



State of Connecticut

OFFICE OF POLICY AND MANAGEMENT

COST STANDARDS

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Issued September 1, 2006
Revised: October 21, 2016

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Acronyms & Abbreviations

A&G	Administrative & General (costs)
CAP	Cost Allocation Plan
ERISA	Employment Retirement Income Security Act (federal)
FLSA	Fair Labor Standards Act (federal)
GAAP	Generally Accepted Accounting Principles
IRS	Internal Revenue Service (federal)
OMB	Office of Management & Budget (federal)
PA	Public Act (State)
PL	Public Law (federal)
POS	Purchase of Service
U.S.C.	United States Code

User Note

Certain key words used in this document are defined as follows:

- *can* – means “am (is, are) able” to do, make, or accomplish; not used as a substitute for “may”
- *may* – indicates permissible, but not required, tasks or actions
- *must* – indicates tasks or actions required by the cost standards
- *shall* – indicates tasks or actions required by the cost Standards
- *should* – indicates tasks or actions that are recommended, but not required, by the cost standards
- *will* – indicates anticipated or future actions, not required actions

INTRODUCTION

Purpose

This document establishes standards for determining the costs of contracts, grants, and other agreements with organizations that receive funding from the State of Connecticut.

Applicability

These cost standards must be used by all State agencies in determining the costs incurred by organizations under State awards. For purposes here, *State award* is defined as a fully executed POS contract, grant, cooperative agreement, cost reimbursement contract, or other contract for the purchase of health or human services between a State agency and an organization.

These cost standards:

- (1) apply to both recipients and sub-recipients of State awards;
- (2) supersede any cost standards, policies, or procedures issued by a State agency;
- (3) do not supersede federal or State statutes or regulations.

Purchase of Service (POS) Contracts

A *POS contract* is a contract between a State agency and an organization for the purchase of ongoing direct health and human services to agency clients. The contract generally is not used for the purpose of purchasing administrative or clerical services, material goods, training, or consulting services. POS contracts are to be used to contract with nonprofit and proprietary corporations as well as partnerships, but cannot be used to contract with individuals.

Responsibilities

All State agencies entering into contracts, grants, or other agreements with organizations that receive funding from the State of Connecticut must implement the provisions of these cost standards.

Waiver

The Secretary of the Office of Policy and Management reserves the right to waive these cost standards, in whole or in part, when it is determined to be in the best interest of the State of Connecticut.

Sections

The cost standards and related policy guidelines are set forth in the following sections:

- Part I. General Principles
- Part II. Items of Cost
- Glossary of Terms

Effective Date

These cost standards are effective January 1, 2007 and must be incorporated into the provisions of State awards according to the following time frames:

All new State awards effective on or after January 1, 2007. All contract amendments modifying funding effective on or after January 1, 2007. All State awards effective on or after July 1, 2007

Inquiries

For further information concerning these cost standards, contact:

Executive Finance Officer
Office of Finance
Office of Policy and Management
450 Capitol Avenue Hartford,
CT 06106

PART I. GENERAL PRINCIPLES

A. Basic Considerations

(1) Factors Affecting Allowability of Costs

To be allowable under a State award, costs must meet the following general criteria:

- a. Be applicable to the State-sponsored program;
- b. Be reasonable for the performance of the State award and be allocable thereto under these cost standards;
- c. Conform to any limitations or exclusions set forth in these cost standards or in the State award as to types or amount of cost items;
- d. Be consistent with policies and procedures that apply uniformly to both State-funded and other activities of the organization;
- e. Be accorded consistent treatment; A cost may not be assigned to a State award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the State award as an indirect cost.
- f. Be determined in accordance with Generally Accepted Accounting Principles (GAAP);
- g. Not be included as a cost or used to meet cost sharing or matching requirements of any other State award in either the current or a prior period;
- h. Be net of all applicable credits [see Part I, Section 4];
- i. Be adequately documented.

(2) Documentation of Costs

Allowable costs must be adequately supported by invoices, cancelled checks, wire transfers, or other forms of documentation evidencing a disbursement and substantiating that a cost was incurred by the organization during the period of the State award.

Supporting documentation must demonstrate that the cost was incurred as a direct, allocable as direct, or administrative and general (A&G) cost in support of the State award.

The absence of adequate supporting documentation may render a cost unallowable.

(3) Reasonable Costs

A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs. In determining the reasonableness of a given cost, consideration must be given to:

- a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the State award;

b. The ~~con~~straints or requirements imposed by such factors as generally accepted sound business practices, arm's length bargaining, ~~F~~federal or State laws or regulations, ~~or~~ terms and conditions of the State award;

~~ce.~~ Whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees, clients, the public at large, and the State;

~~ed.~~ Significant deviations from the established practices of the organization that may unjustifiably increase costs to the State award.

(4) Applicable Credits

Applicable credits is defined as receipts or reduction ~~of~~ expenditures that operate to offset or reduce expense items that are allocable to awards as direct, allocable as direct, or A&G costs. Examples of such transactions include, but are not limited to, purchase discounts, rebates or allowances, client payments for participation in State-sponsored programs, recoveries or indemnities on losses, insurance refunds, or adjustments of overpayments or erroneous charges. To the extent that such credits accruing or received by the organization relate to an allowable cost, they must be credited to the State either as a cost reduction or cash refund, as appropriate.

In some instances, the amounts received from the State to finance organizational activities or service operations must be treated as applicable credits. For example, the concept of netting such credit items ~~against~~ related expenditures must be applied by the organization in determining the rates or amounts to be charged to the State award for services rendered whenever the facilities or other resources used in providing such services have been financed directly, in whole or in part, by State funds [see Part II, Item 13].

Program income, less adjustments, must be offset against the cost of State-funded expenses, in accordance with the terms and conditions of the State award.

Expenses related to restricted donations must be offset against restricted donation revenues.

B. Cost Allocation Plan

(1) Definition

The purpose of the cost allocation plan (CAP) is to summarize, in writing, the methods and procedures the organization will use to allocate costs to benefiting programs and activities. Only costs that are allowable, in accordance with these cost standards, shall be allocated to the State award. The CAP must include provisions for allocating allocable as direct costs [see Part I, Section C(4)], A&G costs [see Part I, Section D], and salaries and wages [see Part II, Item 8a(3), General section]. The plan must be initially approved by the Board of Directors for inclusion in the organization's official policies and procedures.

Although there are different methodologies available for allocating costs, the methodology used must result in a reasonable and equitable distribution of costs to programs and activities based upon the benefits received. Specific methods for allocating costs are determined by the organization receiving funding from the State. Organizations must have a system in place to

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equitably allocate costs. All costs and other data used to distribute costs in the CAP must be

supported by accounting and other records that ensure the propriety of costs assigned to the State award. Once an organization establishes an allocation methodology, it must be used consistently over time. The CAP must be retained on file for audit and made available to State agencies, upon request.

(2) Revisions to the Plan

The CAP must be reviewed on an annual basis and updated, as necessary, to reflect any changes in the allocation methodology. Significant changes to the allocation methodology require approval of the Board of Directors. Such changes must result in a more equitable distribution of costs. Justification for changes must be documented and supported by actual cost data.

C. Composition of Total Costs

(1) Definition

The total cost of the State award is the sum of the allowable direct costs, allocable as direct costs, and allocable A&G costs, less any applicable credits.

(2) Classification of Costs

There is no universal rule for classifying certain costs as either direct, allocable as direct, or A&G under every accounting system. Therefore, it is essential that each item of cost be treated consistently in like circumstances as a direct, allocable as direct, or A&G. The guidelines for determining direct, allocable as direct, and A&G costs charged to State awards are provided below.

(3) Direct Costs

Direct costs are those that can be specifically identified with a particular final cost objective (i.e., a particular program or activity) of the organization. Costs identified specifically with State awards are direct costs of the awards and are to be assigned directly thereto. Costs identified specifically with other final cost objectives of the organization are direct costs of those cost objectives and must not be assigned to State awards as direct, allocable as direct, or A&G costs.

The costs of certain activities are unallowable as charges to State awards [see Part II, Item 20]. Even though these costs are unallowable for purposes of computing charges to State awards, they must be treated as direct costs and be allocated their share of the organization's A&G costs if they represent activities that (1) include the salaries of personnel, (2) occupy space, or (3) benefit from the organization's A&G costs.

The costs of activities performed primarily as a service to members, clients, or the general public when significant and necessary to the organization's mission must be treated as direct costs whether or not allowable and be allocated an equitable share of A&G costs. Examples of these types of activities include:

- a. Maintenance of membership rolls, subscriptions, publications, or related activities;

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- b. Providing services or information to members, legislative or administrative bodies, or the public;

- c. Promotion, lobbying, or public relations;
- d. Meetings or conferences, except those held to conduct the general administration of the organization;
- e. Maintenance, protection, or investment of special funds not used in the operation of the organization;
- f. Administration of group benefits on behalf of members or clients, including life or health insurance, annuity or retirement plans, financial aid, etc.

