

# *Regional Educational Service Centers*

## *Requests for Authorized Indirect Cost Rate*

(July 2016)

### **General Information**

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The U.S. Office of Management and Budget (OMB), Circular A-87 (relocated to 2 CFR, Part 225), sets forth the cost principles and standards for determining the allowable costs of federally funded grants administered by state and local governments. These cost principles also apply to Regional Educational Service Centers (RESC) in Connecticut. The objectives of the Circular are to:

1. *Establish uniform standards of allowability.* All federal agencies agree to recognize the central service costs, which benefit grant programs as allowable costs of those programs, so long as they are calculated in compliance with the Circular.
2. *Establish uniform standards of allocation.* All federal agencies accept the method of allocation agreed to by the "cognizant" federal agency. Costs are allocated to the benefiting departments regardless of the funding source or the ability of that source to pay.
3. *Identify the full cost of federal programs.* By identifying, accumulating, and allocating all allowable direct and indirect costs to the program for which the cost was incurred, the full cost of each federal program may be determined.
4. *Ensure federal programs bear their fair share of costs.* Only by identifying and allocating all direct and indirect costs within a central service cost allocation plan in conformity with the Circular will entities be reimbursed for the total cost of federal programs.
5. *Simplify intergovernmental relations.* Under the Circular A-87 concept of the "cognizant" agency, one agency with one group of reviewers approves a cost plan. All other agencies accept the plan. Thus, uniform methods of allocation and allowability are applied to all federal grants.
6. *Encourage consistency of treatment.* Grantee organizations are encouraged to process all grant applications through a central office that is also aware of the basis of which an indirect cost rate was developed to minimize inconsistent treatment.

Applications for grants usually involve a request for reimbursement of both direct and indirect costs. Circular A-87 contains provisions for determining indirect cost rates for grantees and subgrantees of federal grants.

Over the years, the regional education service centers (RESCs) and the Connecticut State Department of Education (CSDE) have worked towards developing a process for determining maximum allowable indirect cost rates for federal grant funds. This process, which has been approved by the federal government, has been extended by the CSDE to state grants as well.

RESCs are not required to develop an indirect cost proposal; however, if they fail to do so, they will not be allowed to recover any indirect costs related to federal or state grants. To recover indirect costs for the administration of federal grants, a RESC must have an approved indirect cost rate.

### **Indirect Cost Proposals**

The advantage of an indirect cost proposal and rate is that it is a simplified means for determining a fair share of indirect costs for federal grants, which is acceptable to federal grantor agencies. The Connecticut State Department of Education (CSDE) has, in cooperation with the U.S. Department of Education, developed an indirect cost plan to be used by RESCs in Connecticut. The CSDE has been delegated the authority by the U.S. Department of Education to review indirect cost proposals and to approve indirect cost rates for RESCs.

An indirect cost rate is a means of determining in a reasonable manner the percentage of allowable general administrative expense that each federal grant should bear. Generally, an indirect cost rate is the ratio of total indirect costs to total direct costs, based on the RESC's actual expenditures, exclusive of any extraordinary or distorting expenditures such as capital outlays and major subcontracts. *Expenditures for the second preceding fiscal year* are to be used when completing the Indirect Cost Proposals for a given fiscal year. For example, expenditures for FY 2012-2013 will be used to complete the Indirect Cost Proposals for FY 2014-2015. The second preceding year is used because the actual costs for the immediately preceding year will not be available at the time the RESC needs to calculate the rate for the following year.

OMB Circular A-87 requires that all expenditures of a RESC be included in the preparation of an indirect cost plan. These costs are derived from the books and records of the general fund, the special revenue funds, and any other applicable funds for the administration of the RESC.

The sources of information utilized to determine indirect cost rates are the RESCs' audited financial statements and the detail accounts that make up the financial statements. Therefore, it is essential that RESCs classify expenditures uniformly and consistently. Types of expenditures, which are identified as indirect costs, shall not also be included as direct costs. All expenditures detailed on

the audited financial statements must have been made, and records supporting them must be maintained, by the RESC.

RESCs will use a fixed with carry-forward rate for indirect costs. This means that the following year's rates will be reduced or increased for under- or over- application of indirect costs in the current year. CSDE submits the proposed methodology to be used by RESCs when applying for rates to the U.S. Department of Education for its approval. RESCs then submit indirect cost proposals annually to the CSDE for approval of new rates.

Generally, records and documentation supporting the indirect cost allocation plan must be retained for a period of five years after the last day of the fiscal year to which the proposal applies or until audited, whichever occurs sooner. If audit exceptions have been noted, records must be retained until those exceptions have been resolved.

### **Audit Requirements**

1. General Statement

*The classification of expenditures will conform to the object codes used in Handbook II (Financial Accounting for Local and State School Systems 2014). This handbook can be found on the web at <http://nces.ed.gov/pubsearch/pubsinfo.asp?pubid=2015347>.*

2. Additional Documentation - Indirect Costs

Detailed records are required to support any indirect costs attributed to the offices reporting directly to the Office of the Executive Director. These records should contain a detailed analysis of costs classified as indirect and should include a justification or explanation as well as other pertinent information. Failure to provide adequate documentation may result in Single Audit questioned costs related to indirect cost recovery. All Fiscal and Central Support Service expenditures do not require additional documentation in support of classification as indirect costs.

3. Additional Documentation - Excluded Costs

Schedules or other records should be maintained that document the reporting of all expenditures recorded as excluded costs. Failure to document that all excluded costs have been reflected accurately may result in Single Audit comments relative to indirect cost calculation.

## **Type of Plan and Rate: Restricted and Unrestricted**

### **Restricted**

1. Restricted rates apply to grants that are made under federal programs with supplement and in no case supplant requirements. This means that the funds are for support in addition to state and local funding. Such amounts are intended to supplement, but in no way replace, local funds.
2. Restricted grants include as indirect costs only administrative and fixed charges as defined below.

