



SUPERINTENDENT OF PUBLIC INSTRUCTION

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BULLETIN NO. 024-18 SCHOOL APPORTIONMENT AND FINANCIAL SERVICES

TO: Educational Service District Superintendents
School District Superintendents
School District Business Managers

FROM: Chris Reykdal, Superintendent of Public Instruction

RE: Addendums to the School District Accounting Manual for the 2017–18 School Year

CONTACT: Paul Stone, Supervisor, School District and ESD Accounting
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PURPOSE/BACKGROUND

Since its publication in August 2017, changes have become necessary to the *Accounting Manual for Public School Districts in the State of Washington (Accounting Manual)* for the 2017–18 school year.

This Bulletin includes:

- Guidance in Chapter 2, advising school districts that the annual budget development process shall include the creation and maintenance of a four-year budget plan.
- Updated guidance in Chapter 3 on indirect rates recommended by the U.S. Department of Education (ED).
- Modification of the guidance to prepare the Schedule of Expenditures of Federal Awards (SEFA.) SEFA preparation is applicable to all districts. Minor narrative edits have been made to Chapter 8 and Chapter 10, where the SEFA is referenced.
- ESSA released guidelines for supplement-not-supplant (SNS) applicable to Title I, Part A. Chapter 10 guidance is modified.
- In Appendix E, the To-From Transportation guidance has been modified. This guidance extends to the Transportation Long-Form Tool which most districts are required to complete.

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INFORMATION AND ASSISTANCE

For questions regarding this bulletin, please contact Paul Stone, Supervisor of School District and ESD Accounting at 360-725-6303 or by email at paul.stone@k12.wa.us. The OSPI TTY number is 360-664-3631.

This bulletin is also available on the OSPI website at <http://www.k12.wa.us/BulletinsMemos/bulletins2018.aspx>.

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The following are addendums to the 2017–18 *Accounting Manual*:

CHAPTER 2 – Budgeting

- **Page 2-2, BUDGET PREPARATION:** Guidance is added to advise school districts that the annual budget development process shall include the development or update of a four-year budget plan.

Budget Preparation

The annual budget development process shall include the development or update of a four-year budget plan that includes a four-year enrollment projection. The four-year budget plan must include an estimate of funding necessary to maintain the continuing costs of program and service levels and any existing supplemental contract obligations. The completed budget must include a summary of the four-year budget plan and set forth the complete financial plan of the district for the ensuing fiscal year (RCW 28A.505.040).

CHAPTER 3 – Accounting Guidelines

- **Page 3-57, INDIRECT COST LIMITS, CARRYOVER, AND RECOVERY:** The rules and procedures to calculate a school district's Indirect Rates are updated to comply with Uniform Grant Guidance. Guidance has been modified in this section and reads as follows.

Federal Programs

Indirect expenditure rates allowed on federal grants awarded to school districts are established by the Office of Superintendent of Public Instruction (OSPI) following an agreement with the U.S. Department of Education (ED). This agreement prescribes the method of rate computation and the resulting rates establish the maximum amount of indirect expenditures that may be claimed for a federal grant.

Restricted Versus Unrestricted Indirect Expenditure Rates

One fixed with carry-forward indirect cost rate is calculated for each district for all of its restricted federal grants and another fixed with carry-forward indirect cost rate is calculated for all of its unrestricted federal grants. Rates are annually computed for each district and

are unique for each district. Questions regarding restricted and unrestricted rates should be made to School Apportionment and Financial Services.

Restricted rates are used with grants where “supplement but not supplant” language is in the authorizing legislation. Almost all federal programs fall into this category. Restricted rates must be used for all federal programs except those for which the restricted rate is not required.

Unrestricted indirect cost rates are used for the few federal grants that allow its use. Generally these are grants without supplement not supplant limitations. The calculation for the unrestricted rate is similar to the restricted rate except expenditures for maintenance and grounds are included, resulting in a higher rate. Direct expenditures for determining both federal restricted and unrestricted rates consist of all other General Fund expenditures except those distorting items for capital outlay and interest which are excluded from the calculation.

