

2 CFR 200 SUBPART E-COST PRINCIPLES

Basic Considerations (2 CFR 200.400-200.419)

In addition to the eligible uses outlined in the Final Rule, please follow the cost principles outlined in 2 CFR Part 200 - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), Subpart E: Electronic Code of Federal Regulations (eCFR).

For the selected items of costs (sections 200.420 through 200.475), please see the document titled *2 CFR 200 Subpart E Selected Items of Cost Chart* below is a summary of selected items of the Basic Considerations section in Subpart E - Cost Principles.

Please Note: Expenditures are only allowable if approved by funding source guidance and program budget. For SLFRF, the funding source guidance is the Final Rule and does not require additional Treasury approval.

Fundamental Principles (200.400)

- Accounting practices must be consistent with the cost principles and must provide for adequate documentation to support costs charged to the Federal award.
- The cognizant agency for indirect costs should assure these cost accounting principles are applied on a consistent basis during their review and negotiation of indirect cost proposals.
- Profits are not allowed, unless specifically authorized by the Federal award.

Factors Affecting Allowability of Costs (200.403)

Costs must meet the following criteria in order to be allowable:

- Be necessary and reasonable for the performance of the award
- Conform to any limitations or exclusions set forth in the cost principles or the Federal award
- Be consistent with policies and procedures
- Be accorded consistent treatment
- Be determined in accordance with generally accepted accounting principles (GAAP)
- Not be included as part of cost sharing or matching
- Be adequately documented
- Costs must be incurred during the approved budget period.



Reasonable Costs (200.404)

A cost is reasonable if it does not exceed what would be incurred by a prudent person under normal circumstances at the time the decision to incur the cost was made.

For example:

- Is the cost ordinary and necessary?
- Was the cost entered into in accordance with sound business practices?
- Is the cost comparable to market prices?
- Did the entity deviate from its established practices and policies?

Allocable Costs (200.405)

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 the relative benefits received.

For example:

- Is the cost incurred specifically for the Federal award?
- Does the cost benefit both the Federal award and other work of the entity, and can it be distributed proportionately?
- Is the cost necessary to the operation of the entity?
- Do all activities which benefit from the entity's indirect cost receive an appropriate allocation of the indirect costs?

Applicable Credits (200.406)

Applicable credits are receipts or reduction of expenditure type transactions that offset or reduce direct or indirect expense items and must be credited to the Federal award.

For example:

- Purchase discounts
- Rebates or allowances
- Insurance refunds or rebates
- Adjustments of overpayments

Prior Written Approval (200.407)

The non-Federal entity may seek prior approval for costs which may be difficult to determine reasonableness or allocability, or for special or unusual costs before incurring the cost.



For example, prior approval is required for the following:

- Equipment purchases
- Entertainment expenses
- Selling/marketing costs
- Certain travel costs
- Pre-award costs
- Fundraising

Collection of Unallowable Costs (200.410)

Payments made for costs determined to be unallowable must be refunded (with interest) to the Federal Government. Unless directed by Federal statute or regulation, repayments must be made in accordance with the instructions provided by the Federal agency or pass-through entity that made the allowability determination.

Note: If costs are found to be unallowable, the corresponding indirect costs must also be refunded to the Federal Government (200.411)

Classification of Costs (200.412)

There is no universal rule for classifying a cost as either direct or indirect.

- A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award.
- In order to avoid double charging of Federal awards, it is essential that each item of cost incurred for the same purpose (in like circumstances) be treated consistently as either direct or indirect.

Direct Costs (200.413)

Direct costs are those that can be identified specifically with a particular cost objective and can be directly assigned easily and with a high degree of accuracy.

- Identification with the Federal award rather than the nature of the goods and services involved is the determining factor in distinguishing between direct and indirect costs.
- Typical costs charged directly to a Federal award are the compensation of employees who work on that award, their related fringe benefits, and the costs of materials and other items of expense incurred for the Federal award.



Indirect Costs (200.414)

Indirect Cost Rates

- Negotiated cost rates must be accepted by Federal awarding agencies unless required by Federal Statute or regulation or approved by a Federal awarding agency head or delegate based on documented justification.
- Non-Federal entities may apply for a one-time extension of current indirect cost rate of up to four years.
- A de minimis rate of 15% may be used if the non-Federal entity does not have an approved indirect cost rate.

Facilities and Administration Classification

For institutions of Higher Education (IHE) and major non-profit organizations, indirect costs must be classified into one of the two following categories:

- Facilities: Depreciation, interest on debt associated with buildings, improvements and equipment, operating maintenance and expenses, etc.
- Administration: General administration and general expenses, such as the director's office, accounting, etc.

Cost Allocation Plans and Indirect Cost Proposals (200.416)

The following applies to States, local governments, and Indian Tribes:

- Certain services such as motor pools, purchasing, IT, accounting etc. are provided to operating agencies on a centralized basis. The Central Service Cost Allocation Plan, allowing for separate indirect cost rates, provides a process where central services can be assigned to these agencies.

Cost Accounting Standards (200.419)

Applies to Institutions of Higher Education:

- If > \$50 million in Federal funding is received within a fiscal year, a disclosure statement must be prepared and submitted describing the institution's cost accounting practices.
- Amendments for indirect costs must be submitted six months in advance.



[Uniform Guidance: eCFR: 2 CFR Part 200](#) -- Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (federalregister.gov)

