OFFICE OF MANAGEMENT AND BUDGET

Cost Principles for Educational Institutions

AGENCY: Office of Management and Budget.

ACTION: Final Revision and Recompilation of OMB Circular A–21.

SUMMARY: The Office of Management and Budget (OMB) revises OMB Circular A–21, ''Cost Principles for Educational Institutions,'' by incorporating four Cost Accounting Standards applicable to educational institutions, issued by the Cost Accounting Standards Board (CASB) on November 8, 1994 (59 FR 55746), and extending these standards to all sponsored agreements. The revision also: requires certain large institutions to disclose their cost accounting practices by the submission of a Disclosure Statement prescribed by the CASB; amends the definition of equipment; eliminates in 1998 the use of special cost studies to allocate utility, library and student services costs; and, requires the use of fixed facilities and administrative cost rates for the life of sponsored agreements. Further, the revision establishes cost negotiation cognizant agency responsibilities, replaces the term ''indirect costs'' with ''facilities and administrative costs'' (to describe more accurately the various cost components of sponsored agreements), clarifies the policy for a change from use allowance to depreciation, adds criteria to interest allowability, and disallows tuition benefits for employee family members. Finally, the revision rescinds OMB Circular A–88, ''Indirect Cost Rates, Audits, and Audit Follow-up at Educational Institutions,'' in its entirety. The recompilation of Circular A–21 in its entirety appears after the revision.

EFFECTIVE DATES: The effective date of this revision of Circular A–21 is May 8, l996, unless otherwise noted within this revision. Circular A–88 is rescinded effective July 1, l996.

FOR FURTHER INFORMATION: Educational institutions should contact the educational institution's cognizant Federal agency. Federal agencies should contact Gilbert Tran, Office of Financial Federal Financial Management, Office of Management and Budget, (202) 395–3993.

SUPPLEMENTARY INFORMATION:

A. Purpose of Circular A–21

Office of Management and Budget (OMB) Circular A–21, ''Cost Principles for Educational Institutions,'' establishes principles for determining costs applicable to Federal grants, contracts, and other sponsored agreements with educational institutions.

B. Recent Prior Revisions

Circular A–21 was last amended in 1991 and 1993 (56 FR 50224 of 10/1/91 and 58 FR 39996 of 7/15/93, respectively). The 1991 revisions made certain specified costs unallowable for Federal reimbursement and placed a limit on the amount of reimbursable administrative costs. That revision also required a certification to accompany each rate proposal. The 1991 revisions also added Exhibit A containing a list of colleges and universities subject to Section J.12.F, Depreciation and Use Allowance. The 1993 revisions further clarified and standardized the Circular's principles for determining allowable costs.

C. Current Revisions

On February 6, 1995, OMB proposed revisions in 60 FR 7104 and 60 FR 7106. In 60 FR 7104, OMB proposed the extension of the four cost accounting standards (CAS) applicable to educational institutions to all sponsored agreements and an amendment to the definition of equipment. In 60 FR 7106, OMB proposed eight additional revisions, including the rescission of OMB Circular A–88, ''Indirect Cost Rate, Audits, and Audit Follow-up at Educational Institutions,'' and mentioned six other revisions for future consideration.

Circular A–21 is revised to:

1. Incorporate the four CAS (48 CFR 9905) and the Disclosure Statement (the Cost Accounting Standards Board's (CASB) form DS–2) and associated administrative requirements promulgated by the CASB for educational institutions. This action will extend the four CAS to all sponsored agreements (see Sections C.10, 11, 12 and 13 and Appendix A) and extend the applicability of the DS–2 (48 CFR 9903.202) to major educational institutions (see Sections C.14, K.2.b and Appendix B). Guidance for the implementation and administration of the CAS requirements and the submission of required DS–2s is also provided.

2. Replace the term ''indirect'' costs with ''facilities and administrative'' (F&A) costs. F&A costs are synonymous with ''indirect'' costs, as previously used in this Circular and as currently used in Appendices A and B.

3. Eliminate the use of special cost studies to allocate utility, library and student services costs effective July 1, 1998, at which time an alternative methodology making payments on utility costs will be in place (see Section E.2.d(5)).

4. Require Federal funding agencies to use F&A rates in effect at the time of an initial award throughout the life of the sponsored agreement (see Section G.7).

5. Rescind Circular A–88 and establish cost negotiation cognizance for educational institutions and cognizant agency responsibilities in Circular A–21 (see Section G.11).

6. Eliminate the allowability of dependent tuition benefits (see Section J.8.f(2)).

7. Clarify the policy governing the transition from use allowance to depreciation (see Section J.12.b.(3)).

8. Amend the definition of equipment by increasing the capitalization threshold to the lesser of the amount used for financial statement purposes or $5000 (see Section J.16).

9. Establish criteria for reimbursement of interest costs (see Section J.22.f).

Circular A–21, as amended by this revision, consists of the Circular published at 44 FR 12368 (2/26/79), as amended by Transmittal Memoranda Numbers 1 through 5, at 47 FR 33658 (7/23/82), 51 FR 20908 (6/9/86), 51 FR 43487 (12/2/86), 56 FR 50224 (10/01/91), 58 FR 39996 (7/15/93), respectively, and the amendments herein. A recompilation of the entire Circular A–21 with all its amendments to date appears at the end of this notice and is available in electronic form on the OMB Home Page at http://www.whitehouse.gov/WH/EOP/OMB, or in hard copy by calling OMB's Publication Office at (202) 395–7332.

D. Paperwork Reduction Act

This revision includes an information collection requirement for educational institutions receiving more than $25 million in federally-sponsored agreements to file the CASB's DS–2. This revision's information collection requirement covers more educational institutions than those subject to CASB's regulatory requirement for filing the DS–2, pursuant to Public Law 100–679, which was previously approved and assigned OMB control number 0348–0055 (which expires August 31, 1997). On February 6, 1995 (60 FR 7104), OMB requested comments on this proposed information collection requirement in accordance with the Paperwork Reduction Act (44 U.S.C. Chapter 35 et seq.). The proposed information requirement will not be effective until another notice is published in the Federal Register. The subsequent notice will provide the effective date and the OMB control number.

E. Comments and Responses

OMB received about 200 comments from colleges and universities, Federal agencies, professional organizations, and accounting firms. The comments and OMB's responses are included in this notice. Several of the comments resulted in modifications to OMB's original proposal.

The comments received and OMB's responses are summarized below.

Cost Accounting Standards (CAS) (Sections C.10–13 and Appendix A)

Comment: Many commenters stated that OMB Circular A–21 currently provides adequate rules and guidelines regarding cost reimbursements for Federal grants and contracts. Therefore, they argued that the proposed incorporation of the CAS would duplicate Circular A–21's requirements.

Response: OMB concurs that many of the requirements covered under the CAS currently exist in OMB Circular A–21. However, the four CAS are being incorporated since they provide more explicit provisions and guidance regarding the consistent application of cost accounting practices at educational institutions. To minimize potential conflict between OMB policies and the Cost Accounting Standards Board (CASB) regulations at 48 CFR 9903, the CASB has committed to perform an analysis to identify administrative requirements—especially those relating to contract clauses, definitions of a cost accounting practice, and the cost impact process—that may not be readily adaptable to colleges and universities. The CASB will separately evaluate the need to establish any unique or alternative provisions that should be applied to colleges and universities based on the changes in Circular A–21. Recognizing that the two sets of documents should be compatible, the CASB will, within the limitations imposed by the statutory requirements of the CASB's organic statute, examine the administrative requirements issue in order to determine what improvements can be made to the administrative requirements of the CASB's rules as they effect colleges, universities and Federal cognizant agencies.

Comment: The CAS language refers to contracts. Language in the Circular needs to be amended to cover sponsored agreements.

Response: The CAS language in Sections C.10, 11, 12 and 13 and Appendix A of the Circular has been changed to cover all forms of sponsored agreements.

Comment: The proposal stated that the CAS provisions will not go into effect on January 9, 1995; however, no other effective date was provided. When will the CAS language become effective?

Response: For CAS-covered contracts, the CASB's effective date for the application of CAS was January 9, 1995. For other sponsored agreements, the application of CAS is effective for the educational institution's fiscal year starting on or after the publication date of this revision.

Comment: The CAS were intended for commercial enterprises and are not appropriate for colleges and universities. Also, commercial enterprises are not limited by a 26 percent administrative cap; therefore, they can recover additional administrative costs to comply with CAS.

Response: Commercial contractors are subject to 19 CAS. Only four of those CAS are being applied to universities. The four CAS are for: (1) consistency in estimating, accumulating and reporting costs; (2) consistency in allocating costs incurred for the same purpose; (3) accounting for unallowable costs; and, (4) cost accounting period. Since these CAS merely strengthen the cost principles currently in Circular A–21, the implementation of CAS should not significantly increase burden or result in any additional costs to universities.

Comment: The revision limits an educational institution's flexibility to take necessary or advantageous action in a changing environment.

Response: The application of the four CAS should not limit an educational institution's flexibility in a changing business environment. The standards only require that costs be treated consistently and, if an educational institution makes an accounting change that materially impacts sponsored agreement reimbursement, then the change and its impact need to be reported. These requirements currently exist in Circular A–21. A change that converts a cost from direct to F&A (during a period where an educational institution has a predetermined F&A rate) normally is not considered a significant change, because it does not have a material impact on sponsored agreement reimbursement.

Comment: Limit CAS coverage to sponsored agreements in excess of $500,000, which is consistent with CAS coverage of contracts. Some universities have several thousand agreements. Most of them are smaller than the $500,000 threshold. The smaller agreements should not be covered by these requirements. To cover smaller agreements would hold educational institutions to a higher standard than the industry's standard. At issue is whether or not a cost impact proposal or some other form of submission for an equitable adjustment should be made on all agreements.

Response: The four CAS promote consistency in cost accounting practices used by an educational institution to estimate, accumulate and report costs charged against federally-sponsored agreements. These underlining principles currently exist in Circular A–21 which covers all sponsored agreements. The four CAS set forth more explicit fundamental requirements, techniques and illustrations on how to comply with these principles. Therefore, it is appropriate to extend these CAS to all sponsored agreements.

Furthermore, a cost impact proposal is not required to be prepared for each agreement when an educational institution changes accounting practices. Instead, CAS regulations (48 CFR 9903.306 (e) and (f)) allow the use of ''any other suitable technique'' for cost impact adjustment. Thus, a cost impact adjustment could be done through the F&A cost negotiation process and rate agreement if deemed appropriate by the cognizant agency.

Comment: Educational institutions do not have sufficient funds to build accounting systems effective enough to comply with CAS. Commenters suggested an increase of the administrative cap of 26 percent of modified total direct costs (MTDC) to cover the increased paperwork burden. Failing this, the commenters requested an increase of the alternative administrative threshold rate from 24 percent, as allowed in Section G.8, to 26 percent.

Response: Compliance with CAS should not require educational institutions to acquire additional accounting systems. Since the CAS only clarify existing provisions for sponsored agreements, existing accounting systems that comply with § _____.21, Standards for financial management systems, in OMB Circular A–110, ''Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Non-Profit Organizations,'' should require no change.

Comment: The Circular should stipulate that Federal agencies retain the latitude to permit certain administrative expenditures to be charged directly to a project when they believe that these costs are essential for the conduct of the project.

Response: Section C.11 states that ''all costs incurred for the same purpose, in like circumstances, are either direct costs only or F&A costs only with respect to final costs objectives.''

However, there are circumstances where it is appropriate to direct charge costs, such as administrative and clerical salaries, when these costs are normally charged indirectly. For example, direct charging of these costs may be appropriate where a major project or activity requires a significant level of administrative or clerical services and individuals involved can be specifically identified with the project or activity. In this example, the administrative or clerical service costs are not incurred for the same purpose and under like circumstances as are administrative and clerical service costs associated with general university functions, such accounting operations or general administrative activities, which do not result from specifically identifiable requirements.

Comment: CAS definitions (for direct cost, ''indirect'' cost, consistency and accounting change) are more limiting than in Circular A–21. How will such inconsistencies between the two documents be handled?

Response: Inconsistency in definitions and cost policy interpretations do not exist between the two documents. To further assure consistency between the two documents, all inquiries related to the CAS applicable to educational institutions will be addressed by OMB's Office of Federal Financial Management, in coordination with the CASB.

Comment: The precision required by CAS would not be consistent with future proposed systems of benchmarking, thresholds, caps, and other limiting factors. OMB is sending out mixed messages.

Response: The purposes of the four CAS and future proposed revisions to Circular A–21 are different. The four CAS incorporated in the Circular serve to promote consistent treatment of estimated costs proposed to the Federal Government and actual costs charged as reimbursable cost against federally-sponsored agreements. The purposes of the future proposed revisions are to assure the consistent treatment of costs proposed and charged to federally-sponsored agreements.

Comment: Some small colleges have training grants with 8 percent overhead limits. Could CAS requirements and disclosures be waived for those educational institutions with low overhead rates (perhaps 10 percent)?

Response: Small colleges with less than $25 million in Federal funding covered under this Circular will be subject to the CAS but are exempt from the Disclosure Statement filing requirements.

Disclosure Statement (DS–2) (Section C.14 and Appendix B)

Comment: Many commenters express concerns that the preparation of the Disclosure Statement (DS–2) can take as much as 2500 hours. A suggestion was made to require a submission only for the year when the educational institution is required to submit a F&A cost rate proposal.

Response: OMB disagrees that the DS–2 can take as much as 2500 hours to complete unless a university does not currently have adequate written cost accounting policies. The DS–2 is a 20-page document that provides a summary of an educational institution's cost accounting system for Federal grants and contracts. The cost accounting practices used for Federal grants and contracts should already be properly documented as required by Subpart C, § _____.21, Standards for financial management systems, in OMB Circular A–110. Therefore, the effort to summarize the existing practices in the DS–2 should not be overly burdensome to complete.

In addition, educational institutions do not have to file the DS–2 on an annual basis. Educational institutions are only required to file an initial DS–2 in accordance with the time frame described in Section C.14 and thereafter, educational institutions only need to submit amendments of sections affected by changes in cost accounting practices deemed significant by the cognizant agency. Section C.14.d discourages the resubmission of a complete, updated DS–2 except for extensive changes.

Furthermore, the DS–2 submission is required only for educational institutions receiving more than $25 million in federally-sponsored agreements during their most recently completed fiscal year.

Comment: The paperwork burden imposed has not proven necessary and the costs of providing the information outweigh the benefits to be derived.

Response: OMB believes that the DS–2 requires no more information than would normally be provided to the cognizant agency for review of an educational institution's F&A cost rate proposal and for negotiation of the associated rate agreement. OMB does not intend for the paperwork to be an arduous process, rather a reasonable representation of the accounting practices and policies that are used by the educational institution in recovering costs under Federal sponsored programs.

Comment: The DS–2 will result in additional work and expense, but, because of the 26 percent cap, educational institutions will not be allowed to recover those amounts.

Response: OMB believes that the information required by the DS–2 is of the type that historically should have been submitted during F&A cost rate negotiations and made available for audits of grants and contracts in accordance OMB Circular A–133, ''Audits of Institutions of Higher Education and Other Non-Profit Institutions.'' Therefore, the only additional time requirements should be to put the same information in the format required by the DS–2 and to submit information on accounting changes, as needed. Subsequently, the information will not have to be resubmitted every time a rate proposal is submitted. Only changes in cost accounting practices need to be addressed as the changes are made. This should result in administrative cost savings in the long term.

Comment: The revision should clarify what constitutes an accounting change, and provide a materiality threshold so that insignificant changes do not have to be reported.

Response: OMB does not intend for educational institutions to report insignificant accounting changes. Sections C.14.d and g emphasize that a change is to be reported and approved by the cognizant agency only when ''the change is expected to have a *material* impact on the educational institution's negotiated F&A rates * * *'' (emphasis added). The determination of whether an accounting change is significant and, therefore, requires an amendment to the DS–2 and possibly a cost impact proposal is to be made by the cognizant agency. However, educational institutions are prohibited under the allocability clauses of the Circular from double-counting any costs to the Federal Government which could result from a change in accounting.

Comment: There were many comments about confusion over the submission dates for the initial DS–2 between the proposed dates stated in the proposed revision to Circular A–21 and the dates published by the CASB on November 8, 1994.

Response: In order to clarify the submission dates for the initial DS–2, and to prevent confusion, the DS–2 submission dates in this Circular for CAS-covered educational institutions are the same as those published by the CASB on November 8, 1994. The DS–2 submission date for educational institution not covered by the CASB requirements is six months after the end of the fiscal year which starts after the publication date of this revision. In addition, the cognizant agency has the

authority to provide a filing date extension on a case-by-case basis, unless the DS–2 submission date is defined by receipt of a CAS-covered contract by the educational institution.

Comment: Small colleges and universities are disproportionately affected by the DS–2 submission requirements since a small university which received a CAS-covered contract and $25 million in sponsored awards could have the same submission due date as the top 20 universities which receive substantially more Federal awards (approximately $150 million or more).

Response: To provide consistency and avoid confusion among all colleges and universities regarding the submission due dates for the DS–2, OMB has revised the due dates to correspond with the due dates published by the CASB. A cognizant agency has the authority to grant a filing date extension.

Comment: A definition is needed for ''a component unit'' or the previously-defined terms ''segment'' and ''a business unit'' should be used.

Response: ''A component unit'' in Section C.14 is replaced with ''a business unit.'' A business unit at colleges and universities means any unit of an educational institution which is not divided into segments. Segment means one of two or more divisions, campus locations, or other subdivisions of an educational institution that operate as independent organizational entities under the auspices of the parent educational institution and report directly to an intermediary group office or the governing central system office of the parent educational institution.

Comment: For those educational institutions that are required to file a DS–2, there should be a transition time period (e.g., within one year after submittal) in which the cognizant agency is required to identify any procedures or descriptions that it believes would lead to disallowance of costs in the future and the educational institution should be given an opportunity to correct these procedures or descriptions without a penalty. When the document is found acceptable to the cognizant agency, then it should receive a written acknowledgment that, in the agency's opinion, the document describes acceptable practices. An educational institution would then only be subject to disallowances if it is found to be violating its described practices in such a way that unallowable costs were being incurred.

Response: OMB disagrees. The DS–2 should disclose the cost accounting practices used to estimate, accumulate and report the costs of sponsored agreements over the award periods of performance. If the cognizant agency identifies established or disclosed cost accounting practices that would lead to disallowance of costs, it would require the educational institution to correct the practice and may also compute a cost adjustment, if material, in accordance with Section C.14.e.

Comment: Any subsequent cost adjustments for procedures that are inconsistent with those disclosed in the DS–2 and result in unallowable costs should be limited to the time period beginning after acceptance of the DS–2 by the cognizant agency.

Response: While the purpose of the DS–2 is to disclose an educational institution's current cost accounting practices and is intended more for future purposes than for a review of past practices, it may be necessary to make adjustments for some unallowable costs that may have been reimbursed in the past. These adjustments will be made at the discretion of the cognizant agency. Adjustments for the effects of deviations from the practices disclosed in the DS–2 can occur only after the filing. However, the effect of deviations by an educational institution from established practices, whether or not a DS–2 submission is required, will continue to be subject to adjustments in accordance with Section C.8.

Comment: In resolving questions about costs incurred, any claimed disallowances should be based on requirements of Circular A–21 with regards to allowability of costs and not some procedural issue related to following a procedure described in the DS–2.

Response: OMB agrees that Circular A–21 should provide the basis of allowability of costs. However, in some instances, the DS–2 will help to clarify how such costs are allocated and may effect the reimbursement of costs claimed as allocable and, therefore, reimbursable costs.

Comment: The DS–2 will be difficult to manage when the reporting entity manages grants from various locations. OMB should clarify disclosure requirements for multi-campus and multi-location educational institutions.

Response: OMB expects that educational institutions' accounting policies would be the same, particularly if the locations are all covered by the same cost pools. If this is not the case, OMB believes that preparation of the DS–2 will help educational institutions to develop consistent accounting policies. However, if for some justified reasons various locations maintain different cost accounting practices, a separate DS–2 should be submitted for each business unit as stated in Section C.14.a.

Terminology (''Indirect'' Costs)

Comment: Most commenters agreed with the proposed change of terminology from ''indirect'' costs to ''facilities and administrative'' costs. However, some commenters noted that this change will create confusion and conflicts with other OMB cost principles circulars and OMB grants management circulars that still use the term ''indirect'' costs.

Response: OMB agrees that inconsistent terminology may cause short term problems. However, this change is needed to more accurately describe the several cost pools for sponsored agreements at educational institutions. The replacement of the term ''indirect'' costs will be limited to Circular A–21 and not extended to other OMB grants management circulars because of the several cost pools that exist only in Circular A–21. The term ''indirect'' costs still appears in Appendix A—CASB's Cost Accounting Standards and Appendix B—Disclosure Statement (DS–2) since these appendices are directly from the CASB's regulations.

Special Cost Studies (Section E.2.d.)

Comment: The provision to limit special cost studies to allocate utility, library and student costs should be delayed until reasonable benchmarks can be established for the payment of these costs.

Response: Benchmark studies to develop alternative payment methods for facility construction, utilities and library costs are currently underway. In the meantime, due to the ambiguous nature of special cost studies that were the source of disagreement between cognizant agencies and institutions, OMB plans to make utility, library and student services cost recoveries based on special cost studies unallowable costs. This restriction's effective date is delayed until July 1, 1998 at which time OMB will have in place an alternative method to pay utility costs. Utility, library and student services cost allocations based on special cost studies will be disallowed for administrative and facilities payment rates negotiated on or after July 1, 1998. The special cost studies cannot be used to establish rates beyond fiscal year ending in 1998, unless a rate agreement in effect at the time of this publication extends beyond 1998, in which case the use of special cost studies will terminate at the end of the rate agreement period. OMB is currently reviewing proposals for

alternative methodologies for making payments on costs related to utilities. OMB will publish the proposals for public comments prior to July 1, 1997.

Comment: Instead of eliminating the special cost studies, OMB should develop standards, methodology and criteria for conducting special cost studies that would be acceptable for the Federal Government.

Response: Special cost studies were cited as an example of an area of potential abuse and source of disagreement and distrust between cognizant agencies and institutions. Rather than try to devise a set of complex parameters that would preclude any opportunity for abuse, OMB decided to disallow any cost allocations based upon those studies and, instead, to provide an alternative payment mechanism.

Fixed Rates (Section G.7)

Comment: Clarification of ''life of agreement'' is needed since a project can extend over a long period of time exceeding ten or fifteen years at times. Does it mean each continuing period of an award or each competing renewal of an award? Fixed rates should only apply prospectively to new awards. ''Life'' should mean each competitive renewal period. A commenter suggested that a fixed rate apply for a period of three years.

Response: OMB has clarified ''life of agreement'' to mean each new competitive segment. A competitive segment is a period of years approved for a project at the time of the award, usually three to five years. Fixed rates will apply only to awards made after the publication date of this revision.

Comment: A clarification is needed for the impact of a fixed rate throughout the life of the award on the various types of rates, i.e., provisional, predetermined and fixed rates.

Response: The revision requires that the Federal funding agencies use rates in effect at time of award throughout the life of the award, using the negotiated rates (predetermined, fixed or provisional) at the time of the award. For example, if an educational institution has a provisional rate of 40 percent at the time of the award, the 40 percent rate will be used for funding and reimbursement throughout the life of that award. If an educational institution has predetermined rates of 40 percent (first year), 42 percent (second year) and 45 percent (third year), then a five-year project would have rates of 40 percent (first year), 42 percent (second year) and 45 percent (third, fourth and fifth years).

When an educational institution does not have a negotiated rate with the Federal Government at the time of the award (because the educational institution is a new grantee or the parties cannot reach agreement on a rate), the provisional rate used at the time of the award will be adjusted after a rate is negotiated and approved by the cognizant agency.

Comment: To implement a fixed rate throughout the life of an award penalizes a university with growth in facility costs. This would discourage colleges and universities from investing in facility costs.

Response: When entering into an agreement with educational institutions to perform a specific project, it is only fair for the Federal Government to commit funding and reimbursement based on the conditions as they are understood to exist at that time. Most research project activities remain in the same laboratory during the entire life of the project and, therefore, the facility costs should remain at the same level. A fixed rate throughout the life of an award would only adversely affect an educational institution when, after the award date, the educational institution moved the project into a more modern and expensive facility. Therefore, for future awards, an educational institution with growth in facility costs should seek to establish future cost rates (fixed or predetermined) that reflect the growing cost pattern.

Comment: It is not clear what rate is to be used when the educational institution's rate is decreasing during the life of the award.

Response: In the case of anticipated declining cost rates, the educational institution should provide the basis for the anticipated decline. Total funding for the award would reflect the anticipated decline. If a declining cost rate is not anticipated at the time of award, the educational institution may recover the costs at the rates in effect at the time of the award.

Comment: Fixed rates should not be applied to primate centers that are funded by the National Institutes of Health P–51 awards, since these centers are involved in a very long-term agreement with the Federal Government for specific research activities.

Response: The fixed rates concept does not apply to the seven primate animal care facilities that are involved in special animal research funded under the National Institutes of Health P–51—Primate Research Center Grant. These centers are primarily federally-funded and are involved in a very long-term agreement with the Federal Government. The federally-funded F&A costs that make up the rates are used to charge the educational institution's users of the facility and are treated as program income and returned to the Federal awards.

Comment: Fixed rates should only be used for funding a total project, regardless of Federal reimbursement of a university's F&A costs. This policy is consistent with the funding and reimbursement policies for grants by the National Science Foundation (NSF).

Response: Current NSF policies award a fixed amount (direct and F&A costs) for the conduct of an entire project. This policy allows the educational institution to recover more F&A costs than originally budgeted as long as the total reimbursement for the project does not exceed the funding for the total award. The revision in Section G.7 provides that a fixed rate shall be used for both funding and reimbursement of F&A costs during an award's life (or a competitive segment's life). This policy assures that the Federal Government is receiving the level of services (i.e., research) agreed to by the educational institution and the Federal agency when the award was made. If the fixed rate concept is used only for funding of the award and not reimbursement of F&A costs, during periods of increasing rates, while the total funding for the award remains the same, then a shift of funding available for direct costs to F&A costs would occur. Therefore, the funding available for direct cost activities would decrease and so would the level of services (or research).

Cost Negotiation Cognizance (Section G.11)

Comment: The Circular should address the effects that a change in cost negotiation cognizance would have on an educational institution's administrative functions.