### **Definitions**

1. **Indirect Costs** - Those costs of a general nature which are not readily identifiable with the activities of the grant but are, nevertheless, incurred for the joint benefit of those activities and other activities or programs of the organization.

As prescribed by OMB Circular A-87, indirect costs are costs meeting the following criteria:

- a. Incurred for a common or joint purpose benefiting more than one cost objective, and
- b. Not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved.

As stated in 34CFR 76.565, “general management costs means the costs of activities that are for the direction and control of the grantee’s affairs that are organization-wide. An activity is not organization-wide if it is limited to one activity, one component of the grantee, one subject, one phase of operations, or other single responsibility. General management costs include the costs of performing a service function, such as accounting, payroll preparation, or personnel management, that is normally at the grantee’s level even if the function is physically located elsewhere for convenience or better management. The term also includes certain occupancy and space maintenance costs as determined under 34CFR 76.568.” In theory, all such costs can be charged directly. However, practical limitation and consideration of efficiency in accounting preclude such an approach. Salaries and expenses related to the direction and supervision of such functions as instruction, guidance, attendance, transportation, community services, and student services are not indirect costs. The cost of these functions is considered as direct costs. For example: the business manager, accounting manager, and accounting section are included as administrative indirect costs but the director of transportation would be classified as a direct cost.

“34CFR 76.568 Occupancy and space maintenance costs

- a. As used in the calculation of a restricted indirect cost rate, occupancy and space maintenance costs means such costs as:
  - 1) Building costs whether owned or rented;
  - 2) Janitorial services and supplies;
  - 3) Building, grounds and parking lot maintenance;
  - 4) Guard services;
  - 5) Light, heat, and power;
  - 6) Depreciation, use allowances, and amortization; (see below for a definition of depreciation and use allowances from Circular A-87) and
  - 7) All other related space costs.
- b. Occupancy and space maintenance costs association with organization-wide service functions (accounting, payroll, personnel) may be included as general management costs if a space allocation or use study supports the allocation.
- c. Occupancy and space maintenance costs associated with functions that are not organization-wide must be included with other expenditures in the indirect cost formula. These costs may be charged directly to affected programs only to the extent that statutory supplanting prohibitions are not violated. This reimbursement must be approved in advance by the Secretary.”

“Depreciation and use allowances (from Circular A-87)

- a. Depreciation and use allowances are means of allocating the cost of fixed assets to periods benefiting from asset use. Compensation for the use of fixed assets on hand may be made through depreciation or use allowances. A combination of the two methods may not be used in connection with a single class of fixed assets (e.g., buildings, office equipment, computer equipment, etc.) except as provided in subsection g. Except for enterprise funds and internal service funds that are included as part of a State/local cost allocation plan, classes of assets shall be determined on the same basis used for the government-wide financial statements.
- b. The computation of depreciation or use allowances shall be based on the acquisition cost of the assets involved. Where actual cost records have not been maintained, a reasonable estimate of the original acquisition cost may be used. The value of an asset donated to the government unit by an unrelated third party shall be its fair market value at the time of donation. Governmental or quasi-governmental organizations located within the same State shall not be considered unrelated third parties for this purpose.

- c. The computation of depreciation or use allowances will exclude:
- 1) The cost of land;
  - 2) Any portion of the cost of buildings and equipment borne by or donated by the Federal Government irrespective of where title was originally vested or where it presently resides; and
  - 3) Any portion of the cost of buildings and equipment contributed by or for the governmental unit, or a related donor organization, in satisfaction of a matching requirement.
- d. Where the depreciation method is followed, the period of useful service (useful life) established in each case for usable capital assets must take into consideration such factors as type of construction, nature of the equipment used, historical usage patterns, technological developments, and the renewal and replacement policies of the governmental unit followed for the individual items or classes of assets involved. In the absence of clear evidence indicating that the expected consumption of the asset will be significantly greater in the early portions than in the later portions of its useful life, the straight line method of depreciation shall be used.

Depreciation methods once used shall not be changed unless approved by the Federal cognizant or awarding agency. When the depreciation method is introduced for application to an asset previously subject to a use allowance, the annual depreciation charge thereon may not exceed the amount that would have resulted had the depreciation method been in effect from the date of acquisition of the asset. The combination of use allowances and depreciation applicable to the asset shall not exceed the total acquisition cost of the asset or fair market value at time of donation.

- e. When the depreciation method is used for buildings, a building's shell may be segregated from the major component of the building (e.g., plumbing system, heating, and air conditioning system, etc.) and each major component 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.
- f. Where the use allowance method is followed, the use allowance for buildings and improvements (including land improvements, such as paved parking areas, fences, and sidewalks) will be computed at an annual rate not exceeding two percent of acquisition costs. The use allowance for equipment will be computed at an annual rate not exceeding  $6\frac{2}{3}$  percent of acquisition cost. When the use allowance method is used for buildings, the entire building must be treated as a single asset; the building's components (e.g., plumbing system, heating and air condition, etc.) cannot be segregated from the building's shell.

The two percent limitation, however, need not be applied to equipment which is merely attached or fastened to the building but not permanently fixed to it and which is used as furnishings or decorations or for specialized purposes (e.g., dentist chairs and dental treatment units, counters, laboratory benches bolted to the floor, dishwashers, modular furniture, carpeting, etc.). Such equipment will be considered as not being permanently fixed to the building if it can be removed without the destruction of, or need for costly or extensive alterations or repairs, to the building or the equipment. Equipment that meets these criteria will be subject to the 6 2/3 percent equipment use allowance limitation.