How the Federal Indirect Expenditure Rates Are Computed

In general the computation for an indirect expenditure rate is: Indirect Expenditure Pool divided by the Direct Expenditure Base. Uniform Guidance outline many factors regarding the classification of costs. Some of these factors are described later in this section.

Federal indirect expenditure rates for the current year are based upon financial information in each school district’s annual financial statement, SPI Form F-196, for the 2 years prior to the current year. Therefore, the rates depend upon base-year data that are two years old.

An indirect expenditure rate determines what proportion each grant or contract shall bear of the joint or common expenditures benefiting all school district programs. These expenditures are specifically allowed by the U.S. Department of Education to be allocated to all other school district programs.

Certification and Documentation of the Federal Indirect Cost Rate Proposal

All school districts must prepare an indirect cost rate proposal (proposal) within six months after the close of the fiscal year end or by a date approved by OSPI. The proposal will include documentation to support the indirect cost rates and must be retained for audit in accordance with the records retention requirements contained in §200.333. Every school district’s proposal must be accompanied by a certificate signed on behalf of the school

district by an individual at a level no lower than assistant superintendent or chief financial officer of the school district that submits the proposal.

Required Elements of the School District's Federal Indirect Rate Cost Proposal

A school district's proposal must include the following required elements:

- The annual submission of the school district's financial data reported on OSPI's Annual Financial Report, F-196
- The rates proposed, including other relevant data embedded in the F-196
- An Organizational Chart showing the structure of the school district along with a functional statement noting the duties or responsibilities of all units that comprise the school district.
- A Certificate of Indirect Costs

Federal Indirect Rate Cost Proposal

The following federal indirect rate cost proposal format is provided as an example for school districts. A school district may customize the format. The documentation should be retained by the district and available for program review and audit purposes.

The _____ School District is presenting the following documentation in support of our Federal Indirect Rate Cost Proposal for the fiscal year 20X8 – X9

Proposed Federal Restricted Rate	XX.XX%
Proposed Federal Unrestricted Rate	XX.XX%

Relevant data and the methodology which supports the proposed rates are included as supplementary schedules embedded in the school district's Annual Financial Report, F-196, submitted to OSPI per WAC 392-117-035.

An Organizational Chart showing the structure of the school district along with a functional statement noting the duties or responsibilities of all units that comprise the school district is attached.

Required certification of the Federal Indirect Cost Rate Proposal is attached.

Certificate of Indirect Costs

The following Certificate of Indirect Costs format is provided as an example for school districts. A school district may customize the format. The documentation should be retained by the district and available for program review and audit purposes

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

(1) All costs included in this proposal, dated [identify date], to establish final indirect cost rates for fiscal year [identify period covered by rate] are allowable in accordance with the requirements of the Federal award(s) to which they apply and the provisions of this Part. Unallowable costs have been adjusted for in allocating costs as indicated in the indirect cost proposal.

(2) All costs included in this proposal are properly allocable to Federal awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government will be notified of any accounting changes that would affect the predetermined rate.

I declare that the foregoing is true and correct.

School District:

Signature:

Name of Official:

Title:

Date of Execution:

Classifications of Costs

Indirect costs are those not readily identifiable with the activities of the grant, but incurred for the joint benefit of those activities and other activities of the organization. In general, indirect costs are selected administrative and service expenditures in Program 97 Districtwide Support. Typical examples of indirect costs may include procurement, payroll, personnel functions, maintenance and operations of space, data processing, accounting, auditing, budgeting, printing, warehousing and distribution, communications (telephone,

postage), and selected expenditures that can be documented as allowable costs to be included into the indirect expenditure cost pool.

In accordance with 2 CFR Part 200.414, indirect costs are: (a) Incurred for a common or joint purpose benefiting more than one objective; and (b) Not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved.

