

APPENDIX 2: ALLOWABILITY AND REASONABLE COSTS

200.403 Factors affecting allowability of costs.

Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

- (a) Be necessary and reasonable for the performance of the [Federal award](#) and be allocable thereto under these principles.
- (b) Conform to any limitations or exclusions set forth in these principles or in the [Federal award](#) as to types or amount of cost items.
- (c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the [non-Federal entity](#).
- (d) Be accorded consistent treatment. A cost may not be assigned to a [Federal award](#) as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the [Federal award](#) as an indirect cost.
- (e) Be determined in accordance with generally accepted accounting principles (GAAP), except, for [state](#) and [local governments](#) and [Indian tribes](#) only, as otherwise provided for in this part.
- (f) Not be included as a cost or used to meet [cost sharing or matching](#) requirements of any other federally-financed program in either the current or a prior period. See also [§ 200.306\(b\)](#).
- (g) Be adequately documented. See also §§ [200.300](#) through [200.309](#) of this part.
- (h) Cost must be incurred during the approved [budget period](#). The [Federal awarding agency](#) is authorized, at its discretion, to waive prior written approvals to carry forward [unobligated balances](#) to subsequent [budget periods](#) pursuant to [§ 200.308\(e\)\(3\)](#).

[[78 FR 78608](#), Dec. 26, 2013, as amended at [85 FR 49562](#), Aug. 13, 2020]

200.404 Reasonable costs.

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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.
- (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.

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