(4) Allocable as Direct Costs

Allocable as direct costs are joint costs that are allocated directly to two or more programs or activities. A cost is allocable as direct to a particular cost objective, such as a program or activity, in accordance with the relative benefits received. A cost is allocable as direct to a State award if it:

- a. Benefits more than one program or activity and can be distributed in reasonable proportion to the benefits received. For example, the costs of a program manager who oversees both a residential program and a day program are allocable as direct to the two programs;
- b. Is allowable under these cost standards;
- c. Is not specifically incurred for activities in another state.

Organizations must document their allocation methodologies for allocable as direct costs in the CAP [see Part I, Section B]. The CAP must identify each type of allocable as direct cost that allocates costs to the organization's programs and activities. The CAP must document the percentage distribution of each allocable as direct cost to the benefiting programs and activities.

Any cost allocable as direct to a particular award or other cost objective under these principles must not be shifted to other State awards to overcome funding deficiencies or to avoid restrictions imposed by law or by the terms of the State award.

(5) Administrative & General Costs

A&G costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective.

Because of the diverse characteristics and accounting practices of organizations, it is not possible to specify the types of cost that may be classified as A&G costs in all situations. In addition, there is no universal definition of A&G costs in federal OMB circulars, GAAP, or other cost accounting standards. Therefore, for the purposes of these cost standards, A&G is defined as those costs that have been incurred for the overall executive and administrative offices of the organization or other expenses of a general nature that do not relate solely to any major cost objective of the organization. They are costs that by their nature are administrative in support of the overall organization. This category must also include its allocable share of fringe benefit costs, operation and maintenance expenses, depreciation, and interest costs.

For the purposes of clarification, examples of A&G costs include, but are not limited to, the following:

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- a. Business or office management;
- b. Salaries and other expenses (e.g., payroll, taxes, benefits, travel) of executive directors, administrative personnel, or secretaries for portion of time spent administering the general organization's affairs;
- c. Salaries and other expenses (e.g., payroll, taxes, benefits, travel) of employees whose duties consist primarily of general legal services; personnel administration; budget and planning; finance; accounting, auditing or financial reporting; business services; safety or risk management; management information systems; library; record keeping; filing, mail distribution, or other general services;
- d. Providing executive direction and organization planning;
- e. Attending general board, committee, or staff meetings (unless held in connection with specific programs or fundraising activities);
- f. Annual meeting;
- g. Preparation, publication, or distribution of an annual report;
- h. Proportion of costs of training conferences, workshops, or seminars that deal with administration or general topics;
- i. General legal services;
- j. Personnel administration;
- k. Budget and planning;
- l. Finance;
- m. Accounting, auditing or financial reporting;
- n. Business services (purchasing, accounts payable, etc.);
- o. Safety or risk management;
- p. Management information systems;
- q. Library;
- r. Record keeping;
- s. Filing, mail distribution, or other general services;
- t. In addition to staff expenses, proportional office costs (e.g., building occupancy, telephone, office supplies, equipment).

Any A&G costs to a particular award or other cost objective under these standards must not be shifted to other State awards to overcome funding deficiencies or to avoid restrictions imposed by law or by the terms of the State award. Amounts not recoverable as A&G under one State award

must not be shifted to another State award, unless specifically authorized by State legislation or regulation.

(6) Hierarchy of Costs

After (1) direct costs have been determined and assigned directly to the State award or other activities as appropriate and (2) allocable as direct costs have been appropriately allocated to the State award or other activities, A&G costs are those remaining to be allocated to benefiting cost objectives. The following examples are provided for clarification:

a. Example of a direct cost:

Costs of Employee A (salary and other expenses) relate 100% to a State-sponsored residential program. Therefore, allocation of costs for Employee A is 100% to the State-sponsored residential program.

b. Example of an allocable as direct cost:

Costs for Employee B (salary and other expenses) relate 50% to a State-sponsored residential program and 50% to a State-sponsored day program. Therefore, allocation of costs for Employee B is 50% to the residential program and 50% to the day program.

c. Example of both allocable as direct cost and A&G cost:

Costs of Employee C (salary and other expenses) relate 40% to a State-sponsored residential program, 30% to a State-sponsored day program, and 30% to A&G duties. Therefore, allocation of costs for Employee C is 40% to the residential program, 30% to the day program, and 30% to A&G.

d. Example of an A&G cost:

Costs of Employee D (salary and other expenses) relate 100% to A&G duties. Therefore, allocation of costs for Employee D is 100% to A&G.

D. Allocation of Administrative & General Costs

(1) Methodology

Specific methods for allocating A&G costs are determined by the organization receiving funding from the State. The methodology utilized by the organization must result in an allocation that is reasonable and equitable based upon the benefits received by the State-funded program and other activities.

The organization must document its allocation methodology for A&G costs in the CAP [see Part I, Section B]. The CAP must identify each type of A&G cost and each A&G cost pool that allocates costs to the organization's programs and activities. The CAP must document the specific method used to allocate each type of cost or specific cost pool.

(2) Administrative & General Cost Pools

The use of cost pools to distribute A&G costs is an allowable method to allocate costs to State-funded programs. The cost pool methodology must result in an allocation of costs to both State-funded programs and other activities and must be equitable and reasonable to the benefits received.

Direct costs that are applicable to an organization's programs or activities must not be included in any A&G cost pool that result in a charge to a State-funded program.

Part 2 – Items of Cost

Paragraphs 1 through 54 of this section provide principles to be applied in establishing the allowability of certain items of cost. These principles apply whether a cost is treated as direct or indirect. Failure to mention that a particular item of cost is allowable or unallowable does not imply that it is allowed or disallowed; rather, determination as to allowability in such cases should be based on the treatment or principles provided for similar or related items of cost, and based on the principles described in Basic Considerations.

1. Advertising and Public Relations

a. Definitions

- (1) a. The term advertising costs means the costs of advertising media and corollary administrative costs. Advertising media include magazines, newspapers, radio and television, direct mail, exhibits, electronic or computer transmittals, and the like. Advertising is defined as public announcements of the organization through the media (including magazines, newspapers, radio or television programs, direct mail, exhibits, or the like) and the corollary administrative costs of such advertising.
- (2) *Public relations* is defined as maintaining, protecting, or enhancing the image of the organization or to improving the public's understanding of the organization.

b. Allowable Costs

- (1) Allowable advertising costs are those required to fulfill the requirements of the State award, including recruitment of personnel, procurement of goods or services, program outreach and other specific purposes necessary to meet the requirements of the State award or other specific purposes related to the State award.
- (2) Allowable public relations costs are those required to fulfill the requirements of the State award, including the following:
 - (a) Costs of communicating with the public or press pertaining to specific initiatives or accomplishments that result from performance of the State award (i.e., costs considered necessary as part of the outreach effort for the program);

- (b) Costs of conducting general liaison with news media or government public relations officers, to the extent that actions are limited to communication or liaison necessary to keep the public informed on matters of public concern, such as notices of contract or grant awards or financial matters or communicating about available services and access to care.

c. Unallowable Costs

Unallowable advertising or public relations costs include the following:

- (1) Costs of meetings or other events not related to the state award

(2) Costs of memorabilia, models, gifts, or hospitality suites.

(3) Costs of advertising or public relations designed solely to promote the organization or solely for fundraising purposes.

2. Alcoholic Beverages

a. Definitions

Alcoholic beverages is defined as intoxicating drinks containing alcohol.

b. Allowable Costs

None.

c. Unallowable Costs

Costs of alcoholic beverages are unallowable.

3. Bad Debts

a. Definitions

Bad debts is defined as losses (whether actual or estimated) arising from uncollectible accounts or other claims, related collection costs, or related legal costs.

b. Allowable Costs

None.

c. Unallowable Costs

Bad debts are unallowable.

4. Bonding

a. Definitions

Bonding is defined as assurance required by the State or the organization against financial loss to itself or others by reason of the act or default of the organization. The definition includes bid, performance, payment, advance payment, infringement, or fidelity bonds.

b. Allowable Costs

Bonding costs required by the State or directly related to the terms of the State award are allowable.

c. Unallowable Costs

None.

5. Central Office

a. Definitions

Central office is defined as the place, site, or location that serves as the administrative center of the organization.

b. Allowable Costs

Costs are allowable to the extent that the aggregate amount of central office costs charged to State-funded programs (1) are reasonable, (2) are developed from an allocation methodology comprised of allowable costs, as defined by these cost standards, and (3) are applicable only to the administrative functions of the organization's central office operations.

c. Unallowable Costs

Unallowable costs are those that:

- (1) result in an unreasonable charge to State-funded programs; or
- (2) include unallowable costs as defined in these cost standards; or
- (3) are related to the organization's activities in other states.

6. Client Support

a. Definitions

Client support is defined as travel allowances, recreation expenses, participation incentives (such as movie passes) or other expenses to encourage or enable clients to attend program-related events.

b. Allowable Costs

Client support costs for program-related events are allowed, including the costs for an employee to accompany a client to such a program-related event.

c. Unallowable Costs

None.

7. Communications

a. Definitions

Communications is defined as wire line telecommunication services (e.g., corded or cordless telephones), wireless telecommunication services (e.g., cellular or digital phones, pagers, two-way radios), postage, e-mail services, internet services, web sites, or other electronic communication devices or services.

b. Allowable Costs

Communications costs are allowable.

c. Unallowable Costs

None.