The uniform guidance specifically references what costs may be included within the direct base for fair sharing of the rate within 2 CFR 200.413. Any item not on this listing are unallowable costs and explicitly excluded from the indirect cost pool. Examples of unallowable costs include: bad debts, contingencies, entertainment, fines/penalties, and general governance.

According to CFR 200.444, certain General Management Costs are unallowable costs and must not be included in the indirect cost pool. These costs are to be included in the base calculation. Washington state school district organizational structures vary greatly and it is the school district's discretion to determine what constitutes its general management costs. Within the CFR guidance, the expenditures that cannot be included in the Indirect Cost Pool for a school district include:

1. The governing body (members of the board of education).
2. Compensation of the chief executive officer (Superintendent of the school district).
3. Compensation of the Heads of Component Offices (Top Executive-Level positions of the school district).
4. The operation of the immediate offices of these officers (Executive Assistants and associated costs).

Salaries, benefits (including termination leave payouts), communications/telephone charges, and other expenditures related directly to the operation of the superintendent's office, the Heads of Component Units of the school district, and board of education offices, specifically, are not included in indirect costs and are considered, for rate purposes, to be unallowable costs in the calculation of the Restricted Indirect Cost Rate.

A cost may not be allocated to a federal program as an indirect cost if any other costs incurred for the same purpose, in like circumstances, has been assigned to a federal program as a direct cost.

OMB Uniform Grants Guidance requires distorting items to be excluded from the distribution expenditure base in the indirect cost computations. Examples of extraordinary or distorting costs include capital outlay, debt service, judgements, and certain transfers. Subaward payments (an award provided by a pass-through entity to a subrecipient to carry out part of a Federal award, not including payments to contractors for goods and services) in excess of the first \$25,000 are distorting items and also excluded from the indirect cost rate calculation.

Indirect Expenditures for Cooperative Projects

When there is a cooperative project, the indirect expenditure rate of the administering district is to be used on all direct expenditures claimed in the cooperative project. The indirect expenditure reimbursement is paid to the administering district.

CHAPTER 8 – Financial Reporting

- **Page 8-10, SEFA:** A SEFA is required to be prepared by all districts. A minor narrative edit is made in Chapter 8 where the SEFA is referenced.

Schedule of Expenditure of Federal Awards (SEFA)

A Schedule of Expenditure of Federal Awards (SEFA) must be prepared by all districts that receive federal funds. It is required to be included as supplementary information with the audited financial statements.

CHAPTER 10 – Federal Grants Management

- **Page 10-15, SEFA:** A SEFA is required to be prepared by all districts. A minor narrative edit is made in Chapter 10, where the SEFA is referenced.

Schedule of Expenditures of Federal Awards

All school districts receiving federal funds must prepare a Schedule of Expenditures of Federal Awards (SEFA), regardless of the minimum federal award threshold to receive a single audit. The SEFA lists expenditures for individual federal programs by federal agency and is used by auditors to help determine which federal programs will be audited. It is important that it is complete and accurate. The SEFA is included in the audit report, and the auditor must opine on whether it is fairly stated in all material respects.

CHAPTER 10 – Federal Grants Management

- **Page 10-8, Supplement, Not Supplant (SNS):** the narrative in this section is modified to include new SNS guidance under ESSA for Title 1, Part A. The three presumptions of supplanting is still applicable guidance for other federal programs.

Supplement Not Supplant (SNS) for Title 1 Part A

ESSA revised the Title I, Part A supplement not supplant (SNS) requirement. Under ESSA, compliance with SNS under Title I, Part A will no longer be tested through individual costs. School Districts no longer have to consider the “three presumptions of supplanting.”

Under ESSA, School Districts meet compliance under SNS by demonstrating that the methodology they use to allocate state and local funds to schools provides each Title I, Part A school with all of the state and local money it would receive if it did not participate in the Title I, Part A program.