- g. A reasonable use allowance may be negotiated for any assets that are considered to be fully depreciated, after taking into consideration the amount of depreciation previously charged to the government, the estimated useful life remaining at the time of negotiation, the effect of any increased maintenance charges, decreased efficiency due to age, and any other factors pertinent to the utilization of the asset for the purpose contemplated. If the CSDE gives permission to use a “use allowance” for a fully depreciated asset, the permission must be in writing. A copy of such written permission must be easily available to auditors.
- h. Charges for use allowances or depreciation must be supported by adequate property records. Physical inventories must be taken at least once every two years (a statistical sampling approach is acceptable) to ensure that assets exist, and are in use. Governmental units will manage equipment in accordance with State laws and procedures. When the depreciation method is followed, depreciation records indicating the amount of depreciation taken each period must also be maintained.”

Other costs, which are indirect but are unallowable include, but are not limited to, all expenditures for contributions and donations, bad debts, contingencies, debt service and interest, stipends, capital outlays, and entertainment.

The Executive Director, the Executive Director’s secretary and expenses related directly to the operation of the Executive Director’s immediate office, specifically, are not included in restricted indirect costs. Individuals directly reporting to the executive director and their secretaries, and the expenses related to the operation of these immediate offices are also not included in restricted indirect costs. These costs are disallowed costs and are considered to be direct costs for rate computation purposes.

Each RESC may establish an Assistant Director position. The individual who holds this position may have other program or administrative responsibilities, but other department heads will report to the Assistant Director who in turn will report to the Executive Director. The Assistant Director is not allowable as an indirect cost for restricted rate purposes, but is allowable for unrestricted rate purposes.

Charges for individuals whose time is divided between RESC-wide management responsibilities and specific program or administrative activities will be based on Personal Activity Reports prepared at least monthly in compliance with OMB Circular A-87, Attachment B, Paragraph 8h(5).

Fixed charges classified, as indirect costs are limited to those amounts, which are associated with administrative indirect costs. The fixed charges can be viewed as appended to those administrative functions, and the classification rules are the same as those applied to salaries.

These expenditures are exclusively identified as:

- a. Employee retirement
- b. Social Security
- c. Pension fund payments
- d. Premium expenditures for:
  - (1) Employee insurance
  - (2) Liability insurance
- e. Unemployment and workers compensation, and
- f. All similar costs normally considered being employee fringe benefits.

No other items are to be classified as indirect fixed charges.

Note that per Office of Management and Budget Circular A-87, Attachment B, Paragraph 8d(3), payments to separating employees for unused leave are treated as indirect costs when computing the “Unrestricted” indirect cost rate. When computing “Restricted” indirect cost rates, such payments to employees who are indirect for the Unrestricted Rate, but direct for the Restricted Rate, are considered direct cost payments for rate calculation purposes only. Payments to separating employees for unused leave are NOT charged as direct costs to any federal awards.

Per A-87, Attachment B.Paragraph 8.g (3), abnormal or mass severance pay will be considered on a case by case basis and is allowable only if formal, written approval is obtained in advance from the cognizant agency.

CSDE will not issue advance approvals to charge abnormal or mass severance costs to federal programs as an indirect cost. All costs associated with mass or abnormal severance will be treated as direct/disallowed for the purpose of calculation of the restricted and unrestricted indirect costs rates.”

Post Retirement Health Benefits (PRHB) are treated as indirect costs for both the Restricted and Unrestricted rate regardless of where the employee’s salary is recorded with one exception. For the purpose of calculating the restricted rate, PRHB costs associated with the



Superintendent, Chief Executive Officer (CEO) of components (as defined by EDGAR 76.565(d)(2)) and their immediate offices shall be treated as direct.

2. **Direct Costs** - a direct cost is one that is incurred specifically for one activity and can be identified specifically with that activity. These costs may be charged directly to grants, contracts, or to other programs to which costs are finally charged.
3. **Disallowed Costs** - OMB Circular A-87 classifies certain items of cost as disallowed, which means that federal funds cannot be used for these purposes. These are costs directly attributable to governance. For rate computation purposes, these costs are combined with direct costs.
4. **Excluded Costs** - certain items of costs are classified in OMB Circular A-87 as extraordinary or distorting expenditures and are excluded from the computation of the indirect cost rate. Excluded costs in this category include capital outlays, debt service, transfer expenditures, and internal funds. Indirect cost recoveries on federal or state programs and refunds returned on federal or state programs are also categorized as excluded costs.

**Note 1:** OMB Circular A-87, Attachment B, Paragraph 15a(2) defines equipment as follows:

“(2) Equipment means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals the lesser of (a) the capitalization level established by the governmental unit for financial statement purposes, or (b) \$5,000.”

**Note 2:** Food Service is not considered an enterprise fund. CSDE does not expect Food Service to make money so Connecticut does not find handling this function as if it was a commercial enterprise to be an appropriate approach. In accordance with page 169 of the *U.S. Department of Education Indirect Cost Determination Guidance for State and Local Government Agencies*, 1997 edition, “Costs of Foods and Capital Expenditures are treated as excluded. Costs of Personnel, Fringe Benefits, Supplies, Travel and Other Operating are treated as Direct.” Effective for FY 2011, the 2010/2011 school year, expenses charged to Food Services Operations shall be classified as direct costs and not as indirect costs. The total cost of School Food Service for each RESC shall be included in the RESC’s total amount of expenditures for the designated period of time. The cost of food and food processing supplies (Object 63X) shall be treated as an exclusion. The remaining expenditures for School Food Service shall be treated as either a direct cost or an indirect cost, depending on the purpose of the cost and consistent with how the school district handles like costs. Connecticut’s plan provides for the net transfer from the general fund to the food service fund to cover shortfalls, an expenditure that is allowable. This net transfer is a direct cost and is included in the base. Net transfer is defined as the total of all food service revenues [federal, state and local] less the total of all food service expenditures. A net loss

will be added to an RESC's direct cost and included in the base whereas a net profit will be subtracted from an RESC's direct costs and included in the base. Effective for FY 2011, CSDE shall review official cost versus revenue data annually to ensure that all net transfers do not include net profit. CSDE shall thus ensure that a RESC's food service is, in fact, being operating as required by Federal statutes applicable to a RESC's food service, e.g., operated on a nonprofit basis. OMB Circular

## **Unrestricted**

Unrestricted rates apply to grants not subject to the supplement but not supplant legislative restriction.