Response: A change in cost negotiation cognizance should have no impact on an educational institution's administrative functions. The consolidation of cognizant agencies for cost negotiation will enhance the consistency in the application and interpretations of the Circular's cost principles and in the review of cost rate proposals.

Comment: Several commenters suggest that the period for cognizant agency assignment should be ten years rather than five since universities frequently negotiate multiple year rates for two or three years.

Response: The assignment period for a cognizant agency will remain at five years, as proposed. A five-year period assignment should normally extend over more than two normal negotiation

cycles. Furthermore, since the funding pattern from particular Federal agencies at a particular university usually does not change over a short time period, the cognizance should remain reasonably stable.

Comment: One commenter suggests that financial statements rather National Science Foundation (NSF) data should be used in the determination of a cognizant agency.

Response: The preferable source for cognizant agency determination would be the Schedule of Federal Awards, as required by OMB Circular A–133, that accompanies an educational institution's financial statements. However, information on the Schedules of Federal Awards has not yet been automated in a Federal data base. Therefore, the best source data are the most recent three years of data published by NSF in its annual report (''Selected Data on Federal Support to Universities and Colleges''), in the table at page 5, entitled ''Federal obligations for science and engineering research and development to universities and colleges, ranked by total amount received, by agency; fiscal year.'' OMB is revising Circular A–133 which will establish a data base that can be used for this purpose.

Comment: Which would be the cognizant agency for educational institutions that do not receive either HHS or the Department of Defense, Office of Naval Research (DOD) funding? One commenter suggested that an agency which has a predominant interest and an on-site presence should be the cognizant agency. The concern is that the major funding agency may not have the authority to address cost issues that impact its funded projects.

Response: The Circular has been revised to provide that an educational institution will have an assigned cognizant agency even when HHS or DOD provides little or no funding at that educational institution. Cognizance is assigned to either HHS or DOD depending on which of the two agencies (HHS or DOD) provides more funds to the educational institution. In cases where neither HHS nor DOD provides any funding, the cognizant agency assignment shall default to HHS. Other arrangements for cognizance of a particular educational institution may also be made based on mutual agreement by both HHS and DOD.

Section G.11 also states that the cognizant agency is responsible for coordinating the formal negotiation and arranging a pre-negotiation conference if there is interest from another agency. This process assures that an interested major funding agency is not precluded from participating in the negotiation process.

Comment: The agency with Federal audit cognizance (established by Circular A–133) and cost negotiation cognizance (established by Circular A–21) should be the same for each educational institution.

Response: With the rescission of OMB A–88, which assigned a single Federal cognizant agency for rate negotiation, audit and audit follow-up, an educational institution may have two different agencies responsible for audit and cost cognizance. OMB believes that the audit function and cost negotiation functions are different functions. This division of responsibility works effectively for State and local governments under Circulars A–87, ''Cost Principles for State, Local and Indian Tribal Governments'' (60 FR 26484; May 17, 1995), and A–128, ''Audits of State and Local Governments'' (50 FR 19114; May 10, 1985).

Comment: Which agency would be the cognizant cost negotiation agency for the Federally-Funded Research and Development Centers (FFRDCs) associated with educational institutions? Is the FFRDC included in the total dollar amount received by the educational institution for the determination of a cognizant agency?

Response: Federal responsibilities associated with FFRDCs are not affected by the revision to Circular A–21. FFRDCs associated with educational institutions are independent organizations that function outside the operational activities of the educational institutions. They are required to comply with the CAS and rules and regulations issued by the CASB set forth in 48 CFR Chapter 99. The determination of their cognizant agency will continue to be based on the primary funding source. Federal funding to FFRDCs shall be excluded from the determination of cost cognizance for an educational institution.

Comment: Several commenters suggested that Federal agencies do not have the authority to use a F&A rate for a class of sponsored agreements or a single agreement other than the negotiated rates. To allow this would defeat the purpose of standardized rate agreements.

Response: Under normal circumstances, the negotiated rates established between the educational institution and the cognizant agency should be used by all agencies. The Circular has been revised to state that only under special circumstances prescribed by law or regulation can an agency use a rate other than the negotiated rate.

Comment: The proposed revision stated that cognizant assignments as of December 31, 1995, will continue in effect through an educational institution's fiscal years ending during 1997. Is this based on the receipt of the educational institution's cost proposal or is it based on the year for which the proposal is prepared?

Response: The transfer of cognizance assignment is based on the receipt date of the cost proposal. The cognizant agency for an educational institution as of December 31, 1995, is responsible for the review and negotiation of rates for all cost proposals submitted to that agency through fiscal years ending during 1997. The cognizant agency is also responsible for any disputes or appeals that result from proposals submitted through fiscal years ending during 1997.

Dependent Tuition Benefits (Section J.8)

Comment: Most commenters stated that dependent tuition benefits are legitimate fringe benefit costs, as are health benefits, and are commonly used by a university to attract the best faculty and staff. This benefit should not be eliminated. A comparison of this benefit to the private sector should not be made since the salary for faculty and staff are typically much lower and university employees do not receive some benefits offered by the private sector, such as stock options. Eliminating the dependent tuition benefit will cause universities to raise wages for their employees, thus ultimately resulting in higher costs for Federal research.

Response: OMB disagrees for the following reasons:

(1) Some universities charge federally-sponsored agreements for dependent tuition assistance even when there is no actual cost incurred by the university. For example, in the four universities covered by a recent General Accounting Office (GAO) study (''University Research—U.S. Reimbursement of Tuition Costs for University Employee Family Members,'' GAO/NSIAD–95–19), when a dependent attended the university where an employee worked, the four universities charged tuition in full or in part to federally-sponsored agreements. GAO's report provided an example in which an institution ''would have charged $18,000 to the fringe benefit pool for a child of a tenured faculty member attending the university during 1993.'' Generally, provision of substantial fringe benefits that do not in fact impose a measurable cost on an entity are not a ''cost'' that is properly chargeable to the government.

(2) Since 1977, the Federal Acquisition Regulation (FAR)(48 CFR Subpart 31.205–44, ''Training and education costs''), which applies to Federal contracts with commercial firms, has treated dependent tuition benefit as an unallowable cost. This change was made because the procurement regulation review committee, which studied changes to the FAR in the mid 1970's, believed that there was no benefit to the government from subsidizing tuition costs of employee family members.

(3) Dependent tuition benefits are unique to educational institutions, i.e., they are not available as a normal business practice for the private sector (subject to the FAR), State and local governments (subject to OMB Circular A–87), and non-profit organizations (subject to OMB Circular A–122, ''Cost Principles for Non-Profit Organizations''). Allowing dependent tuition benefits to educational institutions would provide allowable costs for only one group of grantees and contractors.

(4) No evidence has been offered to support the comment that compensation for educational institution faculty and staff currently is much lower than compensation in the private sector for the same discipline. If higher salary levels are required to attract faculty and staff, then such salaries will be chargeable to Federal awards to the extent allowable under this Circular and the terms of the awards.

Based on the above reasons, the Circular is revised to disallow dependent tuition benefits for educational institutions' fiscal years starting on or after September 30, 1998.

Comment: A phase-in period with an effective date of 1998 should be allowed for the total elimination of this benefit.

Response: Given existing contractual commitments to faculty and staff, the effective date for making the dependent tuition an unallowable cost is the educational institution's fiscal years beginning on or after September 30, 1998.

Use Allowance/Depreciation (Section J.12)

Comment: The educational institution should be allowed to depreciate the remaining (full) value of the assets at the time of conversion, using the depreciation rate until the assets are disposed.

Response: For claiming its costs on a single class of assets, an educational institution always has the choice of selecting either the use allowance or depreciation methodology. These two methodologies are based on different cost reimbursement principles (i.e., use allowance allows cost recovery beyond useful lives as long as the asset is in use, while depreciation allows a quicker cost recovery based on a depreciable life only). The selection of recovery method is up to the educational institution.

Circular A–21 does not require the educational institution to convert from the use allowance method to the depreciation method. The revision in Section J.12.b.(3) simply clarifies that, in the case where an educational institution, by its own choice, elects to convert from use allowance to the depreciation method, the conversion should be made as if the depreciation method had been used over the entire life of the asset.

Additionally, the ''allocability principle'' in Section C.4 of Circular A–21 states that ''a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance *with relative benefits received or other equitable relationship''* (emphasis added). 44 FR 12368 (February 26, 1979). The allocability principle would be violated if unclaimed costs could be charged to the future periods that do not benefit from the use of the asset.

Comment: Circular A–21 should allow the use allowance method for old buildings and the depreciation method for new buildings rather than restrict the use of one method of reimbursement for one type of assets. The provision should apply to new assets only and not all assets. The commenter recommends changing the language to ''a combination of the depreciation and use allowances may not be used for new assets.''

Response: Section J.12.d has provided that a combination of the depreciation and use allowance may not be used, in like circumstances, for a single class of assets. To allow the use of both methods for a single class of assets would violate the consistent treatment principle of the Circular, complicate the depreciation/use allowance calculation process, and create inequities in the recovery of asset costs against Federal programs. This provision prevents an educational institution from both using depreciation to recover the cost of assets with useful lives that are shorter than the average lives reflected in the use allowance rates (50 years for buildings and 15 years for equipment) AND using allowance for the recovery of assets with longer useful lives. The mix of the two methods for a single class of assets is clearly inequitable to the Federal Government since the use allowance method is a simplified recovery method that is based on an averaging concept which implicitly recognizes that certain assets within each broad category have lives that differ from the average. OMB does not see the need to change this policy since it is the educational institution's choice to select the appropriate method of recovery for facility costs.

Comment: The provision should allow full recovery of assets that are converted from use allowance to depreciation. This could be done by allowing use allowance beyond the asset's depreciable ''life''—as long as the assets are in use—until the full cost is recovered. Authorization from the cognizant agency shall be obtained.

Response: OMB disagrees. If the depreciation method is used, Section J.12.b.(5) provides that depreciation is not allowed on any assets that have outlived their depreciable lives. However, Section J.12.c.(3) allows a ''reasonable use allowance'' for any assets that are considered to be fully depreciated after considering the amount of depreciation previously charged to the Federal 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 purposed contemplated. The allowable amounts are determined by the cognizant agency. This provision allows a use allowance for fully depreciated assets only under the most extraordinary circumstances and is not applicable when converting from use allowance to depreciation. This provision is intended to permit reimbursement under unusual circumstances where an asset is treated as having outlived its useful life but nevertheless has future cost consequences that are not recoverable through capitalized repair and replacement costs or as current period expenses.

An example of a ''reasonable use allowance'' is for the use of an electronic microscope by the educational institution after its useful life. At the start of its service life, a reasonable estimate of the useful life of an electronic microscope is five years. However, after five years, when the asset is fully depreciated and its costs fully recovered, if it is still functional and is used to support Federal projects, then consideration may be given by the cognizant agency for a reasonable use allowance. This approach results in cost savings both for the educational institution and the Federal Government since the educational institution could have replaced the old electronic microscope with a new, more expensive

one and then appropriately charge a use allowance to the Federal projects.

Equipment Definition (Section J.16)

Comment: The effective date of the equipment definition change should be prior to the expiration of an educational institution's F&A cost rate agreements.

Response: In order to simplify the transition, the effective date of the equipment definition change will be at the beginning of the next F&A cost rate agreement. An educational institution with predetermined or fixed rates that wishes to raise its equipment threshold earlier should contact its cognizant agency for approval. While educational institutions are free to change their capitalization policy at any time, there should be limitations as to when sponsoring agencies may recognize the change. To do otherwise could result in direct costs and F&A costs being reimbursed under conditions different from those upon which the F&A cost rate was predicated. Federal sponsoring agencies are to award, and grantees are to claim, costs in accordance with the policies in effect at the time the cost rate agreement was issued. At the cognizant agency's discretion, revised cost rates may be established based on an analysis of the impact on cost rates of the conversion.

Comment: Clarification is needed on the treatment of depreciation of those assets which had costs between the old $500 threshold and the new $5000.

Response: In order to clarify the accounting for the unamortized portion of any equipment costs as a result of a change in capitalization levels, language has been added to Section J.16.a.(1) to explain that the unamortized portion may be recovered by continuing to claim the otherwise allowable use allowance or depreciation on the equipment, or by amortizing the amount to be written off over a period of years negotiated with the cognizant agency.

Interest Criteria (Section J.22)

General

Comment: Clarifications are needed for the calculations used in the lease-purchase analysis and the cash-flow analysis.

Response: The commenter is correct. The Circular has been revised to provide the following clarifications for the interest requirements. A threshold of $500,000 has been set for the requirement of a lease-purchase analysis for a facility acquisition, a cash-flow analysis is required for debt arrangements over $1 million (when the initial equity contribution by the educational institution is less than 25 percent), and notification is required in case of a substantial relocation from a building funded in part or whole through Federal reimbursements. The same clarifications adopted in the final revision of the interest provision of Circular A–122 (60 FR 52516), have been included in this revision to Circular A–21 in Section J.22.f. This will maintain conformity across the cost principles circulars.

Comment: The requirements under the interest criteria create an additional administrative burden for colleges and universities in a period when the administrative costs are already capped.

Response: OMB recognizes that there might be a nominal increase in an administrative burden in a few cases. However, OMB believes that these requirements are needed to protect the Federal Government against abusive financing arrangements (such as ''balloon financing method'' where the entire principal amount is made at the end of the finance term).

Comment: The requirements should only apply prospectively to future asset acquisitions.

Response: OMB revises the provision in Section J.22.f to state that the criteria for interest allowability in this revision apply only to facilities and equipment acquired after the effective date of this revision.

Comment: What are the reimbursement limitations when the least expensive alternative is not chosen?

Response: As the revision in Section J.22.f states, when a lease-purchase analysis is required to be performed, reimbursement will be limited to the least expensive alternative available, whether or not it is the chosen alternative.

Comment: Where a facility is acquired and the components are depreciated over varying lives, can interest on debt associated with fully depreciated assets be claimed?

Response: No. Under the allocability provisions of Section C.4.a, interest costs on fully depreciated, retired, scrapped, or nonexistent assets are unallowable.

Comment: Where a new facility is acquired or constructed with excess capacity intended to meet future needs, can interest costs be claimed for that portion of the facility that is currently excess and not in use?

Response: No. Under the allocability provisions of Section C.4.a, interest costs on excess or idle capacity are not allocable to Federal programs and are, therefore, unallowable. This provision also applies to any related costs, such as depreciation.

Lease-Purchase Analysis

Comment: A higher threshold should be established for the requirement of the lease-purchase analysis. Thresholds of $50 million and $25 million were recommended.

Response: Many commenters indicated that lease-purchase analyses are generally performed by the educational institutions as a common business practice. Such analyses normally are performed for assets under the suggested $25 million threshold, whether or not Federal funds are involved. The expense of the analysis is justified when one considers the considerably greater amounts that are at stake in a real estate lease or purchase. Also, by identifying the most economical acquisition alternative, such analyses can pay for themselves. Section C.3 of Circular A–21 requires that, to be allowable, costs must be reasonable. A lease-purchase analysis provides such supporting documentation. A threshold of $25 million or $50 million is simply too high to protect the interests of the Federal Government

However, OMB recognizes that a lease-purchase analysis may not be cost effective for smaller facility acquisitions. Therefore, a threshold of $500,000 has been established in the final revision for the lease-purchase analysis requirement for facilities. Additionally, the analysis is not required to be submitted but is only to be maintained on file for cognizant agency review upon request. There is no requirement for a lease-purchase analysis for equipment.

Cash-Flow Analysis

Comment: The educational institution should have the option of rolling forward the ''excess'' cash recovery to future years rather than being disallowed in the year incurred since interest costs are often based on a declining principal balance and are not spread evenly over the life of the mortgage.

Response: The provision on ''excess'' cash flow addresses the interest costs to the Federal Government in instances where cash flow from depreciation exceeds debt principal payments (e.g., a ''balloon'' payment arrangement). In such case, where the entire principal amount is paid at the end of the finance period, the cash flow received by the educational institution for reimbursement of depreciation and interest expenses on a facility would exceed the payments made by the educational institution for interest and principal, thus resulting in an excessive cash flow. The interest on the excess

cash flow should be deducted from interest costs in the year earned and not spread out over the life of the mortgage since the Federal Government pays its proportionate share of future period interest.

The provision requiring an adjustment to allowable interest for positive cash flow does not result in a ''disallowance'' of depreciation exceeding principal payments. When inflows exceed outflows, earnings are to be imputed on the excess cash flow and offset against interest costs for the 12-month period. The educational institution, however, retains the excess cash flow which will be needed during periods of negative cash flow.

A sample cash-flow analysis is presented hereafter.

Comment: The provision requires that earnings on positive cash flows be offset against interest costs. If principal payments include the cost of land, the positive cash flow and imputed earnings will be understated.

Response: OMB agrees. While interest on debt to acquire land is allowable, the cost of land is not. Accordingly, when computing cash flows, each debt principal payment shall be reduced by an amount equal to the portion of the principal payment attributed to the acquisition of land. This requirement is included in Section J.22.f.

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A-21 Excess Cash-Flow Calculation - Sample Format for Annual Report

Applicable for debt arrangements over $1 million, unless initial equity contribution equals 25 percent or more

Year ____ of ____ Years		Month 1	2	3	4	.....	12	Annual Total
Line 1	Prior period's cumulative cash flow balance (Prior Month's or Year's Line 9)							
	Add this period's inflows:							
Line 2	Depreciation expense (Note 1)							
Line 3	Interest expense (Note 2)							
Line 4	Amortization of debt issuance costs (Note 2)							
	Subtract this period's outflows:							
Line 5	Principal payments (Note 3)							
Line 6	Interest payments (Note 3)							
Line 7	Subtotal of cumulative cash flows (Line 1+2+3+4-5-6)							
Line 8	In initial period only, subtract initial equity contribution(Note 4) (Will be zero after initial period)							
Line 9	Total of cumulative cash flows (In initial period, Line 7 - Line 8) (In subsequent periods, equals Line 7)							
Line 10	If line 9 is positive, state month's closing interest rate on 3-month Treasury Bill If line 9 is negative, put "0" (zero)							
Line 11	Imputed interest income on cumulative positive cash flow Monthly columns = (Line 10 x Line 9)/12							
Line 12	Allowable interest for period (Line 6 - Line 11)							

Note 1: May include amortization of capitalized construction interest in accordance with GAAP. Depreciation expenses should be reported on a monthly basis (Annual expense/12).

Note 2: Interest expense and amortization of debt issuance costs that are not included in loan amount should be reported on a monthly basis (Annual expense/12).

Note 3: If land is included in the financing arrangement, Line 5 would be calculated as: principal payment - (Debt proceeds used to purchase land / total debt proceeds x principal payment). Principal and interest payments should be reported in the month that payments were made.

Note 4: This line may only include amounts of initial equity contribution made prior to occupancy of the facility. The amount is to be entered only in the initial period covered by the cash flow submission, and should be left blank in future periods.

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Interagency Policy Group

Comment: The establishment of a Federal interagency group for the development of grant and contract policy should be addressed in Circular A–110 rather than Circular A–21. This group should include representatives from colleges and universities.

Response: The commenter is correct that the interagency policy group should be formed under broader auspices than just Circular A–21. In response, the proposal has been deleted from the final revision of this Circular. This proposal is not being pursued at this time.

Alice M. Rivlin,

Director.

EXECUTIVE OFFICE OF THE PRESIDENT

Office of Management and Budget

Circular No. A–21, Revised, Transmittal Memorandum No. 6.

To the Heads of Executive Departments and Establishments

Subject: Cost Principles for Educational Institutions.

April 26, 1996.

This transmittal memorandum revises OMB Circular No. A–21, ''Cost Principles for Educational Institutions.'' The attached revision further clarifies and standardizes the Circular's principles for determining costs applicable to grants, contracts, and other agreements with educational institutions, and rescinds OMB Circular A–88, ''Indirect Cost Rates, Audits, and Audit Follow-up at Educational Institutions.'' This revision is effective on the date of its publication in the Federal Register, unless otherwise noted within this revision.

Also attached is a recompilation of Circular A–21 that consists of the original Circular published at 44 FR 12368 (February 26, 1979), as amended by Transmittal Memoranda Numbers 1 through 5, at 47 FR 33658 (July 23, 1982), 51 FR 20908 (June 9, 1986), 51 FR 43487 (December 2, 1986), 56 FR 50224 (October 1, 1991), 58 FR 39996 (July 15, 1993), respectively, and the amendments herein.

Alice M. Rivlin,

Director.

Attachments.

I. Circular A–88 is rescinded, effective July 1, 1996.

II. Circular A–21 is revised as follows:

Revise Sections A, C, G, J and K as follows.

1. In Section A, add subsection 4 to read as follows: 4. *Inquiries.* All inquiries from Federal agencies concerning the cost principles contained in this Circular, including the administration and implementation of the Cost Accounting Standards (CAS) (described in Sections C.10 through C.13) and disclosure statement (DS–2) requirements, shall be addressed by the Office of Management and Budget (OMB), Office of Federal Financial Management, in coordination with the Cost Accounting Standard Board (CASB) with respect to inquiries concerning CAS. Educational institutions' inquiries should be addressed to the cognizant agency.

2. In Section C, change subsection 8 as follows. 8. *Collection of unallowable costs, excess costs due to noncompliance with cost policies, increased costs due to failure to follow a disclosed accounting practice and increased costs resulting from a change in cost accounting practice.* The following costs shall be refunded (including interest) in accordance with applicable Federal agency regulations:

a. Costs specifically identified as unallowable in Section J, either directly or indirectly, and charged to the Federal Government.

b. Excess costs due to failure by the educational institution to comply with the cost policies in this Circular.

c. Increased costs due to a noncompliant cost accounting practice used to estimate, accumulate, or report costs.

d. Increased costs resulting from a change in accounting practice.

3. In Section C, add subsection 10 to read as follows: 10. *Consistency in estimating, accumulating and reporting costs.*

a. An educational institution's practices used in estimating costs in pricing a proposal shall be consistent with the educational institution's cost accounting practices used in accumulating and reporting costs.

b. An educational institution's cost accounting practices used in accumulating and reporting actual costs for a sponsored agreement shall be consistent with the educational institution's practices used in estimating costs in pricing the related proposal or application.

c. The grouping of homogeneous costs in estimates prepared for proposal purposes shall not per se be deemed an inconsistent application of cost accounting practices under subsection a when such costs are accumulated and reported in greater detail on an actual cost basis during performance of the sponsored agreement.

d. Appendix A also reflects this requirement, along with the purpose, definitions, and techniques for application, all of which are authoritative.

4. In Section C, add subsection 11 to read as follows: 11. *Consistency in allocating costs incurred for the same purpose.*

a. All costs incurred for the same purpose, in like circumstances, are either direct costs only or F&A costs only with respect to final cost objectives. No final cost objective shall have allocated to it as a cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included as a direct cost of that or any other final cost objective. Further, no final cost objective shall have allocated to it as a direct cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included in any F&A cost pool to be allocated to that or any other final cost objective.

b. Appendix A reflects this requirement along with its purpose, definitions, techniques for application, illustrations and interpretations, all of which are authoritative.

5. In Section C, add subsection 12 to read as follows: 12. *Accounting for unallowable costs.*

a. Costs expressly unallowable or mutually agreed to be unallowable, including costs mutually agreed to be unallowable directly associated costs, shall be identified and excluded from any billing, claim, application, or proposal applicable to a sponsored agreement.

b. Costs which specifically become designated as unallowable as a result of a written decision furnished by a Federal official pursuant to sponsored agreement disputes procedures shall be identified if included in or used in the computation of any billing, claim, or proposal applicable to a sponsored agreement. This identification requirement applies also to any costs incurred for the same purpose under like circumstances as the costs specifically identified as unallowable under either this subsection or subsection a.

c. Costs which, in a Federal official's written decision furnished pursuant to sponsored agreement disputes procedures, are designated as unallowable directly associated costs of unallowable costs covered by either subsection a or b shall be accorded the identification required by subsection b.

d. The costs of any work project not contractually authorized by a sponsored agreement, whether or not related to performance of a proposed or existing sponsored agreement, shall be accounted for, to the extent appropriate, in a manner which permits ready separation from the costs of authorized work projects.

e. All unallowable costs covered by subsections a through d shall be subject to the same cost accounting principles governing cost allocability as allowable costs. In circumstances where these unallowable costs normally would be part of a regular F&A cost allocation base or bases, they shall remain in such base or bases. Where a directly associated cost is part of a category of costs normally included in a F&A cost pool that shall be allocated over a base containing the unallowable cost with which it is associated, such a directly associated cost shall be retained in the F&A cost pool and be allocated through the regular allocation process.

f. Where the total of the allocable and otherwise allowable costs exceeds a limitation-of-cost or ceiling-price provision in a sponsored agreement, full direct and F&A cost allocation shall be made to the sponsored agreement cost objective, in accordance with established cost accounting practices and standards which regularly govern a given entity's allocations to sponsored agreement cost objectives. In any determination of a cost overrun, the amount thereof shall be identified in terms of the excess of allowable costs over the ceiling amount, rather than through specific identification of particular cost items or cost elements.

g. Appendix A reflects this requirement, along with its purpose, definitions, techniques for application, and illustrations of this standard, all of which are authoritative.

6. In Section C, add subsection 13 to read as follows: 13. *Cost accounting period.*

a. Educational institutions shall use their fiscal year as their cost accounting period, except that:

(1) Costs of a F&A function which exists for only a part of a cost accounting period may

be allocated to cost objectives of that same part of the period on the basis of data for that part of the cost accounting period if the cost is: (i) material in amount, (ii) accumulated in a separate F&A cost pool or expense pool, and (iii) allocated on the basis of an appropriate direct measure of the activity or output of the function during that part of the period.

(2) An annual period other than the fiscal year may, upon mutual agreement with the Federal Government, be used as the cost accounting period if the use of such period is an established practice of the educational institution and is consistently used for managing and controlling revenues and disbursements, and appropriate accruals, deferrals or other adjustments are made with respect to such annual periods.

(3) A transitional cost accounting period other than a year shall be used whenever a change of fiscal year occurs.

b. An educational institution shall follow consistent practices in the selection of the cost accounting period or periods in which any types of expense and any types of adjustment to expense (including prior-period adjustments) are accumulated and allocated.

c. The same cost accounting period shall be used for accumulating costs in a F&A cost pool as for establishing its allocation base, except that the Federal Government and educational institution may agree to use a different period for establishing an allocation base, provided:

(1) The practice is necessary to obtain significant administrative convenience,

(2) The practice is consistently followed by the educational institution,

(3) The annual period used is representative of the activity of the cost accounting period for which the F&A costs to be allocated are accumulated, and

(4) The practice can reasonably be estimated to provide a distribution to cost objectives of the cost accounting period not materially different from that which otherwise would be obtained.

d. Appendix A reflects this requirement, along with its purpose, definitions, techniques for application and illustrations, all of which are authoritative.

