

**OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments
Codified in 2CFR Section 225**

Circular A-87 provides principles and standards for determining costs for federal awards, including grants, cost reimbursement contracts, and other agreements with state and local governments, and federally recognized Indian tribal governments. Website: http://www.whitehouse.gov/omb/circulars_a087_2004

Attachment A–Basic Guidelines

Attachment A includes definitions, basic guidelines, classification of costs, and direct and indirect costs. To be allowable a cost must meet specific criteria. Basic Guidelines includes factors affecting allowability, reasonable costs, allocable costs and applicable credits.

Allowability of Costs

To be allowable a cost must:

- Be **necessary** and **reasonable** for proper and efficient performance and administration of federal awards
- Be **allocable** to federal awards
- Be **authorized** and not prohibited
- Conform to any limitations in the circular
- Be **consistent** and applied consistently (capital assets, direct vs. indirect costs, etc.).

Allowable if:

- Follows generally accepted accounting principles
- Not be used to meet cost sharing or matching of another federal award
- Is net of all applicable credits
- Is adequately documented

Reasonable Costs

- Prudent Person Test
- Ordinary and necessary for operation or performance of federal award
- Follows sound business practices; arms-length bargaining; follows laws/regulations federal terms
- Market price for comparable goods and services
- Administered with prudence
- No significant deviations; consistent with non-federal
- Benefits the program

Attachment B–Specific Items of Cost

Activity	Allowable	Explanation
Accounting	Yes	<ul style="list-style-type: none"> • Cost to establish and maintain accounting and other information.
Advertising	Yes	<ul style="list-style-type: none"> • Recruitment of personnel • Procurement of goods and services • Disposal of surplus materials (unless reimbursed at standard

		<ul style="list-style-type: none"> rate) For specific purposes necessary to requirements of federal award
Advisory Councils	Yes	<ul style="list-style-type: none"> As direct cost if authorized by federal awarding agency As indirect cost where allocable to federal awards
Alcoholic Beverages	No	
Audit Services	Yes	<ul style="list-style-type: none"> If performed in accordance with Single Audit Act (and OMB Circular A-133) Percentage of costs charged to federal awards for single audit may not exceed percentage derived by dividing federal funds expended by total funds expended by recipient during fiscal year <ul style="list-style-type: none"> Exceed only if appropriate documentation of higher costs Other audit costs must be preapproved or part of indirect cost allocation plan or rate
Bad Debts	No	<ul style="list-style-type: none"> Unless specifically provided for in federal program award regulations
Bonding Costs	Yes	<ul style="list-style-type: none"> Costs of bonding employees and officials if in accordance with sound business practice
Budgeting	Yes	<ul style="list-style-type: none"> Costs for development, preparation, presentation and execution of the budget
Communications	Yes	<ul style="list-style-type: none"> Costs of: telephone, mail, messenger, etc.
Compensation for Personal Services	Yes	<ul style="list-style-type: none"> Comply with time and effort requirements and documentation Are reasonable for services rendered and conform to established policy of district consistently applied to both federal and non-federal employees Hired in accordance with district rules and meets merit system or other federal requirements
Contingencies	No	<ul style="list-style-type: none"> Contributions to contingency reserve for events which cannot be predicted
	Yes	<ul style="list-style-type: none"> Self-insurance reserve Pension plan reserves Post-retirement health and other benefits computed with acceptable actuarial cost method
Contributions and Donations	No	<ul style="list-style-type: none"> All contributions and donations, including cash, property, and services by governmental units to others, regardless of recipient.
Defense and Prosecution of Criminal and Civil Proceedings and Claims	No	<ul style="list-style-type: none"> Costs incurred in defense of any civil or criminal fraud Costs incurred by a contractor in connection with any criminal, civil or administrative proceedings commenced by the United States or a state Legal expenses for prosecution of claims against the federal government
	Yes	<ul style="list-style-type: none"> Legal expenses required to administer federal program