1. **Indirect Costs** - Expenditures for the offices of those individuals reporting directly to the executive director, and operation and maintenance of plant are classified as indirect costs when calculating an unrestricted rate. All other costs are classified the same as with the restricted rate calculations.
2. **Direct Costs, Disallowed Costs, and Excluded Costs** are also classified the same as with the restricted rate calculations.

## **Limitations on the recovery of indirect costs**

Three major limitations affect the extent to which indirect costs may be recovered. These limitations are:

1. The rate negotiated with the CSDE is the maximum allowable indirect cost rate. Indirect cost rates from zero to the maximum rate may be approved for any program or project by the CSDE Associate Commissioner. Federal law or grant conditions may limit the amount of indirect costs or the indirect cost rate. For example, if the RESC has a restricted rate of five percent and the law allows only three percent, then the RESC can recover only indirect costs equal to three percent of direct costs. Grant terms and conditions may also exist on some grants that prohibit any recovery of indirect costs.
2. Recovery of indirect costs on grants is subject to the availability of funds. The total direct costs plus indirect costs cannot exceed the maximum entitlement.
3. Indirect costs are recovered only to the extent of direct costs incurred. The indirect cost rate is applied to the direct cost amount expended, not to the grant award amount.

## **Period for which rates are applicable**

An indirect cost rate certification issued by the CSDE is established for a specific state fiscal year. The rate is valid from July 1 through June 30 of the applicable fiscal year of approval. To recover indirect costs, the RESC applies the indirect cost rate in effect for a given fiscal year to the grant expenditures during that fiscal year, including any disbursements made on project balances that are brought forward.

## **Application of rate**

Once the proposal has been approved by the CSDE, the RESC may elect to:

1. Apply the approved and applicable rate to all projects, or
2. Apply the approved and applicable rate only to specific eligible projects.

The rate may be applied at the maximum rate or less than the maximum rate. If the rate applied is less than the maximum rate, then it is not necessary that the reduced rate be applied uniformly to all projects. However, a RESC may not average the indirect cost charges to projects; that is, if the approved rate was six percent, charge one project at three percent and another project at nine percent for an average of six percent.

In the process of applying the rate, the RESC must be consistent with the development of the rate. For example, costs not included in the base for the development of the rate cannot be used when applying the rate.

The Base of Application is “Total direct costs less equipment purchases, alterations and renovations, the portion of individual subawards exceeding \$25,000 and flow-through funds.” Note that only the first \$25,000 of a subaward is included in the Base of Application, (each award, and each year).

## **Additional information**

1. An organization chart must accompany the proposal and be applicable to the second preceding fiscal year because expenditures for the proposal are taken from that year.
2. All employee benefits including Workers Compensation (W/C) and Unemployment Compensation must be charged to the same function as salaries. For those RESCs that do not charge Workers Compensation to the same function as salary, it will be necessary to prorate the

total W/C cost into the ratio of direct, indirect, and disallowed salaries. Only that portion relating to indirect salaries will be allowed as indirect.

Pursuant to Office of Management and Budget Circular A-87, Attachment B. 8.d(3), payments to separating employees for unused leave are treated as indirect costs when computing the “Unrestricted” indirect cost rate. When computing “Restricted” indirect cost rates, such payments to employees who are indirect for the Unrestricted Rate, but direct for the Restricted Rate, are considered direct cost payments for rate calculation purposes only. Payments to separating employees for unused leave are NOT charged as direct costs to any federal awards.

3. Judgments, fines, interest, and penalties should be considered as exclusions, not as indirect costs, and considered as reconciling items.

### **Development of the Indirect Cost Proposal**

As noted above, the proposal is based on total expenditures of all General Fund and Special Revenue Funds and must be traceable to those accounts of record that report these amounts. The other two funds - Debt Service and Capital Projects - are excluded. A reconciliation to total RESC expenditures should be completed on Schedule A as part of the RESC rate determination. Schedule A is a Special Expenditure report, combining General Fund and Special Revenue Funds.

### **Submitting the Indirect Cost Proposal**

The completed application will consist of the original and one copy of the signed certification, the original of all schedules (Schedule A and Schedule B), an organization chart, and other supporting documentation that would enhance and expedite the approval of the proposal. The completed application should be forwarded to:

Connecticut State Department of Education  
Fiscal Services and Internal Operations  
P.O. Box 2219, Suite 404  
Hartford, CT 06145-2219

## Use of Rates

Once the applicable rate has been determined, the amount available to earn indirect cost dollars can be computed as follows:

The amount available to earn indirect cost is determined by subtracting excluded costs (items of equipment, subcontracts in excess of \$25,000 and flow-through funds). The remaining amount is the net available for both indirect and direct costs. To determine the amount available to be assessed Indirect Costs, the net amount is divided by the combined percentage of 100 percent plus the applicable indirect cost rate percentage. For example: the indirect cost rate is 5.45 percent, the total entitlement for a Title 1 project is \$945,000.00, and the project included \$1,395.00 for capital outlay.