7. In Section C, add subsection 14 to read as follows: 14. *Disclosure Statement.*

a. Educational institutions that received aggregate sponsored agreements totaling $25 million or more subject to this Circular during their most recently completed fiscal year shall disclose their cost accounting practices by filing a Disclosure Statement (DS–2), which is reproduced in Appendix B. With the approval of the cognizant agency, an educational institution may meet the DS–2 submission by submitting the DS–2 for each business unit that received $25 million or more in sponsored agreements.

b. The DS–2 shall be submitted to the cognizant agency with a copy to the educational institution's audit cognizant office.

c. Educational institutions receiving $25 million or more in sponsored agreements that are not required to file a DS–2 pursuant to 48 CFR 9903.202–1 shall file a DS–2 covering the first fiscal year beginning after the publication date of this revision, within six months after the end of that fiscal year. Extensions beyond the above due date may be granted by the cognizant agency on a case-by-case basis.

d. Educational institutions are responsible for maintaining an accurate DS–2 and complying with disclosed cost accounting practices. Educational institutions must file amendments to the DS–2 when disclosed practices are changed to comply with a new or modified standard, or when practices are changed for other reasons. Amendments of a DS–2 may be submitted at any time. If the change is expected to have a material impact on the educational institution's negotiated F&A cost rates, the revision shall be approved by the cognizant agency before it is implemented. Resubmission of a complete, updated DS–2 is discouraged except when there are extensive changes to disclosed practices.

e. Cost and funding adjustments. Cost adjustments shall be made by the cognizant agency if an educational institution fails to comply with the cost policies in this Circular or fails to consistently follow its established or disclosed cost accounting practices when estimating, accumulating or reporting the costs of sponsored agreements, if aggregate cost impact on sponsored agreements is material. The cost adjustment shall normally be made on an aggregate basis for all affected sponsored agreements through an adjustment of the educational institution's future F&A costs rates or other means considered appropriate by the cognizant agency. Under the terms of CAS-covered contracts, adjustments in the amount of funding provided may also be required when the estimated proposal costs were not determined in accordance with established cost accounting practices.

f. Overpayments. Excess amounts paid in the aggregate by the Federal Government under sponsored agreements due to a noncompliant cost accounting practice used to estimate, accumulate, or report costs shall be credited or refunded, as deemed appropriate by the cognizant agency. Interest applicable to the excess amounts paid in the aggregate during the period of noncompliance shall also be determined and collected in accordance with applicable Federal agency regulations.

g. Compliant cost accounting practice changes. Changes from one compliant cost accounting practice to another compliant practice that are approved by the cognizant agency may require cost adjustments if the change has a material effect on sponsored agreements and the changes are deemed appropriate by the cognizant agency.

h. Responsibilities. The cognizant agency shall:

(1) Determine cost adjustments for all sponsored agreements in the aggregate on behalf of the Federal Government. Actions of the cognizant agency official in making cost adjustment determinations shall be coordinated with all affected Federal agencies to the extent necessary.

(2) Prescribe guidelines and establish internal procedures to promptly determine on behalf of the Federal Government that a DS–2 adequately discloses the educational institution's cost accounting practices and that the disclosed practices are compliant with applicable CAS and the requirements of this Circular.

(3) Distribute to all affected agencies any DS–2 determination of adequacy and/or noncompliance.

8. In Section E, add subsection 2.d(5) to read as follows:

2.d(5) Notwithstanding subsection (3), effective July 1, 1998, a cost analysis study or base other than that in Section F shall not be used to distribute utility, library or student services costs. By that date, OMB shall have in place an alternative methodology for making payments on costs related to utilities.

9. In Section G, add a new subsection 7 to read as follows, and renumber all subsequent subsections from 7, 8 and 9 to 8, 9 and 10, respectively: 7. *Fixed rates for the life of the sponsored agreement.*

a. Federal agencies shall use the negotiated rates for F&A costs in effect at the time of the initial award throughout the life of the sponsored agreement. ''Life'' for the purpose of this subsection means each competitive segment of a project. A competitive segment is a period of years approved by the Federal funding agency at the time of the award. If negotiated rate agreements do not extend through the life of the sponsored agreement at the time of the initial award, then the negotiated rate for the last year of the sponsored agreement shall be extended through the end of the life of the sponsored agreement. Award levels for sponsored agreements may not be adjusted in future years as a result of changes in negotiated rates.

b. When an educational institution does not have a negotiated rate with the Federal Government at the time of the award (because the educational institution is a new grantee or the parties cannot reach agreement on a rate), the provisional rate used at the time of the award shall be adjusted once a rate is negotiated and approved by the cognizant agency.

10. In Section G, add subsection 11 to read as follows: 11. *Negotiation and approval of F&A rate.*

a. *Cognizant agency assignments.* ''A cognizant agency'' means the Federal agency responsible for negotiating and approving F&A rates for an educational institution on behalf of all Federal agencies.

(1) Cost negotiation cognizance is assigned to the Department of Health and Human Services (HHS) or the Department of Defense's Office of Naval Research (DOD), normally depending on which of the two agencies (HHS or DOD) provides more funds to the educational institution for the most recent three years. Information on funding shall be derived from relevant data gathered by the National Science Foundation. In cases where neither HHS nor DOD provides Federal funding to an educational institution, the cognizant agency assignment shall default to HHS. Notwithstanding the method for cognizance determination described above, other arrangements for cognizance of a particular educational institution may also be based in part on the types of research performed at the educational institution and

shall be decided based on mutual agreement between HHS and DOD.

(2) Cognizant assignments as of December 31, 1995, shall continue in effect through educational institutions' fiscal years ending during 1997, or the period covered by negotiated agreements in effect on December 31, 1995, whichever is later, except for those educational institutions with cognizant agencies other than HHS or DOD. Cognizance for these educational institutions shall transfer to HHS or DOD at the end of the period covered by the current negotiated rate agreement. After cognizance is established, it shall continue for a five-year period.

b. *Acceptance of rates.* The negotiated rates shall be accepted by all Federal agencies. Only under special circumstances, when required by law or regulation, may an agency use a rate different from the negotiated rate for a class of sponsored agreements or a single sponsored agreement.

c. *Correcting deficiencies.* The cognizant agency shall negotiate changes needed to correct systems deficiencies relating to accountability for sponsored agreements. Cognizant agencies shall address the concerns of other affected agencies, as appropriate.

d. *Resolving questioned costs.* The cognizant agency shall conduct any necessary negotiations with an educational institution regarding amounts questioned by audit that are due the Federal Government related to costs covered by a negotiated agreement.

e. *Reimbursement.* Reimbursement to cognizant agencies for work performed under Circular A–21 may be made by reimbursement billing under the Economy Act, 31 U.S.C. 1535.

f. *Procedure for establishing facilities and administrative rates.* The cognizant agency shall arrange with the educational institution to provide copies of rate proposals to all interested agencies. Agencies wanting such copies should notify the cognizant agency. Rates shall be established by one of the following methods:

(1) Formal negotiation. The cognizant agency is responsible for negotiating and approving rates for an educational institution on behalf of all Federal agencies. Non-cognizant Federal agencies, which award sponsored agreements to an educational institution, shall notify the cognizant agency of specific concerns (i.e., a need to establish special cost rates) which could affect the negotiation process. The cognizant agency shall address the concerns of all interested agencies, as appropriate. A pre-negotiation conference may be scheduled among all interested agencies, if necessary. The cognizant agency shall then arrange a negotiation conference with the educational institution.

(2) Other than formal negotiation. The cognizant agency and educational institution may reach an agreement on rates without a formal negotiation conference; for example, through correspondence or use of the simplified method described in this Circular.

g. *Formalizing determinations and agreements.* The cognizant agency shall formalize all determinations or agreements reached with an educational institution and provide copies to other agencies having an interest.

h. *Disputes and disagreements.* Where the cognizant agency is unable to reach agreement with an educational institution with regard to rates or audit resolution, the appeal system of the cognizant agency shall be followed for resolution of the disagreement.

11. In Section J, replace subsection 8.f.(2) to read as follows:

8.f.(2) Fringe benefits in the form of employer contributions or expenses for social security, employee insurance, workmen's compensation insurance, tuition or remission of tuition for individual employees are allowable, provided such benefits are granted in accordance with established educational institutional policies, and are distributed to all institutional activities on an equitable basis. Tuition benefits for family members other than the employee are unallowable for fiscal years beginning after September 30, 1998. See Section J.41.b, Scholarships and student aid costs, for treatment of tuition remission provided to students.

12. In Section J, add subsection 12.b.(3) to read as follows:

12.b.(3) Where the depreciation method is introduced to replace the use allowance method, depreciation shall be computed as if the asset had been depreciated over its entire life (i.e., from the date the asset was acquired and ready for use to the date of disposal or withdrawal from service). The aggregate amount of use allowances and depreciation attributable to an asset (including imputed depreciation applicable to periods prior to the conversion to the use allowance method as well as depreciation after the conversion) may be less than, and in no case, greater than the total acquisition cost of the asset.

13. In Section J, add subsection 12 c.(4) to read as follows: 12.c.(4) Notwithstanding subsection(3), once an educational institution converts from one cost recovery methodology to another, acquisition costs not recovered may not be used in the calculation of the use allowance in subsection(3).

14. In Section J, amend subsections 16.a.(1) and 16.b.(2) to read as follows:

16.a.(1) ''Equipment'' means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals or exceeds the lesser of the capitalization level established by the organization for financial statement purposes, or $5000. The unamortized portion of any equipment written off as a result of a change in capitalization levels may be recovered by continuing to claim the otherwise allowable use allowances or depreciation on the equipment, or by amortizing the amount to be written off over a period of years negotiated with the cognizant agency.

16.b.(2) Expenditures for special purpose equipment are allowable as direct charges with the approval of the sponsoring agency.

15. In Section J, add subsection 22.f to read as follows:

22.f. Interest on debt incurred after the effective date of this revision to acquire, replace or renovate capital assets (including renovations, alterations, equipment, land, and capital assets acquired through capital leases), acquired after the effective date of this revision and used in support of sponsored agreements is subject to the following conditions:

(1) For facilities costing over $500,000, the educational institution shall prepare, prior to the acquisition or replacement of the facility, a lease-purchase analysis in accordance with § _____.44 of OMB Circular A–110, which shows that a financed purchase, including a capital lease is less costly to the educational institution than other operating lease alternatives, on a net present value basis. Discount rates used shall be equal to the educational institution's anticipated interest rates and shall be no higher than the fair market rate available to the educational institution from an unrelated (''arm's length'') third-party. The lease-purchase analysis shall include a comparison of the net present value of the projected total cost comparisons of both alternatives over the period the asset is expected to be used by the educational institution. The cost comparisons associated with purchasing the facility shall include the estimated purchase price, anticipated operating and maintenance costs (including property taxes, if applicable) not included in the debt financing, less any estimated asset salvage value at the end of the defined period. The cost comparison for a capital lease shall include the estimated total lease payments, any estimated bargain purchase option, operating and maintenance costs, and taxes not included in the capital leasing arrangement, less any estimated credits due under the lease at the end of the defined period. Projected operating lease costs shall be based on the anticipated cost of leasing comparable facilities at fair market rates under rental agreements that would be renewed or reestablished over the period defined above, and any expected maintenance costs and allowable property taxes to be borne by the educational institution directly or as part of the lease arrangement.

(2) The actual interest cost claimed is predicated upon interest rates that are no higher than the fair market rate available to the educational institution from an unrelated (arm's length) third party.

(3) Investment earnings, including interest income on bond or loan principal, pending payment of the construction or acquisition costs, are used to offset allowable interest cost. Arbitrage earnings reportable to the Internal Revenue Service are not required to be offset against allowable interest costs.

(4) Reimbursements are limited to the least costly alternative based on the total cost analysis required under subsection (1). For example, if an operating lease is determined to be less costly than purchasing through debt financing, then reimbursement is limited to the amount determined if leasing had been used. In all cases where a lease-purchase analysis is required to be performed, Federal reimbursement shall be based upon the least expensive alternative.

(5) Educational institutions are also subject to the following conditions:

(a) For debt arrangements over $1 million, unless the educational institution makes an initial equity contribution to the asset purchase of 25 percent or more, educational

institutions shall reduce claims for interest cost by an amount equal to imputed interest earnings on excess cash flow, which is to be calculated as follows. Annually, educational institutions shall prepare a cumulative (from the inception of the project) report of monthly cash flows that includes inflows and outflows, regardless of the funding source. Inflows consist of depreciation expense, amortization of capitalized construction interest, and annual interest cost. For cash flow calculations, the annual inflow figures shall be divided by the number of months in the year (i.e., usually 12) that the building is in service for monthly amounts. Outflows consist of initial equity contributions, debt principal payments (less the pro rata share attributable to the unallowable costs of land) and interest payments. Where cumulative inflows exceed cumulative outflows, interest shall be calculated on the excess inflows for that period and be treated as a reduction to allowable interest cost. The rate of interest to be used to compute earnings on excess cash flows shall be the three-month Treasury bill closing rate as of the last business day of that month.

(b) Substantial relocation of federally-sponsored activities from a facility financed by indebtedness, the cost of which was funded in whole or part through Federal reimbursements, to another facility prior to the expiration of a period of 20 years requires notice to the cognizant agency. The extent of the relocation, the amount of the Federal participation in the financing, and the depreciation and interest charged to date may require negotiation and/or downward adjustments of replacement space charged to Federal programs in the future.

(c) The allowable costs to acquire facilities and equipment are limited to a fair market value available to the educational institution from an unrelated (arm's length) third party.

(6) The following definitions are to be used for purposes of this section:

(a) ''Initial equity contribution'' means the amount or value of contributions made by non-Federal entities for the acquisition of the asset prior to occupancy of facilities.

(b) ''Asset costs'' means the capitalizable costs of an asset, including construction costs, acquisition costs, and other such costs capitalized in accordance with Generally Accepted Accounting Principles (GAAP).

16. In Section K, add an instruction and subsection 2.b(5) under the ''Certificate of F&A Costs'' to read as follows:

For educational institutions that are required to file a DS–2 in accordance with Section C.14, the following statement shall be added to the ''Certificate of F&A Costs'':

(5) The rate proposal is prepared using the same cost accounting practices that are disclosed in the DS–2, including its amendments and revisions, filed with and approved by the cognizant agency.

17. Throughout the entire Circular, except for in Appendices A and B, replace the term ''indirect costs'' with ''facilities and administrative costs'' and make the following additional amendments:

a. In Section B, add the definition of facilities and administrative (F&A) costs to read as follows:

4. *Facilities and administrative (F&A) costs,* for the purpose of this Circular, means costs that are incurred for common or joint objectives and, therefore, cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity. F&A costs are synonymous with ''indirect'' costs, as previously used in this Circular and as currently used in Appendices A and B. The F&A cost categories are described in Section F.1.

b. In Section E, replace subsection 1 to read as follows:

1. *General.* F&A costs are those that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, an institutional activity, or any other institutional activity. See Section F.1 for a discussion of the components of F&A costs.

c. In Section E, replace subsection 2.e.(1) to read as follows:

2.e.(1) F&A costs are the broad categories of costs discussed in Section F.1.

d. In Section F, replace the first sentence of subsection 1 to read as follows:

1. *Definition of Facilities and Administration.* F&A costs are broad categories of costs.

18. Add Appendices A and B for the CASB's Cost Accounting Standards (CAS) and the CASB's Disclosure Statement (DS–2).

19. In OMB's recompilation of Circular A–21 and its six Transmittal Memoranda, throughout the Circular, consistent conventions were introduced, including some numbering changes, punctuation changes, correction of typographical errors, etc. In addition, in Section J, former subsections 29, ''Public information services costs,'' and 39, ''Special services costs,'' were removed since their contents were merged into subsections 1 and 3 in Transmittal Memorandum No. 4.

EXECUTIVE OFFICE OF THE PRESIDENT

Office of Management and Budget

Circular No. A–21, Revised

To the Heads of Executive Departments and Establishments

Subject: Cost principles for educational institutions.

1. *Purpose.* This Circular establishes principles for determining costs applicable to grants, contracts, and other agreements with educational institutions . The principles deal with the subject of cost determination, and make no attempt to identify the circumstances or dictate the extent of agency and institutional participation in the financing of a particular project. The principles are designed to provide that the Federal Government bear its fair share of total costs, determined in accordance with generally accepted accounting principles, except where restricted or prohibited by law. Agencies are not expected to place additional restrictions on individual items of cost. Provision for profit or other increment above cost is outside the scope of this Circular.

2. *Supersession.* The Circular supersedes Federal Management Circular 73–8, dated December 19, 1973. FMC 73–8 is revised and reissued under its original designation of OMB Circular No. A–21.

3. *Applicability.*

a. All Federal agencies that sponsor research and development, training, and other work at educational institutions shall apply the provisions of this Circular in determining the costs incurred for such work. The principles shall also be used as a guide in the pricing of fixed price or lump sum agreements.

b. In addition, Federally Funded Research and Development Centers associated with educational institutions shall be required to comply with the Cost Accounting Standards, rules and regulations issued by the Cost Accounting Standards Board, and set forth in 48 CFR part 99; provided that they are subject thereto under defense related contracts.

4. *Responsibilities.* The successful application of cost accounting principles requires development of mutual understanding between representatives of educational institutions and of the Federal Government as to their scope, implementation, and interpretation.

5. *Attachment.* The principles and related policy guides are set forth in the Attachment, ''Principles for determining costs applicable to grants, contracts, and other agreements with educational institutions.''

6. *Effective date.* The provisions of this Circular shall be effective October 1, 1979, except for subsequent amendments incorporated herein for which the effective dates were specified in six Transmittal Memoranda (47 FR 33658, 51 FR 20908, 51 FR 43487, 56 FR 50224, and 58 FR 39996 and [insert today's FR cite for this Part]). The provisions shall be implemented by institutions as of the start of their first fiscal year beginning after that date. Earlier implementation, or a delay in implementation of individual provisions, is permitted by mutual agreement between an institution and the cognizant Federal agency.

7. *Inquiries.* Further information concerning this Circular may be obtained by contacting the Office of Federal Financial Management, Office of Management and Budget, Washington, DC 20503, telephone (202) 395–3993.

Attachment.

Principles for Determining Costs Applicable to Grants, Contracts, and Other Agreements With Educational Institutions

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Principles for Determining Costs Applicable to Grants, Contracts, and Other Agreements With Educational Institutions

A. Purpose and Scope

1. *Objectives.* This Attachment provides principles for determining the costs applicable to research and development, training, and other sponsored work performed by colleges and universities under grants, contracts, and other agreements with the Federal Government. These agreements are referred to as sponsored agreements.

2. *Policy guides.* The successful application of these cost accounting principles requires development of mutual understanding between representatives of universities and of the Federal Government as to their scope, implementation, and interpretation. It is recognized that—

a. The arrangements for Federal agency and institutional participation in the financing of a research, training, or other project are properly subject to negotiation between the agency and the institution concerned, in accordance with such governmentwide criteria or legal requirements as may be applicable.

b. Each institution, possessing its own unique combination of staff, facilities, and experience, should be encouraged to conduct research and educational activities in a manner consonant with its own academic philosophies and institutional objectives.

c. The dual role of students engaged in research and the resulting benefits to sponsored agreements are fundamental to the research effort and shall be recognized in the application of these principles.

d. Each institution, in the fulfillment of its obligations, should employ sound management practices.

e. The application of these cost accounting principles should require no significant changes in the generally accepted accounting practices of colleges and universities. However, the accounting practices of individual colleges and universities must support the accumulation of costs as required by the principles, and must provide for adequate documentation to support costs charged to sponsored agreements.

f. Cognizant Federal agencies involved in negotiating facilities and administrative (F&A) cost rates and auditing should assure that institutions are generally applying these cost accounting principles on a consistent basis. Where wide variations exist in the treatment of a given cost item among institutions, the reasonableness and equitableness of such treatments should be fully considered during the rate negotiations and audit.

3. *Application.* These principles shall be used in determining the allowable costs of work performed by colleges and universities under sponsored agreements. The principles shall also be used in determining the costs of work performed by such institutions under subgrants, cost-reimbursement subcontracts, and other awards made to them under sponsored agreements. They also shall be used as a guide in the pricing of fixed-price contracts and subcontracts where costs are used in determining the appropriate price. The principles do not apply to:

a. Arrangements under which Federal financing is in the form of loans, scholarships, fellowships, traineeships, or other fixed amounts based on such items as education allowance or published tuition rates and fees of an institution.

b. Capitation awards.

c. Other awards under which the institution is not required to account to the Federal Government for actual costs incurred.

4. *Inquiries.* All inquiries from Federal agencies concerning the cost principles contained in this Circular, including the administration and implementation of the Cost Accounting Standards (CAS) (described in Sections C.10 through C.13) and disclosure statement (DS–2) requirements, shall be addressed by the Office of Management and Budget (OMB), Office of Federal Financial Management, in coordination with the Cost Accounting Standard Board (CASB) with respect to inquiries concerning CAS. Educational institutions' inquiries should be addressed to the cognizant agency.

B. Definition of Terms

1. *Major functions of an institution* refers to instruction, organized research, other sponsored activities and other institutional activities as defined below:

a. *Instruction* means the teaching and training activities of an institution. Except for

research training as provided in subsection b, this term includes all teaching and training activities, whether they are offered for credits toward a degree or certificate or on a non-credit basis, and whether they are offered through regular academic departments or separate divisions, such as a summer school division or an extension division. Also considered part of this major function are departmental research, and, where agreed to, university research.

(1) *Sponsored instruction and training* means specific instructional or training activity established by grant, contract, or cooperative agreement. For purposes of the cost principles, this activity may be considered a major function even though an institution's accounting treatment may include it in the instruction function.

(2) *Departmental research* means research, development and scholarly activities that are not organized research and, consequently, are not separately budgeted and accounted for. Departmental research, for purposes of this document, is not considered as a major function, but as a part of the instruction function of the institution.

b. *Organized research* means all research and development activities of an institution that are separately budgeted and accounted for. It includes:

(1) *Sponsored research* means all research and development activities that are sponsored by Federal and non-Federal agencies and organizations . This term includes activities involving the training of individuals in research techniques (commonly called research training) where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function.

(2) *University research* means all research and development activities that are separately budgeted and accounted for by the institution under an internal application of institutional funds. University research, for purposes of this document, shall be combined with sponsored research under the function of organized research.

c. *Other sponsored activities* means programs and projects financed by Federal and non-Federal agencies and organizations which involve the performance of work other than instruction and organized research. Examples of such programs and projects are health service projects, and community service programs. However, when any of these activities are undertaken by the institution without outside support, they may be classified as other institutional activities.

d. *Other institutional activities* means all activities of an institution except:

(1) instruction, departmental research, organized research, and other sponsored activities, as defined above;

(2) F&A cost activities identified in Section F; and

(3) specialized service facilities described in Section J.44. Other institutional activities include operation of residence halls, dining halls, hospitals and clinics, student unions, intercollegiate athletics, bookstores, faculty housing, student apartments, guest houses, chapels, theaters, public museums, and other similar auxiliary enterprises. This definition also includes any other categories of activities, costs of which are ''unallowable'' to sponsored agreements, unless otherwise indicated in the agreements.

2. *Sponsored agreement,* for purposes of this Circular, means any grant, contract, or other agreement between the institution and the Federal Government.

3. *Allocation* means the process of assigning a cost, or a group of costs, to one or more cost objective, in reasonable and realistic proportion to the benefit provided or other equitable relationship. A cost objective may be a major function of the institution, a particular service or project, a sponsored agreement, or a F&A cost activity, as described in Section F. The process may entail assigning a cost(s) directly to a final cost objective or through one or more intermediate cost objectives.

4.*Facilities and administrative (F&A) costs,* for the purpose of this Circular, means costs that are incurred for common or joint objectives and, therefore, cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity. F&A costs are synonymous with ''indirect'' costs, as previously used in this Circular and as currently used in Appendices A and B. The F&A cost categories are described in Section F.1.

C. Basic Considerations

1. *Composition of total costs.* The cost of a sponsored agreement is comprised of the allowable direct costs incident to its performance, plus the allocable portion of the allowable F&A costs of the institution, less applicable credits as described in subsection 5.

2. *Factors affecting allowability of costs.* The tests of allowability of costs under these principles are: (a) They must be reasonable; (b) they must be allocable to sponsored agreements under the principles and methods provided herein; (c) they must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and (d) they must conform to any limitations or exclusions set forth in these principles or in the sponsored agreement as to types or amounts of cost items.

3. *Reasonable costs.* A cost may be considered reasonable if the nature of the goods or services acquired or applied, and the amount involved therefor, reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made. Major considerations involved in the determination of the reasonableness of a cost are: (a) whether or not the cost is of a type generally recognized as necessary for the operation of the institution or the performance of the sponsored agreement; (b) the restraints or requirements imposed by such factors as arm's-length bargaining, Federal and State laws and regulations, and sponsored agreement terms and conditions; (c) whether or not the individuals concerned acted with due prudence in the circumstances, considering their responsibilities to the institution, its employees, its students, the Federal Government, and the public at large; and, (d) the extent to which the actions taken with respect to the incurrence of the cost are consistent with established institutional policies and practices applicable to the work of the institution generally, including sponsored agreements.

4. Allocable costs. a. A cost is allocable to a particular cost objective (i.e., a specific function, project, sponsored agreement, department, or the like) if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a sponsored agreement if (1) it is incurred solely to advance the work under the sponsored agreement; (2) it benefits both the sponsored agreement and other work of the institution, in proportions that can be approximated through use of reasonable methods, or (3) it is necessary to the overall operation of the institution and, in light of the principles provided in this Circular, is deemed to be assignable in part to sponsored projects. Where the purchase of equipment or other capital items is specifically authorized under a sponsored agreement, the amounts thus authorized for such purchases are assignable to the sponsored agreement regardless of the use that may subsequently be made of the equipment or other capital items involved.

b. Any costs allocable to a particular sponsored agreement under the standards provided in this Circular may not be shifted to other sponsored agreements in order to meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by terms of the sponsored agreement, or for other reasons of convenience.

c. Any costs allocable to activities sponsored by industry, foreign governments or other sponsors may not be shifted to federally-sponsored agreements.

d. Allocation and documentation standard.

