

# MISSISSIPPI DEPARTMENT OF EDUCATION

## Local Education Agency Plan Methodology

### Summary Rate Calculation Process

The Mississippi Department of Education has chosen to follow the Fixed with Carry-Forward method of calculating indirect cost rates for its Local Education Agencies (LEA). The Fixed with Carry-Forward rates will be based on an estimate of a future period's cost using the second preceding year's financial statements. These rates will not be subject to revision and should be applied to all eligible expenditures for the fiscal year for which they were approved. Differences between the estimated indirect cost and actual indirect costs will be carried forward in calculating the second preceding year. For the first two initial years there will not be a carry-forward.

The information necessary to complete the calculation of indirect cost rates is taken from each LEA's annual submission of its FETS data to the Mississippi Department of Education. Financial data from the Superintendent's Annual Report to the State Department of Education will be used in preparing the indirect cost rate. The fixed with carry-forward calculation identifies expenditures within program areas as direct, indirect, or excluded/un-allowed, and then divides the allowable indirect costs by the modified total direct costs. The calculation compares the indirect cost rate that the LEA was able to use in any given fiscal year (FY) to the actual financial data submitted by the LEA to the department for that (FY). An over-recovery is identified when the rate used in a FY was higher than the actual indirect costs reported for that year. An under-recovery is identified when the rate used in a FY was lower than the actual indirect costs reported for that year. The under-recovery or over-recovery is the carry forward used to adjust the indirect cost rate produced using current year financial data. (See General Overview).

### General Overview

Data for the calculation of indirect cost rates is collected annually and uniformly through a required statewide financial reporting system: FETS-Financial Exchange Transaction System. LEAs are required to follow financial accounting practices set forth in the Financial Accounting Manual, and generally accepted accounting principles (GAAP) as promulgated by the governmental accounting standards board (GASB).

The FETS financial data is an electronic upload of the chart of accounts activity to the state showing detailed financial information derived from the fiscal records of the LEA for the FY ended June 30. This data must be completed, finalized and submitted to the state no later than October 15<sup>th</sup> of the following FY. For example, FY2013-14 financial data is submitted by the LEA, and is reviewed and approved by the department in FY2015-16. The approved FY2013-14 data is used with the carry-forward figure from two years prior to produce the indirect cost rates for use in FY2015-16.

The end result of the FETS financial data submission are reports (data) which mirror the annual independent audit. Reports marked “post-approved” certify that the data submitted are true, correct, complete, and prepared in compliance with state and federal statutes. This data is used to calculate both restricted and unrestricted indirect costs rates – shown in detail on the indirect cost rate report. This report specifically lists expenditure totals tied to allowed and unallowed program (function) areas, and sets forth funds and expenditures (objects) which are allowed and not allowed in the calculation. Further, the report details step by step how the rates are calculated.

**Classification of Costs**

Costs reported via FETS are considered as direct, indirect, unallowed and Omitted. The following matrix shows classified costs by function and object.

**Indirect Cost Matrix**

The following matrix classifies expenditures by category and is provided as a guide in preparing indirect cost proposals. The matrix identifies by function and object when expenditures are appropriate for classification in a specific category.

<b><i>Description of the Function and Object Codes can be found in the glossary section of this plan.</i></b>	<b>CATEGORIES</b>		
	Direct/ Disallowed Costs	Indirect Costs	Excluded Costs
General Fund:			
Current:			
<u>Function</u>			
1000 Instruction	Yes	No	No
2100 Student Services	Yes	No	No
2210 Imp of Instructional Services	Yes	No	No
2220 Educational Media Services	Yes	No	No
2290 Other Support Instr Services	Yes	No	No
2310 Board of Education	Yes	No	No
2320 Executive Admin Services	Yes	Yes*	No
2330 Special Area Admin Serv	Yes	No	No
2440 School Admin Services	Yes	No	No
2500 Business Admin Services	No	Yes	No
2600 Oper & Maintenance of Plant	Yes	No	No
2700 Pupil Transportation	Yes	No	No
2800 Central Services	No	Yes	No
3200 Enterprise Operations	Yes	No	No
3300 Community Service Operations	Yes	No	No

