMMARY – FY2023

■ Rural Electric and Telephone Gross Receipts Revenues

- Revenue Account 10 1140
- Rural Electric Tax paid on County Remittances (typically in July)
- Telephone Gross Receipts paid by Dept of Revenue (around August 20th)
- These revenues are one component of Other Revenue Local Effort in the general state aid formula

■ Receivables – Revenue Recognition

- Booking receivables for grant revenue related to FY2023 federal expenditures
- Clearing receivables for revenues when payment is received (cash receipt should go to the 140 due from Govt Account)
 - Improperly recording these receipts to the revenue account again doubles up the revenue in more than 1 fiscal year
- Submit claims for federal reimbursement requests for eligible expenditures before the end of the fiscal year

ANNUAL FINANCIAL WRAP UP – FY2023

- Finish the final review of all fiscal data – In Process
- Final Review of Monthly Cash Balance data
 - Preliminary contact with districts that did not meet the accountability
 - Official notification by October 6th, 2023
- Final Teacher Compensation data review
 - Preliminary review completed (waiting on correction from 1 district)
 - Official notification by October 6th, 2023
- Annual Report Verification Forms – Final step to close out the annual report data collection
 - Anticipated request for these forms next week (watch for the email request)

FY2024 STATE AID ACCOUNTABILITIES

- Teacher Compensation Accountability

- FY2023 Average Teacher Compensation must meet or exceed the Average Teacher Compensation reported in FY2017
- Official notification to each district is required by **October 6th, 2023**
- Current statutory accountability in effect through FY2024

- Monthly Cash Balance Accountability

- No statutory sunset on cash balance accountability
- School Finance Accountability Board Action – Excess General Fund Cash Balance waiver in place for current year only
 - Excess general fund cash balance information reported on the FY2023 annual report would determine a penalty for FY2024 general state aid
 - SFAB would like to hear from districts regarding the issues that are impacting districts that are in excess
- Cash balance information reported on the FY2024 annual report will be used to determine the penalty for FY2025 general state aid

ANNUAL FINANCIAL DATA USES

- State Aid Accountabilities
 - Teacher Compensation & Excess General Fund Monthly Cash Balances
- Other State Aid Program Requirements
 - Special Education Excess Fund Balance, Other Revenue Local Effort, Special Education Disability Allocations
- Other State Agency Support
 - Dept of Revenue Capital Outlay Debt Verification
- Federal Fiscal Compliance
 - Maintenance of Effort, Indirect Cost Calculations, Food Service Net Cash Resources, IDEA Excess Cost, ESSA Report Card
- General Data Reporting
 - Statistical Digest, Legislative Data Requests
- Federal Data Reporting
 - National Education Association, National Public Education Finance Survey, F-33 Annual Survey of School System Finances, School Level Finance Survey-NEW IN FY2022

SCHOOL LEVEL FINANCE SURVEY

- New mandatory fiscal data collection that all states are legally obligated to complete under the jurisdiction of the Office of Civil Rights and the US Dept of Education.
- Our office met with US DOE staff last week to work out an action plan to meet the required submission.
- SLFS Action Plan for FY2022
 - States are allowed to utilize the per pupil expenditures reported on the annual State and LEA report cards.
 - South Dakota will utilize the ESSA Report Card expenditure data to report FY2022 total current expenditure data.

SCHOOL LEVEL FINANCE SURVEY – FY2023 & FY2024

- SLFS Incremental Action Plan for FY2023 and FY2024
 - Reporting Requirements include
 - Total Current Expenditures for each school and breakout by 4 functional areas and 3 exhibit items
 - Instruction (1000)
 - Student Support (2100)
 - Instructional Staff Support (2200)
 - School Administration (2400) (Office of the Principal)
 - Exhibit Data
 - Teacher Salaries
 - Instructional Aide Salaries
 - Books and Periodicals

SCHOOL LEVEL FINANCE SURVEY – FY2023 & FY2024

- South Dakota Proposal to US ED for FY2023 and FY2024
 - Report instructional and office of the principal expenditures for each school using the ESSA Report Card Fiscal Expenditures
 - South Dakota will allocate on a per student basis the Student Support and Instructional Staff Support expenditures
- Exhibit Data Items
 - Teacher Salaries – Possibly gathered from the PRF data collection or utilize allocation strategies
 - Instructional Aide Salaries – Allocate
 - Books and Periodicals – Allocate

SCHOOL LEVEL FINANCE SURVEY – FY2025 AND BEYOND

- SLFS Full-scale Data Collection Participation – US DOE will seek full approval for all reporting areas
 - Instruction (1000)
 - Student Support (2100)
 - Instructional Staff Support (2200)
 - General Administration (2300)
 - School Administration (2400) (Office of the Principal)
 - Operation & Maintenance of Plant (2540)
 - Student Transportation (2550)
 - Business/Central/Other Support (2520, 2600-2900)
 - Food Service Operations (fund 51)
 - Enterprise Operations (fund 53)
- Exhibit Data
 - Teacher Salaries
 - Instructional Aide Salaries
 - Books and Periodicals