(1) *Cost principles.* The recipient institution is responsible for ensuring that costs charged to a sponsored agreement are allowable, allocable, and reasonable under these cost principles.

(2) *Internal controls.* The institution's financial management system shall ensure that no one person has complete control over all aspects of a financial transaction.

(3) *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 should 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 subsection b, the costs may be allocated or transferred to benefited projects on any reasonable basis, consistent with subsections d. (1) and (2).

(4) *Documentation.* Federal requirements for documentation are specified in this Circular, Circular A–110, ''Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit

Organizations,'' and specific agency policies on cost transfers. If the institution authorizes the principal investigator or other individual to have primary responsibility, given the requirements of subsection d.(2), for the management of sponsored agreement funds, then the institution's documentation requirements for the actions of those individuals (e.g., signature or initials of the principal investigator or designee or use of a password) will normally be considered sufficient.

5. *Applicable credits.* a. The term ''applicable credits'' refers to those receipts or negative expenditures that operate to offset or reduce direct or F&A cost items. Typical examples of such transactions are: purchase discounts, rebates, or allowances; recoveries or indemnities on losses; and adjustments of overpayments or erroneous charges. This term also includes ''educational discounts'' on products or services provided specifically to educational institutions, such as discounts on computer equipment, except where the arrangement is clearly and explicitly identified as a gift by the vendor.

b. In some instances, the amounts received from the Federal Government to finance institutional activities or service operations should be treated as applicable credits. Specifically, the concept of netting such credit items against related expenditures should be applied by the institution in determining the rates or amounts to be charged to sponsored agreements for services rendered whenever the facilities or other resources used in providing such services have been financed directly, in whole or in part, by Federal funds. (See Sections F.10, J.12.a, and J.44 for areas of potential application in the matter of direct Federal financing.)

6. *Costs incurred by State and local governments.* Costs incurred or paid by State or local governments on behalf of their colleges and universities for fringe benefit programs, such as pension costs and FICA and any other costs specifically incurred on behalf of, and in direct benefit to, the institutions, are allowable costs of such institutions whether or not these costs are recorded in the accounting records of the institutions, subject to the following:

a. The costs meet the requirements of subsections 1 through 5.

b. The costs are properly supported by cost allocation plans in accordance with applicable Federal cost accounting principles.

c. The costs are not otherwise borne directly or indirectly by the Federal Government.

7. *Limitations on allowance of costs.* Sponsored agreements may be subject to statutory requirements that limit the allowance of costs. When the maximum amount allowable under a limitation is less than the total amount determined in accordance with the principles in this Circular, the amount not recoverable under a sponsored agreement may not be charged to other sponsored agreements.

8. *Collection of unallowable costs, excess costs due to noncompliance with cost policies, increased costs due to failure to follow a disclosed accounting practice and increased costs resulting from a change in cost accounting practice.* The following costs shall be refunded (including interest) in accordance with applicable Federal agency regulations:

a. Costs specifically identified as unallowable in Section J, either directly or indirectly, and charged to the Federal Government.

b. Excess costs due to failure by the educational institution to comply with the cost policies in this Circular.

c. Increased costs due to a noncompliant cost accounting practice used to estimate, accumulate, or report costs.

d. Increased costs resulting from a change in accounting practice.

9. *Adjustment of previously negotiated F&A cost rates containing unallowable costs.* Negotiated F&A cost rates based on a proposal later found to have included costs that (a) are unallowable as specified by (i) law or regulation, (ii) Section J of this Circular, (iii) terms and conditions of sponsored agreements, or (b) are unallowable because they are clearly not allocable to sponsored agreements, shall be adjusted, or a refund shall be made, in accordance with the requirements of this section. These adjustments or refunds are designed to correct the proposals used to establish the rates and do not constitute a reopening of the rate negotiation. The adjustments or refunds will be made regardless of the type of rate negotiated (predetermined, final, fixed, or provisional).

a. For rates covering a future fiscal year of the institution, the unallowable costs will be removed from the F&A cost pools and the rates appropriately adjusted.

b. For rates covering a past period, the Federal share of the unallowable costs will be computed for each year involved and a cash refund (including interest chargeable in accordance with applicable regulations) will be made to the Federal Government. If cash refunds are made for past periods covered by provisional or fixed rates, appropriate adjustments will be made when the rates are finalized to avoid duplicate recovery of the unallowable costs by the Federal Government.

c. For rates covering the current period, either a rate adjustment or a refund, as described in subsections a and b, shall be required by the cognizant agency. The choice of method shall be at the discretion of the cognizant agency, based on its judgment as to which method would be most practical.

d. The amount or proportion of unallowable costs included in each year's rate will be assumed to be the same as the amount or proportion of unallowable costs included in the base year proposal used to establish the rate.

10. *Consistency in estimating, accumulating and reporting costs.*

a. An educational institution's practices used in estimating costs in pricing a proposal shall be consistent with the educational institution's cost accounting practices used in accumulating and reporting costs.

b. An educational institution's cost accounting practices used in accumulating and reporting actual costs for a sponsored agreement shall be consistent with the educational institution's practices used in estimating costs in pricing the related proposal or application.

c. The grouping of homogeneous costs in estimates prepared for proposal purposes shall not *per se* be deemed an inconsistent application of cost accounting practices under subsection a when such costs are accumulated and reported in greater detail on an actual cost basis during performance of the sponsored agreement.

d. Appendix A also reflects this requirement, along with the purpose, definitions, and techniques for application, all of which are authoritative.

11. *Consistency in allocating costs incurred for the same purpose.*

a. All costs incurred for the same purpose, in like circumstances, are either direct costs only or F&A costs only with respect to final cost objectives. No final cost objective shall have allocated to it as a cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included as a direct cost of that or any other final cost objective. Further, no final cost objective shall have allocated to it as a direct cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included in any F&A cost pool to be allocated to that or any other final cost objective.

b. Appendix A reflects this requirement along with its purpose, definitions, techniques for application, illustrations and interpretations, all of which are authoritative.

12. *Accounting for unallowable costs.*

a. Costs expressly unallowable or mutually agreed to be unallowable, including costs mutually agreed to be unallowable directly associated costs, shall be identified and excluded from any billing, claim, application, or proposal applicable to a sponsored agreement.

b. Costs which specifically become designated as unallowable as a result of a written decision furnished by a Federal official pursuant to sponsored agreement disputes procedures shall be identified if included in or used in the computation of any billing, claim, or proposal applicable to a sponsored agreement. This identification requirement applies also to any costs incurred for the same purpose under like circumstances as the costs specifically identified as unallowable under either this subsection or subsection a.

c. Costs which, in a Federal official's written decision furnished pursuant to sponsored agreement disputes procedures, are designated as unallowable directly associated costs of unallowable costs covered by either subsection a or b shall be accorded the identification required by subsection b.

d. The costs of any work project not contractually authorized by a sponsored agreement, whether or not related to performance of a proposed or existing sponsored agreement, shall be accounted for, to the extent appropriate, in a manner which permits ready separation from the costs of authorized work projects.

e. All unallowable costs covered by subsections a through d shall be subject to the same cost accounting principles governing cost allocability as allowable costs. In circumstances where these unallowable

costs normally would be part of a regular F&A cost allocation base or bases, they shall remain in such base or bases. Where a directly associated cost is part of a category of costs normally included in a F&A cost pool that shall be allocated over a base containing the unallowable cost with which it is associated, such a directly associated cost shall be retained in the F&A cost pool and be allocated through the regular allocation process.

f. Where the total of the allocable and otherwise allowable costs exceeds a limitation-of-cost or ceiling-price provision in a sponsored agreement, full direct and F&A cost allocation shall be made to the sponsored agreement cost objective, in accordance with established cost accounting practices and standards which regularly govern a given entity's allocations to sponsored agreement cost objectives. In any determination of a cost overrun, the amount thereof shall be identified in terms of the excess of allowable costs over the ceiling amount, rather than through specific identification of particular cost items or cost elements.

g. Appendix A reflects this requirement, along with its purpose, definitions, techniques for application, and illustrations of this standard, all of which are authoritative.

13. *Cost accounting period.*

a. Educational institutions shall use their fiscal year as their cost accounting period, except that:

(1) Costs of a F&A function which exists for only a part of a cost accounting period may be allocated to cost objectives of that same part of the period on the basis of data for that part of the cost accounting period if the cost is: (i) material in amount, (ii) accumulated in a separate F&A cost pool or expense pool, and (iii) allocated on the basis of an appropriate direct measure of the activity or output of the function during that part of the period.

(2) An annual period other than the fiscal year may, upon mutual agreement with the Federal Government, be used as the cost accounting period if the use of such period is an established practice of the educational institution and is consistently used for managing and controlling revenues and disbursements, and appropriate accruals, deferrals or other adjustments are made with respect to such annual periods.

(3) A transitional cost accounting period other than a year shall be used whenever a change of fiscal year occurs.

b. An educational institution shall follow consistent practices in the selection of the cost accounting period or periods in which any types of expense and any types of adjustment to expense (including prior-period adjustments) are accumulated and allocated.

c. The same cost accounting period shall be used for accumulating costs in a F&A cost pool as for establishing its allocation base, except that the Federal Government and educational institution may agree to use a different period for establishing an allocation base, provided:

(1) The practice is necessary to obtain significant administrative convenience,

(2) The practice is consistently followed by the educational institution,

(3) The annual period used is representative of the activity of the cost accounting period for which the F&A costs to be allocated are accumulated, and

(4) The practice can reasonably be estimated to provide a distribution to cost objectives of the cost accounting period not materially different from that which otherwise would be obtained.

d. Appendix A reflects this requirement, along with its purpose, definitions, techniques for application and illustrations, all of which are authoritative.

14. *Disclosure Statement.* a. Educational institutions that received aggregate sponsored agreements totaling $25 million or more subject to this Circular during their most recently completed fiscal year shall disclose their cost accounting practices by filing a Disclosure Statement (DS–2), which is reproduced in Appendix B. With the approval of the cognizant agency, an educational institution may meet the DS–2 submission by submitting the DS–2 for each business unit that received $25 million or more in sponsored agreements.

b. The DS–2 shall be submitted to the cognizant agency with a copy to the educational institution's audit cognizant office.

c. Educational institutions receiving $25 million or more in sponsored agreements that are not required to file a DS–2 pursuant to 48 CFR 9903.202–1 shall file a DS–2 covering the first fiscal year beginning after the publication date of this revision, within six months after the end of that fiscal year. Extensions beyond the above due date may be granted by the cognizant agency on a case-by-case basis.

d. Educational institutions are responsible for maintaining an accurate DS–2 and complying with disclosed cost accounting practices. Educational institutions must file amendments to the DS–2 when disclosed practices are changed to comply with a new or modified standard, or when practices are changed for other reasons. Amendments of a DS–2 may be submitted at any time. If the change is expected to have a material impact on the educational institution's negotiated F&A cost rates, the revision shall be approved by the cognizant agency before it is implemented. Resubmission of a complete, updated DS–2 is discouraged except when there are extensive changes to disclosed practices.

e. Cost and funding adjustments. Cost adjustments shall be made by the cognizant agency if an educational institution fails to comply with the cost policies in this Circular or fails to consistently follow its established or disclosed cost accounting practices when estimating, accumulating or reporting the costs of sponsored agreements, if aggregate cost impact on sponsored agreements is material. The cost adjustment shall normally be made on an aggregate basis for all affected sponsored agreements through an adjustment of the educational institution's future F&A costs rates or other means considered appropriate by the cognizant agency. Under the terms of CAS-covered contracts, adjustments in the amount of funding provided may also be required when the estimated proposal costs were not determined in accordance with established cost accounting practices.

f. Overpayments. Excess amounts paid in the aggregate by the Federal Government under sponsored agreements due to a noncompliant cost accounting practice used to estimate, accumulate, or report costs shall be credited or refunded, as deemed appropriate by the cognizant agency. Interest applicable to the excess amounts paid in the aggregate during the period of noncompliance shall also be determined and collected in accordance with applicable Federal agency regulations.

g. Compliant cost accounting practice changes. Changes from one compliant cost accounting practice to another compliant practice that are approved by the cognizant agency may require cost adjustments if the change has a material effect on sponsored agreements and the changes are deemed appropriate by the cognizant agency.

h. Responsibilities. The cognizant agency shall:

(1) Determine cost adjustments for all sponsored agreements in the aggregate on behalf of the Federal Government. Actions of the cognizant agency official in making cost adjustment determinations shall be coordinated with all affected Federal agencies to the extent necessary.

(2) Prescribe guidelines and establish internal procedures to promptly determine on behalf of the Federal Government that a DS–2 adequately discloses the educational institution's cost accounting practices and that the disclosed practices are compliant with applicable CAS and the requirements of this Circular.

(3) Distribute to all affected agencies any DS–2 determination of adequacy and/or noncompliance.

D. Direct Costs

1. *General.* Direct costs are those costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or F&A costs. Where an institution treats a particular type of cost as a direct cost of sponsored agreements, all costs incurred for the same purpose in like circumstances shall be treated as direct costs of all activities of the institution.

2. *Application to sponsored agreements.* Identification with the sponsored work rather than the nature of the goods and services involved is the determining factor in distinguishing direct from F&A costs of sponsored agreements. Typical costs charged directly to a sponsored agreement are the compensation of employees for performance of work under the sponsored agreement, including related fringe benefit costs to the extent they are consistently treated, in like circumstances, by the institution as direct rather than F&A costs; the costs of materials consumed or expended in the performance of the work; and other items of expense

incurred for the sponsored agreement, including extraordinary utility consumption. The cost of materials supplied from stock or services rendered by specialized facilities or other institutional service operations may be included as direct costs of sponsored agreements, provided such items are consistently treated, in like circumstances, by the institution as direct rather than F&A costs, and are charged under a recognized method of computing actual costs, and conform to generally accepted cost accounting practices consistently followed by the institution.

E. F&A Costs

1. *General.* F&A costs are those that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity. See Section F.1 for a discussion of the components of F&A costs.

2. *Criteria for distribution. a. Base period.* A base period for distribution of F&A costs is the period during which the costs are incurred. The base period normally should coincide with the fiscal year established by the institution, but in any event the base period should be so selected as to avoid inequities in the distribution of costs.

b. *Need for cost groupings.* The overall objective of the F&A cost allocation process is to distribute the F&A costs described in Section F to the major functions of the institution in proportions reasonably consistent with the nature and extent of their use of the institution's resources. In order to achieve this objective, it may be necessary to provide for selective distribution by establishing separate groupings of cost within one or more of the F&A cost categories referred to in subsection 1. In general, the cost groupings established within a category should constitute, in each case, a pool of those items of expense that are considered to be of like nature in terms of their relative contribution to (or degree of remoteness from) the particular cost objectives to which distribution is appropriate. Cost groupings should be established considering the general guides provided in subsection c. Each such pool or cost grouping should then be distributed individually to the related cost objectives, using the distribution base or method most appropriate in the light of the guides set forth in subsection d.

c. *General considerations on cost groupings.* The extent to which separate cost groupings and selective distribution would be appropriate at an institution is a matter of judgment to be determined on a case-by-case basis. Typical situations which may warrant the establishment of two or more separate cost groupings (based on account classification or analysis) within a F&A cost category include but are not limited to the following:

(1) Where certain items or categories of expense relate solely to one of the major functions of the institution or to less than all functions, such expenses should be set aside as a separate cost grouping for direct assignment or selective allocation in accordance with the guides provided in subsections b and d.

(2) Where any types of expense ordinarily treated as general administration or departmental administration are charged to sponsored agreements as direct costs, expenses applicable to other activities of the institution when incurred for the same purposes in like circumstances must, through separate cost groupings, be excluded from the F&A costs allocable to those sponsored agreements and included in the direct cost of other activities for cost allocation purposes.

(3) Where it is determined that certain expenses are for the support of a service unit or facility whose output is susceptible of measurement on a workload or other quantitative basis, such expenses should be set aside as a separate cost grouping for distribution on such basis to organized research, instructional, and other activities at the institution or within the department.

(4) Where activities provide their own purchasing, personnel administration, building maintenance or similar service, the distribution of general administration and general expenses, or operation and maintenance expenses to such activities should be accomplished through cost groupings which include only that portion of central F&A costs (such as for overall management) which are properly allocable to such activities.

(5) Where the institution elects to treat fringe benefits as F&A charges, such costs should be set aside as a separate cost grouping for selective distribution to related cost objectives.

(6) The number of separate cost groupings within a category should be held within practical limits, after taking into consideration the materiality of the amounts involved and the degree of precision attainable through less selective methods of distribution.

d. *Selection of distribution method.*

(1) Actual conditions must be taken into account in selecting the method or base to be used in distributing individual cost groupings. The essential consideration in selecting a base is that it be the one best suited for assigning the pool of costs to cost objectives in accordance with benefits derived; a traceable cause and effect relationship; or logic and reason, where neither benefit nor cause and effect relationship is determinable.

(2) Where a cost grouping can be identified directly with the cost objective benefited, it should be assigned to that cost objective.

(3) Where the expenses in a cost grouping are more general in nature, the distribution may be based on a cost analysis study which results in an equitable distribution of the costs. Such cost analysis studies may take into consideration weighting factors, population, or space occupied if appropriate. Cost analysis studies, however, must (a) be appropriately documented in sufficient detail for subsequent review by the cognizant Federal agency, (b) distribute the costs to the related cost objectives in accordance with the relative benefits derived, (c) be statistically sound, (d) be performed specifically at the institution at which the results are to be used, and (e) be reviewed periodically, but not less frequently than every two years, updated if necessary, and used consistently. Any assumptions made in the study must be stated and explained. The use of cost analysis studies and periodic changes in the method of cost distribution must be fully justified.

(4) If a cost analysis study is not performed, or if the study does not result in an equitable distribution of the costs, the distribution shall be made in accordance with the appropriate base cited in Section F, unless one of the following conditions is met: (a) it can be demonstrated that the use of a different base would result in a more equitable allocation of the costs, or that a more readily available base would not increase the costs charged to sponsored agreements, or (b) the institution qualifies for, and elects to use, the simplified method for computing F&A cost rates described in Section H.

(5) Notwithstanding subsection (3), effective July 1, 1998, a cost analysis study or base other than that in Section F shall not be used to distribute utility, library or student services costs. By that date, OMB shall have in place an alternative methodology for making payments on costs related to utilities.

e. *Order of distribution.* (1) F&A costs are the broad categories of costs discussed in Section F.1.

(2) Depreciation and use allowances, operation and maintenance expenses, and general administrative and general expenses should be allocated in that order to the remaining F&A cost categories as well as to the major functions and specialized service facilities of the institution. Other cost categories may be allocated in the order determined to be most appropriate by the institutions. When cross allocation of costs is made as provided in subsection (3), this order of allocation does not apply.

(3) Normally a F&A cost category will be considered closed once it has been allocated to other cost objectives, and costs may not be subsequently allocated to it. However, a cross allocation of costs between two or more F&A cost categories may be used if such allocation will result in a more equitable allocation of costs. If a cross allocation is used, an appropriate modification to the composition of the F&A cost categories described in Section F is required.

F. Identification and Assignment of F&A Costs

1. *Definition of Facilities and Administration.* F&A costs are broad categories of costs. ''Facilities'' is defined as depreciation and use allowances, interest on debt associated with certain buildings, equipment and capital improvements, operation and maintenance expenses, and library expenses. ''Administration'' is defined as general administration and general expenses, departmental administration, sponsored projects administration, student administration and services, and all other types of expenditures not listed specifically under one of the subcategories of Facilities (including cross allocations from other pools).

2. *Depreciation and use allowances.* a. The expenses under this heading are the portion of the costs of the institution's buildings, capital improvements to land and buildings,

and equipment which are computed in accordance with Section J.12.

b. In the absence of the alternatives provided for in Section E.2.d, the expenses included in this category shall be allocated in the following manner:

(1) Depreciation or use allowances on buildings used exclusively in the conduct of a single function, and on capital improvements and equipment used in such buildings, shall be assigned to that function.

(2) Depreciation or use allowances on buildings used for more than one function, and on capital improvements and equipment used in such buildings, shall be allocated to the individual functions performed in each building on the basis of usable square feet of space, excluding common areas such as hallways, stairwells, and rest rooms.

(3) Depreciation or use allowances on buildings, capital improvements and equipment related to space (e.g., individual rooms, laboratories) used jointly by more than one function (as determined by the users of the space) shall be treated as follows. The cost of each jointly used unit of space shall be allocated to benefiting functions on the basis of:

(a) the employee full-time equivalents (FTEs) or salaries and wages of those individual functions benefiting from the use of that space; or

(b) institution-wide employee FTEs or salaries and wages applicable to the benefiting major functions (see Section B.1) of the institution.

(4) Depreciation or use allowances on certain capital improvements to land, such as paved parking areas, fences, sidewalks, and the like, not included in the cost of buildings, shall be allocated to user categories of students and employees on a full-time equivalent basis. The amount allocated to the student category shall be assigned to the instruction function of the institution. The amount allocated to the employee category shall be further allocated to the major functions of the institution in proportion to the salaries and wages of all employees applicable to those functions.

3. *Interest.* Interest on debt associated with certain buildings, equipment and capital improvements, as defined in Sections J.22.e and f, shall be classified as an expenditure under the category Facilities. These costs shall be allocated in the same manner as the depreciation or use allowances on the buildings, equipment and capital improvements to which the interest relates.

4. *Operation and maintenance expenses.* a. The expenses under this heading are those that have been incurred for the administration, supervision, operation, maintenance, preservation, and protection of the institution's physical plant. They include expenses normally incurred for such items as janitorial and utility services; repairs and ordinary or normal alterations of buildings, furniture and equipment; care of grounds; maintenance and operation of buildings and other plant facilities; security; earthquake and disaster preparedness; environmental safety; hazardous waste disposal; property, liability and all other insurance relating to property; space and capital leasing; facility planning and management; and, central receiving. The operation and maintenance expense category should also include its allocable share of fringe benefit costs, depreciation and use allowances, and interest costs.

b. In the absence of the alternatives provided for in Section E.2.d, the expenses included in this category shall be allocated in the same manner as described in subsection 2.b for depreciation and use allowances.

5. *General administration and general expenses.* a. The expenses under this heading are those that have been incurred for the general executive and administrative offices of educational institutions and other expense of a general character which do not relate solely to any major function of the institution; i.e., solely to (1) instruction, (2) organized research, (3) other sponsored activities, or (4) other institutional activities. The general administration and general expense category should also include its allocable share of fringe benefit costs, operation and maintenance expense, depreciation and use allowances, and interest costs. Examples of general administration and general expenses include: those expenses incurred by administrative offices that serve the entire university system of which the institution is a part; central offices of the institution such as the President's or Chancellor's office, the offices for institution-wide financial management, business services, budget and planning, personnel management, and safety and risk management; the office of the General Counsel; and, the operations of the central administrative management information systems. General administration and general expenses shall not include expenses incurred within non- university-wide deans' offices, academic departments, organized research units, or similar organizational units. (See subsection 6, Departmental administration expenses.)

b. In the absence of the alternatives provided for in Section E.2.d, the expenses included in this category shall be grouped first according to common major functions of the institution to which they render services or provide benefits. The aggregate expenses of each group shall then be allocated to serviced or benefited functions on the modified total cost basis. Modified total costs consist of the same elements as those in Section G.2. When an activity included in this F&A cost category provides a service or product to another institution or organization, an appropriate adjustment must be made to either the expenses or the basis of allocation or both, to assure a proper allocation of costs.

6. *Departmental administration expenses.* a. The expenses under this heading are those that have been incurred for administrative and supporting services that benefit common or joint departmental activities or objectives in academic deans' offices, academic departments and divisions, and organized research units. Organized research units include such units as institutes, study centers, and research centers. Departmental administration expenses are subject to the following limitations.

(1) Academic deans' offices. Salaries and operating expenses are limited to those attributable to administrative functions.

(2) Academic departments:

(a) Salaries and fringe benefits attributable to the administrative work (including bid and proposal preparation) of faculty (including department heads), and other professional personnel conducting research and/or instruction, shall be allowed at a rate of 3.6 percent of modified total direct costs. This category does not include professional business or professional administrative officers. This allowance shall be added to the computation of the F&A cost rate for major functions in Section G; the expenses covered by the allowance shall be excluded from the departmental administration cost pool. No documentation is required to support this allowance.

(b) Other administrative and supporting expenses incurred within academic departments are allowable provided they are treated consistently in like circumstances. This would include expenses such as the salaries of secretarial and clerical staffs, the salaries of administrative officers and assistants, travel, office supplies, stockrooms, and the like.

(3) Other fringe benefit costs applicable to the salaries and wages included in subsections (1) and (2) are allowable, as well as an appropriate share of general administration and general expenses, operation and maintenance expenses, and depreciation and/or use allowances.

(4) Federal agencies may authorize reimbursement of additional costs for department heads and faculty only in exceptional cases where an institution can demonstrate undue hardship or detriment to project performance.

b. In developing the departmental administration cost pool, special care should be exercised to ensure that costs incurred for the same purpose in like circumstances are treated consistently as either direct or F&A costs. For example, salaries of technical staff, laboratory supplies (e.g., chemicals), telephone toll charges, animals, animal care costs, computer costs, travel costs, and specialized shop costs shall be treated as direct cost wherever identifiable to a particular cost objective. Direct charging of these costs may be accomplished through specific identification of individual costs to benefiting cost objectives, or through recharge centers or specialized service facilities, as appropriate under the circumstances. The salaries of administrative and clerical staff should normally be treated as F&A costs. Direct charging of these costs may be appropriate where a major project or activity explicitly budgets for administrative or clerical services and individuals involved can be specifically identified with the project or activity. Items such as office supplies, postage, local telephone costs, and memberships shall normally be treated as F&A costs.

c. In the absence of the alternatives provided for in Section E.2.d, the expenses included in this category shall be allocated as follows:

(1) The administrative expenses of the dean's office of each college and school shall

be allocated to the academic departments within that college or school on the modified total cost basis.

(2) The administrative expenses of each academic department, and the department's share of the expenses allocated in subsection (1) shall be allocated to the appropriate functions of the department on the modified total cost basis.