3900 Other Noninstructional Services      Yes                              No                              No

**Description of the Function and Object Codes can be found in the glossary section of this plan.**

**CATEGORIES**

	Direct/ Disallowed Costs	Indirect Costs	Costs	Excluded Costs
<b>Capital Outlay:</b>				
<u>Function</u>				
5000 Facility Acquisition & Constr	No	No		Yes
<u>Object</u>				
0700 Property	No	No		Yes
<b>Special Revenue Funds:</b>				
<b>Food Services:</b>				
<u>Function</u>				
3100 Food Service Operations	Yes	No		Yes

**“Indirect Costs”** - Those costs of a general nature which benefit the district as a whole. These expenditures are for direction and control of system-wide activities and not those confined to one project, program or phase of operation. Indirect costs are further identified as either “restricted” or “unrestricted.” Restricted indirect costs may only be claimed for certain federal programs. Unrestricted indirect costs may be claimed for federal programs that are not specifically declared as restricted, in other words, do not contain a supplement, not supplant clause. Examples of indirect costs include data processing, purchasing, accounting, personnel and other central services.

**“Direct Costs”** – a direct cost is one that is incurred specifically for one activity and can be identified specifically with that activity. These costs may be charged directly to grants, contracts, or to other programs against which costs are finally lodged. Examples of direct costs include compensation of program personnel, supplies and materials, equipment and travel. Regardless of program/function area, any expenditure account tied to a federal grant code is considered a “direct” cost of that particular grant.

**“Disallowed Costs”** – (CFR) Title 2 Part 200 classified certain items of cost as disallowed which means that the federal funds cannot be used for these purposes. These

are costs directly attributable to governance. These include expenditures for the Board of Education and Executive Admin Services. For formula computational purposes, these costs are combined with direct cost.

**“Excluded Costs”** - Certain items of costs are classified in (CFR) Title 2 Part 200 as extraordinary or distorting expenditures and are excluded from the computation of the indirect cost rate. Excluded costs in this category include capital outlay, debt service, payments to other LEAs, internal funds, food service food supplies and equipment, and judgments, fines and damages. For formula computational purposes, debt service, payments to other LEAs, repayments to state agency and transfers are excluded by leaving these functions off the application. To “exclude” property, and cost of food used, use the OMIT” column of Schedule A which is used for balancing purposes only.

**“Net Costs”** - Those direct costs of School Food Services that are to be included in the indirect cost plan. To arrive at Net Cost, deduct from Total Food Service Cost the following expenditure categories: Purchased Food Used, Donated Commodities Used, and Equipment Capitalized (these expenditures are totaled under the “OMIT” column of the application).

Cost data used in the calculation of indirect costs is taken from allowed funds detail, by program area and objects reported via FETS. Programs describe the activity for which a service or object is required. Object describes the type of service or commodity purchased.

### **Calculation of Indirect Cost Rates**

After classifying costs, the indirect cost rate will be determined. Certain districts Superintendent’s office costs can be classified as indirect. Detail records are required and should be kept on file to support this survey and document the indirect costs attributed to function 2320 (Executive Admin Services). Certain costs associated with the Superintendent’s office will be included as indirect cost if the following requirements are met: **(1)** A District’s month’s 1-9 Average Daily Attendance is 2500 or less, and **(2)** The Superintendent completes a time sheet the first week of each quarter, which shall be signed by the Superintendent and the President of the Local School Board, indicating the percentage of time spent in allowable indirect functions. Only districts with less than 2,500 ADA may be eligible (See page 5 of the Indirect Cost Rate Proposal)

For the FY16 school year, a total of seven (7) school districts provided additional documentation in support of certain costs being classified as indirect. The districts are as follows: (1) 0900-Chickasaw County School District, (2) Forrest County School District, (3) Poplarville School District, (4) North Pike School District, (5) Leland School District, and (6) Western Line School District.