Grant Award .....	\$945,000.00
Less: Capital Outlay .....	1,395.00
Net Available for Indirect and Direct Cost .....	\$943,605.00

**Amount Available to be Assessed Indirect Costs**

\$943,605 / 105.45%  
\$943,605 / 1.0545  
\$894,836

**Then: Indirect Cost Dollar Amount =**

\$ 894,836 X 5.45% = Indirect Cost Dollar Amount  
\$ 894,836 X .0545 = Indirect Cost Dollar Amount  
\$ 48,769 = Indirect Cost Dollar Amount

**Bureau of Fiscal Services**

**Certification for Authorized Indirect Cost Rates**

**Regional Educational Service Center Name** \_\_\_\_\_

**Regional Educational Service Center Number** \_\_\_\_\_

I certify that the information contained herein has been prepared in accordance with the instructions issued by CSDE and conforms to the criteria in OMB Circular A-87, and is correct to the best of my knowledge and belief. No costs other than those incurred by this agency have been included in the indirect cost rate application. The same costs that have been treated as indirect costs have not been and will not be claimed as direct costs, and similar types of costs have been accorded consistent treatment. All expenditures detailed on the application form have been made, and records supporting them have been maintained and are available for audit.

\_\_\_\_\_  
Signature of Executive Director

\_\_\_\_\_  
Date

## Indirect Cost Matrix

The following matrix classifies expenditures by category and is provided as a guide in preparing indirect cost proposals.

	CATEGORIES		
	Direct/ Disallowed Costs	Indirect Costs	Excluded Costs <sup>1</sup>
<b>GENERAL FUND:</b>			
<b>Current</b>			
Instruction	Yes	No	No <sup>1</sup>
Support Services	Yes	No	No <sup>1</sup>
<b>Library / Media Services</b>	Yes	No	No <sup>1</sup>
Instructional-Curriculum Development	Yes	No	No <sup>1</sup>
Instructional Staff Training	Yes	No	No <sup>1</sup>
Office of the Executive Director	Yes	No	No <sup>1</sup>
Office(s) Reporting Directly to Exec. Director	Yes	Yes <sup>3</sup>	No <sup>1</sup>
Facilities Acq. and Construction	Yes	No	No <sup>1</sup>
<b>Other Operation and Maintenance of Plant (Occupancy and Space Maintenance Costs)</b>	Yes	Yes	No
Fiscal Services	No	Yes	No <sup>1</sup>
<b>Central Services</b>	No	Yes	No <sup>1</sup>
Student Transportation Service	Yes	No	No <sup>1</sup>
Operation and Maintenance of Plant	Yes	No <sup>2</sup>	No <sup>1</sup>
Community Services Operations	Yes	No	No <sup>1</sup>
<b>Capital Outlay:</b>			
Facilities Acq. and Construction	No	No	Yes
Property	No	No	Yes
<b>Debt Service</b>			
Interest and Principal	No	No	Yes
<b>SPECIAL REVENUE FUNDS:</b>			
<b>Food Services:</b>			
Food Service Operations	Yes	No	No <sup>1</sup>
<b>OTHER:</b>			
All Functions Not Listed Above	Yes	No	No <sup>1</sup>

<sup>1</sup> All functions may contain excluded costs, i.e., capital outlay. Identify all excluded costs by function and maintain documentation for reporting on Schedule A.

<sup>2</sup> Allowable for unrestricted rate only.

<sup>3</sup> Detailed documentation should be maintained to explain the classification of expenditures as indirect for these functions.

## Guide to Schedule A

Schedule A distributes expenditures into direct costs and indirect costs. Using the following as guides for the analysis and allocation of the functions and objects between direct and indirect, complete Schedule A and Schedule A Reconciliation. *All expenditures of the Special Revenue Funds are to be considered as direct, disallowed or excluded costs.*

### General Fund:

#### Current:

Instruction

These expenditures are direct costs.

Support Services - Students

These expenditures are direct costs.

#### Library / Media Services

These expenditures are direct costs.

Instruction-Curriculum Development

These expenditures are direct costs.

Instructional Staff Training

These expenditures are direct costs.

Office of the Executive Director

These expenditures are direct / disallowed costs.

Assistant Director

**For Restricted Rates:** The assistant director is a direct cost.

**For Unrestricted Rates:** The assistant director is an indirect cost.

Office directly reporting to the executive director

**For Restricted Rates:** If such expenditures as payroll, internal auditing, accounting, budgeting, purchasing, and personnel are recorded in this function, they are indirect costs. All other expenditures are direct costs.

**For Unrestricted Rates:** All of these expenditures are indirect costs.

Facilities Acquisition and Construction

These expenditures are direct costs.

**Other Operation and Maintenance of Plant (Occupancy and Space Maintenance Costs)**

**For Restricted Rates:** Only the occupancy and space maintenance costs of organization-wide service functions are indirect (see EDGAR 76.568 (b)).

**For Unrestricted Rates:** Occupancy and space maintenance costs are indirect.

Fiscal Services

These expenditures are indirect costs.

#### Central Services

These expenditures are indirect costs.

Student Transportation Service

These expenditures are direct costs.

Operation and Maintenance of Plant

These expenditures are direct costs for restricted rates and indirect costs for unrestricted rates.

Community Services Operations

These expenditures are direct costs.



**Capital Outlay:**

Facilities Acquisition and Construction  
Property

These expenditures are excluded costs.  
These expenditures are excluded costs.

**Debt Service:**

Interest and Principal

These expenditures are excluded costs.

**Special Revenue Funds:**

**Food Services:**

Food Service Operations

These expenditures are direct costs.

**OTHER:**

All functions not listed above

These expenditures are direct costs.