School Districts are responsible for developing and documenting a methodology to distribute state and local funding and staffing to schools without taking Title I, Part A funds into account. School Districts will **not** be submitting their methodology to OSPI for approval. This SNS methodology must be in place prior to the 2018–19 school year and before the allocation of the federal award. School District documentation must be available for Program review and for auditing purposes.

For additional fiscal information on Title 1 Part A, a Program Fiscal Handbook is available on the OSPI website www.k12.wa.us/TitleI/pubdocs/TitleIPartAESSAFiscalHandbook.pdf.

APPENDIX E – Additional Accounting Guidance

- **Page E-1 TO-FROM TRANSPORTATION:** The guidance in this section has been modified. The most significant changes are in the section describing the Transportation Long-Form, below.

TO-FROM TRANSPORTATION

School districts are required by RCW 28A.160.160 (3) to isolate and report the costs of transporting eligible students to and from school in their annual financial statement. The transportation funding system is based upon the accuracy of costs reported in the financial

statements. Throughout the school year, transportation services support school programs and those costs are all initially charged to Program 99. A methodology has been created to ensure districts report the necessary data for the student transportation funding system.

The methodology consists of a two-step process. First, there is the consistent calculation of the non-to-and-from transportation amounts. Second is the consistent application of the debit-credit transfer process to remove those costs from Program 99. **The application of this two-step process results in isolation of state to-and-from school transportation costs in Transportation Program 99.** For contracted transportation services, the charges are based upon contractor billings and costs will be direct charged to the appropriate program.

Identification of Costs

The goal of this guidance is to identify the costs that exist within a student transportation program, and then further identify what costs should be transferred out of the program because they do not pertain to the transportation of students to or from school. Within Program 99, there are three types of expenditures or costs: core, incremental, and direct.

Core costs are central to a student transportation program and would be incurred whether or not the district engages in any non-to-and-from transportation. Core costs are not transferred out of the Program 99. Core costs include the costs involved with the training of new school bus drivers, training costs for school bus driver instructors, and other costs necessary providing student transportation services.

Incremental costs are incurred for both to-and-from transportation as well as non-to-and-from transportation. Incremental costs go up or down incrementally dependent upon the number of bus trips. For example, adding a new route for schools incurs additional fuel, as does adding trips for student athletes. These costs are allocated between to-and-from and non-to-and-from transportation based on the total number of miles driven for each activity.

Direct costs are similar to incremental costs since they increase as the Transportation Department performs more non-to-and-from and non-student transportation activities. These costs are allocated between to-and-from and non-to-and-from based on either miles driven or driver hours. Direct costs for non-student transportation costs are removed from Program 99 as expenditure reimbursements. An example would be when the Maintenance Department purchases fuel from the Transportation Department fuel station. The cost to fill the fuel station is charged to Program 99; the Maintenance Department then reimburses Transportation for this direct cost.

Accounting for Non-To-and-From and Non-Pupil Transportation

The intent of the Legislature is to ensure that only the costs directly relating to to-and-from school transportation of students are reported in Program 99 at year end. However, costs that should belong in another program may be initially charged to Program 99 and subsequently transferred to another program as described below.

Non-pupil transportation (NPT)

Non-pupil transportation (NPT) expenditures are those expenditures that are not related to student transportation vehicles or activities. These expenditures may be initially coded to Program 99, and could include motor pool expenditures, grounds equipment maintenance costs, fuel used by vehicles other than yellow buses, labor spent on activities other than yellow buses, and maintenance work done through an inter-local agreement.

NPT expenditures should not remain in Program 99 at year end. Districts must move the costs by an “expenditure reimbursement” journal entry, crediting the account code originally charged and then debiting the costs into the appropriate program. This is not done through the debit-credit transfer process, which leaves the base costs intact; and affects the cost pool for allocating non-to-and-from costs. Only by directly reducing the Program 99 expenditures will the costs be taken out appropriately.