Expenditures under function 2320, Executive Administrative Services, which are documented to benefit the entire LEA, are not included in unallowed costs, and are eligible by definition as indirect costs. The documentation, provided by the ADA, is reviewed for eligibility by checking the ADA totals contained in the Superintendent's Annual Report. The Indirect Cost Rate Application **Schedule A** shows the cost classifications that have been implemented. By using the five columns on Schedule A (omit, unallowed, indirect, direct and total), all figures from the Superintendent's Annual Report can be entered and balanced with each line of that report as well as with the total of that report. Enter the amounts from the "Total Expenditures" column of Schedule A then distribute to the other columns as applicable.

**OMIT Costs Column** – Omits 700 objects under all functions. Omits food service objects 641, 642, 643 and 730.

**Unallowed Costs Column** - Function 2310, Board of Education and Function 2320, Executive Administrative Services.

**Indirect Costs Column** – Eligible 2320 Executive Administrative Services that have been documented to be eligible by definition as indirect costs.

**Direct Costs Column**

1. Function 1000, Instruction (except 700, Property).
2. Function 2100, Student Services (except 700, Property).
3. Function 2210, Improvement of Instructional Services
4. Function 2220, Educational Media Services
5. Function 2290, Other Support Instr Services
6. Function 2330, Special Area Admin Services
7. Function 2400, School Admin Services
8. Function 2600, Operation & Maintenance of Plant
9. Function 2700, Pupil Transportation
10. Function 3100, Food Service Operations (except cost of food used)
11. Function 3200, Enterprise Operations
12. Function 3300, Community Service
13. Function 3900, Other Non-instructional Services

MISSISSIPPI DEPARTMENT OF EDUCATION  
INDIRECT COST RATE APPLICATION  
SCHEDULE A

DISTRICT NUMBER AND NAME	1 OMIT	2 UNALLOWED COST	3 INDIRECT COST	4 DIRECT COST	5 TOTAL ALL FUNDS
1000 Instruction		XXXXXXXXXXXX	XXXXXXXXXXXX		
2100 Student Services		XXXXXXXXXXXX	XXXXXXXXXXXX		
2210 Imp of Instructional Services		XXXXXXXXXXXX	XXXXXXXXXXXX		
2220 Educational Media Services		XXXXXXXXXXXX	XXXXXXXXXXXX		
2290 Other Support Instr Services		XXXXXXXXXXXX	XXXXXXXXXXXX		
2310 Board of Education			XXXXXXXXXXXX	XXXXXXXXXXXX	
2320 Executive Admin Services					
2330 Special Area Admin Services		XXXXXXXXXXXX	XXXXXXXXXXXX		
2400 School Admin Services		XXXXXXXXXXXX	XXXXXXXXXXXX		
2500 Business Admin Services		XXXXXXXXXXXX		XXXXXXXXXXXX	
2600 Operation & Maintenance of Plant		XXXXXXXXXXXX	XXXXXXXXXXXX		
2700 Pupil Transportation		XXXXXXXXXXXX	XXXXXXXXXXXX		
2800 Central Services		XXXXXXXXXXXX		XXXXXXXXXXXX	
3100 Food Service Operations		XXXXXXXXXXXX	XXXXXXXXXXXX		
3200 Enterprise Operations		XXXXXXXXXXXX	XXXXXXXXXXXX		
3300 Community Service Operations		XXXXXXXXXXXX	XXXXXXXXXXXX		
3900 Other Non-instructional Services		XXXXXXXXXXXX	XXXXXXXXXXXX		
5000 Facility Acquisition & Const		XXXXXXXXXXXX	XXXXXXXXXXXX	XXXXXXXXXXXX	
		<b>A</b>	<b>B</b>	<b>C</b>	

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SIGNATURE, SUPERINTENDENT

## **Application of Indirect Cost Rates**

For FY16, the MDE will continue using the Fixed with Carry-forward method for calculating LEA rates. The Fixed with carry-forward rates will be based on an estimate of a future period's costs using the second preceding year's financial statements. These rates will not be subject to revision and should be applied to all eligible expenditures for the fiscal year for which they were approved. However, differences between the estimated indirect cost and actual indirect costs will be carried forward in calculating the second preceding year.