Regional Educational Service Centers (RESC)  
Schedule A (R )

Side 1

RESC Name \_\_\_\_\_ RESC Number \_\_\_\_\_

**Schedule of Expenditures for Computation of Indirect Cost  
- Restricted Rate -  
General and Special Revenue Funds  
Year Ended June 30, 2015**

(Use whole dollars only)

	1	2	3	4	5
	Total Expenditures	Unallowable Costs	Excludable Costs	Indirect Costs	Direct Costs
<b>GENERAL FUND</b>					
<b>Current:</b>					
Instruction					
Support Services- Students					
Library / Media Services					
Instruction-Curriculum Development					
Instructional Staff Training					
Office of the Executive Director					
Office reporting directly to Exec. Director <sup>1</sup>					
Facilities Acquisition. And Construction					
Other Operation & Maintenance of Plant (Occupancy & Space Maintenance Costs)					
Fiscal Services					
Central Services					
Student Transportation Service					
Operation and Maintenance of Plant					
Community Services Operations					
Subtotal – General Fund					
<b>Capital Outlay:</b>					
Facilities Acquisition and Construction					
Property					
Subtotal Capital Outlays					
<b>Debt Service:</b>					
Interest and Principle					
<b>SPECIAL REVENUE FUNDS</b>					
Food Services:					
Food Services Operations					
<b>OTHER:</b>					
All Functions Not Listed Above					
<b>TOTAL EXPENDITURES</b>					
<b>GRAND TOTAL</b>				(B)	(A)

<sup>1</sup> Detailed documentation should be maintained to explain the classification of expenditures as indirect for these functions for inclusion in the restricted rate.

Regional Educational Service Centers (RESC)  
Schedule A (R)

Side 2

**Restricted Indirect Cost Rate  
Calculation**

Indirect Pool \$ \_\_\_\_\_

Adjustments:

Excludable Costs (Functions xxx, xxx, xxx) \_\_\_\_\_

Unallowable Costs (Functions xxx, xxx, xxx) \_\_\_\_\_

Restricted Rate Adjustments (see Schedule xx) \_\_\_\_\_

+/- Carry-Forward Adjustments (or other Adjustments) \_\_\_\_\_

Total Allowable Indirect Cost Pool \$ \_\_\_\_\_

Base Costs \$ \_\_\_\_\_

Adjustments:

Excludable Costs (Functions xxx, xxx, xxx) \_\_\_\_\_

Unallowable Costs (Functions xxx, Object xxx) \_\_\_\_\_

Restricted Rate Adjustments (see Schedule xx) \_\_\_\_\_

+/- Other Adjustments (explain) \_\_\_\_\_

Total Allowable Base Costs \$ \_\_\_\_\_

Indirect Cost Rate Calculation

Total Allowable Pool Costs \_\_\_\_\_

Total Allowable Base Costs \_\_\_\_\_

Calculated Restricted Rate \_\_\_\_\_ %

Regional Educational Service Centers (RESC)  
Schedule A (U)

Side 1

RESC Name \_\_\_\_\_ RESC Number \_\_\_\_\_

**Schedule of Expenditures for Computation of Indirect Cost  
- Unrestricted Rate -  
General and Special Revenue Funds  
Year Ended June 30, 2015**

(Use whole dollars only)

	1	2	3	4	5
	Total Expenditures	Unallowable Costs	Excludable Costs	Indirect Costs	Direct Cost
<b>GENERAL FUND</b>					
<b>Current:</b>					
Instruction					
Support Services- Students					
Library / Media Services					
Instruction-Curriculum Development					
Instructional Staff Training					
Office of the Executive Director					
Office reporting directly to Exec. Director					
Facilities Acquisition, and Construction					
Other Operation & Maintenance of Plant (Occupancy & Space Maintenance Costs					
Fiscal Services					
Central Services					
Student Transportation Service					
Operation and Maintenance of Plant					
Community Services Operations					
Subtotal General Fund					
<b>Capital Outlay:</b>					
Facilities Acquisition and Construction					
Property					
Subtotal Capital Outlays					
<b>Debt Service:</b>					
Interest and Principle					
<b>SPECIAL REVENUE FUNDS</b>					
Food Services:					
Food Services Operations					
<b>OTHER:</b>					
All Functions Not Listed Above					
<b>TOTAL EXPENDITURES</b>					
<b>GRAND TOTAL</b>				(B)	(A)

Regional Educational Service Centers (RESC)  
Schedule A (U)

Side 2

**Unrestricted Indirect Cost Rate  
Calculation**

Indirect Pool \$ \_\_\_\_\_

Adjustments:

    Excludable Costs (Functions xxx, xxx, xxx) \_\_\_\_\_

    Unallowable Costs (Functions xxx, xxx, xxx) \_\_\_\_\_

    Restricted Rate Adjustments (see Schedule xx) \_\_\_\_\_

    +/- Carry-Forward Adjustments (or other Adjustments) \_\_\_\_\_

    Total Allowable Indirect Cost Pool \$ \_\_\_\_\_

Base Costs \$ \_\_\_\_\_

Adjustments:

    Excludable Costs (Functions xxx, xxx, xxx) \_\_\_\_\_

    Unallowable Costs (Functions xxx, Object xxx) \_\_\_\_\_

    Restricted Rate Adjustments (see Schedule xx) \_\_\_\_\_

    +/- Other Adjustments (explain) \_\_\_\_\_

    Total Allowable Base Costs \$ \_\_\_\_\_

Indirect Cost Rate Calculation

Total Allowable Pool Costs \_\_\_\_\_

Total Allowable Base Costs \_\_\_\_\_

Calculated Unrestricted Rate \_\_\_\_\_ %

**Connecticut State Department of Education (CSDE)**  
**Bureau of Fiscal Services**

**Schedule B**

**Carry-Forward Computation**  
**State or Local Government**

A fixed rate with carry-forward provision has characteristics of both a provisional rate, which is a temporary rate subject to adjustment, and a predetermined rate, which is a permanent rate not subject to adjustment. A rate is computed and fixed for a specified future period based on an estimate of that future period's level of operations. However, when the actual costs of that period become known, the difference between the estimated costs and the actual costs is carried-forward as an adjustment to a subsequent period for which a rate is established. The adjustment cannot be made in the fiscal period immediately following because the fixed rate for the immediately following fiscal period will already have been determined. An adjustment generally will be carried-forward to the second fiscal period following the period being adjusted. A fixed rate should be selected that will closely approximate the actual rate expected to be incurred. An accurate forecast will confine carry-forward amounts to minimal differences. The computation of a fixed rate with carry-forward at the department/agency level should include any provisions made for central service costs.