7. *Sponsored projects administration.* a. The expenses under this heading are limited to those incurred by a separate organization(s) established primarily to administer sponsored projects, including such functions as grant and contract administration (Federal and non-Federal), special security, purchasing, personnel, administration, and editing and publishing of research and other reports. They include the salaries and expenses of the head of such organization, assistants, and immediate staff, together with the salaries and expenses of personnel engaged in supporting activities maintained by the organization, such as stock rooms, stenographic pools and the like. This category also includes an allocable share of fringe benefit costs, general administration and general expenses, operation and maintenance expenses, depreciation/use allowances. Appropriate adjustments will be made for services provided to other functions or organizations.

b. In the absence of the alternatives provided for in Section E.2.d, the expenses included in this category shall be allocated to the major functions of the institution under which the sponsored projects are conducted on the basis of the modified total cost of sponsored projects.

c. An appropriate adjustment shall be made to eliminate any duplicate charges to sponsored agreements when this category includes similar or identical activities as those included in the general administration and general expense category or other F&A cost items, such as accounting, procurement, or personnel administration.

8. *Library expenses.* a. The expenses under this heading are those that have been incurred for the operation of the library, including the cost of books and library materials purchased for the library, less any items of library income that qualify as applicable credits under Section C.5. The library expense category should also include the fringe benefits applicable to the salaries and wages included therein, an appropriate share of general administration and general expense, operation and maintenance expense, and depreciation and use allowances. Costs incurred in the purchases of rare books (museum-type books) with no value to sponsored agreements should not be allocated to them.

b. In the absence of the alternatives provided for in Section E.2.d, the expenses included in this category shall be allocated first on the basis of primary categories of users, including students, professional employees, and other users.

(1) The student category shall consist of full-time equivalent students enrolled at the institution, regardless of whether they earn credits toward a degree or certificate.

(2) The professional employee category shall consist of all faculty members and other professional employees of the institution, on a full-time equivalent basis.

(3) The other users category shall consist of all other users of library facilities.

c. Amount allocated in subsection b shall be assigned further as follows:

(1) The amount in the student category shall be assigned to the instruction function of the institution.

(2) The amount in the professional employee category shall be assigned to the major functions of the institution in proportion to the salaries and wages of all faculty members and other professional employees applicable to those functions.

(3) The amount in the other users category shall be assigned to the other institutional activities function of the institution.

9. *Student administration and services.* a. The expenses under this heading are those that have been incurred for the administration of student affairs and for services to students, including expenses of such activities as deans of students, admissions, registrar, counseling and placement services, student advisers, student health and infirmary services, catalogs, and commencements and convocations. The salaries of members of the academic staff whose responsibilities to the institution require administrative work that benefits sponsored projects may also be included to the extent that the portion charged to student administration is determined in accordance with Section J.8. This expense category also includes the fringe benefit costs applicable to the salaries and wages included therein, an appropriate share of general administration and general expenses, operation and maintenance, and use allowances and/or depreciation.

b. In the absence of the alternatives provided for in Section E.2.d, the expenses in this category shall be allocated to the instruction function, and subsequently to sponsored agreements in that function.

10. *Offset for F&A expenses otherwise provided for by the Federal Government.* a. The items to be accumulated under this heading are the reimbursements and other payments from the Federal Government which are made to the institution to support solely, specifically, and directly, in whole or in part, any of the administrative or service activities described in subsections 2 through 9.

b. The items in this group shall be treated as a credit to the affected individual F&A cost category before that category is allocated to benefiting functions.

G. Determination and Application of F&A Cost Rate or Rates

1. *F&A cost pools.* a. (1) Subject to subsection b, the separate categories of F&A costs allocated to each major function of the institution as prescribed in Section F shall be aggregated and treated as a common pool for that function. The amount in each pool shall be divided by the distribution base described in subsection 2 to arrive at a single F&A cost rate for each function.

(2) The rate for each function is used to distribute F&A costs to individual sponsored agreements of that function. Since a common pool is established for each major function of the institution, a separate F&A cost rate would be established for each of the major functions described in Section B.1 under which sponsored agreements are carried out.

(3) Each institution's F&A cost rate process must be appropriately designed to ensure that Federal sponsors do not in any way subsidize the F&A costs of other sponsors, specifically activities sponsored by industry and foreign governments. Accordingly, each allocation method used to identify and allocate the F&A cost pools, as described in Sections E.2 and F.2 through F.9, must contain the full amount of the institution's modified total costs or other appropriate units of measurement used to make the computations. In addition, the final rate distribution base (as defined in subsection 2) for each major function (organized research, instruction, etc., as described in Section B.1) shall contain all the programs or activities which utilize the F&A costs allocated to that major function. At the time a F&A cost proposal is submitted to a cognizant Federal agency, each institution must describe the process it uses to ensure that Federal funds are not used to subsidize industry and foreign government funded programs.

b. In some instances a single rate basis for use across the board on all work within a major function at an institution may not be appropriate. A single rate for research, for example, might not take into account those different environmental factors and other conditions which may affect substantially the F&A costs applicable to a particular segment of research at the institution. A particular segment of research may be that performed under a single sponsored agreement or it may consist of research under a group of sponsored agreements performed in a common environment. The environmental factors are not limited to the physical location of the work. Other important factors are the level of the administrative support required, the nature of the facilities or other resources employed, the scientific disciplines or technical skills involved, the organizational arrangements used, or any combination thereof. Where a particular segment of a sponsored agreement is performed within an environment which appears to generate a significantly different level of F&A costs, provisions should be made for a separate F&A cost pool applicable to such work. The separate F&A cost pool should be developed during the regular course of the rate determination process and the separate F&A cost rate resulting therefrom should be utilized; provided it is determined that (1) such F&A cost rate differs significantly from that which would have been obtained under subsection a, and (2) the volume of work to which such rate would apply is material in relation to other sponsored agreements at the institution.

2. *The distribution basis.* F&A costs shall be distributed to applicable sponsored agreements and other benefiting activities within each major function (see Section B.1) on the basis of modified total direct costs, consisting of all salaries and wages, fringe benefits, materials and supplies, services, travel, and subgrants and subcontracts up to the first $25,000 of each subgrant or subcontract (regardless of the period covered

by the subgrant or subcontract). Equipment, capital expenditures, charges for patient care and tuition remission, rental costs, scholarships, and fellowships as well as the portion of each subgrant and subcontract in excess of $25,000 shall be excluded from modified total direct costs. Other items may only be excluded where necessary to avoid a serious inequity in the distribution of F&A costs. For this purpose, a F&A cost rate should be determined for each of the separate F&A cost pools developed pursuant to subsection 1. The rate in each case should be stated as the percentage which the amount of the particular F&A cost pool is of the modified total direct costs identified with such pool.

3. *Negotiated lump sum for F&A costs.* A negotiated fixed amount in lieu of F&A costs may be appropriate for self-contained, off-campus, or primarily subcontracted activities where the benefits derived from an institution's F&A services cannot be readily determined. Such negotiated F&A costs will be treated as an offset before allocation to instruction, organized research, other sponsored activities, and other institutional activities. The base on which such remaining expenses are allocated should be appropriately adjusted.

4. *Predetermined rates for F&A costs.* Public Law 87–638 (76 Stat. 437) authorizes the use of predetermined rates in determining the ''indirect costs'' (F&A costs in this Circular) applicable under research agreements with educational institutions. The stated objectives of the law are to simplify the administration of cost-type research and development contracts (including grants) with educational institutions, to facilitate the preparation of their budgets, and to permit more expeditious closeout of such contracts when the work is completed. In view of the potential advantages offered by this procedure, negotiation of predetermined rates for F&A costs for a period of two to four years should be the norm in those situations where the cost experience and other pertinent facts available are deemed sufficient to enable the parties involved to reach an informed judgment as to the probable level of F&A costs during the ensuing accounting periods.

5. *Negotiated fixed rates and carry-forward provisions.* When a fixed rate is negotiated in advance for a fiscal year (or other time period), the over- or under-recovery for that year may be included as an adjustment to the F&A cost for the next rate negotiation. When the rate is negotiated before the carry-forward adjustment is determined, the carry-forward amount may be applied to the next subsequent rate negotiation. When such adjustments are to be made, each fixed rate negotiated in advance for a given period will be computed by applying the expected F&A costs allocable to sponsored agreements for the forecast period plus or minus the carry-forward adjustment (over- or under-recovery) from the prior period, to the forecast distribution base. Unrecovered amounts under lump-sum agreements or cost-sharing provisions of prior years shall not be carried forward for consideration in the new rate negotiation. There must, however, be an advance understanding in each case between the institution and the cognizant Federal agency as to whether these differences will be considered in the rate negotiation rather than making the determination after the differences are known. Further, institutions electing to use this carry-forward provision may not subsequently change without prior approval of the cognizant Federal agency. In the event that an institution returns to a postdetermined rate, any over- or under-recovery during the period in which negotiated fixed rates and carry-forward provisions were followed will be included in the subsequent postdetermined rates. Where multiple rates are used, the same procedure will be applicable for determining each rate.

6. *Provisional and final rates for F&A costs.* Where the cognizant agency determines that cost experience and other pertinent facts do not justify the use of predetermined rates, or a fixed rate with a carry-forward, or if the parties cannot agree on an equitable rate, a provisional rate shall be established. To prevent substantial overpayment or underpayment, the provisional rate may be adjusted by the cognizant agency during the institution's fiscal year. Predetermined or fixed rates may replace provisional rates at any time prior to the close of the institution's fiscal year. If a provisional rate is not replaced by a predetermined or fixed rate prior to the end of the institution's fiscal year, a final rate will be established and upward or downward adjustments will be made based on the actual allowable costs incurred for the period involved.

7. *Fixed rates for the life of the sponsored agreement.* a. Federal agencies shall use the negotiated rates for F&A costs in effect at the time of the initial award throughout the life of the sponsored agreement. ''Life'' for the purpose of this subsection means each competitive segment of a project. A competitive segment is a period of years approved by the Federal funding agency at the time of the award. If negotiated rate agreements do not extend through the life of the sponsored agreement at the time of the initial award, then the negotiated rate for the last year of the sponsored agreement shall be extended through the end of the life of the sponsored agreement. Award levels for sponsored agreements may not be adjusted in future years as a result of changes in negotiated rates.

b. When an educational institution does not have a negotiated rate with the Federal Government at the time of the award (because the educational institution is a new grantee or the parties cannot reach agreement on a rate), the provisional rate used at the time of the award shall be adjusted once a rate is negotiated and approved by the cognizant agency.

8. *Limitation on reimbursement of administrative costs.* a. Notwithstanding the provisions of subsection 1.a, the administrative costs charged to sponsored agreements awarded or amended (including continuation and renewal awards) with effective dates beginning on or after the start of the institution's first fiscal year which begins on or after October 1, 1991, shall be limited to 26% of modified total direct costs (as defined in subsection 2) for the total of General Administration and General Expenses, Departmental Administration, Sponsored Projects Administration, and Student Administration and Services (including their allocable share of depreciation and/or use allowances, interest costs, operation and maintenance expenses, and fringe benefits costs, as provided by Sections F.5, F.6, F.7 and F.9) and all other types of expenditures not listed specifically under one of the subcategories of facilities in Section F.

b. Existing F&A cost rates that affect institutions' fiscal years which begin on or after October 1, 1991, shall be unilaterally amended by the cognizant Federal agency to reflect the cost limitation in subsection a.

c. Permanent rates established prior to this revision which have been amended in accordance with subsection b may be renegotiated. However, no such renegotiated rate may exceed the rate which would have been in effect if the agreement had remained in effect; nor may the administrative portion of any renegotiated rate exceed the limitation in subsection a.

d. Institutions should not change their accounting or cost allocation methods which were in effect on May 1, 1991, if the effect is to: (i) change the charging of a particular type of cost from F&A to direct, or (ii) reclassify costs, or increase allocations, from the administrative pools identified in subsection a to the other F&A cost pools or fringe benefits. Cognizant Federal agencies are authorized to permit changes where an institution's charging practices are at variance with acceptable practices followed by a substantial majority of other institutions.

9. *Alternative method for administrative costs.* a. Notwithstanding the provisions of subsection 1.a, an institution may elect to claim fixed allowance for the ''Administration'' portion of F&A costs. The allowance could be either 24% of modified total direct costs or a percentage equal to 95% of the most recently negotiated fixed or predetermined rate for the cost pools included under ''Administration'' as defined in Section F.1, whichever is less, provided that no accounting or cost allocation changes with the effects described in subsection 8.d have occurred. Under this alternative, no cost proposal need be prepared for the ''Administration'' portion of the F&A cost rate nor is further identification or documentation of these costs required (see subsection c). Where a negotiated F&A cost agreement includes this alternative, an institution shall make no further charges for the expenditure categories described in Sections F.5, F.6, F.7 and F.9.

b. In negotiations of rates for subsequent periods, an institution that has elected the option of subsection a may continue to exercise it at the same rate without further identification or documentation of costs, provided that no accounting or cost allocation changes with the effects described in subsection 8.d have occurred.

c. If an institution elects to accept a threshold rate, it is not required to perform a detailed analysis of its administrative costs. However, in order to compute the facilities components of its F&A cost rate, the institution must reconcile its F&A cost

proposal to its financial statements and make appropriate adjustments and reclassifications to identify the costs of each major function as defined in Section B.1, as well as to identify and allocate the facilities components. Administrative costs that are not identified as such by the institution's accounting system (such as those incurred in academic departments) will be classified as instructional costs for purposes of reconciling F&A cost proposals to financial statements and allocating facilities costs.

10. *Individual rate components.* In order to satisfy the requirements of Section J.12.f and to provide mutually agreed upon information for management purposes, each F&A cost rate negotiation or determination shall include development of a rate for each F&A cost pool as well as the overall F&A cost rate.

11. *Negotiation and approval of F&A rate.* a. *Cognizant agency assignments.* ''A cognizant agency'' means the Federal agency responsible for negotiating and approving F&A rates for an educational institution on behalf of all Federal agencies.

(1) Cost negotiation cognizance is assigned to the Department of Health and Human Services (HHS) or the Department of Defense's Office of Naval Research (DOD), normally depending on which of the two agencies (HHS or DOD) provides more funds to the educational institution for the most recent three years. Information on funding shall be derived from relevant data gathered by the National Science Foundation. In cases where neither HHS nor DOD provides Federal funding to an educational institution, the cognizant agency assignment shall default to HHS. Notwithstanding the method for cognizance determination described above, other arrangements for cognizance of a particular educational institution may also be based in part on the types of research performed at the educational institution and shall be decided based on mutual agreement between HHS and DOD.

(2) Cognizant assignments as of December 31, 1995, shall continue in effect through educational institutions' fiscal years ending during 1997, or the period covered by negotiated agreements in effect on December 31, 1995, whichever is later, except for those educational institutions with cognizant agencies other than HHS or DOD. Cognizance for these educational institutions shall transfer to HHS or DOD at the end of the period covered by the current negotiated rate agreement. After cognizance is established, it shall continue for a five-year period.

b. *Acceptance of rates.* The negotiated rates shall be accepted by all Federal agencies. Only under special circumstances, when required by law or regulation, may an agency use a rate different from the negotiated rate for a class of sponsored agreements or a single sponsored agreement.

c. *Correcting deficiencies.* The cognizant agency shall negotiate changes needed to correct systems deficiencies relating to accountability for sponsored agreements. Cognizant agencies shall address the concerns of other affected agencies, as appropriate.

d. *Resolving questioned costs.* The cognizant agency shall conduct any necessary negotiations with an educational institution regarding amounts questioned by audit that are due the Federal Government related to costs covered by a negotiated agreement.

e. *Reimbursement.* Reimbursement to cognizant agencies for work performed under Circular A–21 may be made by reimbursement billing under the Economy Act, 31 U.S.C. 1535.

f. *Procedure for establishing facilities and administrative rates.* The cognizant agency shall arrange with the educational institution to provide copies of rate proposals to all interested agencies. Agencies wanting such copies should notify the cognizant agency. Rates shall be established by one of the following methods:

(1) Formal negotiation. The cognizant agency is responsible for negotiating and approving rates for an educational institution on behalf of all Federal agencies. Non-cognizant Federal agencies, which award sponsored agreements to an educational institution, shall notify the cognizant agency of specific concerns (i.e., a need to establish special cost rates) which could affect the negotiation process. The cognizant agency shall address the concerns of all interested agencies, as appropriate. A pre-negotiation conference may be scheduled among all interested agencies, if necessary. The cognizant agency shall then arrange a negotiation conference with the educational institution.

(2) Other than formal negotiation. The cognizant agency and educational institution may reach an agreement on rates without a formal negotiation conference; for example, through correspondence or use of the simplified method described in this Circular.

g. *Formalizing determinations and agreements.* The cognizant agency shall formalize all determinations or agreements reached with an educational institution and provide copies to other agencies having an interest.

h. *Disputes and disagreements.* Where the cognizant agency is unable to reach agreement with an educational institution with regard to rates or audit resolution, the appeal system of the cognizant agency shall be followed for resolution of the disagreement.

H. Simplified Method for Small Institutions.

1. *General.* a. Where the total direct cost of work covered by this Circular at an institution does not exceed $10 million in a fiscal year, the use of the simplified procedure described in subsection 2, may be used in determining allowable F&A costs. Under this simplified procedure, the institution's most recent annual financial report and immediately available supporting information with salaries and wages segregated from other costs, will be utilized as a basis for determining the F&A cost rate applicable to all sponsored agreements.

b. The simplified procedure should not be used where it produces results which appear inequitable to the Federal Government or the institution. In any such case, F&A costs should be determined through use of the regular procedure.

2. *Simplified procedure.* a. Establish the total amount of salaries and wages paid to all employees of the institution.

b. Establish a F&A cost pool consisting of the expenditures (exclusive of capital items and other costs specifically identified as unallowable) which customarily are classified under the following titles or their equivalents:

(1) General administration and general expenses (exclusive of costs of student administration and services, student activities, student aid, and scholarships).

(2) Operation and maintenance of physical plant; and depreciation and use allowances; after appropriate adjustment for costs applicable to other institutional activities.

(3) Library.

(4) Department administration expenses, which will be computed as 20 percent of the salaries and expenses of deans and heads of departments.

In those cases where expenditures classified under subsection (1) have previously been allocated to other institutional activities, they may be included in the F&A cost pool. The total amount of salaries and wages included in the F&A cost pool must be separately identified.

c. Establish a salary and wage distribution base, determined by deducting from the total of salaries and wages as established in subsection a the amount of salaries and wages included under subsection b.

d. Establish the F&A cost rate, determined by dividing the amount in the F&A cost pool, subsection b, by the amount of the distribution base, subsection c.

e. Apply the F&A cost rate to direct salaries and wages for individual agreements to determine the amount of F&A costs allocable to such agreements.

J. General Provisions for Selected Items of Cost

Sections 1 through 50 provide principles to be applied in establishing the allowability of certain items involved in determining cost. These principles should apply irrespective of whether a particular item of cost is properly treated as direct cost or 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. In case of a discrepancy between the provisions of a specific sponsored agreement and the provisions below, the agreement should govern.

1. *Advertising and public relations costs.* a. The term advertising costs means the costs of advertising media and corollary administrative costs. Advertising media include magazines, newspapers, radio and television programs, direct mail, exhibits, and the like.

b. The term public relations includes community relations and means those activities dedicated to maintaining the image of the institution or maintaining or promoting understanding and favorable relations with the community or public at large or any segment of the public.

c. The only allowable advertising costs are those which are solely for:

(1) The recruitment of personnel required for the performance by the institution of obligations arising under the sponsored

agreement, when considered in conjunction with all other recruitment costs, as set forth in Section J.37;

(2) The procurement of goods and services for the performance of the sponsored agreement;

(3) The disposal of scrap or surplus materials acquired in the performance of the sponsored agreement except when institutions are reimbursed for disposal costs at a predetermined amount in accordance with Circular A–110; or

(4) Other specific purposes necessary to meet the requirements of the sponsored agreement.

d. The only allowable public relations costs are:

(1) Costs specifically required by sponsored agreements;

(2) Costs of communicating with the public and press pertaining to specific activities or accomplishments which result from performance of sponsored agreements; or

(3) Costs of conducting general liaison with news media and government public relations officers, to the extent that such activities are limited to communication and liaison necessary to keep the public informed on matters of public concern, such as notices of contract/grant awards, financial matters, etc.

e. Costs identified in subsections c and d if incurred for more than one sponsored agreement or for both sponsored work and other work of the institution, are allowable to the extent that the principles in Sections D and E are observed.

f. Unallowable advertising and public relations costs include the following:

(1) All advertising and public relations costs other than as specified in subsections c, d, and e;

(2) Costs of convocations or other events related to instruction or other institutional activities including:

(i) Costs of displays, demonstrations, and exhibits;

(ii) Costs of meeting rooms, hospitality suites, and other special facilities used in conjunction with shows and other special events; and

(iii) Salaries and wages of employees engaged in setting up and displaying exhibits, making demonstrations, and providing briefings;

(3) Costs of promotional items and memorabilia, including models, gifts, and souvenirs;

(4) Costs of advertising and public relations designed solely to promote the institution.

2. *Alcoholic beverages.* Costs of alcoholic beverages are unallowable.

3. *Alumni/ae activities.* Costs incurred for, or in support of, alumni/ae activities and similar services are unallowable.

4. *Bad debts.* Any losses, whether actual or estimated, arising from uncollectible accounts and other claims, related collections costs, and related legal costs, are unallowable.

5. *Civil defense costs.* Civil defense costs are those incurred in planning for, and the protection of life and property against, the possible effects of enemy attack. Reasonable costs of civil defense measures (including costs in excess of normal plant protection costs, first-aid training and supplies, firefighting training, posting of additional exit notices and directions, and other approved civil defense measures) undertaken on the institution's premises pursuant to suggestions or requirements of civil defense authorities are allowable when distributed to all activities of the institution. Capital expenditures for civil defense purposes will not be allowed, but a use allowance or depreciation may be permitted in accordance with provisions set forth in Section J.12. Costs of local civil defense projects not on the institution's premises are unallowable.

6. *Commencement and convocation costs.* Costs incurred for commencements and convocations are unallowable, except as provided for in Section F.9.

7. *Communication costs.* Costs incurred for telephone services, local and long distance telephone calls, telegrams, radiograms, postage and the like, are allowable.

8. *Compensation for personal services.* a. *General.* Compensation for personal services covers all amounts paid currently or accrued by the institution for services of employees rendered during the period of performance under sponsored agreements. Such amounts include salaries, wages, and fringe benefits (see subsection f). These costs are allowable to the extent that the total compensation to individual employees conforms to the established policies of the institution, consistently applied, and provided that the charges for work performed directly on sponsored agreements and for other work allocable as F&A costs are determined and supported as provided below. Charges to sponsored agreements may include reasonable amounts for activities contributing and intimately related to work under the agreements, such as delivering special lectures about specific aspects of the ongoing activity, writing reports and articles, participating in appropriate seminars, consulting with colleagues and graduate students, and attending meetings and conferences. Incidental work (that in excess of normal for the individual), for which supplemental compensation is paid by an institution under institutional policy, need not be included in the payroll distribution systems described below, provided such work and compensation are separately identified and documented in the financial management system of the institution.

b. *Payroll distribution.* (1) *General Principles.* (a) The distribution of salaries and wages, whether treated as direct or F&A costs, will be based on payrolls documented in accordance with the generally accepted practices of colleges and universities. Institutions may include in a residual category all activities that are not directly charged to sponsored agreements, and that need not be distributed to more than one activity for purposes of identifying F&A costs and the functions to which they are allocable. The components of the residual category are not required to be separately documented.

(b) The apportionment of employees' salaries and wages which are chargeable to more than one sponsored agreement or other cost objective will be accomplished by methods which will (1) be in accordance with Sections A.2 and C, (2) produce an equitable distribution of charges for employee's activities, and (3) distinguish the employees' direct activities from their F&A activities.

(c) In the use of any methods for apportioning salaries, it is recognized that, in an academic setting, teaching, research, service, and administration are often inextricably intermingled. A precise assessment of factors that contribute to costs is not always feasible, nor is it expected. Reliance, therefore, is placed on estimates in which a degree of tolerance is appropriate.

(d) There is no single best method for documenting the distribution of charges for personal services. Methods for apportioning salaries and wages, however, must meet the criteria specified in subsection b.(2). Examples of acceptable methods are contained in subsection c. Other methods which meet the criteria specified in subsection b.(2) also shall be deemed acceptable, if a mutually satisfactory alternative agreement is reached.

(2) *Criteria for Acceptable Methods.* (a) The payroll distribution system will (i) be incorporated into the official records of the institution, (ii) reasonably reflect the activity for which the employee is compensated by the institution, and (iii) encompass both sponsored and all other activities on an integrated basis, but may include the use of subsidiary records. (Compensation for incidental work described in Section J.8.a need not be included.)

(b) The method must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached. Direct cost activities and F&A cost activities may be confirmed by responsible persons with suitable means of verification that the work was performed. Confirmation by the employee is not a requirement for either direct or F&A cost activities if other responsible persons make appropriate confirmations.

(c) The payroll distribution system will allow confirmation of activity allocable to each sponsored agreement and each of the categories of activity needed to identify F&A costs and the functions to which they are allocable. The activities chargeable to F&A cost categories or the major functions of the institution for employees whose salaries must be apportioned (see subsection b.(1)(b)), if not initially identified as separate categories, may be subsequently distributed by any reasonable method mutually agreed to, including, but not limited to, suitably conducted surveys, statistical sampling procedures, or the application of negotiated fixed rates.

(d) Practices vary among institutions and within institutions as to the activity constituting a full workload. Therefore, the payroll distribution system may reflect categories of activities expressed as a percentage distribution of total activities.

(e) Direct and F&A charges may be made initially to sponsored agreements on the basis of estimates made before services are performed. When such estimates are used, significant changes in the corresponding work activity must be identified and entered into the payroll distribution system. Short-

term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term, such as an academic period.

(f) The system will provide for independent internal evaluations to ensure the system's effectiveness and compliance with the above standards.

(g) For systems which meet these standards, the institution will not be required to provide additional support or documentation for the effort actually performed.

c. *Examples of Acceptable Methods for Payroll Distribution:* (1) *Plan-Confirmation:* Under this method, the distribution of salaries and wages of professorial and professional staff applicable to sponsored agreements is based on budgeted, planned, or assigned work activity, updated to reflect any significant changes in work distribution. A plan-confirmation system used for salaries and wages charged directly or indirectly to sponsored agreements will meet the following standards:

(a) A system of budgeted, planned, or assigned work activity will be incorporated into the official records of the institution and encompass both sponsored and all other activities on an integrated basis. The system may include the use of subsidiary records.