8. Compensation for Personal Services

General

a. Definitions

- (1) Compensation for personal services is defined as all amounts paid currently or accrued by the organization for services of employees rendered during the period of performance of the State award. Such amounts include salaries, wages, and fringe benefits [see Item 8, Fringe Benefits section].
- (2) Reasonableness
 - (a) When the organization is predominantly engaged in activities other than those sponsored by the State, compensation for employees on State-sponsored work shall be considered reasonable to the extent that it is consistent with that paid for similar work in the organization's other activities.
 - (b) When the organization is predominantly engaged in State-sponsored programs and in cases where the kind of employees required for the State-sponsored programs are not found in the organization, compensation for employees on State-sponsored work shall be considered reasonable to the extent that it is comparable to that paid for similar work in the labor markets in which the organization competes for the kind of employees involved.
- (3) Payroll Distribution and Documentation
 - (a) The distribution of salaries and wages must be based on documented payrolls approved by a responsible official(s) of the organization.
 - (b) The organization must develop a cost allocation methodology for salaries and wages

based on budgeted, planned, or assigned work activity. The methodology must result in a reasonable and equitable distribution of costs to programs and activities based upon the benefits received. Once established, the methodology must be used consistently over

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time. Organizations must document their cost allocation methodology for salaries and wages in the CAP (see Part 1, section B).

- (c) The payroll distribution system must be included as part of the official records of the organization and encompass both State-sponsored programs and all other activities on an integrated basis. Salary and wage charges may be made initially on the basis of estimates (i.e., the CAP) before the services are performed, provided that such charges are adjusted periodically. Allocations based solely on such estimates do not qualify as support of salaries and wages.
- (d) The payroll distribution system must be kept current. Whenever a change occurs in an employee's work activity, the change must be reflected in the system.
- (e) Distribution of salaries and wages must be supported by personnel activity reports. The reports must document the work of all employees (professional and nonprofessional) whose compensation is charged, in whole or in part, to State awards. The reports must:
 - (i) account for the total amount of work for which employees are compensated; and
 - (ii) be prepared at least monthly and coincide with one or more pay periods; and
 - (iii) be signed by both the employee and a responsible official(s) of the organization.
- (f) Organizations may use electronic timekeeping or payroll systems that include "electronic signatures" (in lieu of someone signing a paper document).
- (g) Organizations must confirm that costs distributed based on the cost allocation plan represent actual costs to the State award and adjust costs accordingly. Cost reports (e.g., quarterly cost reports, interim cost reports, annual cost reports) submitted to State agencies must include these reconciled and adjusted actual costs.

(4) Fair Labor Standards Act (FLSA):

In addition to the supporting documentation described above [see Item 8a(3), General section], charges for the salaries and wages of nonprofessional employees must also be supported by records indicating the total number of hours worked each day and maintained in conformance with U.S. Department of Labor regulations implementing the FLSA (29 CFR Part 516) of 1938, as amended. For this purpose, the term "nonprofessional employee" shall have the same meaning as "nonexempt employee" under FLSA.

(5) Matching:

Salaries and wages of employees used in meeting cost sharing or matching requirements on awards must be supported in the same manner as salaries and wages claimed for reimbursement from State awards.

b. Allowable Costs

Except as otherwise specifically provided in this item, the costs of such compensation are allowable to the extent that:

- (1) Total compensation to individual employees is reasonable for the services rendered and conforms to the established written policies of the organization consistently applied to both State-funded programs and non-State activities.
- (2) Charges to State awards are determined and supported as required in this item.
- (3) Certain conditions require special consideration and possible limitations in determining the allowability of costs under State awards where amounts or types of compensation appear unreasonable. Among such conditions are the following:
 - (a) Compensation to members of organizations, trustees, directors, associates, officers, or the immediate families thereof. Determination must be made that such compensation is reasonable for the actual personal services rendered rather than a distribution of surplus funds.
 - (b) Any change in an organization's compensation policy resulting in a substantial increase in the organization's level of compensation.

c. Unallowable Costs

Costs that are unallowable under other items in Part II shall not be allowable under this item solely on the basis that they constitute personal compensation.

Fringe Benefits

a. Definitions

Fringe benefits is defined as:

- (1) regular compensation paid to employees during periods of authorized absences from the job (such as vacation, sick, or military leave);
- (2) employer contributions or expenses for social security, health insurance, retirement plans, workers' compensation, short-term or long-term disability, life insurance, health savings account, training, or tuition reimbursement;
- (3) provisions for a reserve under self-insurance for unemployment compensation, workers' compensation, or health insurance;
- (4) life insurance costs are the costs of insurance on the lives of trustees, officers, or other employees holding positions of similar responsibility.

b. Allowable Costs

- (1) Fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job are allowable, provided such costs are in accordance with established written organizational policies and are distributed to all organizational programs and activities in proportion to the relative amount of time or effort actually devoted to each.
- (2) Fringe benefits in the form of employer contributions are allowable in accordance with the provisions of these standards, provided such benefits are granted in accordance with

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established written organizational policies and are distributed to all organizational programs and activities on an equitable basis.

- (3) Costs incurred for a reserve under self-insurance for unemployment, workers' compensation, or health insurance are allowable to the extent that (a) the provisions represent reasonable estimates of the liabilities for such compensation, and (b) the types of coverage, extent of coverage, and rates and premiums would have been allowable had insurance been purchased to cover the risks. However, provisions for self-insured liabilities that do not become payable for more than one year after the provision is made must not exceed the total projected loss as calculated by an independent third party.
- (4) Life insurance costs are allowable only to the extent that the insurance represents additional compensation for personal services.

c. Unallowable Costs

Costs of insurance on the lives of trustees, officers, or other employees holding positions of similar responsibility when the organization is named as beneficiary are unallowable.

Organization – Furnished Automobiles

a. Definitions

Automobiles is defined as passenger cars or other vehicles furnished by the organization to employees to perform their job duties and responsibilities.

b. Allowable Costs

These costs are allowable when necessary for the performance of the State award.

c. Unallowable Costs

The portion of the cost of organization-furnished automobiles that relates to personal use by employees is unallowable, regardless of whether the cost is reported as taxable income to the employees.

Retirement Plan

a. Definitions

Costs of the organization's retirement plan that are incurred in accordance with the established written policies of the organization.

b. Allowable Costs

- (1) Retirement plan costs are allowable, provided:
 - (a) Such policies meet the test of reasonableness; and
 - (b) The methods of cost allocation are equitable for all programs and activities; and

- (c) The cost assigned to each fiscal year is determined in accordance with GAAP; and
 - (d) The costs assigned to a given fiscal year are paid or funded for all plan participants within applicable IRS and Employee Retirement Income Security Act (ERISA) of 1974 (PL 93406) guidelines;
- (2) Retirement plan termination insurance premiums paid pursuant to ERISA are allowable.

c. Unallowable Costs

- (1) Increases to normal or past service retirement costs caused by a delay in funding the actuarial liability beyond contractual or regulatory standards are unallowable.
- (2) Late payment charges on retirement plan termination insurance premiums paid pursuant to ERISA are unallowable.
- (3) Excise taxes on accumulated funding deficiencies, prohibited transactions of pension plan fiduciaries, and other penalties imposed under ERISA are unallowable.

Incentive Compensation and Bonuses

a. Definitions

- (1) *Incentive compensation* is defined as payments to employees based on established written organizational policies (e.g., cost reduction, efficient performance, suggestion awards, safety awards).
- (2) *Bonuses* are defined as one-time ad hoc distributions of surplus funds to employees of the organization.

b. Allowable Costs

Employee incentive compensation costs are allowable when the overall compensation is reasonable and such costs are paid or accrued pursuant to an agreement entered into in good faith between the organization and the employees before the services were rendered. Under the policy, criteria for awarding incentives must be specific, objective and measurable, and related specifically to the organization's objectives and goals.

c. Unallowable Costs

Costs of employee bonuses are unallowable.

9. Conferences and Meetings

a. Definitions

Conferences and meetings are defined as a retreat, seminar, symposium, workshop or event whose primary purpose is the dissemination of technical information beyond the organization and is necessary and reasonable for successful performance under the State award. ~~Conferences and meetings is defined as~~

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~~conducting, sponsoring, or convening formal gatherings (e.g., forums, panels, roundtables, seminars, symposiums), including those related to the general administration of the organization.~~

b. Allowable Costs

Allowable conference and meeting costs paid by the organization as a sponsor or host of the conference may include rental of facilities, speakers' fees, costs of meals and refreshments, local transportation, and other items incidental to such conferences unless further restricted by the terms and conditions of the State award. As needed, the costs of identifying, but not providing, locally available dependent-care resources are allowable. Conference hosts/sponsors must exercise discretion and judgment in ensuring that conference costs are appropriate, necessary and managed in a manner that minimizes costs to the State award.~~The costs of conferences and meetings are allowable (including the cost of renting facilities, meals, speakers' fees, or the like).~~

c. Unallowable Costs

None.