The format to be used for the Regional Educational Service Center (RES-C) restricted and unrestricted carry-forward computations can be found on the following page.

Regional Educational Service Center  
Schedule B

**Sample Carry-Forward Computation \***

	<u>Initial Year</u>	<u>Subsequent Years</u>	
	<u>Fiscal Year 2010</u>	<u>Fiscal Year 2012</u>	<u>Fiscal Year 2014</u>
(a) Fixed Rate as Negotiation (A/B) (A/B) - Computed as follows	10.0% (C) =====	11.3% (C) =====	9.3% (C) =====
Direct and Disallowed Costs	\$4,932,675 (B)	\$4,938,795 (B)	\$4,880,450 (B)
Indirect Costs	\$493,267	\$526,429	\$486,675
Fixed-Carry Forward (FCF)	<u>0</u>	<u>32,550</u>	<u>(32,266)</u>
Total Indirect Cost Pool	\$ 493,267 (A) =====	\$ 558,979 (A) =====	\$ 454,409 (A) =====
(b) Actual Costs Negotiated			
Actual Direct and Disallowed Costs	\$4,938,795(D)	\$4,880,450(D)	\$5,100,100(D)
Actual Indirect Costs	\$526,429	\$486,675	\$521,551
Fixed-Carry forward	<u>0</u>	<u>32,550</u>	<u>(32,266)</u>
Total Indirect Cost Pool	526,429 =====	\$ 519,225 =====	\$ 489,285 =====
(c) Carry-forward Computation (C*D)			
Indirect Costs Eligible for Recovery			
Fixed Rate x Actual Direct and Disallowed Costs			
10.0% x \$4,938,795	\$ 493,880 (E) =====		
11.3% x \$4,880,450		\$ 551,491 (E) =====	
Should Have Recovered:			
Actual Indirect Costs for:			
Fiscal Year 2010	\$ 526,429 (F)		
Fiscal Year 2012		\$ 519,225 (F)	
Under or (over) recovery to Subsequent Year (F-E)	\$ 32,550 =====		\$ (32,266) =====

\*This is a sample only and is not intended to prescribe methods of charging costs.

Source: Based on OASC-10, 1976, Page 82

# Glossary

## Fund Classifications

### Code Description

1. **General Fund** Accounts for all financial resources of the RESC except those required to be accounted for in another fund.
2. **Special Revenue Funds** Account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

A separate fund may be used for each restricted source, or one fund may be used supplemented by the clarification Project/Reporting code.

3. **Capital Projects Funds** Account for financial resources used to acquire or construct major capital facilities (other than those of proprietary funds and trust funds). The most common source of revenue in this fund would be the sale of bonds. A separate fund may be used for each capital project or one fund may be used, supplemented by the clarification Project/Reporting code.
4. **Debt Service Funds** Account for the accumulation of resources for, and the payment of, general long-term debt, principal and interest.

### Function

The function describes the activity for which a service or material object is acquired. The functions of a RESC are classified into five broad areas; Instruction, Support Services, Operation of Non-Instructional Services, Facilities Acquisition and Construction, and Other Outlays. Functions are further broken down into sub-functions and areas of responsibility.

Each of these levels consists of activities which have somewhat the same general operational objectives. Furthermore, categories of activities comprising each of these divisions and subdivisions are grouped according to the principle that the activities can be combined, compared, related and mutually exclusive.

For example:

Function - support services..... 2000



Sub-function - school services-general administration.....	2300
Service area - Board of Education .....	2310

The function structure in these guidelines is not intended to dictate an organizational structure, i.e., how the administrative functions are organized. Rather, an effort has been made to group together functions in relation to the magnitude of expenditures typically found in the RESC. This grouping corresponds to the categories most frequently requested in reporting to external authorities.

**Code**

**Description**

- |             |  |
|-------------|--|
| <b>1000</b> | <b>Instruction</b> - Instruction includes the activities dealing directly with the interaction between teachers and students. Teaching may be provided for students in a school classroom, in another location such as a home or hospital, and in other learning situations such as those involving co-curricular activities. It may also be provided through some other approved medium, such as television, radio, computer, Internet, multimedia telephone, and correspondence, that is delivered inside or outside the classroom or in other teacher-student settings. Included here are the activities of aides or classroom assistants of any type (clerks, graders, teaching machines, etc.) who assist in the instructional process. If proration of expenditures is not possible for department chairpersons who also teach, include department chairpersons who also teach in instruction. Full-time department chairpersons' expenditures should be included only in 2490. (Used with all programs 100-900) |
| <b>2100</b> | <b>Support Services - Students</b> - Activities designed to assess and improve the well being of students and to supplement the teaching process.  |
| <b>2212</b> | <b>Instruction and Curriculum Development Services</b> - Activities that aid teachers in developing the curriculum, preparing and utilizing special curriculum materials, and understanding and appreciating the various techniques which stimulate and motivate students.   |
| <b>2213</b> | <b>Instruction Staff Training</b> - Activities associated with the professional development and training of instructional personnel. These include such activities as in-service training (including mentor teachers), workshops, conferences, demonstrations, and courses for college credit (tuition reimbursement), and other activities related to the ongoing growth and development of instructional personnel. Training that supports the use of technology for instruction should be included in this code (states may   |

establish a subobject code for specific tracking of technology-related training costs). The incremental costs associated with providing substitute teachers in the classroom (while regular teachers attend training) should be captured in this function code. All costs should be charged to this code regardless of whether training services are provided internally or purchased from external vendors.