(b) The system will reasonably reflect only the activity for which the employee is compensated by the institution (compensation for incidental work described in subsection a need not be included). Practices vary among institutions and within institutions as to the activity constituting a full workload. Hence, the system will reflect categories of activities expressed as a percentage distribution of total activities. (See Section H for treatment of F&A costs under the simplified method for small institutions.)

(c) The system will reflect activity applicable to each sponsored agreement and to each category needed to identify F&A costs and the functions to which they are allocable. The system may treat F&A cost activities initially within a residual category and subsequently determine them by alternate methods as discussed in subsection b.(2)(c).

(d) The system will provide for modification of an individual's salary or salary distribution commensurate with a significant change in the employee's work activity. Short-term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term, such as an academic period. Whenever it is apparent that a significant change in work activity which is directly or indirectly charged to sponsored agreements will occur or has occurred, the change will be documented over the signature of a responsible official and entered into the system.

(e) At least annually a statement will be signed by the employee, principal investigator, or responsible official(s) using suitable means of verification that the work was performed, stating that salaries and wages charged to sponsored agreements as direct charges, and to residual, F&A cost or other categories are reasonable in relation to work performed.

(f) The system will provide for independent internal evaluation to ensure the system's integrity and compliance with the above standards.

(g) In the use of this method, an institution shall not be required to provide additional support or documentation for the effort actually performed.

(2) *After-the-fact Activity Records:* Under this system the distribution of salaries and wages by the institution will be supported by activity reports as prescribed below.

(a) Activity reports will reflect the distribution of activity expended by employees covered by the system (compensation for incidental work as described in subsection a need not be included).

(b) These reports will reflect an after-the-fact reporting of the percentage distribution of activity of employees. Charges may be made initially on the basis of estimates made before the services are performed, provided that such charges are promptly adjusted if significant differences are indicated by activity records.

(c) Reports will reasonably reflect the activities for which employees are compensated by the institution. To confirm that the distribution of activity represents a reasonable estimate of the work performed by the employee during the period, the reports will be signed by the employee, principal investigator, or responsible official(s) using suitable means of verification that the work was performed.

(d) The system will reflect activity applicable to each sponsored agreement and to each category needed to identify F&A costs and the functions to which they are allocable. The system may treat F&A cost activities initially within a residual category and subsequently determine them by alternate methods as discussed in subsection b.(2)(c).

(e) For professorial and professional staff, the reports will be prepared each academic term, but no less frequently than every six months. For other employees, unless alternate arrangements are agreed to, the reports will be prepared no less frequently than monthly and will coincide with one or more pay periods.

(f) Where the institution uses time cards or other forms of after-the-fact payroll documents as original documentation for payroll and payroll charges, such documents shall qualify as records for this purpose, provided that they meet the requirements in subsections (a) through (e).

(3) *Multiple Confirmation Records:* Under this system, the distribution of salaries and wages of professorial and professional staff will be supported by records which certify separately for direct and F&A cost activities as prescribed below.

(a) For employees covered by the system, there will be direct cost records to reflect the distribution of that activity expended which is to be allocable as direct cost to each sponsored agreement. There will also be F&A cost records to reflect the distribution of that activity to F&A costs. These records may be kept jointly or separately (but are to be certified separately, see below).

(b) Salary and wage charges may be made initially on the basis of estimates made before the services are performed, provided that such charges are promptly adjusted if significant differences occur.

(c) Institutional records will reasonably reflect only the activity for which employees are compensated by the institution (compensation for incidental work as described in subsection a need not be included).

(d) The system will reflect activity applicable to each sponsored agreement and to each category needed to identify F&A costs and the functions to which they are allocable.

(e) To confirm that distribution of activity represents a reasonable estimate of the work performed by the employee during the period, the record for each employee will include: (i) the signature of the employee or of a person having direct knowledge of the work, confirming that the record of activities allocable as direct costs of each sponsored agreement is appropriate; and, (ii) the record of F&A costs will include the signature of responsible person(s) who use suitable means of verification that the work was performed and is consistent with the overall distribution of the employee's compensated activities. These signatures may all be on the same document.

(f) The reports will be prepared each academic term, but no less frequently than every six months.

(g) Where the institution uses time cards or other forms of after-the-fact payroll documents as original documentation for payroll and payroll charges, such documents shall qualify as records for this purposes, provided they meet the requirements in subsections (a) through (f).

d. *Salary rates for faculty members.* (1) *Salary rates for academic year.* Charges for work performed on sponsored agreements by faculty members during the academic year will be based on the individual faculty member's regular compensation for the continuous period which, under the policy of the institution concerned, constitutes the basis of his salary. Charges for work performed on sponsored agreements during all or any portion of such period are allowable at the base salary rate. In no event will charges to sponsored agreements, irrespective of the basis of computation, exceed the proportionate share of the base salary for that period. This principle applies to all members of the faculty at an institution. Since intra-university consulting is assumed to be undertaken as a university obligation requiring no compensation in addition to full-time base salary, the principle also applies to faculty members who function as consultants or otherwise contribute to a sponsored agreement conducted by another faculty member of the same institution. However, in unusual cases where consultation is across departmental lines or involves a separate or remote operation, and the work performed by the consultant is in addition to his regular departmental load, any charges for such work representing extra compensation above the base salary are allowable provided that such consulting arrangements are specifically provided for in the agreement or approved in writing by the sponsoring agency.

(2) *Periods outside the academic year.* (a) Except as otherwise specified for teaching activity in subsection (b), charges for work performed by faculty members on sponsored agreements during the summer months or other period not included in the base salary period will be determined for each faculty member at a rate not in excess of the base salary divided by the period to which the base salary relates, and will be limited to charges made in accordance with other parts of this section. The base salary period used in computing charges for work performed during the summer months will be the number of months covered by the faculty member's official academic year appointment.

(b) Charges for teaching activities performed by faculty members on sponsored agreements during the summer months or other periods not included in the base salary period will be based on the normal policy of the institution governing compensation to faculty members for teaching assignments during such periods.

(3) *Part-time faculty.* Charges for work performed on sponsored agreements by faculty members having only part-time appointments will be determined at a rate not in excess of that regularly paid for the part-time assignments. For example, an institution pays $5000 to a faculty member for half-time teaching during the academic year. He devoted one-half of his remaining time to a sponsored agreement. Thus, his additional compensation, chargeable by the institution to the agreement, would be one-half of $5000, or $2500.

e. *Noninstitutional professional activities.* Unless an arrangement is specifically authorized by a Federal sponsoring agency, an institution must follow its institution-wide policies and practices concerning the permissible extent of professional services that can be provided outside the institution for noninstitutional compensation. Where such institution-wide policies do not exist or do not adequately define the permissible extent of consulting or other noninstitutional activities undertaken for extra outside pay, the Federal Government may require that the effort of professional staff working on sponsored agreements be allocated between (1) institutional activities, and (2) noninstitutional professional activities. If the sponsoring agency considers the extent of noninstitutional professional effort excessive, appropriate arrangements governing compensation will be negotiated on a case-by-case basis.

f. *Fringe benefits.* (1) Fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, military leave, and the like, are allowable, provided such costs are distributed to all institutional activities in proportion to the relative amount of time or effort actually devoted by the employees. See Section J.40 for treatment of sabbatical leave.

(2) Fringe benefits in the form of employer contributions or expenses for social security, employee insurance, workmen's compensation insurance, tuition or remission of tuition for individual employees are allowable, provided such benefits are granted in accordance with established educational institutional policies, and are distributed to all institutional activities on an equitable basis. Tuition benefits for family members other than the employee are unallowable for fiscal years beginning after September 30, 1998. See Section J.41.b, Scholarships and student aid costs, for treatment of tuition remission provided to students.

(3) Rules for pension plan costs are as follows:

(a) Costs of the institution's pension plan which are incurred in accordance with the established policies of the institution are allowable, provided: (i) such policies meet the test of reasonableness, (ii) the methods of cost allocation are equitable for all activities, (iii) the amount of pension cost assigned to each fiscal year is determined in accordance with subsection (b), and (iv) the cost assigned to a given fiscal year is paid or funded for all plan participants within six months after the end of that year. However, increases to normal and past service pension costs caused by a delay in funding the actuarial liability beyond 30 days after each quarter of the year to which such costs are assignable are unallowable.

(b) The amount of pension cost assigned to each fiscal year shall be determined in accordance with generally accepted accounting principles. Institutions may elect to follow the ''Cost Accounting Standard for Composition and Measurement of Pension Cost'' (48 Part 9904–412).

(c) Premiums paid for pension plan termination insurance pursuant to the Employee Retirement Income Security Act (ERISA) of 1974 (Pub. L. 93–406) are allowable. Late payment charges on such premiums are unallowable. Excise taxes on accumulated funding deficiencies and prohibited transactions of pension plan fiduciaries imposed under ERISA are also unallowable.

(4) Fringe benefits may be assigned to cost objectives by identifying specific benefits to specific individual employees or by allocating on the basis of institution-wide salaries and wages of the employees receiving the benefits. When the allocation method is used, separate allocations must be made to selective groupings of employees, unless the institution demonstrates that costs in relationship to salaries and wages do not differ significantly for different groups of employees. Fringe benefits shall be treated in the same manner as the salaries and wages of the employees receiving the benefits. The benefits related to salaries and wages treated as direct costs shall also be treated as direct costs; the benefits related to salaries and wages treated as F&A costs shall be treated as F&A costs.

g. *Institution-furnished automobiles.* That portion of the cost of institution-furnished automobiles that relates to personal use by employees (including transportation to and from work) is unallowable regardless of whether the cost is reported as taxable income to the employees.

9. *Contingency provisions.* Contributions to a contingency reserve or any similar provision made for events, the occurrence of which cannot be foretold with certainty as to time, intensity, or with an assurance of their happening, are unallowable. (See also Section J.21.c.)

10. *Deans of faculty and graduate schools.* The salaries and expenses of deans of faculty and graduate schools, or their equivalents, and their staffs, are allowable.

11. *Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringement.*

a. *Definitions.* ''Conviction,'' as used herein, means a judgment or conviction of a criminal offense by any court of competent jurisdiction, whether entered upon verdict or a plea, including a conviction due to a plea of nolo contendere.

''Costs,'' include, but are not limited to, administrative and clerical expenses; the cost of legal services, whether performed by in-house or private counsel; the costs of the services of accountants, consultants, or others retained by the institution to assist it; costs of employees, officers and trustees, and any similar costs incurred before, during, and after commencement of a judicial or administrative proceeding that bears a direct relationship to the proceedings.

''Fraud,'' as used herein, means (i) acts of fraud or corruption or attempts to defraud the Federal Government or to corrupt its agents, (ii) acts that constitute a cause for debarment or suspension (as specified in agency regulations), and (iii) acts which violate the False Claims Act, 31 U.S.C., sections 3729–3731, or the Anti-kickback Act, 41 U.S.C., sections 51 and 54.

''Penalty,'' does not include restitution, reimbursement, or compensatory damages.

''Proceeding,'' includes an investigation.

b. (1) Except as otherwise described herein, costs incurred in connection with any criminal, civil or administrative proceeding (including filing of a false certification) commenced by the Federal Government, or a State, local or foreign government, are not allowable if the proceeding (a) relates to a violation of, or failure to comply with, a Federal, State, local or foreign statute or regulation, by the institution (including its agents and employees); and (b) results in any of the following dispositions:

(i) In a criminal proceeding, a conviction.

(ii) In a civil or administrative proceeding involving an allegation of fraud or similar misconduct, a determination of institutional liability.

(iii) In the case of any civil or administrative proceeding, the imposition of a monetary penalty.

(iv) A final decision by an appropriate Federal official to debar or suspend the institution, to rescind or void an award, or to terminate an award for default by reason of a violation or failure to comply with a law or regulation.

(v) A disposition by consent or compromise, if the action could have resulted in any of the dispositions described in subsections (i) through (iv).

(2) If more than one proceeding involves the same alleged misconduct, the costs of all such proceedings shall be unallowable if any one of them results in one of the dispositions shown in subsection b.

c. If a proceeding referred to in subsection b is commenced by the Federal Government and is resolved by consent or compromise

pursuant to an agreement entered into by the institution and the Federal Government, then the costs incurred by the institution in connection with such proceedings that are otherwise not allowable under subsection b may be allowed to the extent specifically provided in such agreement.

d. If a proceeding referred to in subsection b is commenced by a State, local or foreign government, the authorized Federal official may allow the costs incurred by the institution for such proceedings, if such authorized official determines that the costs were incurred as a result of (1) a specific term or condition of a federally-sponsored agreement, or (2) specific written direction of an authorized official of the sponsoring agency.

e. Costs incurred in connection with proceedings described in subsection b, but which are not made unallowable by that subsection, may be allowed by the Federal Government, but only to the extent that:

(1) The costs are reasonable in relation to the activities required to deal with the proceeding and the underlying cause of action;

(2) Payment of the costs incurred, as allowable and allocable costs, is not prohibited by any other provision(s) of the sponsored agreement;

(3) The costs are not otherwise recovered from the Federal Government or a third party, either directly as a result of the proceeding or otherwise; and,

(4) The percentage of costs allowed does not exceed the percentage determined by an authorized Federal official to be appropriate considering the complexity of procurement litigation, generally accepted principles governing the award of legal fees in civil actions involving the United States as a party, and such other factors as may be appropriate. Such percentage shall not exceed 80 percent. However, if an agreement reached under subsection c has explicitly considered this 80 percent limitation and permitted a higher percentage, then the full amount of costs resulting from that agreement shall be allowable.

f. Costs incurred by the institution in connection with the defense of suits brought by its employees or ex-employees under section 2 of the Major Fraud Act of 1988 (Pub. L. 100–700), including the cost of all relief necessary to make such employee whole, where the institution was found liable or settled, are unallowable.

g. Costs of legal, accounting, and consultant services, and related costs, incurred in connection with defense against Federal Government claims or appeals, or the prosecution of claims or appeals against the Federal Government, are unallowable.

h. Costs of legal, accounting, and consultant services, and related costs, incurred in connection with patent infringement litigation, are unallowable unless otherwise provided for in the sponsored agreements.

i. Costs which may be unallowable under this section, including directly associated costs, shall be segregated and accounted for by the institution separately. During the pendency of any proceeding covered by subsections b and f, the Federal Government shall generally withhold payment of such costs. However, if in the best interests of the Federal Government, the Federal Government may provide for conditional payment upon provision of adequate security, or other adequate assurance, and agreement by the institution to repay all unallowable costs, plus interest, if the costs are subsequently determined to be unallowable.

12. *Depreciation and use allowances.* Institutions may be compensated for the use of their buildings, capital improvements, and equipment, provided that they are used, needed in the institutions' activities, and properly allocable to sponsored agreements. Such compensation shall be made by computing either depreciation or use allowance. Use allowances are the means of providing such compensation when depreciation or other equivalent costs are not computed. The allocation for depreciation or use allowance shall be made in accordance with Section F.2. Depreciation and use allowances are computed applying the following rules:

a. The computation of depreciation or use allowances shall be based on the acquisition cost of the assets involved. For this purpose, the acquisition cost 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 is presently located; and (3) any portion of the cost of buildings and equipment contributed by or for the institution where law or agreement prohibit recovery. For an asset donated to the institution by a third party, its fair market value at the time of the donation shall be considered as the acquisition cost.

b. In the use of the depreciation method, the following shall be observed:

(1) The period of useful service or useful life established in each case for usable capital assets must take into consideration such factors as type of construction, nature of the equipment, technological developments in the particular area, and the renewal and replacement policies followed for the individual items or classes of assets involved.

(2) The depreciation method used to charge the cost of an asset (or group of assets) to accounting periods shall reflect the pattern of consumption of the asset during its useful life. 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 shall be presumed to be the appropriate method. Depreciation methods once used shall not be changed unless approved in advance by the cognizant Federal agency.

(3) Where the depreciation method is introduced to replace the use allowance method, depreciation shall be computed as if the asset had been depreciated over its entire life (i.e., from the date the asset was acquired and ready for use to the date of disposal or withdrawal from service). The aggregate amount of use allowances and depreciation attributable to an asset (including imputed depreciation applicable to periods prior to the conversion to the use allowance method as well as depreciation after the conversion) may be less than, and in no case, greater than the total acquisition cost of the asset.

(4) When the depreciation method is used for buildings, a building ''shell'' may be treated separately from other building components, such as plumbing system and heating and air conditioning system. Each component item may then be depreciated over its estimated useful life. On the other hand, the entire building, including the shell and all components, may be treated as a single asset and depreciated over a single useful life.

(5) Where the depreciation method is used for a particular class of assets, no depreciation may be allowed on any such assets that have outlived their depreciable lives. (See also subsection c.(3).)

c. Under the use allowance method, the following shall be observed:

(1) The use allowance for buildings and improvements (including improvements such as paved parking areas, fences, and sidewalks) will be computed at an annual rate not exceeding two percent of acquisition cost. The use allowance for equipment will be computed at an annual rate not exceeding six and two-thirds percent of acquisition cost.

(2) In contrast to the depreciation method, the entire building must be treated as a single asset without separating its ''shell'' from other building components under the use allowance method. The entire building must be treated as a single asset, and the two-percent use allowance limitation must be applied to all parts of the building. The two-percent limitation, however, need not be applied to equipment or other assets that are merely attached or fastened to the building but not permanently fixed and are used as furnishings, decorations or for specialized purposes (e.g., dentist chairs and dental treatment units, counters, laboratory benches bolted to the floor, dishwashers, and carpeting). Such equipment and assets will be considered as not being permanently fixed to the building if they can be removed without the need for costly or extensive alterations or repairs to the building to make the space usable for other purposes. Equipment and assets which meet these criteria will be subject to the six and two-thirds percent equipment use allowance.

(3) 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 Federal 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.

(4) Notwithstanding subsection (3), once an educational institution converts from one cost recovery methodology to another, acquisition costs not recovered may not be used in the calculation of the use allowance in subsection (3).

d. Except as otherwise provided in subsections b and c, a combination of the depreciation and use allowance methods may not be used, in like circumstances, for a

single class of assets (e.g., buildings, office equipment, and computer equipment).

e. Charges for use allowances or depreciation must be supported by adequate property records, and physical inventories must be taken at least once every two years to ensure that the assets exist and are usable, used, and needed. Statistical sampling techniques may be used in taking these inventories. In addition, when the depreciation method is used, adequate depreciation records showing the amount of depreciation taken each period must also be maintained.

f. This section applies to the largest college and university recipients of Federal research and development funds as displayed in Exhibit A.

(1) Institutions shall expend currently, or reserve for expenditure within the next five years, the portion of F&A cost payments made for depreciation or use allowances under sponsored research agreements, consistent with Section F.2, to acquire or improve research facilities. This provision applies only to Federal agreements which reimburse F&A costs at a full negotiated rate. These funds may only be used for (a) liquidation of the principal of debts incurred to acquire assets that are used directly for organized research activities, or (b) payments to acquire, repair, renovate, or improve buildings or equipment directly used for organized research. For buildings or equipment not exclusively used for organized research activity, only appropriately proportionate amounts will be considered to have been expended for research facilities.

(2) An assurance that an amount equal to the Federal reimbursements has been appropriately expended or reserved to acquire or improve research facilities shall be submitted as part of each F&A cost proposal submitted to the cognizant Federal agency which is based on costs incurred on or after October 1, 1991. This assurance will cover the cumulative amounts of funds received and expended during the period beginning after the period covered by the previous assurance and ending with the fiscal year on which the proposal is based. The assurance shall also cover any amounts reserved from a prior period in which the funds received exceeded the amounts expended.

13. *Donations and contributions.* a. The value of donated services and property are not allowable either as a direct or F&A cost, except that depreciation or use allowances on donated assets are permitted in accordance with Section J.12.a. The value of donated services and property may be used to meet cost sharing or matching requirements, in accordance with Circular A–110.

b. Donations or contributions made by the institution, regardless of the recipient, are unallowable.

14. *Employee morale, health, and welfare costs and credits.* The costs of house publications, health or first-aid clinics and/or infirmaries, recreational activities, food services, employees' counseling services, and other expenses incurred in accordance with the institution's established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance, are allowable. Such costs will be equitably apportioned to all activities of the institution. Income generated from any of these activities will be credited to the cost thereof unless such income has been irrevocably set over to employee welfare organizations. Losses resulting from operating food services are allowable only if the institution's objective is to operate such services on a break-even basis. Losses sustained because of operating objectives other than the above are allowable only (a) where the institution can demonstrate unusual circumstances, and (b) with the approval of the cognizant Federal agency.

15. *Entertainment costs.* Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.

16. *Equipment and other capital expenditures.* a. For purposes of this subsection, the following definitions apply:

(1) ''Equipment'' means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals or exceeds the lesser of the capitalization level established by the organization for financial statement purposes, or $5000. The unamortized portion of any equipment written off as a result of a change in capitalization levels may be recovered by continuing to claim the otherwise allowable use allowances or depreciation on the equipment, or by amortizing the amount to be written off over a period of years negotiated with the cognizant agency.

(2) ''Capital expenditures'' means the cost of the asset including the cost to put it in place. Capital expenditure for equipment, for example, means the net invoice price of the equipment, including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. Ancillary charges, such as taxes, duty, protective in transit insurance, freight, and installation may be included in, or excluded from, capital expenditure cost in accordance with the institution's regular accounting practices.

(3) ''Special purpose equipment'' means equipment which is used only for research, medical, scientific, or other technical activities.

(4) ''General purpose equipment'' means equipment, the use of which is not limited only to research, medical, scientific or other technical activities. Examples of general purpose equipment include office equipment and furnishings, air conditioning equipment, reproduction and printing equipment, motor vehicles, and automatic data processing equipment.

b. The following rules of allowability shall apply to equipment and other capital expenditures:

(1) Capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except where approved in advance by the sponsoring agency.

(2) Expenditures for special purpose equipment are allowable as direct charges with the approval of the sponsoring agency.

(3) Capital expenditures for improvements to land, buildings, or equipment which materially increase their value or useful life are unallowable as direct charges, except where approved in advance by the sponsoring agency.

(4) Capital expenditures are unallowable as F&A costs. See Section J.12 for allowability of depreciation or use allowances on buildings, capital improvements, and equipment. Also see Section J.38 for allowability of rental costs on land, buildings, and equipment.

17. *Executive lobbying costs.* Costs incurred in attempting to improperly influence either directly or indirectly, an employee or officer of the Executive Branch of the Federal Government to give consideration or to act regarding a sponsored agreement or a regulatory matter are unallowable. Improper influence means any influence that induces or tends to induce a Federal employee or officer to give consideration or to act regarding a federally-sponsored agreement or regulatory matter on any basis other than the merits of the matter.

18. *Fines and penalties.* Costs resulting from violations of, or failure of the institution to comply with, Federal, State, and local or foreign laws and regulations are unallowable, except when incurred as a result of compliance with specific provisions of the sponsored agreement, or instructions in writing from the authorized official of the sponsoring agency authorizing in advance such payments.

19. *Goods or services for personal use.* Costs of goods or services for personal use of the institution's employees are unallowable regardless of whether the cost is reported as taxable income to the employees.

20. *Housing and personal living expenses.* a. Costs of housing (e.g., depreciation, maintenance, utilities, furnishings, rent, etc.), housing allowances and personal living expenses for/of the institution's officers are unallowable regardless of whether the cost is reported as taxable income to the employees.

b. The term ''officers'' includes current and past officers.

21. *Insurance and indemnification.* a. Costs of insurance required or approved, and maintained, pursuant to the sponsored agreement, are allowable.

b. Costs of other insurance maintained by the institution in connection with the general conduct of its activities, are allowable subject to the following limitations: (1) types and extent and cost of coverage must be in accordance with sound institutional practice; (2) costs of insurance or of any contributions to any reserve covering the risk of loss of or damage to federally-owned property are unallowable, except to the extent that the Federal Government has specifically required or approved such costs; and (3) costs of insurance on the lives of officers or trustees are unallowable except where such insurance is part of an employee plan which is not unduly restricted.

c. Contributions to a reserve for a self-insurance program are allowable, to the extent that the types of coverage, extent of

coverage, and the rates and premiums would have been allowed had insurance been purchased to cover the risks.

d. Actual losses which could have been covered by permissible insurance (whether through purchased insurance or self-insurance) are unallowable, unless expressly provided for in the sponsored agreement, except that costs incurred because of losses not covered under existing deductible clauses for insurance coverage provided in keeping with sound management practice as well as minor losses not covered by insurance, such as spoilage, breakage and disappearance of small hand tools, which occur in the ordinary course of operations, are allowable.

e. Indemnification includes securing the institution against liabilities to third persons and other losses not compensated by insurance or otherwise. The Federal Government is obligated to indemnify the institution only to the extent expressly provided for in the sponsored agreement, except as provided in subsection d.

f. Insurance against defects. Costs of insurance with respect to any costs incurred to correct defects in the institution's materials or workmanship are unallowable.

g. Medical liability (malpractice) insurance is an allowable cost of research programs only to the extent that the research involves human subjects. Medical liability insurance costs shall be treated as a direct cost and shall be assigned to individual projects based on the manner in which the insurer allocates the risk to the population covered by the insurance.

22. *Interest, fund raising, and investment management costs.* a. Costs incurred for interest on borrowed capital or temporary use of endowment funds, however represented, are unallowable, except as indicated in subsection e.

b. Costs of organized fund raising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions, are unallowable.

c. Costs of investment counsel and staff and similar expenses incurred solely to enhance income from investments are unallowable.

d. Costs related to the physical custody and control of monies and securities are allowable.

e. The cost of interest paid to an external party is allowable where associated with the following assets, provided the assets are used in support of sponsored agreements, and the total cost (including depreciation or use allowance, operation and maintenance costs, interest, etc.) does not exceed the rental cost of comparable assets in the same locality.

(1) Buildings acquired or completed on or after July 1, 1982.

(2) Major reconstruction and remodeling of existing buildings completed on or after July 1, 1982.