10. Contingency Reserve

a. Definitions

Contingency reserve is defined as funds set aside to pay for possible unforeseen costs of the organization. The definition does not include self-insurance reserves [see Item 8b(3), Fringe Benefits section, and Item 24b(3)]; retirement plan costs [see Item 8, Retirement Plan section]; or reserves for normal severance pay [see Item 48b(2)].

b. Allowable Costs

None.

c. Unallowable Costs

Contributions to a contingency reserve are unallowable.

11. Contributions

a. Definitions

Contributions is defined as a gift of money or its equivalent made by the organization to another organization or person.

b. Allowable Costs

None.

c. Unallowable Costs

Contributions are unallowable.

12. Defense & Prosecution of Criminal & Civil Proceedings, Claims, Appeals & Patent Infringement

a. Definitions

- (1) *Conviction* is defined as a judgment or a conviction of a criminal offense by any court of competent jurisdiction, whether entered upon as a verdict or a plea, including a conviction due to a plea of *nolo contendere*.
- (2) Costs include, but are not limited to, administrative or clerical expenses; the cost of legal services, whether performed by in-house or private counsel; or the costs of the services of accountants, consultants, or others retained by the organization to assist it; costs of employees, officers or trustees, or any similar costs incurred before, during, or after commencement of a judicial or administrative proceeding that bears a direct relationship to the proceedings.
- (3) *Fraud* is defined as:
 - (i) acts of fraud (e.g., intentionally deceiving another person and causing that person to suffer a loss), corruption, or attempts to defraud the State or to corrupt its agents;
 - (ii) acts that constitute a cause for debarment or suspension;
 - (iii) acts which violate the False Claims Act (31 U.S.C. 3729-3732) or the Anti-kickback Act (41 U.S.C 1320a-7b(b)).
- (4) *Penalty* does not include restitution, reimbursement, or compensatory damages.
- (5) *Proceeding* includes an investigation.

b. Allowable Costs

The following are allowable with prior approval of the awarding agency:

- (1) If a proceeding referred to in Item 12c(1)(b) is commenced by the State and is resolved by consent or compromise pursuant to an agreement entered into by the organization and the State, then the costs incurred by the organization in connection with such proceedings that are otherwise not allowable under Item 12c(1)(b) may be allowed to the extent specifically provided in such agreement.
- (2) If a proceeding referred to in Item 12c(1)(b) is commenced by a local or foreign government, the authorized State official may allow the costs incurred by the organization for such proceedings, if such authorized official determines that the costs were incurred as a result of:
 - (a) a specific term or condition of a State award; or
 - (b) specific written direction of the authorized State official.
- (3) Legal costs incurred by the organization to appeal zoning or health code violations or defend permits are allowable to the extent that they relate to a specific term or condition of the State award.

c. Unallowable Costs

- (1) Except as otherwise described in Item 12b, costs incurred in connection with any criminal, civil, or administrative proceeding (including filing of a false certification) commenced by the federal government, or a state, local or foreign government, are not allowable if the proceeding:
 - (a) Relates to a violation of, or failure to comply with, federal, state, local or foreign statute or regulation by the organization (including its agents or employees), and
 - (b) Results in any of the following dispositions:
 - (i) -In a criminal proceeding, a conviction; or
 - (ii) In a civil or administrative proceeding involving an allegation of fraud or similar misconduct, a determination of organizational liability; or
 - (iii) In the case of any civil or administrative proceeding, the imposition of a monetary or civil penalty; or
 - (iv) A final decision by an appropriate federal or State official to debar or suspend the organization, to rescind or void an award, or to terminate an award for default by reason of a violation or failure to comply with a law or regulation; or
 - (v) A disposition by consent or compromise, if the action could have resulted in any of the dispositions described in Item 12c(i) through Item 12c(iv), inclusive.
 - (c) Costs incurred by the organization in connection with the defense of suits brought by its employees or ex-employees under section 2 of the Major Fraud Act of 1988 (18 U.S.C. § 1031), including the cost of all relief necessary to make such employee whole, where the organization was found liable or settled, are unallowable.
- (2) If more than one proceeding involves the same alleged misconduct, the costs of all such proceedings shall be unallowable if any one of them results in one of the dispositions shown in Item 12c(1).
- (3) Costs incurred by the organization in connection with the defense of suits brought by its current or former employees under Section 2 of the Major Fraud Act of 1988 (PL 100-700), including the cost of all relief necessary to make such employee whole, where the organization was found liable or settled, are unallowable.
- (4) Costs of legal, accounting, or consultant services, or related costs, incurred in connection with defense against State claims or appeals, antitrust suits, or the prosecution of claims or appeals against the State are unallowable.
- (5) Costs of legal, accounting, or consultant services, or related costs, incurred in connection with patent infringement litigation, are unallowable, unless otherwise provided for in the State award.
- (6) Costs that are unallowable under this item must be segregated and accounted for by the organization separately. While any proceeding covered by Item 12c(1)(b) is pending, the State shall generally withhold payment of such costs. If in the best interests of the State, the

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State may make conditional payment to the organization if the organization (1) provides adequate security or other adequate assurance, and (2) agrees to repay all unallowable costs, plus interest, if the costs are subsequently determined to be unallowable.

13. Depreciation and Use Allowance

a. Definitions

There are two methods for allocating the cost of a capital asset over its estimated useful life:

(a) Depreciation is the method for allocating the cost of fixed assets to periods benefitting from asset use. The organization may be compensated for the use of its buildings, capital improvements, equipment, and software projects capitalized in accordance with GAAP, provided that they are used, needed in the organization's activities, and properly allocated to State awards. Such compensation must be made by computing depreciation. Depreciation is defined as a noncash expense that reduces the value of an asset as a result of wear and tear, age, or obsolescence. When the depreciation method is used for buildings, a building's shell may be segregated from each building component (e.g., plumbing system, heating, air conditioning system) and each item depreciated over its estimated useful life; or the entire building (i.e., the shell and all components) may be treated as a single asset and depreciated over a single useful life.

(b) Use allowance is a federally defined means for recovering the cost of a capital asset. It sets the amortization rate for buildings at two percent (2 %) of acquisition cost and for equipment at six and two-thirds percent (6 2/3 %) of acquisition cost. When the use allowance method is used for buildings, the entire building must be treated as a single asset without separating its "shell" from other building components.

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b. Allowable Costs

An organization may be compensated for the use of its buildings, capital improvements, equipment, and software projects capitalized in accordance with GAAP, provided that they are used, needed in the organization's activities, and properly allocated to State awards. Such compensation must be made by computing depreciation.

Depreciation on buildings, other capital improvements, or equipment on hand is allowable under the following conditions:

- (1) It must be based on the acquisition cost of the assets involved. In order to depreciate an asset, the organization must have incurred a cost when acquiring the asset.
- (2) The period of useful life for each capital asset must take into consideration such factors as type of construction, nature of the equipment used, technological developments, or the renewal and replacement policies followed for the individual items or classes of assets involved. The method of depreciation used to assign the cost of an asset (or group of assets) to accounting periods must reflect the pattern of consumption of the asset during its useful life. In the absence of clear evidence indicating that the expected consumption of the asset will be significantly greater or lesser in the early portions of its useful life than in the later portions, the straight-line method shall be presumed to be the appropriate method.

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- (3) Depreciation methods (e.g., straight line, declining balance) once used must not be changed without the prior approval of the awarding agency.
- (4) When the depreciation method is applied to assets previously subject to a use allowance, the combination of use allowance and depreciation applicable to such assets must not exceed the total acquisition cost of the assets.
- (5) Charges for depreciation must be supported by adequate property records and physical inventories must be taken periodically to ensure that assets exist and are usable and needed. When the depreciation method is followed, adequate depreciation records indicating the amount of depreciation taken each period must also be maintained.

c. Unallowable Costs

- (1) The computation of depreciation must exclude:
 - (a) -The cost of land;
 - (b) Any portion of the cost of buildings or equipment borne by or donated by the State, irrespective of where title was originally vested or where it presently resides;
 - (c) Any portion of the cost of buildings or equipment contributed by or for the organization in satisfaction of a statutory matching requirement;
 - (d) Donated assets;
 - (e) Donated cash restricted for the purpose of purchasing an asset.
- (2) When the depreciation method is used for a particular class of assets, no depreciation shall be allowed on any such assets that under Item 13b would be viewed as fully depreciated.
- (3) Use allowance is unallowable.

14. Donated Goods and Services

a. Definitions

- (1) *Donated goods* is defined as items or merchandise furnished free of charge to the organization (such as expendable personal properties, supplies, or use of space).
- (2) *Donated services* is defined as assistance given free of charge to the organization by professional or technical personnel, consultants, skilled or unskilled labor, or other volunteers.

b. Allowable Costs

None.

c. Unallowable Costs

The value of donated services or goods is unallowable, except with prior approval of the awarding agency.

15. Employee Relocation

a. Definitions

Employee relocation is defined as the permanent change of duty assignment (for an indefinite period or for a stated period of not less than 12 months) of an existing employee or upon recruitment of a new employee.

b. Allowable Costs

c. Unallowable Costs

Employee relocation costs are unallowable.