**2220 Library / Media Services** - Activities concerned with directing, managing, and supervising educational media services (e.g., supervisory personnel) as well as such activities as selecting, acquiring, preparing, cataloging, and circulating books and other printed materials; planning for the use of the library by students, teachers, and other members of the instructional staff; and guiding individuals in their use of library books, reference guides and materials, catalog materials, special collections, and other materials, whether maintained separately or as a part of an instructional materials center. These activities include developing and acquiring library materials and operating library facilities. Textbooks are not charged to this function but rather to the instruction function. (Used with all programs 100-900)

**2310 Board of Directors** - Activities of the elected body which has been created according to state law and vested with responsibilities for educational activities in a given administrative unit. Some examples of services to be included here are board secretary and clerk service. (Used with all programs 100-900).

**Supervision of Board of Education Services.** Activities concerned with directing and managing the general operation of the Board of Directors. These include the activities of the members of the Board of Directors, but do not include any special activities defined in the other areas of responsibility described below. They also include any activities of the district performed in support of the school district meeting. Legal activities to interpret the laws and statutes and general liability situations are charged here, as are the activities of external auditors.

**Board Secretary/Clerk Services.** The activities required to perform the duties of the Secretary or Clerk of the Board of Directors.

**Board Treasurer Services.** The activities required to perform the duties of the Treasurer of the Board of Directors.

**Election Services.** Services rendered in connection with any school system election, including elections of officers and bond elections.

**Staff Relations and Negotiations.** Activities concerned with staff relations system wide and the responsibilities for contractual negotiations with both instructional and non-instructional personnel.

**Other Board of Directors Services.** Board of Directors services that cannot be classified under the preceding areas of responsibility.

**Legal Services.**

**Supervision of Board of Directors Services.** Activities concerned with directing and managing the general operation of the Board of Directors. These include the activities of the members of the Board of Directors, but do not include any special activities defined in the other areas of responsibility described below. They also include any activities of the district performed in support of the RESC district meeting. Legal activities to interpret the laws and statutes and general liability situations are charged here, as are the activities of external auditors.

**2320**

**Executive Administration** - Activities associated with the overall general administration of or executive responsibility for the entire RESC district. Severance pay is included in this function. Some typical services included in this function code follow:

**Office of the Executive Director.** Activities performed by the superintendent and such assistants as deputy, associate, and assistant directors in generally directing and managing all affairs of the RESC district. These include all personnel and materials in the office of the chief executive officer. Activities of the offices of the deputy executive directors should be charged here, unless the activities can be placed properly into a service area. In this case, they would be charged to service area direction in that service area.

**Community Relations.** Activities and programs developed and operated system wide for bettering school-community relations.

**State and Federal Relations.** Activities associated with developing and maintaining good relationships with state and federal officials. The activities associated with grant procurement are included.

**Other Executive Administration.** Other general administrative services that cannot be recorded under the preceding categories.

**2410**

**Office reporting to the Executive Director** - Activities concerned with directing and managing the operation of a particular school. They include the activities performed by the assistant to the executive director and other assistants while they supervise all operations of the school, evaluate the

staff members of the school, assign duties to staff members, supervise and maintain the records of the school, and coordinate school instructional activities with those of the RESC. These activities also include the work of clerical staff in support of the teaching and administrative duties.

- 2500**      **Central Services.** Activities that support other administrative and instructional functions including fiscal services, human resources, planning, and administrative information technology.
- 2510**      **Fiscal Services** - Activities concerned with the fiscal operations of the RESC. This function includes budgeting, receiving and disbursing, financial and property accounting, payroll, inventory control, internal auditing and managing funds.
- 2600**      **Operation and Maintenance of Plant Services** - Activities concerned with keeping the physical plant open, comfortable, and safe for use, and keeping the grounds, buildings and equipment in effective working condition and state of repair. These include the activities of maintaining safety in buildings, on the grounds, and in the vicinity of schools.
- 2680**      **Other Operation and Maintenance of Plant Services** - Operations and maintenance of plant services which cannot be classified elsewhere in the 2600 series.
- 2700**      **Student Transportation** - Activities concerned with conveying students to and from school, as provided by state and federal law. This includes trips between home and school, and trips to school activities.
- 3100**      **Food Services Operations** - Activities concerned with providing food to students and staff in a school or RESC. This service area includes preparing and serving regular and incidental meals, lunches, or snacks in connection with school activities and food delivery.
- 3300**      **Community Service Operations** — Activities concerned with providing community services to students, staff or other community participants. Examples of this function would be the operation of a community swimming pool, a recreation program for the elderly, a child care center for working mothers, etc.
- 4000**      **Facilities Acquisition and Construction** — Activities concerned with acquiring land and buildings, remodeling buildings, construction buildings

and additions to buildings, initially installing or extending service systems and other built-in equipment, and improving sites.

**5000 Debt Service** - Activities related to servicing the long-term debt of the school district, including payments of both principal and interest. This function should be used to account for bond interest payments, retirement of bonded debt (including current and advance refunding), capital lease payments, and other long-term notes. Interest on short-term notes or loans (repayable within one year of receiving the obligation) is charged to function 2513. The receipt and payment of principal on those loans are treated as adjustments to the balance sheet account.

## Object

This classification is used to describe the service or commodity obtained as the result of a specific expenditure. Following are definitions of the object classes and selected sub-object categories:

<u>Code</u>	<u>Description</u>
<b>600</b>	<b>Supplies</b> - Amounts paid for items that are consumed, worn out, or deteriorated through use; or items that lose their identity through fabrication or incorporation into different or more complex units or substances.
<b>700</b>	<b>Property</b> - Expenditures for acquiring capital assets, including land, existing buildings, existing infrastructure assets, and equipment.
<b>820</b>	<b>Judgments Against the School District</b> - Expenditures from current funds for all judgments (except as indicated below) against the RESC that are not covered by liability insurance, but are of a type that might have been covered by insurance. Only amounts paid as the result of court decisions are recorded here. Judgments against the RESC resulting from failure to pay bills or debt service are recorded under the appropriate expenditure accounts as though the bills or debt service has been paid when due.