EVERY STUDENT SUCCEEDS ACT (ESSA) REPORTING

- Every Student Succeeds Act (ESSA) requires reporting of per student current expenditures at each school broken down by federal and state/local sources of revenues.
 - This excludes any capitalized expenditures, debt service expenditures and facility acquisition and construction expenditures.
- FY2020-FY2022 education spending data is included on the publicly posted report card.
 - <https://sdschools.sd.gov/#/home>
- There are 3 ways the data is displayed on the report card
 - School Report Card (based on schools listed in the SD Educational Directory)
 - District Report Card
 - State Report Card
- Expenditures are reported on a per student basis by funding source
 - Reported based on All funds combined
 - Federal funds separately reported from State/Local Funds

EVERY STUDENT SUCCEEDS ACT (ESSA) REPORTING

- This data is collected from each district during November & December annually with the basis of the reporting coming from the finalized annual reports.
- Our office will again provide a template to assist with the breakdown of these expenditures.
- In addition to excluding capital expenditures, our state also excludes preschool, adult programs and community service activities.
- Summary information calculated on the excel template are reported in the annual financial report under the ESSA Survey menu (due January 12, 2024)
- ESSA fiscal information will be provided to the Report Card office for public display in January

FALL 2023 STATE AID FALL ENROLLMENT (SAFE COUNT)

- Fall count of students used to determine FY2024 general state aid
 - Count is taken as of a single day
 - Count is reported as an ADM, which allows students enrolled less than full time to be included for the partial enrollment
- Official Count Date – September 29, 2023 (last Friday in September)
- Students NOT included in this SAFE count:
 - Students over the age of 21
 - PK or EC students
 - Home School / Alternative Instruction students
 - Students at the School for Visually Impaired or Human Services Center
- Common errors to SAFE count:
 - Transposing resident/service district in Infinite Campus student database
 - Percent of day enrollment for KG students (roll forward error from a PK program)
 - Students tuitioned OUT of district (listed individually at the top of each district SAFE report) – CRITICAL that these placements are reviewed

FALL 2023 STATE AID FALL ENROLLMENT (SAFE COUNT)

- Districts have until mid October to ensure all students served in their district are correctly reported in Infinite Campus
 - Students are rolled forward at the beginning of the school year if marked as “continuing” at the end of last school year
 - Overlap Reports and reviewing/resolving overlaps in student reporting (overlap reports are mailed to districts weekly)
 - Students with unexcused absences greater than 15 days must end the enrollment as of the last day of attendance
 - Students tuitioned out of district must be listed by name and placement at the top of each enrollment report. If a student is missing, it is the district’s responsibility to work with the serving entity to get the student properly reported as a resident of your district.
- Reports will be mailed out to district superintendents – **October 18th, 2023**
- SAFE Count Verifications must be signed and returned with the final student count on or before **October 31st**
 - No students may be added to a district count after October 31st
- Retain a copy of the final student count verification in your office to provide to your auditor.

CAPITAL OUTLAY FLEXIBILITIES

- Districts are allowed the flexibility to transfer from Fund 21 to Fund 10 an amount not to exceed 45% of actual property tax revenue (revenue account (1110 + 1120) deposited during the current fiscal year. (SDCL 13-16-6)
 - **NOTE: Actual revenue not based on budgeted revenue/tax request**
 - **NO Longer any flexibility to transfer the same amount that was transferred in FY2020 (expired in FY2023)**
- Districts may not expend from the capital outlay fund for utility costs, fuel, property insurance
- Districts which contract for student transportation may expend up to 15% of the contracted amount from the capital outlay fund
- Be aware of the timing on your board action to transfer these funds, so the cash balance accountability is not impacted.

FOOD SERVICE PROGRAM UPDATES

- Net Cash Resources flexibility
 - Flexibility extended for FY2023 food service data, school districts will be allowed up to 5 months net cash resources in fund 51
 - The SASF Office will complete the net cash resource calculation for each district based on the fund 51 annual report data and provide the information to the CANS program staff
 - The CANS program staff will work with districts on approving a 2-year spend down plan to meet compliance with the NCR requirement for those districts that exceed the 5-month limitation
- Supply Chain Assistance – Another Round!
 - Email notice went out last week
 - Webinar – September 29th 1:00pm CT
 - Projected payment early December

MEDICAID ADMINISTRATIVE CLAIMING PAYMENTS

- Quarterly payment from Dept of Social Services that is administered by a vendor (SSG/Solix) selected by DSS.
- One component that drives the reimbursement is the Random Moment in Time Studies (RMTS) of employees selected by your district.
- Each district should determine the proportionate share to be receipted to general fund and special education fund based on the staff pool listing provided to the DSS vendor (SSG/Solix).

DOE COMMUNICATIONS STAFFING UPDATE

- All emails to business managers will come from our new communication officer – Nancy Van Der Weide
 - Payment notices
 - Dollars & Sense monthly calls
 - State Aid and School Finance Office notifications

QUESTIONS & CONTACT INFORMATION

Office of State Aid and School Finance (SASF)

Bobbi Leiferman

Bobbi.Leiferman@state.sd.us

605-773-5407

Krislyn Norgaard

Krislyn.Norgaard@state.sd.us

605-773-4748

Office of Grants Management

Kristina Healey

Kristina.Healey@state.sd.us

605-773-5475