(3) Acquisition or fabrication of capital equipment (as defined in Section J.16, Equipment and other capital expenditures) completed on or after July 1, 1982, costing $10,000 or more, if agreed to by the Federal Government.

f. Interest on debt incurred after the effective date of this revision to acquire, replace or renovate capital assets (including renovations, alterations, equipment, land, and capital assets acquired through capital leases), acquired after the effective date of this revision and used in support of sponsored agreements is subject to the following conditions:

(1) For facilities costing over $500,000, the educational institution shall prepare, prior to the acquisition or replacement of the facility, a lease-purchase analysis in accordance with § ____.44 of OMB Circular A–110, which shows that a financed purchase, including a capital lease, is less costly to the educational institution than other operating lease alternatives, on a net present value basis. Discount rates used shall be equal to the educational institution's anticipated interest rates and shall be no higher than the fair market rate available to the educational institution from an unrelated (''arm's length'') third party. The lease-purchase analysis shall include a comparison of the net present value of the projected total cost comparisons of both alternatives over the period the asset is expected to be used by the educational institution. The cost comparisons associated with purchasing the facility shall include the estimated purchase price, anticipated operating and maintenance costs (including property taxes, if applicable) not included in the debt financing, less any estimated asset salvage value at the end of the defined period. The cost comparison for a capital lease shall include the estimated total lease payments, any estimated bargain purchase option, operating and maintenance costs, and taxes not included in the capital leasing arrangement, less any estimated credits due under the lease at the end of the defined period. Projected operating lease costs shall be based on the anticipated cost of leasing comparable facilities at fair market rates under rental agreements that would be renewed or reestablished over the period defined above, and any expected maintenance costs and allowable property taxes to be borne by the educational institution directly or as part of the lease arrangement.

(2) The actual interest cost claimed is predicated upon interest rates that are no higher than the fair market rate available to the educational institution from an unrelated (arm's length) third party.

(3) Investment earnings, including interest income on bond or loan principal, pending payment of the construction or acquisition costs, are used to offset allowable interest cost. Arbitrage earnings reportable to the Internal Revenue Service are not required to be offset against allowable interest costs.

(4) Reimbursements are limited to the least costly alternative based on the total cost analysis required under subsection (1). For example, if an operating lease is determined to be less costly than purchasing through debt financing, then reimbursement is limited to the amount determined if leasing had been used. In all cases where a lease-purchase analysis is required to be performed, Federal reimbursement shall be based upon the least expensive alternative.

(5) Educational institutions are also subject to the following conditions:

(a) For debt arrangements over $1 million, unless the educational institution makes an initial equity contribution to the asset purchase of 25 percent or more, educational institutions shall reduce claims for interest cost by an amount equal to imputed interest earnings on excess cash flow, which is to be calculated as follows. Annually, educational institutions shall prepare a cumulative (from the inception of the project) report of monthly cash flows that includes inflows and outflows, regardless of the funding source. Inflows consist of depreciation expense, amortization of capitalized construction interest, and annual interest cost. For cash flow calculations, the annual inflow figures shall be divided by the number of months in the year (i.e., usually 12) that the building is in service for monthly amounts. Outflows consist of initial equity contributions, debt principal payments (less the pro rata share attributable to the unallowable costs of land) and interest payments. Where cumulative inflows exceed cumulative outflows, interest shall be calculated on the excess inflows for that period and be treated as a reduction to allowable interest cost. The rate of interest to be used to compute earnings on excess cash flows shall be the three-month Treasury bill closing rate as of the last business day of that month.

(b) Substantial relocation of federally-sponsored activities from a facility financed by indebtedness, the cost of which was funded in whole or part through Federal reimbursements, to another facility prior to the expiration of a period of 20 years requires notice to the cognizant agency. The extent of the relocation, the amount of the Federal participation in the financing, and the depreciation and interest charged to date may require negotiation and/or downward adjustments of replacement space charged to Federal programs in the future.

(c) The allowable costs to acquire facilities and equipment are limited to a fair market value available to the educational institution from an unrelated (arm's length) third party.

(6) The following definitions are to be used for purposes of this section:

(a) ''Initial equity contribution'' means the amount or value of contributions made by non-Federal entities for the acquisition of the asset prior to occupancy of facilities.

(b) ''Asset costs'' means the capitalizable costs of an asset, including construction costs, acquisition costs, and other such costs capitalized in accordance with Generally Accepted Accounting Principles (GAAP).

23. *Labor relations costs.* Costs incurred in maintaining satisfactory relations between the institution and its employees, including costs of labor management committees, employees' publications, and other related activities, are allowable.

24. *Lobbying.* Reference is made to the common rule published at 55 FR 6736 (2/26/90), and OMB's governmentwide guidance, amendments to OMB's governmentwide guidance, and OMB's clarification notices published at 54 FR 52306 (12/20/89), 61 FR 1412 (1/19/96), 55 FR 24540 (6/15/90) and 57 FR 1772 (1/15/92), respectively. In addition, the following restrictions shall apply:

a. Notwithstanding other provisions of this Circular, costs associated with the following activities are unallowable:

(1) Attempts to influence the outcomes of any Federal, State, or local election, referendum, initiative, or similar procedure, through in kind or cash contributions, endorsements, publicity, or similar activity;

(2) Establishing, administering, contributing to, or paying the expenses of a political party, campaign, political action committee, or other organization established for the purpose of influencing the outcomes of elections;

(3) Any attempt to influence (i) the introduction of Federal or State legislation, (ii) the enactment or modification of any pending Federal or State legislation through communication with any member or employee of the Congress or State legislature (including efforts to influence State or local officials to engage in similar lobbying activity, or (iii) any government official or employee in connection with a decision to sign or veto enrolled legislation;

(4) Any attempt to influence (i) the introduction of Federal or State legislation; or (ii) the enactment or modification of any pending Federal or State legislation by preparing, distributing, or using publicity or propaganda, or by urging members of the general public, or any segment thereof, to contribute to or participate in any mass demonstration, march, rally, fund raising drive, lobbying campaign or letter writing or telephone campaign; or

(5) Legislative liaison activities, including attendance at legislative sessions or committee hearings, gathering information regarding legislation, and analyzing the effect of legislation, when such activities are carried on in support of or in knowing preparation for an effort to engage in unallowable lobbying.

b. The following activities are excepted from the coverage of subsection a:

(1) Technical and factual presentations on topics directly related to the performance of a grant, contract, or other agreement (through hearing testimony, statements, or letters to the Congress or a State legislature, or subdivision, member, or cognizant staff member thereof), in response to a documented request (including a *Congressional Record* notice requesting testimony or statements for the record at a regularly scheduled hearing) made by the recipient member, legislative body or subdivision, or a cognizant staff member thereof, provided such information is readily obtainable and can be readily put in deliverable form, and further provided that costs under this section for travel, lodging or meals are unallowable unless incurred to offer testimony at a regularly scheduled Congressional hearing pursuant to a written request for such presentation made by the Chairman or Ranking Minority Member of the Committee or Subcommittee conducting such hearings;

(2) Any lobbying made unallowable by subsection a.(3) to influence State legislation in order to directly reduce the cost, or to avoid material impairment of the institution's authority to perform the grant, contract, or other agreement; or

(3) Any activity specifically authorized by statute to be undertaken with funds from the grant, contract, or other agreement.

c. When an institution seeks reimbursement for F&A costs, total lobbying costs shall be separately identified in the F&A cost rate proposal, and thereafter treated as other unallowable activity costs in accordance with the procedures of Section B.1.d.

d. Institutions shall submit as part of their annual F&A cost rate proposal a certification that the requirements and standards of this section have been complied with.

e. Institutions shall maintain adequate records to demonstrate that the determination of costs as being allowable or unallowable pursuant to this section complies with the requirements of this Circular.

f. Time logs, calendars, or similar records shall not be required to be created for purposes of complying with this section during any particular calendar month when: (1) the employee engages in lobbying (as defined in subsections a and b) 25 percent or less of the employee's compensated hours of employment during that calendar month, and (2) within the preceding five-year period, the institution has not materially misstated allowable or unallowable costs of any nature, including legislative lobbying costs. When conditions (1) and (2) are met, institutions are not required to establish records to support the allowability of claimed costs in addition to records already required or maintained. Also, when conditions (1) and (2) are met, the absence of time logs, calendars, or similar records will not serve as a basis for disallowing costs by contesting estimates of lobbying time spent by employees during a calendar month.

g. Agencies shall establish procedures for resolving in advance, in consultation with OMB, any significant questions or disagreements concerning the interpretation or application of this section. Any such advance resolutions shall be binding in any subsequent settlements, audits, or investigations with respect to that grant or contract for purposes of interpretation of this Circular, provided, however, that this shall not be construed to prevent a contractor or grantee from contesting the lawfulness of such a determination.

25. *Losses on other sponsored agreements or contracts.* Any excess of costs over income under any other sponsored agreement or contract of any nature is unallowable. This includes, but is not limited to, the institution's contributed portion by reason of cost-sharing agreements or any under-recoveries through negotiation of flat amounts for F&A costs.

26. *Maintenance and repair costs.* Costs incurred for necessary maintenance, repair or upkeep of property (including Federal property unless otherwise provided for) which neither add to the permanent value of the property nor appreciably prolong its intended life but keep it in an efficient operating condition, are allowable.

27. *Material costs.* Costs incurred for purchased materials, supplies, and fabricated parts directly or indirectly related to the sponsored agreement, are allowable. Purchases made specifically for the sponsored agreement should be charged thereto at their actual prices after deducting all cash discounts, trade discounts, rebates, and allowances received by the institution. Withdrawals from general stores or stockrooms should be charged at their cost under any recognized method of pricing stores withdrawals conforming to sound accounting practices consistently followed by the institution. Incoming transportation charges are a proper part of material cost. Direct material cost should include only the materials and supplies actually used for the performance of the sponsored agreement, and due credit should be given for any excess materials retained, or returned to vendors. Due credit should be given for all proceeds or value received for any scrap resulting from work under the sponsored agreement. Where federally-donated or furnished materials is used in performing the sponsored agreement, such material will be used without charge.

28. *Memberships, subscriptions and professional activity costs.*

a. Costs of the institution's membership in business, technical, and professional organizations are allowable.

b. Costs of the institution's subscriptions to business, professional, and technical periodicals are allowable.

c. Costs of meetings and conferences, when the primary purpose is the dissemination of technical information, are allowable. This includes costs of meals, transportation, rental of facilities, and other items incidental to such meetings or conferences.

d. Costs of membership in any civic or community organization are unallowable.

e. Costs of membership in any country club or social or dining club or organization are unallowable.

29. *Patent costs.* Costs of preparing disclosures, reports, and other documents required by the sponsored agreement, and of searching the art to the extent necessary to make such invention disclosures, are allowable. In accordance with the clauses of the sponsored agreement relating to patents, costs of preparing documents and any other patent costs, in connection with the filing of a patent application where title is conveyed to the Federal Government, are allowable. (See also Section J.39.)

30. *Plant security costs.* Necessary expenses incurred to comply with security requirements, including wages, uniforms and equipment of personnel engaged in plant protection, are allowable.

31. *Preagreement costs.* Costs incurred prior to the effective date of the sponsored agreement, whether or not they would have been allowable thereunder if incurred after such date, are unallowable thereunder if incurred after such date, are unallowable unless approved by the sponsoring agency.

32. *Professional services costs.* a. Costs of professional and consulting services, including legal services rendered by the members of a particular profession who are not employees of the institution, are allowable, subject to subsection b and Section J.11 when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the Federal Government. Retainer fees, to be allowable, must be reasonably supported by evidence of services rendered.

b. Factors to be considered in determining the allowability of costs in a particular case

include (1) the past pattern of such costs, particularly in the years prior to the award of sponsored agreements; (2) the impact of sponsored agreements on the institution's total activity; (3) the nature and scope of managerial services expected of the institution's own organizations; and (4) whether the proportion of Federal Government work to the institution's total activity is such as to influence the institution in favor of incurring the cost, particularly where the services rendered are not of a continuing nature and have little relationship to work under sponsored agreements.

33. *Profits and losses on disposition of plant equipment or other capital assets.* Profits or losses arising from the sale or exchange of plant, facilities, equipment or other capital assets, including sale or exchange of either short-term or long-term investments, shall not be considered in computing the costs of sponsored agreements except for pension plans as provided in Section J.8.f. When assets acquired with Federal funds, in part or wholly, are disposed of, the distribution of the proceeds shall be made in accordance with Circular A–110.

34. *Proposal costs.* Proposal costs are the costs of preparing bids or proposals on potential federally and non-federally-sponsored agreements or projects, including the development of data necessary to support the institution's bids or proposals. Proposal costs of the current accounting period of both successful and unsuccessful bids and proposals normally should be treated as F&A costs and allocated currently to all activities of the institution, and no proposal costs of past accounting periods will be allocable to the current period. However, the institution's established practices may be to treat proposal costs by some other recognized method. Regardless of the method used, the results obtained may be accepted only if found to be reasonable and equitable.

35. *Rearrangement and alteration costs.* Costs incurred for ordinary or normal rearrangement and alteration of facilities are allowable. Special arrangement and alteration costs incurred specifically for the project are allowable when such work has been approved in advance by the sponsoring agency.

36. *Reconversion costs.* Costs incurred in the restoration or rehabilitation of the institution's facilities to approximately the same condition existing immediately prior to commencement of a sponsored agreement, fair wear and tear excepted, are allowable.

37. *Recruiting costs.* a. Subject to subsections b, c, and d, and provided that the size of the staff recruited and maintained is in keeping with workload requirements, costs of ''help wanted'' advertising, operating costs of an employment office necessary to secure and maintain an adequate staff, costs of operating an aptitude and educational testing program, travel costs of employees while engaged in recruiting personnel, travel costs of applicants for interviews for prospective employment, and relocation costs incurred incident to recruitment of new employees, are allowable to the extent that such costs are incurred pursuant to a well-managed recruitment program. Where the institution uses employment agencies, costs not in excess of standard commercial rates for such services are allowable.

b. In publications, costs of help wanted advertising that includes color, includes advertising material for other than recruitment purposes, or is excessive in size (taking into consideration recruitment purposes for which intended and normal institutional practices in this respect), are unallowable.

c. Costs of help wanted advertising, special emoluments, fringe benefits, and salary allowances incurred to attract professional personnel from other institutions that do not meet the test of reasonableness or do not conform with the established practices of the institution, are unallowable.

d. Where relocation costs incurred incident to recruitment of a new employee have been allowed either as an allocable direct or F&A cost, and the newly hired employee resigns for reasons within his control within 12 months after hire, the institution will be required to refund or credit such relocation costs to the Federal Government.

38. *Rental cost of buildings and equipment.* a. Rental costs of buildings or equipment are allowable to the extent that the decision to rent or lease is in accordance with Section C.3. Rental arrangements should be reviewed periodically to determine if circumstances have changed and other options are available.

b. Rental costs under ''sale and lease back'' arrangements are allowable only up to the amount that would be allowed if the institution continued to own the property.

c. Rental costs under ''less-than-arms-length'' leases are allowable only up to the amount that would be allowed if the institution owned the property. For this purpose, a less-than-arms-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other.

d. Where significant rental costs are incurred under leases which create a material equity in the leased property, they are allowable only up to the amount that would be allowed if the institution purchased the property on the date the lease agreement was executed. For this purpose, a material equity in the property exists when the lease:

(1) Is noncancelable or is cancelable only upon the occurrence of some remote contingency, and

(2) Has one or more of the following characteristics:

(a) Title to the property passes to the institution at some time during or after the lease period.

(b) The term of the lease corresponds substantially to the estimated useful life of the property (i.e., the period of economic usefulness to the legal owner of the property).

(c) The initial term is less than the useful life of the property and the institution has the option to renew the lease for the remaining useful life at substantially less than fair rental value.

(d) The property was acquired by the leaser to meet the special needs of the institution and will probably be usable only for that purpose and only by the institution.

(e) The institution has the right, during or at the expiration of the lease, to purchase the property at a price which at the inception of the lease appears to be substantially less than the probable fair market value at the time it is permitted to purchase the property (commonly called a lease with a bargain purchase option), except for any discount normally given to educational institutions.

39. *Royalties and other costs for use of patents.* Royalties on a patent or amortization of the cost of acquiring a patent or invention or rights thereto, necessary for the proper performance of the sponsored agreement and applicable to tasks or processes thereunder, are allowable unless the Federal Government has a license or the right to free use of the patent, the patent has been adjudicated to be invalid or has been administratively determined to be invalid, the patent is considered to be unenforceable, or the patent has expired.

40. *Sabbatical leave costs.* Costs of leave of absence by employees for performance of graduate work or sabbatical study, travel, or research are allowable provided the institution has a uniform policy on sabbatical leave for persons engaged in instruction and persons engaged in research. Such costs will be allocated on an equitable basis among all related activities of the institution. Where sabbatical leave is included in fringe benefits for which a cost is determined for assessment as a direct charge, the aggregate amount of such assessments applicable to all work of the institution during the base period must be reasonable in relation to the institution's actual experience under its sabbatical leave policy.

41. *Scholarships and student aid costs.* a. Costs of scholarships, fellowships, and other programs of student aid are allowable only when the purpose of the sponsored agreement is to provide training to selected participants and the charge is approved by the sponsoring agency. However, tuition remission and other forms of compensation paid as, or in lieu of, wages to students performing necessary work are allowable provided that (1) there is a bona fide employer-employee relationship between the student and the institution for the work performed, (2) the tuition or other payments are reasonable compensation for the work performed and are conditioned explicitly upon the performance of necessary work, and (3) it is the institution's practice to similarly compensate students in nonsponsored as well as sponsored activities.

b. Charges for tuition remission and other forms of compensation paid to students as, or in lieu of, salaries and wages shall be subject to the reporting requirements stipulated in Section J.8, and shall be treated as direct or F&A cost in accordance with the actual work being performed. Tuition remission may be charged on an average rate basis.

42. *Selling and marketing.* Costs of selling and marketing any products or services of the institution (unless allowed under Section J.1.c. or J.34) are unallowable.

43. *Severance pay.* a. Severance pay is compensation in addition to regular salary and wages which is paid by an institution to employees whose services are being terminated. Costs of severance pay are allowable only to the extent that such payments are required by law, by employer-

employee agreement, by established policy that constitutes in effect an implied agreement on the institution's part, or by circumstances of the particular employment.

b. Severance payments that are due to normal recurring turnover and which otherwise meet the conditions of subsection a may be allowed provided the actual costs of such severance payments are regarded as expenses applicable to the current fiscal year and are equitably distributed among the institution's activities during that period.

c. Severance payments that are due to abnormal or mass terminations are of such conjectural nature that allowability must be determined on a case-by-case basis. However, the Federal Government recognizes its obligation to participate, to the extent of its fair share, in any specific payment.

d. Costs incurred in excess of the institution's normal severance pay policy applicable to all persons employed by the institution upon termination of employment are unallowable.

44. *Specialized service facilities.* a. The costs of institutional services involving the use of highly complex or specialized facilities such as electronic computers, wind tunnels, and reactors are allowable, provided the charge for the service meets the conditions of subsections b through d.

b. The cost of each service normally shall consist of both its direct costs and its allocable share of F&A costs with deductions for appropriate income of Federal financing as described in Section C.5.

c. The cost of such institutional services when material in amount will be charged directly to users, including sponsored agreements based on actual use of the services and a schedule of rates that does not discriminate between federally and non-federally supported activities of the institution, including use by the institution for internal purposes. Charges for the use of specialized facilities should be designed to recover not more than the aggregate cost of the services over a long-term period agreed to by the institution and the cognizant Federal agency. Accordingly, it is not necessary that the rates charged for services be equal to the cost of providing those services during any one fiscal year as long as rates are reviewed periodically for consistency with the long-term plan and adjusted if necessary.

d. Where the costs incurred for such institutional services are not material, they may be allocated as F&A costs. Such arrangements must be agreed to by the institution and the cognizant Federal agency.

e. Where it is in the best interest of the Federal Government and the institution to establish alternative costing arrangements, such arrangements may be worked out with the cognizant Federal agency.

45. Student activity costs. Costs incurred for intramural activities, student publications, student clubs, and other student activities, are unallowable, unless specifically provided for in the sponsored agreements.

46. *Taxes.* a. In general, taxes which the institution is required to pay and which are paid or accrued in accordance with generally accepted accounting principles are allowable. Payments made to local governments in lieu of taxes which are commensurate with the local government services received are allowable, except for (1) taxes from which exemptions are available to the institution directly or which are available to the institution based on an exemption afforded the Federal Government, and in the latter case when the sponsoring agency makes available the necessary exemption certificates; and (2) special assessments on land which represent capital improvements.

b. Any refund of taxes, interest, or penalties, and any payment to the institution of interest thereon, attributable to taxes, interest, or penalties which were allowed as sponsored agreement costs, will be credited or paid to the Federal Government in the manner directed by the Federal Government. However, any interest actually paid or credited to an institution incident to a refund of tax, interest, and penalty will be paid or credited to the Federal Government only to the extent that such interest accrued over the period during which the institution has been reimbursed by the Federal Government for the taxes, interest, and penalties.

47. *Transportation costs.* Costs incurred for freight, express, cartage, postage, and other transportation services relating either to goods purchased, in process, or delivered, are allowable. When such costs can readily be identified with the items involved, they may be charged directly as transportation costs or added to the cost of such items. Where identification with the materials received cannot readily be made, inbound transportation cost may be charged to the appropriate F&A cost accounts if the institution follows a consistent, equitable procedure in this respect. Outbound freight, if reimbursable under the terms of the sponsored agreement, should be treated as a direct cost.

48. *Travel costs.* a. *General.* Travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the institution. Such costs may be charged on an actual basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip and not to selected days of the trip, results in reasonable charges, and is in accordance with the institution's travel policy and practices consistently applied to all institutional travel activities.

b. *Lodging and subsistence.* Costs incurred by employees and officers for travel, including costs of lodging, other subsistence, and incidental expenses, shall be considered reasonable and allowable only to the extent such costs do not exceed charges normally allowed by the institution in its regular operations as a result of an institutional policy and the amounts claimed under sponsored agreements represent reasonable and allocable costs. In the absence of an acceptable institutional policy regarding travel costs, the rates and amounts established under subchapter I of Chapter 57 of Title 5, United States Code, or by the Administrator of General Services, or the President (or his or her designee) pursuant to any provisions of such subchapter shall apply to sponsored agreements (41 U.S.C. 420).

c. *Commercial air travel.* Airfare costs in excess of the lowest available commercial discount airfare, Federal Government contract airfare (where authorized and available), or customary standard (coach or equivalent) airfare, are unallowable except when such accommodations would: require circuitous routing; require travel during unreasonable hours; excessively prolong travel; greatly increase the duration of the flight; result in increased costs that would offset transportation savings; or offer accommodations not reasonably adequate for the medical needs of the traveler. Where an institution can reasonably demonstrate to the sponsoring agency either the nonavailability of discount airfare or Federal contract airfare for individual trips or, on an overall basis, that it is the institution's practice to make routine use of such airfare, specific determinations of nonavailability will generally not be questioned by the Federal Government, unless a pattern of avoidance is detected. However, in order for airfare costs in excess of the customary standard commercial airfare to be allowable, e.g., use of first-class airfare, the institution must justify and document on a case-by-case basis the applicable condition(s) set forth above.

d. *Air travel by other than commercial carrier.* ''Cost of travel by institution-owned, -leased, or -chartered aircraft,'' as used in this subsection, includes the cost of lease, charter, operation (including personnel costs), maintenance, depreciation, insurance, and other related costs. Costs of travel via institution-owned, -leased, or -chartered aircraft shall not exceed the cost of allowable commercial air travel, as provided for in subsection c.

49. *Termination costs applicable to sponsored agreement.* a. Termination of sponsored agreements generally gives rise to the incurrence of costs or to the need for special treatment of costs, which would not have arisen had the agreement not been terminated. Items peculiar to termination are set forth below. They are to be used in conjunction with all other provisions of this Circular in the case of termination.

b. The cost of common items of material reasonably usable on the institution's other work will not be allowable unless the institution submits evidence that it could not retain such items at cost without sustaining a loss. In deciding whether such items are reasonably usable on other work of the institution, consideration should be given to the institution's plans and orders for current and scheduled work. Contemporaneous purchases of common items by the institution will be regarded as evidence that such items are reasonably usable on the institution's other work. Any acceptance of common items as allowable to the terminated portion of the agreement should be limited to the extent that the quantities of such items on hand, in transit, and on order are in excess of the reasonable quantitative requirements of other work.

c. If in a particular case, despite all reasonable efforts by the institution, certain costs cannot be discontinued immediately after the effective date of the termination,

such costs are generally allowable within the limitations set forth in this Circular, except that any such costs continuing after termination due to the negligent or willful failure of the institution to discontinue such costs will be considered unacceptable.

d. Loss of useful value of special tooling, and special machinery and equipment is generally allowable, provided (1) such special tooling, machinery, or equipment is not reasonably capable of use in the other work of the institution; (2) the interest of the Federal Government is protected by transfer of title or by other means deemed appropriate by the contracting officer or equivalent; and (3) the loss of useful value as to any one terminated agreement is limited to that portion of the acquisition cost which bears the same ratio to the total acquisition cost as the terminated portion of the agreement bears to the entire terminated agreement and other Federal agreements for which the special tooling, special machinery, or equipment was acquired.

e. Rental costs under unexpired leases are generally allowable where clearly shown to have been reasonably necessary for the performance of the terminated agreement, less the residual value of such leases, if (1) the amount of such rental claimed does not exceed the reasonable use value of the property leased for the period of the agreement and such further period as may be reasonable; and (2) the institution makes all reasonable efforts to terminate, assign, settle, or otherwise reduce the cost of such lease. There also may be included the cost of alterations of such leased property, provided such alternations were necessary for the performance of the agreement, and of reasonable restoration required by the provisions of the lease.

f. Settlement expenses including the following are generally allowable: (1) accounting, legal, clerical, and similar costs reasonably necessary for the preparation and presentation to contracting officers or equivalent of settlement claims and supporting data with respect to the terminated portion of the agreement, and the termination and settlement of subagreements; and (2) reasonable costs for the storage, transportation, protection, and disposition of property provided by the Federal Government or acquired or produced by the institution for the agreement, except when the institution is reimbursed for disposals at a predetermined amount in accordance with the provisions of Circular A–110.

g. Claims under subagreements, including the allocable portion of claims which are common to the agreement and to other work of the institution, are generally allowable.

50. *Trustees.* Travel and subsistence costs of trustees, regardless of the purpose of the trip, are unallowable.

K. Certification of Charges

1. To assure that expenditures for sponsored agreements are proper and in accordance with the agreement documents and approved project budgets, the annual and/or final fiscal reports or vouchers requesting payment under the agreements will include a certification, signed by an authorized official of the university, which reads essentially as follows: ''I certify that all expenditures reported (or payment requested) are for appropriate purposes and in accordance with the provisions of the application and award documents.''