By state law, school districts have to prepare and file year-end financial statements for the applicable school year on or before the 15<sup>th</sup> day of October. The indirect cost rate application is derived from the financial information that is uploaded to the FETS. The process of calculating the LEA's indirect cost rates usually begins in the month of April of the current FY. The individual indirect cost rate applications are extracted from FETS and are mailed to the school districts for review. Districts are required to review the applications and to address any questions that relative to the data submission process, and to correct coding issues at the LEA level, if so identified. When all LEAs finalize their annual data submissions, and when the data and reports generated by the data are reviewed for accuracy, the indirect cost rates are calculated and published on the department's website. Applications are considered calculation-ready, when each application is returned, accompanied by the Superintendent's signature.

The information used in determining the indirect rate was taken from the Indirect Cost Rate Application that was submitted by the district (LEA). All data on this from can be cross-referenced to the Superintendent's Annual Report to the Department of Education for fiscal year 2013-14 and are in conformance with the Mississippi Accounting Chart of Accounts.

The MDE calculates both the "restricted" and "unrestricted" cost rates. The "restricted" rate is for use with grants subject to the "supplement but not supplant" legislative restrictions. The "unrestricted" rate applies to grants not subject to the "supplement but not supplant" legislative restriction.

### **Computation of Indirect Cost**

$$\text{Restricted Rate} = \frac{\text{Carry-forward} + (B)}{(A) + (C)}$$
$$\text{Unrestricted Rate} = \frac{(B) + (E) + \text{Carry-forward}}{(A) + (C) - (E)}$$

Historically expenditures by function and object in LEAs remain consistent over time, giving the Department of Education reasonable assurance that the rate calculated based

on expenditures reported in a base year will not exceed the rated based on actual costs in the second preceding year. The LEA rates are calculated using the aforementioned formula, and are then mailed to the respective LEA.

Applying the maximum restricted rate against the direct costs of the award will generate the maximum indirect costs that may be recovered from the award. Indirect cost recoveries are that portion of the grant funding that are used to support the indirect costs of the program. The maximum restricted rate calculated for a program year may be applied to allowable expenditures from the award in that year. If the grant award contains costs that are excluded or unallowed from the direct or indirect cost base, the direct cost base of the award will be modified to reflect the elimination of these costs from inclusion in the indirect cost reimbursement calculation. The indirect cost recovery is calculated by multiplying the direct cost base by the indirect cost rate. Currently, Mississippi does not place a cap restriction on the restricted or unrestricted indirect cost rates.

### **Application of Predetermined Rate**

If indirect cost collections are below \$1,000 annually and the district makes a request, the State Department of Education will consider setting a predetermined rate for that district in an effort to reduce the amount of paperwork and record keeping involved in calculating an indirect cost rate. For FY16, the districts requesting the predetermined rate are as follows: **(1)** Calhoun County School District, **(2)** Enterprise School District, and **(3)** Amory School District. The annual costs collections for each school district are reviewed for compliance with the \$1,000 annual limitation before rates are issued to the school districts.

Effective with the FY16 school year, the Mississippi Department of Education will have two new charter schools starting operation: **(1)** Reimagine Prep-Charter and **(2)** Midtown Public-Charter.

The Mississippi Department of Education has been advised by USOE to use either the pre-determined rate or to use the rate of the district in which the charter school resides when calculating the restricted and unrestricted indirect cost rates.

## **Conclusion**

The methodology propose by the Mississippi Department of Education conforms to the guidelines established by the U.S. Department of Education for the preparation of indirect cost rates. These guidelines have been provided in the publication *U.S. Department of Education Cost Allocation Guide for State and Local Governments*.