Non-to-and-from transportation

Non-to-and-from transportation expenditures may be coded directly to the appropriate program, but are typically coded to Program 99 initially. Later, these costs are moved out of Program 99 using the debit-credit transfer process based upon the calculations of one of two forms (described below). The costs that are transferred out of Program 99 using Object 1 and transferred into the using program, as determined by the district using Object 0. In the event a suitable program cannot be determined, districts will transfer the costs to Program 89 Other Community Services.

Calculating State-Funded and Non-State-Funded Pupil Transportation Costs

OSPI has developed two forms for the purposes of calculating state-funded (to-and-from school) and non-state-funded (non-to-and-from school) transportation costs. Consistent application of these forms is essential to providing meaningful comparable data on school district transportation costs. Both forms are available on the School Apportionment and Financial Services webpage at <http://www.k12.wa.us/safs/tt/tools.asp>.

The first form is called the **Short-Form**. This form is an optional, one-step calculation based solely on total costs per mile. It is used at year-end to determine what level of costs need to be transferred out of Program 99 for non-to-and-from transportation. Only Class II districts that do not contract for pupil transportation services, and that do not generally direct-charge pupil transportation costs to a program other than 99 are allowed to use the Short-Form process. The Short-Form is done at year-end, so current-year mileage and expenditures are used.

The second form is called the **Long-Form**. This form is a two-step calculation based upon vehicle costs per mile, plus driver costs per hour. The long-form must be used by Class I districts and by any Class II districts that either do not meet the criteria to use the short-form or choose not to use the short-form. Use of the long-form allows for charges to other programs throughout the year. The Long-Form is not applicable for contracted transportation services.

The Long-Form is completed at the end of the fiscal year and it serves multiple purposes. The primary intent of the Long-Form is to calculate the total cost of non-state-funded trips incurred in the current year. This amount should have been charged out throughout the year to other programs in the debit-credit transfer process.

Current year mileage from the School Bus Mileage Report, prepared by the district's Transportation Department, and current year expenditures are needed to complete the Long-Form.

When the Long-Form is completed, the amount representing the "Total Cost of Non-State-Funded Trips" on Line 18 of the Long-Form is compared to Program 99, Activity 59, Object 1, the credit transfers to other programs. When compared, an immaterial variance is expected; and typically exists when a trip rate used throughout the year estimates trip costs. A final adjusting entry is created to debit or credit the variance to Program 89 Other Community Services.

The Long-Form can also be used to create a standard trip rate for subsequent trip billings using the two variables created on the Long-Form: "Operating Costs per Mile" plus an average "Cost per Hour of Driver." The inflation factors provided can be used to determine a future operating cost per mile. A standard trip rate creates equity in the amounts charged to all Programs utilizing transportation services and also allows Programs to accurately budget the cost of future trips.

The Long-Form template can be used throughout the subsequent fiscal year to determine if a variance exists between the year-to-date Credit-Transfers and the amount reported at the

bottom of the Long-Form. Up-to-date mileage, and Program 99 expenditures are used for this purpose. This allows management to adjust trip rates if necessary.

School districts should take care to only include Incremental Costs and Direct Costs in the Long-Form; Core Costs should be excluded. Core Costs included on the Long-Form decrease the Transportation Allocation and shift the funding burden to Basic Education. The various types of costs are described above in the section titled: Identification of Costs.

The Transportation Long-Form and instructions are maintained on the OSPI SAFS webpage at <http://www.k12.wa.us/safs/tt/tools.asp>.

Modifications made to the Transportation Long-Form Tool and Instructions

- The instructions for the Transportation Long-Form are removed from Appendix E.
- The Long-Form Excel spreadsheet is reformatted to one page.
- Minor modifications were made to the instructions; include the following note:

Note 4: The hourly rate for drivers can be reduced by certain employee benefits. If an employee benefit does not incrementally increase based upon hours worked, it is a core cost and the total cost of this employee benefit is applicable to Program 99. Permissive benefits like medical, dental, and vision are generally considered core costs. Other employee benefits, such as payroll tax, retirement, and workers comp are retained in the hourly rate calculation because they incrementally increase based upon hours worked.