16. Employee Support

a. Definitions

Employee support is defined as promoting the morale, health, or welfare of the organization's employees.

b. Allowable Costs

The costs of in-house publications, health or first-aid clinics or infirmaries, recreation, employee counseling services, or other expenses incurred in accordance with the organization's established practice or custom for improving working conditions, employer-employee relations, employee morale, or employee performance are allowable. Such costs must be equitably apportioned to all activities of the organization. Income generated from any of these activities must be credited to the cost thereof, unless such income is required to be distributed to employee welfare organizations.

c. Unallowable Costs

(1) Costs of entertainment, including amusement, diversion, and social activities and any associated costs are unallowable, except where specific costs that might otherwise be considered entertainment have a programmatic purpose and are authorized either in the approved budget for the State award or with prior written approval of the State awarding agency. ~~The costs of entertainment, diversion, social events, ceremonies, or costs relating thereto (such as meals, lodging, rentals, transportation, or gratuities) are unallowable.~~

(2) The cost of membership in any country club, athletic club, social or dining club is unallowable.

17. Equipment

a. Definitions

(1) *Equipment* is defined as nonexpendable, tangible personal (non-real estate) property with a normal useful life of at least one year. Expenditures for equipment with an acquisition cost of \$5,000 or greater are considered capital expenditures. The unamortized portion of any equipment written off as a result of a change in capitalization levels may be recovered by continuing to claim the depreciation on the equipment or by amortizing the amount to be written off over a period of years as agreed to by the awarding agency.

(2) Acquisition cost means the cost of the asset including the cost to ready the asset for its intended use. Acquisition cost of equipment, for example, means the net invoice price of the equipment, including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. Acquisition

~~costs for software includes those development costs capitalized in accordance with generally accepted accounting principles (GAAP). Ancillary charges, such as taxes, duty, protective in transit insurance, freight, and installation may be included in or excluded from the acquisition cost in accordance with the organization's regular accounting practices. Acquisition cost is defined as the net invoice unit price of an item of equipment, including the cost of any modifications, attachments, accessories, or auxiliary apparatuses necessary to make the item usable for the purpose for which it is acquired. Ancillary charges (such as taxes, duty, protective in transit insurance, freight, or installation) must be included in or excluded from acquisition cost in accordance with the organization's written accounting practices.~~

b. Allowable Costs

Expenditures for equipment with an acquisition cost of less than \$5,000 are allowable.

c. Unallowable Costs

Expenditures for equipment with an acquisition cost of \$5,000 or greater are considered capital expenditures and are unallowable, except with prior approval of the awarding agency [see Item 13 for allowability of depreciation on equipment and Item 43 for allowability of rental costs for equipment].

18. Facility Alterations

a. Definitions

Facility alternations is defined as changes, additions, or modifications of real property that go beyond normal maintenance and that affect or may affect the facility's usability [see Item 39a(1)].

b. Allowable Costs

Facility alteration costs incurred specifically for the State award are allowable.

c. Unallowable Costs

None.

19. Fines and Penalties

a. Definitions

Fines and penalties is defined as a sum imposed as punishment resulting from violations or failure of the organization to comply with federal, State, or local laws or regulations.

b. Allowable Costs

None.

c. Unallowable Costs

Costs of fines or penalties are unallowable, except when incurred as a result of compliance with specific provisions of the State award or specific written instructions from the awarding agency.

20. Fundraising

a. Definitions

Fundraising is defined as the organization's efforts to raise capital or obtain contributions (e.g., cash, non-cash assets, services, time, gifts) through financial campaigns, endowment drives, or other forms of solicitation.

Examples of fundraising costs include, but are not limited to, the proportional salaries and wages of staff members engaged in fundraising; fees for professional fundraisers; recruiting or training volunteer fundraisers; preparation, printing, or distribution of fundraising materials; preparation or maintenance of mailing lists; or participation in federated fundraising campaigns [see Item 1c(1)].

b. Allowable Costs

None.

c. Unallowable Costs

Fundraising costs, as defined in Item 20a, are unallowable.

21. Goods and Services for Personal Use

a. Definitions

Goods for personal use is defined as any commodity, merchandise, or item purchased for the sole benefit of the organization's employee(s).

Services for personal use is defined as any action taken, or any labor or work performed, for the sole benefit of the organization's employee(s).

b. Allowable Costs

None.

c. Unallowable Costs

Costs of goods or services for personal use are unallowable, regardless of whether the cost is reported as taxable income to the employees.

22. Housing and Personal Living Expenses

a. Definitions

(1) *Housing expenses* is defined as money spent to operate a principal residence (including, but not limited to, mortgages, mortgage interest, taxes, insurance premiums, rents, utilities, furnishings, depreciation, maintenance or repairs, or casualty losses);

(2) *Personal living expenses* is defined as money spent to maintain an individual in accordance with his or her customary standard of living (including, but not limited to, food, apparel or apparel services, personal care products or services, or housekeeping supplies).

(3) *Officer* is defined as any current or past president, vice-president, secretary, or treasurer of the organization, or any other individual holding a position of similar responsibility

b. Allowable Costs

c. Unallowable Costs

The costs related to housing or personal living expenses of the organization's officers or employees are unallowable, regardless of whether the costs are reported as taxable income.

23. Idle Facilities and Idle Capacity

a. Definitions

- (1) *Facilities* is defined as land and buildings or any portion thereof, equipment individually or collectively, or any other tangible capital asset, wherever located, and whether owned or leased by the organization.
- (2) *Idle capacity* is defined as partially unused facilities that are excess to the organization's current needs.
- (3) *Idle facilities* is defined as completely unused facilities that are excess to the organization's current needs.

b. Allowable Costs

Costs of idle capacity include, but are not limited to, maintenance, repair, housing, rent, or other related costs (such as property taxes, insurance, or depreciation) and are allowable if:

- (1) the capacity is reasonably anticipated to be necessary or was originally reasonable; and
- (2) the capacity is not subject to reduction or elimination by subletting, renting, or sale, in accordance with sound business practices.

c. Unallowable Costs

Costs of idle facilities include, but are not limited to, maintenance, repair, housing, rent, or other related costs (such as property taxes, insurance, or depreciation) are unallowable, except with prior approval of the awarding agency and to the extent that:

- (1) they are necessary to meet fluctuations in workload; or
- (2) they were necessary when acquired and are now idle because of changes in program requirements, efforts to achieve more economical operations, reorganization, program startup or termination, or other causes that could not have been reasonably foreseen. Under these conditions, the costs of idle facilities are allowable for a reasonable period of time, depending upon the initiative taken to use, lease, or dispose of such facilities [see Item 43b(2) and Item 43b(4)].

24. Insurance

a. Definitions

Insurance is defined as:

- (1) protection against potential financial loss that the organization is required to carry; or
- (2) any other such protection that the organization maintains in connection with the general conduct of its operations.

The definition does not include insurance that represents fringe benefits for employees [see Item 8, Fringe Benefits section and Retirement Plan section].

b. Allowable Costs

- (1) Costs of insurance required and maintained pursuant to the State award are allowable, provided that the types and extent of coverage are in accordance with sound business practice and that the rates and premiums are reasonable and typical under the circumstances.
- (2) Costs of other insurance maintained by the organization in connection with the general conduct of its operations are allowable subject to the following limitations:
 - (a) Costs allowed for business interruption or other similar insurance must be limited to exclude coverage of management fees and are allowable to the extent the necessity of such insurance is a reasonable and appropriate cost of the program.
 - (b) Costs of insurance or of any provisions for a reserve covering the risk of loss or damage to State property are allowable only to the extent that the organization is liable for such loss or damage. The insurance policy must name the State as an additional insured party.
- (3) Provisions for a self-insurance reserve are allowable to the extent that the provisions represent reasonable estimates of the liabilities for such compensation and that the types of coverage, extent of coverage, and rates and premiums would have been allowable had insurance been purchased to cover the risks. However, provisions for self-insured liabilities must not exceed the total projected loss as calculated by an independent third party.
- (4) Medical liability (malpractice) insurance is an allowable cost only to the extent that the program involves human subjects or training of participants in research techniques. Such insurance costs must be assigned to activities based on the risk to the population covered by the insurance.

c. Unallowable Costs

- (1) Costs of insurance with respect to any costs incurred to correct defects in the organization's materials or workmanship are unallowable.
- (2) Actual losses that could have been covered by permissible insurance (through the purchase of insurance or self-insurance) are unallowable unless expressly provided for in the State award, except for:
 - (a) Costs incurred because of losses not covered under nominal deductible insurance coverage provided in keeping with sound business practice are allowable.
 - (b) Minor losses not covered by insurance, such as spoilage, breakage, or disappearance of supplies, that occur in the ordinary course of operations, are allowable.