Depreciation and Use Allowances	No	<ul style="list-style-type: none"> • Land • Buildings or equipment purchased or donated by federal government or used as part of match • <i>See Circular for additional guidance</i>
	Yes	<ul style="list-style-type: none"> • Use one or the other, not both for asset class • Follow district policy and GAAP
Disbursing Service	Yes	<ul style="list-style-type: none"> • Cost of disbursing funds
Electronic Data Processing	Yes	<ul style="list-style-type: none"> • See Equipment
Employee Morale, Health and Welfare Costs	Yes	<ul style="list-style-type: none"> • Costs of health, first-aid clinics and/or infirmaries, recreational facilities, employee counseling services, employee information publications, related expenses consistent with district policy • Income from any of these activities will be offset against expenses
Entertainment	No	<ul style="list-style-type: none"> • Costs of entertainment, including amusement, diversion and social activities and any costs directly associated with such costs <ul style="list-style-type: none"> • Examples: tickets to shows or sports events, meals, lodging, rentals, transportation, gratuities
Equipment and Capital Expenditures	Yes	<ul style="list-style-type: none"> • Through depreciation or use allowances, OR • Charged directly • Includes equipment, replacement equipment, other capital assets and improvements which materially increase the value or useful life of equipment <ul style="list-style-type: none"> • Federal agencies may waive or delegate approval • Equipment with acquisition cost of less than \$5000 are considered supplies <ul style="list-style-type: none"> • Allowable as direct costs • Change in capitalization level <ul style="list-style-type: none"> • May continue to follow use or depreciation or amortize amount to be written off over period negotiated with cognizant agency (OSPI) • Trade in for replacement equipment may be used to offset cost of new
Fines and Penalties	No	<ul style="list-style-type: none"> • Unless incurred as a result of compliance with <i>specific provisions of federal award</i> or <i>written instructions</i> by awarding agency authorizing (<i>rare</i>)
Fund Raising and Investment Management Costs	No	<ul style="list-style-type: none"> • Costs of organized fund raising, including financial campaigns, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions • Costs of investment counsel and staff to enhance income from investments
	Yes	<ul style="list-style-type: none"> • Costs associated with pension, self-insurance or other funds which include federal participation
Gains and Losses On Disposition of Depreciable Capital Assets	No	<ul style="list-style-type: none"> • Amount depreciated, amortized, or use allowance • When property given in exchange as part of the price of similar item • Losses from failure to maintain insurance

		<ul style="list-style-type: none"> • Substantial relocation of federal awards from a facility where federal participation to another facility prior to expiration of useful life requires federal approval • Does not usually apply to United States Department of Education (ED) grants
	Yes	<ul style="list-style-type: none"> • Allowable in year they occur as credits or charges • Limited to difference between amount realized on the property and the undepreciated basis of the property
General Government Expenses	No	<ul style="list-style-type: none"> • Salaries and expenses of chief executives (superintendent's office, principal's office) • Salaries and expenses of school boards whether incurred for purposes of legislation or executive direction • Cost of prosecutorial activities unless authorized by program regulations (<i>rare</i>)
Idle Facilities and Idle Capacity	No	<ul style="list-style-type: none"> • Unless: <ul style="list-style-type: none"> • Necessary to meet fluctuations in workload • Were necessary when acquired (limit one year) • <i>Does not usually apply to ED grants</i>
Insurance and Indemnification	No	<ul style="list-style-type: none"> • Costs of insurance or contributions to a reserve covering risk of loss of or damage to federal government property unless agency has specifically required or approved • Actual losses which could have been covered by permissible insurance • Cost of commercial insurance that protects against costs of contractor for contractor's defects in materials or workmanship
	Yes	<ul style="list-style-type: none"> • Costs of insurance required, approved or maintained pursuant to the federal award • Costs of other insurance (allocable to program) <ul style="list-style-type: none"> • Follow district policy and sound business practice • Costs due to losses not covered due to nominal deductible insurance coverage if follow sound management practice • Minor losses not covered by insurance which occur in ordinary course of operations • Contributions to reserve for self-insurance programs (including workers compensation, unemployment compensation, and severance pay) subject to: <ul style="list-style-type: none"> • Type of coverage, extent of coverage and rates would have been allowed had insurance been purchased to cover the risks • Earnings and investment income on reserves credited • Contributions to reserves based on sound actuarial principles and updated at district biennially • Other (see Section 25) • Actual claims paid to or on behalf of former or current employees must be allowable in the year of payment <ul style="list-style-type: none"> • Consistent policy followed • Allocated as general administrative expense to all

