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GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

MICHAEL P. FLANAGAN
SUPERINTENDENT OF
PUBLIC INSTRUCTION

January 26, 2012

MEMORANDUM

To: Local and Intermediate School District Superintendents, School Business Officials, and Public School Academy Directors

From: Carol L. Wolenberg, Deputy Superintendent *Carol*

Subject: Interest Earned on Federal Funds – Notice of Policy

Code of Federal Regulations, Title 34 –Education, Part 80 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, Subpart C – Post Award Requirements, Section 80.21 Payment, requires grantees and sub-grantees to promptly, but at least quarterly, remit interest earned on advances to the federal agency. The grantee or sub-grantee may keep interest amounts up to \$100 per year for administrative purposes.

Since the Michigan Department of Education's (MDE) policy is to make payments to districts and charter schools on a reimbursement basis, there is generally no interest liability to the federal government. However, there are instances when districts and charters do not follow MDE policy. When this happens, interest liability must be calculated and remitted to MDE. To ensure compliance with federal administrative requirements, school district and charter school fiscal officials are required to develop internal controls and sound methodology to calculate and return interest earned in excess of \$100 on federal program funds. Interest calculation methodologies must be based on actual, not estimated, interest earnings on federal funds. In calculating federal interest, it may be helpful to consider the attached guidance.

Please keep in mind that grantees and sub-grantees are prohibited from reducing or offsetting federal interest earnings for the temporary use of non-federal cash resources for federal programs. For example, although a sub-grantee may have temporarily supported a federal program with non-federal funds, the amount of interest that the sub-grantee could have earned on those non-federal funds cannot off set or be netted against the interest earned on the unspent funds of that or another federal program.

If you have any questions regarding the administrative requirements for interest earned on federal funds, please contact Mr. Craig Thurman, Assistant Director, Office of Financial Management, at (517) 373-2810, or by email at thurmanc@michigan.gov.

cc: Michigan Education Alliance

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MICHIGAN DEPARTMENT OF EDUCATION
Guidance on Calculating Interest on Federal Funds

The following guidance are designed to assist the Michigan Department of Education (MDE) federal program grantees and sub-grantees in calculating interest on unspent federal program cash advances.

Calculating Interest When Federal Cash is or can be Segregated from Other Grantee Resources

If federal funds are maintained in a manner in which the grantee or sub-grantee can specifically determine the amount of interest earned on federal funds for a particular period (at least quarterly), then that is the interest amount that should be reported and remitted to MDE. The interest due on the unspent federal cash balances should reflect the actual amount of interest earned on the unspent federal program funding advances. Therefore, interest calculations should be based on the applicable interest rates applied to the actual federal cash held in the grantee's bank account.

Calculating Interest When Federal Cash is Drawn in Advance for a Single Program and the Amount does not change

If federal funds are drawn in advance for a single program and the unspent amount does not change during the period then interest is calculated using a simple interest calculation as follows: Amount of unspent advance (x) current interest rate / 365 days (x) number of days outstanding = interest due.

Calculating Interest When Federal Cash is Pooled with Non-Federal Funds

If federal funds are pooled with non-federal funds in the grantee's bank account, then the grantee must reasonably determine the federal portion of total earned interest for the period. Since the amount of federal cash available for program costs can change daily, the grantee should apply applicable interest rates to the reporting period's average daily federal cash balances. Average daily federal cash balances can be calculated by combining all federal program cash, both negative and positive, for each day of the reporting period, then dividing by the actual number of days in the reporting period. If the combined federal cash available under this approach is negative for any day during the period, the grantee must record the average daily federal cash balance as zero to avoid reducing or offsetting federal interest earnings for the temporary use of non-federal cash resources for federal programs. (See attachment A).

If the grantee includes non-federal match funding in the federal program resources, then the grantee may reduce the daily federal cash balances by the corresponding proportionate share of required cash match for each program.

Reporting and Remitting Federal Interest

MDE federal program grantees are required to report and remit interest to the MDE at least quarterly. Although grantees are allowed to keep interest amounts up to \$100 per year for administrative purposes, the \$100 is in total for all programs, not for each federal program. When reporting and remitting federal interest to the MDE, grantees should specify the time period of interest earning and the federal program resource codes.

Interest on federal cash balances should be sent to the MDE at the following address:

Michigan Department of Education
P.O. Box 30106
Lansing, MI 48909
Attention: Cashier's Office

Interest on Federal Cash Balances
(Sample Calculation Methodology)

Date	Federal program				Combined Daily Balance
	A	B	C	D	
12/01/11	\$ 500	\$ 300	\$ 400	\$ 200	\$ 1400
12/02/11	500	300	400	200	1400
12/03/11	500	300	400	200	1400
12/04/11	500	300	*(400)	200	600
12/05/11	500	300	*(400)	200	600
12/06/11	500	300	*(400)	200	600
12/07/11	500	300	*(400)	200	600
12/08/11	500	300	*(400)	200	600
12/09/11	200	300	*(400)	*(200)	**0
12/10/11	200	300	400	*(200)	700
12/11/11	200	300	400	*(200)	700
12/12/11	200	300	400	*(200)	700
12/13/11	200	300	400	*(200)	700
12/14/11	200	300	400	*(200)	700
12/15/11	200	300	400	*(200)	1100
12/16/11	200	300	400	200	1100
12/17/11	200	300	400	200	1100
12/18/11	200	*200	400	200	600
12/19/11	200	*200	100	200	300
12/20/11	100	*200	100	200	200
12/21/11	100	*200	100	200	200
12/22/11	100	*200	100	200	200
12/23/11	100	*200	100	200	200
12/24/11	100	*200	100	200	200
12/25/11	100	*200	100	200	200
12/26/11	100	*200	100	200	200
12/27/11	100	*200	100	200	200
12/28/11	100	0	100	200	400
12/29/11	100	0	100	200	400
12/30/11	100	0	100	0	200
12/31/11	100	0	100	0	<u>200</u>

Total of all Daily balances in Reporting Period \$17700

Step 1: Divide actual number of days in reporting period to derive 31 Days

Average Daily Balance \$571

Step 2: Multiply by County Treasurer Interest Rate to derive 2.4267% APR

Annual Interest Amount \$14

Step 3: Divide interest amount by number of days in year to derive 365 Days

Daily Interest Amount \$0.038

Step 4: Multiply by number of days in reporting period to derive 31 Days

Total Federal Interest Due: \$1.18

*In this example, negative federal program cash balances are assumed to be the result of costs paid by cash from other federal programs.

**In this example, the combined daily cash balance is negative \$100; however, for federal interest calculation purposes, combined daily cash balances cannot be negative. Negative combined daily balances would reduce or offset federal interest earnings due to the temporary use of non-federal cash resources. Therefore, any negative combined daily balances should be zero in calculating interest on federal cash balances.