25. Interest and Investment Management

a. Definitions

- (1) *Interest* is defined as the charges incurred for:
 - (a) borrowing money to finance or refinance the acquisition or replacement of capital assets (including renovations, alterations, equipment, land, or capital assets acquired through capital leases) used in support of the State award; or
 - (b) a line of credit used to meet requirements of the State award when gaps in State funding occur; or
 - (c) borrowing capital from or the temporary use of endowment funds.
- (2) *Re-acquired assets* is defined as assets previously held by the organization that the organization now again holds, whether through repurchase or refinancing. The definition does not include assets acquired to replace older assets.
- (3) *Investment management* is defined as paying a retainer for investment counsel or employing staff for the sole purpose of enhancing income from investments.

b. Allowable Costs

- (1) Interest, as defined in Item 25a(1)(a), is allowable, provided that:
 - (a) Upon request, a needs justification must be provided to the agency as a prerequisite for the continued allowability of interest on debt and depreciation related to the facility. The needs justification for the acquisition of a facility must include, at a minimum, the following:
 - (i) a statement of purpose and justification for facility acquisition or replacement;
 - (ii) a statement as to why current facilities are not adequate;
 - (iii) a statement of planned future use of the facility;
 - (iv) a description of the financing agreement to be arranged for the facility;
 - (v) a summary of the building contract with estimated cost information, and statement of sources and uses of funds;
 - (vi) a schedule of planned occupancy dates.
 - (b) The actual interest cost claimed is predicated upon interest rates that are no higher than the fair market rate available to the organization from an unrelated (arm's length) third party.

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- (c) Investment earnings (including interest income) on bond or loan principal, pending payment of the construction or acquisition costs, are used to offset allowable interest cost. Arbitrage earnings reportable to the Internal Revenue Service (IRS) are not required to be offset against allowable interest costs.

- (d) Substantial relocation of a program from a facility financed by indebtedness (the cost of which was funded in whole or part through State reimbursements) to another facility prior to the expiration of a period of 20 years requires notice to the State agency. The extent of the relocation, the amount of State participation in the financing, and the depreciation and interest charged to date must be agreed to by the State. A downward adjustment of replacement space charged to future programs may be required.

(2) Interest costs incurred for a line of credit, as defined in Item 25a(1)(b), are allowable.

(3) For organization entity fiscal years beginning on or after January 1, 2016, intangible assets include patents and computer software. For software development projects, only interest attributable to the portion of the project costs capitalized in accordance with GAAP is allowable.

c. Unallowable Costs

- (1) Interest costs on borrowed capital from or temporary use of endowment funds, as defined in Item 25a(1)(c), are unallowable.

- (2) Interest costs on debt incurred to finance or refinance reacquired assets, as defined in Item 25a(2), are unallowable.

- (3) Investment costs, as defined in Item 25a(3), are unallowable.

26. Labor Relations

a. Definitions

Labor relations is defined as establishing and maintaining satisfactory interactions or communications between the organization's upper management and the rest of its employees through such means as labor-management committees, employee publications, and the like.

b. Allowable Costs

Labor relations costs are allowable.

c. Unallowable Costs

None.

27. Lobbying

a. Definitions

Lobbying is defined as:

- (1) Attempts to influence the outcomes of any federal, State, or local election, referendum, initiative, or similar procedure, through in kind or cash contributions, endorsements, publicity, or similar activity;

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- (2) Establishing, administering, contributing to, or paying the expenses of a political party, campaign, political action committee, or other entity established for the purpose of influencing the outcomes of elections;
- (3) Any attempt to influence:
 - (a) the introduction of federal or State legislation; or
 - (b) the enactment or modification of any pending federal or State legislation through communication with any member or employee of the Congress or State legislature (including efforts to influence State or local officials to engage in similar lobbying activity) or through communication with any government official or employee in connection with a decision to sign or veto legislation; or
 - (c) the enactment or modification of any pending federal or State legislation by preparing, distributing, or using publicity or propaganda, or by urging members of the general public or any segment thereof to contribute to or participate in any mass demonstration, march, rally, fundraising drive, lobbying campaign, letter writing, or telephone campaign; or
- (4) Legislative liaison activities (including attendance at legislative sessions or committee hearings, gathering information regarding legislation, or analyzing the effect of legislation) when such activities are carried on in support of or in knowing preparation for an effort to engage in lobbying.

b. Allowable Costs

None.

c. Unallowable Costs

All costs associated with lobbying, as defined in Item 27a, are unallowable.

28. Losses on Other Awards

a. Definitions

Losses is defined as any excess of costs over income on an award.

Other awards is defined as awards other than the State award.

b. Allowable Costs

None.

c. Unallowable Costs

Losses on other awards are unallowable as a cost of the State award.

29. Maintenance and Repair

a. Definitions

Maintenance and repair is defined as:

- (1) necessary preservation, care, or upkeep of buildings or equipment (including State property unless otherwise provided for) that neither add to the permanent value of the property nor appreciably prolong its intended life, but keep it in an efficient operating condition; or
- (2) improvements that add to the permanent value of the buildings or equipment or appreciably prolong their intended life must be treated as capital expenditures [see Item 17 and Item 39].

b. Allowable Costs

Maintenance and repair costs, as defined in Item 29a(1), are allowable.

c. Unallowable Costs

Maintenance and repair costs, as defined in Item 29a(2), are unallowable, except with the prior approval of the awarding agency.

30. Materials and Supplies

a. Definitions

Materials and supplies is defined as commodities, goods, or other consumables obtained from outside suppliers and used in the performance of the State award.

b. Allowable Costs

The costs of materials or supplies are allowable, provided that such costs are charged at their actual prices after deducting all cash discounts, trade discounts, rebates, or allowances received by the organization. Incoming transportation charges may be included as part of the cost.

Withdrawals from general stores or stockrooms must be charged at cost under any recognized method of pricing consistently applied. Due credit must be given for any excess materials or supplies retained or returned to vendor.

c. Unallowable Costs

None.

31. Memberships, Subscriptions, and Professional Activity

a. Definitions

- (1) *Memberships* is defined as the organization's membership in business, technical, trade, or

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professional organizations;

- (2) *Subscriptions* is defined as the organization's subscriptions to business, professional, or technical periodicals;
- (3) *Professional activity* is defined as:
 - (a) attending meetings or conferences, when the primary purpose is the dissemination of technical information (including costs of meals, transportation, rental of facilities, or other items incidental to such meetings or conferences); or
 - (b) the organization's joining or belonging to any civic or community association located in Connecticut; or
 - (c) the organization's joining or belonging to any civic or community association located outside Connecticut.

b. Allowable Costs

- (1) Membership costs, as defined in Item 31a(1), are allowable.
- (2) Subscription costs, as defined in Item 31a(2), are allowable.
- (3) Professional activity costs, as defined in Item 31a(3)(a) and Item 31a(3)(b), are allowable.

c. Unallowable Costs

Professional activity costs, as defined in Item 31a(3)(c), are unallowable.

32. Organization Establishment and Reorganization

a. Definitions

Organization establishment and reorganization is defined as expenditures related to the formation or structural change of the organization.

b. Allowable Costs

None.

c. Unallowable Costs

Organization establishment and reorganization costs (such as incorporation fees, brokers' fees, fees to promoters, organizers or management consultants, attorneys, accountants, or investment counselors, whether or not employees of the organization) are unallowable, except with prior approval of the awarding agency.

33. Overtime

a. Definitions

Office of Policy and Management

Overtime is defined as work in excess of the maximum regular hours of work, extra-pay shifts, or multi-shift work in accordance with established, written organizational policies.

b. Allowable Costs

Overtime costs are allowable when:

- (1) Necessary to cope with emergencies, such as those resulting from accidents, natural disasters, or breakdowns of equipment; or
- (2) Necessary to meet employee-to-client staffing ratios; or
- (3) Employees are engaged in A&G functions, such as administration, maintenance, or accounting; or
- (4) The performance of tests, laboratory procedures, or other similar operations is continuous in nature and cannot reasonably be interrupted or otherwise completed; or
- (5) Lower overall cost to the State will result.

c. Unallowable Costs

None.

34. Participant Support

a. Definitions

- (1) *Participant* is defined as a board member, volunteer, or trainee of the organization.
- (2) *Participant support* is defined as stipends or subsistence allowances, travel allowances, recreation expenses, or registration fees paid to or on behalf of participants in connection with meetings, conferences, symposia, or training projects.

b. Allowable Costs

Participant support costs are allowable, if they are related to the State award.

c. Unallowable Costs

None.

35. Pre-award

a. Definitions

Pre-award is defined as the time prior to the effective date of the award, directly pursuant to the negotiation, and in anticipation of the award.

b. Allowable Costs

Costs incurred during pre-award are allowable only if:

- (1) they are necessary to comply with the proposed delivery schedule or term of the award; and
- (2) they would have been allowable if incurred after the date of the award; and
- (3) the organization has the prior approval of the awarding agency to incur such costs.

c. Unallowable Costs

None.

36. Professional and Consultant Services

a. Definitions

Professional and consultant services is defined as paid work performed by persons who are members of a particular profession or possess a special skill and who are not officers or employees of the organization.

b. Allowable Costs

- (1) Costs of professional or consultant services are allowable when reasonable in relation to the services rendered and:
 - (a) the organization is unable to identify a “no cost” source for the desired services; and
 - (b) the organization can establish that the benefits of such a decision clearly justify the associated costs; and
 - (c) the organization’s employees do not have the necessary expertise or are already fully committed to other responsibilities; and
 - (d) the services can be performed more economically by contracting rather than direct employment.
- (2) Retainer fees are allowable when supported by evidence of bona fide services available or rendered and are specified in the State award.

c. Unallowable Costs

None.

