



Cost Principles – what are they?

2 CFR 200 Subpart E





2 CFR 200 UGG

- Subpart A – Definitions
- Subpart B – General Provisions
- Subpart C – Pre-Federal Award Requirements
- Subpart D – Post Federal Award Requirements
- Subpart E – Cost Principles
- Subpart F – Audit Requirements

COST PRINCIPLES

- **200.400 – 200.476**

§ 200.403 Factors affecting allowability of costs.

- **Be necessary, reasonable, and allocable**
- **Comply with the cost principles** and federal award
- **Be consistent** with policies and procedures applying uniformly to federal and non-Federal activities and costs
- Be consistently treated as either **direct or indirect costs**
- Be determined in accordance with **GAAP**
- **Not be included or used to meet cost sharing / match requirements**
- Be **adequately documented**
- Incurred during the **approved budget period**

Necessary & Reasonable Costs



§ 200.404 Reasonable costs.

- A cost is reasonable if, in its nature and 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 cost. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally-funded. In determining 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 non-Federal entity or the proper and efficient performance of the Federal award.
 - (b) The restraints or requirements imposed by such factors as: **sound business practices**; arm's-length bargaining; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Federal award.

2 CFR 200.404 Reasonable Costs Continued



- (c) **Market prices** for comparable goods or services for the geographic area.
- (d) Whether the individuals concerned **acted with prudence in the circumstances** considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal Government.
- (e) Whether the non-Federal entity significantly deviates from its **established practices and policies** regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.

- **§ 200.405 Allocable costs**

(a) A cost is allocable to a particular Federal award or other cost objective **if the goods or services involved are chargeable or assignable to that Federal award or cost objective** in accordance with relative benefits received. This standard is met if the cost:

- (1) **Is incurred specifically for the Federal award;**
- (2) Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and
- (3) **Is necessary to the overall operation** of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in this subpart.

Allocability continued



(b) **All activities** which benefit from the non-Federal entity's indirect (F&A) cost, including unallowable activities and donated services by the non-Federal entity or third parties, **will receive an appropriate allocation of indirect costs.**

(c) Any cost allocable to a particular Federal award under the principles provided for in this part *may not be charged to other Federal awards to overcome fund deficiencies*, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards, or for other reasons. However, this prohibition would not preclude the non-Federal entity from shifting costs that are allowable under two or more Federal awards in accordance with existing Federal statutes, regulations, or the terms and conditions of the Federal awards.

Allocability with Equipment & CAS



- Where the purchase of equipment or other capital asset is specifically authorized under a Federal award, **the costs are assignable to the Federal award** regardless of the use that may be made of the equipment or other capital asset involved when no longer needed for the purpose for which it was originally required. See also [§§ 200.310](#) through [200.316](#) and [200.439](#).
- If the contract is subject to CAS, costs must be allocated to the contract pursuant to the Cost Accounting Standards. To the extent that CAS is applicable, the allocation of costs in accordance with CAS takes precedence over the allocation provisions in this part.

What is CAS?



- Cost Accounting Standards (CAS) are a set of standards that are designed “to achieve uniformity and consistency in cost accounting practices.”
- Cost Accounting Standard (CAS) 9905.502 states “All costs incurred for the same purpose, in like circumstances, are either direct costs only (can be charged to a grant) or indirect costs only (must be paid with unrestricted funds) with respect to final cost objectives.”

Direct cost allocation principles



- If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit.
- If a cost benefits two or more projects or activities in proportions that *cannot be determined because of the interrelationship of the work* involved, then, notwithstanding [paragraph \(c\)](#) of this section, the costs may be allocated or transferred to benefitted projects on any reasonable documented basis.
- Do not confuse unallowable proportional cost splitting with true direct costs. Example: charging a proportional cost to a grant, based on student count – such as special education – when it is a cost to all students.

Is it Necessary?



A cost is “necessary” if it meets an important program objective - it must address an existing need.

True or False?

You can purchase lunch for 20 Special Education staff for an end of year party with unspent federal special education grant funds?

Quiz Time! Is it reasonable?



A cost is “reasonable” if, in its nature and amount, it does not exceed that which would be incurred by a prudent person.

True or False?

You can pick out the most expensive version of a product using federal grant funds, even if other similar products are available for a much lower price.

Is it Allocable?



Allocability: To what extent are the expenditures charged to a particular grant program benefiting the program.

True or False?

An instructional media item purchased for the Title I program may be paid for with IDEA funds simply because the LEA's Title I funds have run out and unobligated funds remain in the IDEA grant.

SELECTED ITEMS OF COST - 200.420 – 200.476



- This section provides principles to be applied in establishing the allowability of certain items involved in determining cost, in addition to the requirements of Subtitle II.
- These principles apply whether or not a particular item of cost is properly treated as direct cost or indirect (F&A) cost.
- Failure to mention a particular item of cost is not intended to imply that it is either allowable or unallowable; rather, determination as to allowability in each case should be based on the treatment provided for similar or related items of cost, and based on the principles described in §§ 200.402 Composition of costs through 200.411 Adjustment of previously negotiated indirect (F&A) cost rates containing unallowable costs.

Selected Items Examples = Details



ECFR CONTENT

⦿ § 200.445 Goods or services for personal use.

- (a) Costs of goods or services for personal use of the non-Federal entity's employees are unallowable regardless of whether the cost is reported as taxable income to the employees.
- (b) Costs of housing (e.g., depreciation, maintenance, utilities, furnishings, rent), housing allowances and personal living expenses are only allowable as direct costs regardless of whether reported as taxable income to the employees. In addition, to be allowable direct costs must be approved in advance by a Federal awarding agency.

ECFR CONTENT

⦿ § 200.454 Memberships, subscriptions, and professional activity costs.

- (a) Costs of the non-Federal entity's membership in business, technical, and professional organizations are allowable.
- (b) Costs of the non-Federal entity's subscriptions to business, professional, and technical periodicals are allowable.
- (c) Costs of membership in any civic or community organization are allowable with prior approval by the Federal awarding agency or pass-through entity.
- (d) Costs of membership in any country club or social or dining club or organization are unallowable.
- (e) Costs of membership in organizations whose primary purpose is lobbying are unallowable. See also [§ 200.450](#).

Reminder – Check Your LEA Policy



- Federal code may be less restrictive than your own board policies or state code.
- Check that your own board policies for internal decisions and rules.
- Remember, there are two sets of federal guidance:
 - Uniform Grant Guidance (UGG) (general)
 - Program Specific