		<p>activities of district</p> <ul style="list-style-type: none"> • Insurance refunds must be credit against costs • Only to extent provided in federal award
Interest	No	<ul style="list-style-type: none"> • Costs incurred for interest on borrowed capital or the use of district's own funds
	Yes	<ul style="list-style-type: none"> • Financing costs of allowable costs of building acquisition, construction, reconstruction or remodeling if: <ul style="list-style-type: none"> • Financing from bona fide third party external to district • Assets used in support of federal awards • Earnings on debt service reserve and interest offset
Lobbying	No	
Maintenance, Operations and Repairs	Yes	<ul style="list-style-type: none"> • If: <ul style="list-style-type: none"> • Not prohibited by law • Keeps property in efficient operating condition • Does not add to value or prolong life of property • Are not included in rental or charges for space • <i>Costs which add to permanent value or prolong life should be treated as capital expenditures</i>
Materials and Supplies	Yes	<ul style="list-style-type: none"> • Charge actual price after deducting discounts, rebates and allowances • Stockroom withdrawals at cost • Incoming transportation charges are part of materials and supplies costs
Meetings and Conferences	Yes	<ul style="list-style-type: none"> • Costs of meetings and conferences to disseminate technical information specifically including <ul style="list-style-type: none"> • Working Meals • Transportation • Rental of Facilities • Speakers' Fees
Memberships, Subscriptions and Professional Activities	No	<ul style="list-style-type: none"> • Membership in organizations substantially engaged in lobbying
	Yes	<ul style="list-style-type: none"> • Districts memberships in business, technical, and professional organizations • District's subscriptions to business, technical and professional periodicals • Meetings and conferences where primary purpose is dissemination of technical information (<i>includes meals, transportation, rental of meeting facilities and incidental costs</i>) • Membership in civic and community social organizations with approval of federal agency
Motor Pools	Yes	<ul style="list-style-type: none"> • Costs of service organization which provides automobiles to district at a mileage or fixed rates and/or provides vehicle maintenance, inspection, and repair services
Pre-Award Costs	No	<ul style="list-style-type: none"> • Unless: <ul style="list-style-type: none"> • Necessary to comply with the proposed delivery schedule or period of performance

		<ul style="list-style-type: none"> • Only to extent they would have been allowable if incurred after award date • Only with written approval of awarding agency
Professional Service Costs	No	<ul style="list-style-type: none"> • Defense and prosecution of criminal and civil proceedings and claims
	Yes	<ul style="list-style-type: none"> • Professional and consultant services, including retainer fees, by persons or organizations that are members of a particular profession or possess a special skill, if <ul style="list-style-type: none"> • Reasonable • Not contingent upon recovery of costs from the federal government
Proposal Costs	Yes	<ul style="list-style-type: none"> • Costs to prepare proposals for potential federal awards <ul style="list-style-type: none"> • Treat as indirect costs unless prior approval of federal awarding agency
Public Relations	No	<ul style="list-style-type: none"> • All other advertising and public relations • Costs of conventions, meetings or other events <ul style="list-style-type: none"> • Costs of displays, demonstrations, exhibits • Costs of meeting rooms, hospitality suites, etc. • Salaries and wages of employees engaged in setting up and displaying exhibits, making demonstrations, providing briefs • Promotional items (models, gifts, souvenirs) • Costs of advertising and PR designed to solely promote governmental unit
	Yes	<ul style="list-style-type: none"> • Specifically required by federal award (only as direct cost) • Communicate specific activities or accomplishments from performance of federal award to public or press (direct cost) • Necessary to liaison with news media-limited to keeping public informed on federal notices, contracts, grant awards, financial matters
Publication and Printing Costs	Yes	<ul style="list-style-type: none"> • Must be reasonable and allocable
Rearrangements and Alterations	Yes	<ul style="list-style-type: none"> • Ordinary and normal rearrangement and alteration of facilities • Special arrangements and alterations specified in the federal award or with prior approval
Reconversion Costs	Yes	<ul style="list-style-type: none"> • Restoration or rehabilitation of district's facilities to approximately same condition immediately prior to federal awards, less costs related to normal wear and tear
Rental Costs	Yes	<ul style="list-style-type: none"> • Must be reasonable • Sale and lease back arrangements limited to what it would have cost if district owned the property • Less than arm's length transactions limited to amount if district had title to property • Rental costs under leases must be treated as capital leases under GAAP (follow FASB Stmt 13) • <i>See Interest Section</i>
Taxes	No	<ul style="list-style-type: none"> • Self-assessed taxes and/or policies that disproportionately

		<p>affect federal programs</p> <ul style="list-style-type: none"> • If deemed inappropriate by federal agency
	Yes	<ul style="list-style-type: none"> • If legally required • Gasoline taxes, motor vehicle fees other taxes which are user fees for benefits to federal program
Training	Yes	<ul style="list-style-type: none"> • Reasonable for professional development of employees
Travel Costs	No	<ul style="list-style-type: none"> • Costs in excess of normal costs permitted by district policy (use federal guidance if no district policy) • Commercial airfare must be coach rate or equivalent • Non-commercial air travel is generally not allowable
	Yes	<ul style="list-style-type: none"> • Transportation, lodging, subsistence, and related items for employees on official business • May be charged based on actual cost, per diem or combination in accordance with district policy • Travel costs for general government employees are allowable when specifically related to federal awards • All charges must be reasonable and not exceed normally allowed costs
Underrecovery of Costs under Federal Agreements	No	<ul style="list-style-type: none"> • Excess costs over federal contribution of one award are not permitted to be charged to other awards