37. Profits and Losses on Disposition of Depreciable Property or Other Capital Assets

a. Definitions

Office of Policy and Management

Profit is defined as the excess of income over expenses on the sale, retirement, or other disposition of depreciable property or other capital assets.

Loss is defined as the excess of expenses over income on the sale, retirement, or other disposition of depreciable property or other capital assets.

b. Allowable Costs

Profits or losses on the sale, retirement, or other disposition of depreciable property or other capital assets are allowable under the following conditions:

- (1) The profits or losses must be included in the year in which they occur as credits or charges to cost grouping(s) in which the depreciation applicable to such property was included; and
- (2) The amount of the profit or loss to be included as a credit or charge to the appropriate cost grouping(s) shall be the difference between the amount realized on the property and the undepreciated basis of the property.

c. Unallowable Costs

Profits or losses on the sale, retirement, or other disposition of depreciable property or other capital assets are unallowable under the following conditions:

- (1) The profit or loss is processed through a depreciation reserve account and is reflected in the depreciation allowable under Item 13; or
- (2) The depreciable property or other capital asset is given in exchange as part of the purchase price of a similar item and the profit or loss is taken into account in determining the depreciation cost basis of the new item; or
- (3) A loss results from the failure to maintain permissible insurance, except as otherwise provided in Item 24c(2).

Profits or losses of any nature arising from the sale or exchange of property other than the property covered in this item must be excluded in computing State award costs.

Profits or losses arising from mass or extraordinary sales, retirements, or other dispositions shall be considered on a case-by-case basis.

38. Publication and Printing

a. Definitions

Publication is defined as the act of issuing or distributing printed (paper) materials to the public or posting the content of these materials on a website.

Printing is defined as the process of producing printed materials for sale or distribution (including the processes of composition, plate-making, press work, or binding).

b. Allowable Costs

Program-related publication or printing costs are allowable.

c. Unallowable Costs

None.

39. Real Property

a. Definitions

- (1) *Real property* is defined as land and buildings. Land, in its general usage, includes not only the face of the earth, but everything of a permanent nature over or under it. This includes improvements, structures, or fixtures located thereon, including, but not limited to, prefabricated movable structures (such as Butler-type storage warehouses, Quonset huts, or house trailers with or without undercarriages) or appurtenances thereto.
- (2) *Land* is defined as non-expendable, real property whose title is held by the organization. The recorded asset cost may include, in addition to the acquisition price, such ancillary costs as legal and title fees, unpaid taxes assumed, surveying and recording fees, appraisal and negotiation fees, damage payments, site preparation costs (clearing, filling, or leveling), or demolition of unwanted structures. Land is considered a non-exhaustible asset owing to its significantly long expected useful life. Non-exhaustible assets are not to be depreciated [see Item 13].

Note: The cost of land does not include expenditures in connection with land improvements such as paving, fencing, or lighting. These costs are included in a separate asset category “Improvements to Land and Buildings.” Unlike land, these items have finite lives.
- (3) *Buildings* is defined as all real estate, excluding land, that is used for shelter, dwelling, or other similar organizational purposes. The State definition of a *building* is “a relatively permanent structure to house persons or property.” The recorded asset cost may include the purchase or construction cost, professional fees for architects, attorneys, appraisers, or financial advisors, or any other expenditures necessary to put a building or structure into its intended state of operation.
- (4) *Improvements to real property* is defined as all improvements to land or buildings, except non-depreciable improvements to land parcels (such as grading or filling). Included within this category are organization-maintained infrastructures (such as roads, bridges, curbs, surface gutters, streets, sidewalks, drainage systems, parking lots, lighting systems, or similar assets) that, while not identifiable to any particular structure, have a quantifiable value to the organization.

The main criteria for capitalization of building improvements are that the expenditures significantly extend the useful life or enhance the value of the individual building. Expenditures not meeting these criteria must be expensed.

b. Allowable Costs

None.

c. Unallowable Costs

- (1) Capital expenditures for land or buildings are unallowable, except with the prior approval of the awarding agency.
- (2) Capital expenditures for improvements to land or buildings that materially increase their value or useful life are unallowable, except with the prior approval of the awarding agency [see Item 13 for allowability of depreciation on buildings and capital improvements and Item 43 for allowability of rental costs for land and buildings].

40. Reconversion

a. Definitions

Reconversion is defined as costs incurred in the restoration or rehabilitation of the organization's facilities to approximately the same condition existing immediately prior to commencement of State awards, fair wear and tear excepted.

b. Allowable Costs

Reconversion costs are allowable.

c. Unallowable Costs

None.

41. Recruiting

a. Definitions

Recruiting is defined as "help wanted" advertising, employment office operations, or travel for employees while engaged in recruiting personnel. The size of staff recruited and maintained must be in keeping with workload requirements.

b. Allowable Costs

- (1) Recruiting costs, as defined in Item 41a, are allowable.
- (2) When the organization uses employment agencies, costs that are not in excess of standard commercial rates for such services are allowable.

c. Unallowable Costs

- (1) Travel costs of applicants for interviews for prospective employment are unallowable.
- (2) Relocation costs incurred incident to recruitment of new employees are unallowable.
- (3) Costs of special emoluments, fringe benefits, or salary allowances incurred to attract professional personnel from other organizations are unallowable.

42. Related Party Transactions

a. Definitions

Related party (or less than arm's length) transactions is defined as transactions with persons or organizations related through marriage, ability to control, ownership, family, or business association. Past exercise of influence or control need not be shown, only the potential or ability to directly or indirectly exercise influence or control [see Item 43a(2)].

Note: Findings of relatedness may be made in the absence of majority stock ownership of the related party in the organization. The determination of a related party transaction applies to any transaction between an organization and a related party (including, but not limited to, one-time or multiple transactions involving services or supplies, or one-time sales or lease of the facility itself).

b. Allowable Costs

Costs of related party transactions are allowable under the following conditions:

- (1) costs are limited to the actual costs of the goods or services provided; and
- (2) the actual costs are applicable, appropriate, and necessary to the transaction; and
- (3) the actual costs do not exceed what a prudent person in a non-related party transaction would incur under the circumstances prevailing at the time the costs were incurred;
- (4) the decision-making process for selecting the related party is fully documented.

c. Unallowable Costs

Costs of (1) mark-ups, (2) profits, or (3) rates of return included in related party transactions are unallowable.

43. Rental

a. Definitions

(1) *Fair market rate* is defined as the rate determined to be reasonable in light of such factors as rental costs of comparable property, if any; market conditions in the area; alternatives available; and the type, life expectancy, condition, and value of the property leased.

(2) *Less than arm's length lease* is defined as a lease under which one party to the lease agreement is able to control or substantially influence the actions of the other. Such leases include, but are not limited to, those between:

(1) divisions of the organization; or

(2) organizations under common control through common officers, directors, or members; or

(3~~ii~~) the organization and a director, trustee, officer, or key employee of the organization or his / her immediate family either directly or through corporations, trusts, or similar arrangements in which they hold a controlling interest

(4) Immediate family members include one party with any of the following relationships to another party:

(i) Spouse, and parents thereof;

(ii) Children, and spouses thereof;

(iii) Parents, and spouses thereof;

(iv) Siblings, and spouses thereof;

(v) Grandparents and grandchildren, and spouses thereof; and

(vi) Domestic partner and parents thereof, including domestic partners of any individual in 2 through 5 of this definition.

(vii) Any individual related by blood or affinity whose close association with the employee is the equivalent of a family relationship.

(3) *Capital lease* is defined as a non-cancelable contract wherein (1) a tenant makes payments to lessor in return for use of an asset for a specified term, and (2) the lessor transfers ownership to the tenant at the end of the lease term. A capital lease is a direct substitute for the purchase of the asset with borrowed money and transfers substantially all the benefits and risks inherent in the ownership of the property to the lessee. A capital lease is distinct from an operating lease or rental arrangement.

b. Allowable Costs

- (1) Rental costs are allowable if they represent fair market rate.
- (2) Rental costs under sale and leaseback arrangements are allowable only up to the amount that would be allowed had the organization continued to own the property.
- (3) Rental costs under less than arm's length leases are allowable only up to the amount that would be allowed had title to the property been vested in the organization.
- (4) Rental costs under leases, which are required to be treated as capital leases under GAAP, are allowable only up to the amount that would be allowed had the organization purchased the property on the date the lease agreement was executed (i.e., to the amount that minimally would pay for depreciation, maintenance, taxes, and insurance). Interest costs related to capitalized leases are allowable to the extent they meet criteria in Item 25b(1).

c. Unallowable Costs

Unallowable costs include amounts paid for profit, management fees, or taxes that would not have been incurred had the organization purchased the facility.

44. Return on Investment and Profit Margins

a. Definitions

Return on investment is defined as revenues generated by charging a State agency for the use of the organization's assets in the performance of an award.

Profit margin is defined as the amount by which an organization's (combined) revenues exceeds its (combined) expenses, expressed as a percentage.

b. Allowable Costs

None.

c. Unallowable Costs

Costs of return on investment are unallowable.

Profits margins taken or obtained from a State award are unallowable.

45. Royalties and Amortization Costs for Use of Patents and Copyrights

a. Definitions

Royalties is defined as payments to the holders of a patent or copyright for the right to use their property.

Amortization is defined as reducing a debt through installments payments of principal and earned interest over a definite period of time. The debt referenced here is the cost of acquiring by purchase a copyright, patent, or rights thereto.

b. Allowable Costs

- (1) Royalties and amortization costs that are reasonable and necessary for the proper performance of the award are allowable.

Note: Special care should be exercised in determining the allowability of royalties when they are the result of less than arm's length bargaining, such as (a) royalties paid to persons, including corporations, affiliated with the organization; (b) royalties paid to unaffiliated parties, including corporations, under an agreement entered into in anticipation that a federal or State award would be made; and (c) royalties paid under an agreement entered into after an award is made to the organization.

- (2) In any case involving a patent or copyright formerly owned by the organization, the amount of royalty allowed must not exceed the cost that would have been allowed had the organization retained title thereto.

c. Unallowable Costs

- (1) Royalties and amortization costs are unallowable when:
 - (a) the federal or State government has a license or the right to free use of the patent or copyright; or
 - (b) the patent or copyright has been adjudicated to be invalid, or has been administratively determined to be invalid; or
 - (c) the patent or copyright is considered to be unenforceable; or
 - (d) the patent or copyright is expired.

46. Security

a. Definitions

Security is defined as the precautionary measures taken by the organization to guard or protect its clients, employees, or property against crime or other dangers.

b. Allowable Costs

Security costs- include, but are not limited to, wages and uniforms of personnel engaged in security activities; equipment; barriers; protective (non-military) gear, devices, and equipment; contractual security services; and consultants are allowable. Capital expenditures for plant security purposes are subject to Item 17. Equipment of this section. Security costs (including wages, uniforms, or equipment of personnel) are allowable.

c. Unallowable Costs

None.

47. Selling and Marketing**a. Definitions**

Selling is defined as offering the products or services of the organization in an open market in exchange for an agreed sum of money.

Marketing is defined as the techniques used to attract and persuade consumers to purchase the organization's products or services.

b. Allowable Costs

None.

c. Unallowable Costs

The costs of selling and marketing are unallowable, except when related to certain State-funded business enterprise programs (such as those funded by the State Board of Education and Services for the Blind).

48. Severance Pay**a. Definitions**

Severance pay, also commonly referred to as *dismissal wages*, is defined as a payment in addition to regular salary or wages by the organization to a worker whose employment is being terminated.

b. Allowable Costs

(1) Costs of severance pay are allowable only to the extent that (a) in each case it is required by law, contract, bargaining unit agreement, or written policy, and (b) the severance pay is reasonable. Where not required by law, contract, bargaining unit agreement, or written policy, severance pay that is *reasonable* is defined as an amount not to exceed the equivalent of one week of pay per year of service of the terminated employee. Any severance pay in excess of the foregoing reasonableness standard shall only be allowable upon prior approval of the awarding agency.

(2) Where the organization provides for a reserve for normal severances, such method may be acceptable if:

- (a) the charge to current operations is reasonable in light of payments actually made for normal severances over a representative past period; and

- (b) the amounts charged are reasonable and equitable allocations based on the benefits received.

c. Unallowable Costs

Costs incurred in certain severance pay packages (commonly referred to as a “golden parachute” payment) that are in an amount in excess of the normal severance pay paid by the organization to an employee upon termination of employment and are paid to the employee contingent upon a change in management control over, or ownership of, the organization’s assets are unallowable.

49. Taxes

a. Definitions

- (1) *Taxes* is defined as payments the organization is required to make that are paid or accrued in accordance with GAAP.
- (2) In lieu of taxes, payments commensurate with services received may be made to local governments.

b. Allowable Costs

- (1) Taxes are allowable.
- (2) Payments made to local governments in lieu of taxes are allowable.
- (3) Payments made to local governments when a tax exemption is not granted by the local government are allowable.
- (4) Where it is not reasonable or practical for the organization to enforce an exemption from taxes for client-related needs (e.g., fast food restaurants, recreational costs), the tax payments are allowable costs.
- (5) Any refund of taxes or any payment to the organization of interest thereon that was allowed as State award costs must be credited either as a cost reduction or cash refund, as appropriate, to the State award.

c. Unallowable Costs

- (1) Taxes paid when an exemption is available directly or indirectly to the organization are unallowable.
- (2) Special assessments on land that represent capital improvements are unallowable.
- (3) State or federal income taxes are unallowable.

50. Termination

a. Definitions

Termination is defined as the cancellation or discontinuance of the award at any time prior to the award's end date.

b. Allowable Costs

None.

c. Unallowable Costs

Termination costs are unallowable, except under the following conditions:

- (1) the awarding agency specifically agrees to fund such termination costs, including any costs that would not have arisen had the award not been terminated; and
- (2) the organization and awarding agency enter into a written agreement concerning such termination costs prior to the organization's incurring them; and
- (3) the termination costs are related to the orderly transfer or continuation of client services or other anticipated settlement expenses.

51. Training and Education

a. Definitions

- (1) *Training* is defined as the preparation or provision of instruction, including, but not limited to, on-the job, classroom, or apprenticeship training designed to develop or improve employee job-related skills.
- (2) *Continuing education* is defined as training or classes that are essential and necessary to maintain licenses or certification for employment.
- (3) *Education* is defined as classes that are taken at an undergraduate or graduate level and are directly related to the field in which the employee is now working or may reasonably be expected to work.

b. Allowable Costs

- (1) Costs of training directly related to the State award are allowable, including:
 - (a) training materials, textbooks, salaries or wages of trainees (excluding resulting overtime compensation); or
 - (b) the salaries of the director of training and staff when the training program is conducted by the organization; or
 - (c) tuition and fees when the training is in an institution not operated by the organization.

(2) Costs of continuing education directly related to the State award are allowable.

(3) Costs of education directly related to the State award are allowable.

c. Unallowable Costs

- (1) Contributions or donations to educational or training institutions (including, but not limited to, the donation of facilities or other properties, or scholarships or fellowships) are unallowable.
- (2) Employee compensation (i.e., salaries or wages) for time spent attending education classes is unallowable.

52. Transportation

a. Definitions

Transportation is defined as the transfer or conveyance of goods from one place to another by air, rail, sea, or road.

b. Allowable Costs

Transportation costs are allowable (including freight, express, cartage, or postage charges relating either to goods purchased, in process, or delivered).

c. Unallowable Costs

None.

53. Travel

a. Definitions

Domestic travel is defined as transportation, lodging, food, or related items connected with trips taken within the continental United States by employees who are on official business of the organization.

Foreign travel is defined as transportation, lodging, food, or related items connected with trips taken outside the continental United States by employees who are on official business of the organization.

b. Allowable Costs

(1) Domestic travel costs are allowable when directly related to the State award. Such costs must be charged on an actual basis, on a per diem basis, or on mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used results in charges consistent with those normally allowed by the organization in its regular operations. Mileage basis must not exceed the mileage allowance allowed by the IRS.

~~(2) Costs of airplane tickets are allowable provided the organization utilizes the most economical and available seating.~~

(3) Foreign travel costs are allowable only with prior approval of the awarding agency.

c. Unallowable Costs

None.

54. Trustee Support

a. Definitions

Trustee is defined as a member of the organization's governing board (of directors).

Support is defined as resources, reimbursements, or other forms assistance (including, but not limited to, transportation, lodging, or food) provided to trustees in their official capacity.

b. Allowable Costs

Costs are allowable, subject to restrictions of Item 53.

c. Unallowable Costs

None.

GLOSSARY OF TERMS

- *activity* – the non-State-sponsored work of an organization
- *administrative & general (A&G) costs* – costs incurred for common or joint objectives and not readily identified with a particular final cost objective
- *agency* – an executive branch agency of the State of Connecticut
- *allocable as direct costs* – joint costs allocated directly to two or more programs or activities in accordance with the relative benefits received
- *client* – an individual receiving services under the State award
- *cost allocation plan* – formal documentation of the methods and procedures an organization uses to allocate costs to benefiting programs and activities
- *direct costs* – costs identified specifically with a particular final cost objective (i.e., a particular program or service) of an organization
- *organization* – a non-State entity that is a recipient of award funds from the State of Connecticut
- *participant* – a board member, volunteer or trainee of the organization
- *prior approval* – the written permission, given in advance by the awarding agency to the organization, to incur costs for certain items of cost, as identified by these cost standards
- *program* – the State-sponsored work of an organization
- *State award* – a fully executed POS contract, grant, cooperative agreement, cost reimbursement contract, or other contract for the purchase of health or human services between the State and an organization
- *sub-recipient* – a non-State entity which receives funds from a State award by means of a pass-through from an organization and which is accountable to the organization for the use of those funds

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