2. *Certification of F&A costs.* a. *Policy.* (1) No proposal to establish F&A cost rates shall be acceptable unless such costs have been certified by the educational institution using the Certificate of F&A Costs set forth in subsection b. The certificate must be signed on behalf of the institution by an individual at a level no lower than vice president or chief financial officer of the institution that submits the proposal.

(2) No F&A cost rate shall be binding upon the Federal Government if the most recent required proposal from the institution has not been certified. Where it is necessary to establish F&A cost rates, and the institution has not submitted a certified proposal for establishing such rates in accordance with the requirements of this section, the Federal Government shall unilaterally establish such rates. Such rates may be based upon audited historical data or such other data that have been furnished to the cognizant Federal agency and for which it can be demonstrated that all unallowable costs have been excluded. When F&A cost rates are unilaterally established by the Federal Government because of failure of the institution to submit a certified proposal for establishing such rates in accordance with this section, the rates established will be set at a level low enough to ensure that potentially unallowable costs will not be reimbursed.

b. *Certificate.* The certificate required by this section shall be in the following form:

Certificate of F&A Costs

This is to certify that to the best of my knowledge and belief:

(1) I have reviewed the F&A cost proposal submitted herewith;

(2) All costs included in this proposal [identify date] to establish billing or final F&A costs rate for [identify period covered by rate] are allowable in accordance with the requirements of the Federal agreement(s) to which they apply and with the cost principles applicable to those agreements.

(3) This proposal does not include any costs which are unallowable under applicable cost principles such as (without limitation): advertising and public relations costs, contributions and donations, entertainment costs, fines and penalties, lobbying costs, and defense of fraud proceedings; and

(4) All costs included in this proposal are properly allocable to Federal agreements on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements.

For educational institutions that are required to file a DS–2 in accordance with Section C.14, the following statement shall be added to the ''Certificate of F&A Costs'':

(5) The rate proposal is prepared using the same cost accounting practices that are disclosed in the DS–2, including its amendments and revisions, filed with and approved by the cognizant agency.

I declare under penalty of perjury that the foregoing is true and correct.

Institution: _____
Signature: _____
Name of Official: _____
Title: _____
Date of Execution: _____

Exhibit A—List of Colleges and Universities; Subject to Section J.12.f of Circular A–21

1. Johns Hopkins University
2. Stanford University
3. Massachusetts Institute of Technology
4. University of Washington
5. University of California-Los Angeles
6. University of Michigan
7. University of California-San Diego
8. University of California-San Francisco
9. University of Wisconsin-Madison
10. Columbia University
11. Yale University
12. Harvard University
13. Cornell University
14. University of Pennsylvania
15. University of California-Berkeley
16. University of Minnesota
17. Pennsylvania State University
18. University of Southern California
19. Duke University
20. Washington University
21. University of Colorado
22. University of Illinois-Urbana
23. University of Rochester
24. University of North Carolina-Chapel Hill
25. University of Pittsburgh
26. University of Chicago
27. University of Texas-Austin
28. University of Arizona
29. New York University
30. University of Iowa
31. Ohio State University
32. University of Alabama-Birmingham
33. Case Western Reserve
34. Baylor College of Medicine
35. California Institute of Technology
36. Yeshiva University
37. University of Massachusetts
38. Vanderbilt University
39. Purdue University
40. University of Utah
41. Georgia Institute of Technology
42. University of Maryland-College Park
43. University of Miami
44. University of California-Davis
45. Boston University
46. University of Florida
47. Carnegie-Mellon University
48. Northwestern University
49. Indiana University
50. Michigan State University
51. University of Virginia
52. University of Texas-SW Medical Center
53. University of California-Irvine
54. Princeton University
55. Tulane University of Louisiana
56. Emory University
57. University of Georgia
58. Texas A&M University-all campuses
59. New Mexico State University
60. North Carolina State University-Raleigh
61. University of Illinois-Chicago
62. Utah State University
63. Virginia Commonwealth University
64. Oregon State University
65. SUNY-Stony Brook
66. University of Cincinnati

67. CUNY-Mount Sinai School of Medicine
68. University of Connecticut
69. Louisiana State University
70. Tufts University
71. University of California-Santa Barbara
72. University of Hawaii-Manoa
73. Rutgers State University of New Jersey
74. Colorado State University
75. Rockefeller University
76. University of Maryland-Baltimore
77. Virginia Polytechnic Institute & State University
78. SUNY-Buffalo
79. Brown University
80. University of Medicine & Dentistry of New Jersey
81. University of Texas-Health Science Center San Antonio
82. University of Vermont
83. University of Texas-Health Science Center Houston
84. Florida State University
85. University of Texas-MD Anderson Cancer Center
86. University of Kentucky
87. Wake Forest University
88. Wayne State University
89. Iowa State University of Science & Technology
90. University of New Mexico
91. Georgetown University
92. Dartmouth College
93. University of Kansas
94. Oregon Health Sciences University
95. University of Texas-Medical Branch-Galveston
96. University of Missouri-Columbia
97. Temple University
98. George Washington University
99. University of Dayton

Appendix A—Part 99005—Cost Accounting Standards for Educational Institutions

CAS 9905.501—Consistency in Estimating, Accumulating and Reporting Costs by Educational Institutions

Purpose

The purpose of this standard is to ensure that each educational institution's practices used in estimating costs for a proposal are consistent with cost accounting practices used by the educational institution in accumulating and reporting costs. Consistency in the application of cost accounting practices is necessary to enhance the likelihood that comparable transactions are treated alike. With respect to individual sponsored agreements, the consistent application of cost accounting practices will facilitate the preparation of reliable cost estimates used in pricing a proposal and their comparison with the costs of performance of the resulting sponsored agreement. Such comparisons provide one important basis for financial control over costs during sponsored agreement performance and aid in establishing accountability for costs in the manner agreed to by both parties at the time of agreement. The comparisons also provide an improved basis for evaluating estimating capabilities.

Definitions

(a) The following are definitions of terms which are prominent in this standard.

(1) *Accumulating costs* means the collecting of cost data in an organized manner, such as through a system of accounts.

(2) *Actual cost* means an amount determined on the basis of cost incurred (as distinguished from forecasted cost), including standard cost properly adjusted for applicable variance.

(3) *Estimating costs* means the process of forecasting a future result in terms of cost, based upon information available at the time.

(4) *Indirect cost pool* means a grouping of incurred costs identified with two or more objectives but not identified specifically with any final cost objective.

(5) *Pricing* means the process of establishing the amount or amounts to be paid in return for goods or services.

(6) *Proposal* means any offer or other submission used as a basis for pricing a sponsored agreement, sponsored agreement modification or termination settlement or for securing payments thereunder.

(7) *Reporting costs* means the providing of cost information to others.

Fundamental Requirement

An educational institution's practices used in estimating costs in pricing a proposal shall be consistent with the educational institution's cost accounting practices used in accumulating and reporting costs.

An educational institution's cost accounting practices used in accumulating and reporting actual costs for a sponsored agreement shall be consistent with the educational institution's practices used in estimating costs in the related proposal or application.

The grouping of homogeneous costs in estimates prepared for proposal purposes shall not *per se* be deemed an inconsistent application of cost accounting practices of this paragraph when such costs are accumulated in reported in greater detail on an actual costs basis during performance of the sponsored agreement.

Techniques for Application

(a) The standard allows grouping of homogeneous costs in order to cover those cases where it is not practicable to estimate sponsored agreement costs by individual cost element. However, costs estimated for proposal purposes shall be presented in such a manner and in such detail that any significant cost can be compared with the actual cost accumulated and reported therefor. In any event, the cost accounting practices used in estimating costs in pricing a proposal and in accumulating and reporting costs on the resulting sponsored agreement shall be consistent with respect to:

(1) The classification of elements of cost as direct or indirect; (2) the indirect cost pools to which each element of cost is charged or proposed to be charged; and (3) the methods of allocating indirect costs to the sponsored agreement.

(b) Adherence to the requirement of this standard shall be determined as of the date of award of the sponsored agreement, unless the sponsored agreement has submitted cost or pricing data pursuant to 10 U.S.C. 2306(a) or 41 U.S.C. 254(d) (Pub. L. 87–653), in which case adherence to the requirement of this standard shall be determined as of the date of final agreement on price, as shown on the signed certificate of current cost or pricing data. Notwithstanding 9905.501–40(b), changes in established cost accounting practices during sponsored agreement performance may be made in accordance with Part 9903 (48 CFR 9903).

(b) The standard does not prescribe the amount of detail required in accumulating and reporting costs. The basic requirement which must be met, however, is that for any significant amount of estimated cost, the sponsored agreement must be able to accumulate and report actual cost at a level which permits sufficient and meaningful comparison with its estimates. The amount of detail required may vary considerably depending on how the proposed costs were estimated, the data presented in justification or lack thereof, and the significance of each situation. Accordingly, it is neither appropriate nor practical to prescribe a single set of accounting practices which would be consistent in all situations with the practices of estimating costs. Therefore, the amount of accounting and statistical detail to be required and maintained in accounting for estimated costs has been and continues to be a matter to be decided by Government procurement authorities on the basis of the individual facts and circumstances.

CAS 9905.502—Consistency in Allocating Costs Incurred for the Same Purpose by Educational Institutions

Purpose

The purpose of this standard is to require that each type of cost is allocated only once and on only one basis to any sponsored agreement or other cost objective. The criteria for determining the allocation of costs to a sponsored agreement or other cost objective should be the same for all similar objectives. Adherence to these cost accounting concepts is necessary to guard against the overcharging of some cost objectives and to prevent double counting. Double counting occurs most commonly when cost items are allocated directly to a cost objective without eliminating like cost items from indirect cost pools which are allocated to that cost objective.

Definitions

(a) The following are definitions of terms which are prominent in this standard.

(1) *Allocate* means to assign an item of cost, or a group of items of cost, to one or more cost objectives. This term includes both direct assignment of cost and the reassignment of a share from an indirect cost pool.

(2) *Cost objective* means a function, organizational subdivision, sponsored agreement, or other work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs, capitalized projects, etc.

(3) *Direct cost* means any cost which is identified specifically with a particular final cost objective. Direct costs are not limited to items which are incorporated in the end product as material or labor. Costs identified specifically with a sponsored agreement are

direct costs of that sponsored agreement. All costs identified specifically with other final cost objectives of the educational institution are direct costs of those cost objectives.

(4) *Final cost objective* means a cost objective which has allocated to it both direct and indirect costs, and in the educational institution's accumulation system, is one of the final accumulation points.

(5) *Indirect cost* means any cost not directly identified with a single final cost objective, but identified with two or more final cost objectives or with at least one intermediate cost objective.

(6) *Indirect cost pool* means a grouping of incurred costs identified with two or more cost objectives but not identified with any final cost objective.

(7) *Intermediate cost objective* means a cost objective that is used to accumulate indirect costs or service center costs that are subsequently allocated to one or more indirect cost pools and/or final cost objectives.

Fundamental Requirement

All costs incurred for the same purpose, in like circumstances, are either direct costs only or indirect costs only with respect to final cost objectives. No final cost objective shall have allocated to it as an indirect cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included as a direct cost of that or any other final cost objective. Further, no final cost objective shall have allocated to it as a direct cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included in any indirect cost pool to be allocated to that or any other final cost objective.

Techniques for Application

(a) The Fundamental Requirement is stated in terms of cost incurred and is equally applicable to estimates of costs to be incurred as used in sponsored agreement proposals.

(b) The Disclosure Statement to be submitted by the educational institution will require that the educational institution set forth its cost accounting practices with regard to the distinction between direct and indirect costs. In addition, for those types of cost which are sometimes accounted for as direct and sometimes accounted for as indirect, the educational institution will set forth in its Disclosure Statement the specific criteria and circumstances for making such distinctions. In essence, the Disclosure Statement submitted by the educational institution, by distinguishing between direct and indirect costs, and by describing the criteria and circumstances for allocating those items which are sometimes direct and sometimes indirect, will be determinative as to whether or not costs are incurred for the same purpose. Disclosure Statement as used herein refers to the statement required to be submitted by educational institutions in Section C.14.

(c) In the event that an educational institution has not submitted a Disclosure Statement, the determination of whether specific costs are directly allocable to sponsored agreements shall be based upon the educational institution's cost accounting practices used at the time of sponsored agreement proposal.

(d) Whenever costs which serve the same purpose cannot equitably be indirectly allocated to one or more final cost objectives in accordance with the educational institution's disclosed accounting practices, the educational institution may either (1) use a method for reassigning all such costs which would provide an equitable distribution to all final cost objectives, or (2) directly assign all such costs to final cost objectives with which they are specifically identified. In the event the educational institution decides to make a change for either purpose, the Disclosure Statement shall be amended to reflect the revised accounting practices involved.

(e) Any direct cost of minor dollar amount may be treated as an indirect cost for reasons of practicality where the accounting treatment for such cost is consistently applied to all final cost objectives, provided that such treatment produces results which are substantially the same as the results which would have been obtained if such cost had been treated as a direct cost.

Illustrations

(a) Illustrations of costs which are incurred for the same purpose:

(1) An educational institution normally allocates all travel as an indirect cost and previously disclosed this accounting practice to the Government. For purposes of a new proposal, the educational institution intends to allocate the travel costs of personnel whose time is accounted for as direct labor directly to the sponsored agreement. Since travel costs of personnel whose time is accounted for as direct labor working on other sponsored agreements are costs which are incurred for the same purpose, these costs may no longer be included within indirect cost pools for purposes of allocation to any covered Government sponsored agreement. The educational institution's Disclosure Statement must be amended for the proposed changes in accounting practices.

(2) An educational institution normally allocates purchasing activity costs indirectly and allocates this cost to instruction and research on the basis of modified total costs. A proposal for a new sponsored agreement requires a disproportionate amount of subcontract administration to be performed by the purchasing activity. The educational institution prefers to continue to allocate purchasing activity costs indirectly. In order to equitably allocate the total purchasing activity costs, the educational institution may use a method for allocating all such costs which would provide an equitable distribution to all applicable indirect cost pools. For example, the educational institution may use the number of transactions processed rather than its former allocation base of modified total costs. The educational institution's Disclosure Statement must be amended for the proposed changes in accounting practices.

(b) Illustrations of costs which are not incurred for the same purpose:

(1) An educational institution normally allocates special test equipment costs directly to sponsored agreements. The costs of general purpose test equipment are normally included in the indirect cost pool which is allocated to sponsored agreements. Both of these accounting practices were previously disclosed to the Government. Since both types of costs involved were not incurred for the same purpose in accordance with the criteria set forth in the educational institution's Disclosure Statement, the allocation of general purpose test equipment costs from the indirect cost pool to the sponsored agreement, in addition to the directly allocated special test equipment costs, is not considered a violation of the standard.

(2) An educational institution proposes to perform a sponsored agreement which will require three firemen on 24-hour duty at a fixed-post to provide protection against damage to highly inflammable materials used on the sponsored agreement. The educational institution presently has a firefighting force of 10 employees for general protection of its facilities. The educational institution's costs for these latter firemen are treated as indirect costs and allocated to all sponsored agreements; however, it wants to allocate the three fixed-post firemen directly to the particular sponsored agreement requiring them and also allocate a portion of the cost of the general firefighting force to the same sponsored agreement. The educational institution may do so but only on condition that its disclosed practices indicate that the costs of the separate classes of firemen serve different purposes and that it is the educational institution's practice to allocate the general firefighting force indirectly and to allocate fixed-post firemen directly.

Interpretation

(a) Consistency in Allocating Costs Incurred for the Same Purpose by Educational Institutions, provides, in this standard, that ''* * * no final cost objective shall have allocated to it as a direct cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included in any indirect cost pool to be allocated to that or any other final cost objective.''

(b) This interpretation deals with the way this standard applies to the treatment of costs incurred in preparing, submitting, and supporting proposals. In essence, it is addressed to whether or not, under the standard, all such costs are incurred for the same purpose, in like circumstances.

(c) Under this standard, costs incurred in preparing, submitting, and supporting proposals pursuant to a specific requirement of an existing sponsored agreement are considered to have been incurred in different circumstances from the circumstances under which costs are incurred in preparing proposals which do not result from such specific requirement. The circumstances are different because the costs of preparing proposals specifically required by the provisions of an existing sponsored agreement relate only to that sponsored agreement while other proposal costs relate to all work of the educational institution.

(d) This interpretation does not preclude the allocation, as indirect costs, of costs incurred in preparing all proposals. The cost accounting practices used by the educational institution, however, must be followed consistently and the method used to reallocate such costs, of course, must provide

an equitable distribution to all final cost objectives.

CAS 9905.505—Accounting for Unallowable Costs—Educational Institutions

Purpose

(a) The purpose of this standard is to facilitate the negotiation, audit, administration and settlement of sponsored agreements by establishing guidelines covering (1) identification of costs specifically described as unallowable, at the time such costs first become defined or authoritatively designated as unallowable, and (2) the cost accounting treatment to be accorded such identified unallowable costs in order to promote the consistent application of sound cost accounting principles covering all incurred costs. The standard is predicated on the proposition that costs incurred in carrying on the activities of an educational institution—regardless of the allowability of such costs under Government sponsored agreements—are allocable to the cost objectives with which they are identified on the basis of their beneficial or causal relationships.

(b) This standard does not govern the allowability of costs. This is a function of the appropriate procurement or reviewing authority.

Definitions

(a) The following are definitions of terms which are prominent in this standard.

(1) *Directly associated cost* means any cost which is generated solely as a result of the incurrence of another cost, and which would not have been incurred had the other cost not been incurred.

(2) *Expressly unallowable cost* means a particular item or type of cost which, under the express provisions of an applicable law, regulation, or sponsored agreement, is specifically named and stated to be unallowable.

(3) *Indirect cost* means any cost not directly identified with a single final cost objective, but identified with two or more final cost objectives or with at least one intermediate cost objective.

(4) *Unallowable cost* means any cost which, under the provisions of any pertinent law, regulation, or sponsored agreement, cannot be included in prices, cost reimbursements, or settlements under a Government sponsored agreement to which it is allocable.

Fundamental Requirement

(a) Costs expressly unallowable or mutually agreed to be unallowable, including costs mutually agreed to be unallowable directly associated costs, shall be identified and excluded from any billing, claim, application, or proposal applicable to a Government Sponsored Agreement.

(b) Costs which specifically become designated as unallowable as a result of a written decision furnished by a Federal official pursuant to sponsored agreement disputes procedures shall be identified if included in or used in the computation of any billing, claim, or proposal applicable to a sponsored agreement. This identification requirement applies also to any costs incurred for the same purpose under like circumstances as the costs specifically identified as unallowable under either this paragraph or paragraph (a) of this subsection.

(c) Costs which, in a Federal official's written decision furnished pursuant to disputes procedures, are designated as unallowable directly associated costs of unallowable costs covered by either paragraph (a) or (b) of this subsection shall be accorded the identification required by paragraph b. of this subsection.

(d) The costs of any work project not contractually authorized, whether or not related to performance of a proposed or existing contract, shall be accounted for, to the extent appropriate, in a manner which permits ready separation from the costs of authorized work projects.

(e) All unallowable costs covered by paragraphs (a) through (d) of this subsection shall be subject to the same cost accounting principles governing cost allocability as allowable costs. In circumstances where these unallowable costs normally would be part of a regular indirect-cost allocation base or bases, they shall remain in such base or bases. Where a directly associated cost is part of a category of costs normally included in an indirect-cost pool that will be allocated over a base containing the unallowable cost with which it is associated, such a directly associated cost shall be retained in the indirect-cost pool and be allocated through the regular allocation process.

(f) Where the total of the allocable and otherwise allowable costs exceeds a limitation-of-cost or ceiling-price provision in a sponsored agreement, full direct and indirect cost allocation shall be made to the cost objective, in accordance with established cost accounting practices and Standards which regularly govern a given entity's allocations to Government sponsored agreement cost objectives. In any determination of unallowable cost overrun, the amount thereof shall be identified in terms of the excess of allowable costs over the ceiling amount, rather than through specific identification of particular cost items or cost elements.

Techniques for Application

(a) The detail and depth of records required as backup support for proposals, billings, or claims shall be that which is adequate to establish and maintain visibility of identified unallowable costs (including directly associated costs), their accounting status in terms of their allocability to sponsored agreement cost objectives, and the cost accounting treatment which has been accorded such costs. Adherence to this cost accounting principle does not require that allocation of unallowable costs to final cost objectives be made in the detailed cost accounting records. It does require that unallowable costs be given appropriate consideration in any cost accounting determinations governing the content of allocation bases used for distributing indirect costs to cost objectives. Unallowable costs involved in the determination of rates used for standard costs, or for indirect-cost bidding or billing, need be identified only at the time rates are proposed, established, revised or adjusted.

(b) The visibility requirement of paragraph (a) of this subsection, may be satisfied by any form of cost identification which is adequate for purposes of sponsored agreement cost determination and verification. The standard does not require such cost identification for purposes which are not relevant to the determination of Government sponsored agreement cost. Thus, to provide visibility for incurred costs, acceptable alternative practices would include (1) the segregation of unallowable costs in separate accounts maintained for this purpose in the regular books of account, (2) the development and maintenance of separate accounting records or workpapers, or (3) the use of any less formal cost accounting techniques which establishes and maintains adequate cost identification to permit audit verification of the accounting recognition given unallowable costs. Educational institutions may satisfy the visibility requirements for estimated costs either (1) by designation and description (in backup data, workpapers, etc.) of the amounts and types of any unallowable costs which have specifically been identified and recognized in making the estimates, or (2) by description of any other estimating technique employed to provide appropriate recognition of any unallowable costs pertinent to the estimates.

(c) Specific identification of unallowable costs is not required in circumstances where, based upon considerations of materiality, the Government and the educational institution reach agreement on an alternate method that satisfies the purpose of the standard.

Illustrations

(a) An auditor recommends disallowance of certain direct labor and direct material costs, for which a billing has been submitted under a sponsored agreement, on the basis that these particular costs were not required for performance and were not authorized by the sponsored agreement. The Federal officer issues a written decision which supports the auditor's position that the questioned costs are unallowable. Following receipt of the Federal officer's decision, the educational institution must clearly identify the disallowed direct labor and direct material costs in the educational institution's accounting records and reports covering any subsequent submission which includes such costs. Also, if the educational institution's base for allocation of any indirect cost pool relevant to the subject sponsored agreement consists of direct labor, direct material, total prime cost, total cost input, etc., the educational institution must include the disallowed direct labor and material costs in its allocation base for such pool. Had the Federal officer's decision been against the auditor, the educational institution would not, of course, have been required to account separately for the costs questioned by the auditor.

(b) An educational institution incurs, and separately identifies, as a part of a service center or expense pool, certain costs which are expressly unallowable under the existing and currently effective regulations. If the costs of the service center or indirect expense pool are regularly a part of the educational institution's base for allocation of general administration and general expenses

(GA&GE) or other indirect expenses, the educational institution must allocate the GA&GE or other indirect expenses to sponsored agreements and other final cost objectives by means of a base which includes the identified unallowable indirect costs.

(c) An auditor recommends disallowance of certain indirect costs. The educational institution claims that the costs in question are allowable under the provisions of Office Of Management and Budget Circular A–21, Cost Principles For Educational Institutions; the auditor disagrees. The issue is referred to the Federal officer for resolution pursuant to the sponsored agreement disputes clause. The Federal officer issues a written decision supporting the auditor's position that the total costs questioned are unallowable under the Circular. Following receipt of the Federal officer's decision, the educational institution must identify the disallowed costs and specific other costs incurred for the same purpose in like circumstances in any subsequent estimating, cost accumulation or reporting for Government sponsored agreements, in which such costs are included. If the Federal officer's decision had supported the educational institution's contention, the costs questioned by the auditor would have been allowable and the educational institution would not have been required to provide special identification.

(d) An educational institution incurred certain unallowable costs that were charged indirectly as general administration and general expenses (GA&GE). In the educational institution's proposals for final indirect cost rates to be applied in determining allowable sponsored agreement costs, the educational institution identified and excluded the expressly unallowable costs. In addition, during the course of negotiation of indirect cost rates to be used for bidding and billing purposes, the educational institution agreed to classify as unallowable cost, various directly associated costs of the identifiable unallowable costs. On the basis of negotiations and agreements between the educational institution and the Federal officer's authorized representatives, indirect cost rates were established, based on the net balance of allowable GA&GE. Application of the rates negotiated to proposals, and to billings, for covered sponsored agreements constitutes compliance with the standard.

(e) An employee, whose salary, travel, and subsistence expenses are charged regularly to the general administration and general expenses (GA&GE) pool, takes several business associates on what is clearly a business entertainment trip. The entertainment costs of such trips is expressly unallowable because it constitutes entertainment expense prohibited by OMB Circular A–21, and is separately identified by the educational institution. The educational institution does not regularly include its GA&GE in any indirect-expense allocation base. In these circumstances, the employee's travel and subsistence expenses would be directly associated costs for identification with the unallowable entertainment expense. However, unless this type of activity constituted a significant part of the employee's regular duties and responsibilities on which his salary was based, no part of the employee's salary would be required to be identified as a directly associated cost of the unallowable entertainment expense.

CAS 9905.506—Cost Accounting Period —Educational Institutions

Purpose

The purpose of this standard is to provide criteria for the selection of the time periods to be used as cost accounting periods for sponsored agreement cost estimating, accumulating, and reporting. This standard will reduce the effects of variations in the flow of costs within each cost accounting period. It will also enhance objectivity, consistency, and verifiability, and promote uniformity and comparability in sponsored agreement cost measurements.

Definitions

(a) The following are definitions of terms which are prominent in this standard.

(1) *Allocate* means to assign an item of cost, or a group of items of cost, to one or more cost objectives. This term includes both direct assignment of cost and the reassignment of a share from an indirect cost pool.

(2) *Cost Objective* means a function, organizational subdivision, sponsored agreement, or other work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs, capitalized projects, etc.

(3) *Fiscal year* means the accounting period for which annual financial statements are regularly prepared, generally a period of 12 months, 52 weeks, or 53 weeks.

(4) *Indirect cost pool* means a grouping of incurred costs identified with two or more cost objectives but not identified specifically with any final cost objective.

Fundamental Requirement

Educational institutions shall use their fiscal year as their cost accounting period, except that:

Costs of an indirect function which exists for only a part of a cost accounting period may be allocated to cost objectives of that same part of the period.

An annual period other than the fiscal year may be used as the cost accounting period if its use is an established practice of the educational institution.

A transitional cost accounting period other than a year shall be used whenever a change of fiscal year occurs.

An educational institution shall follow consistent practices in the selection of the cost accounting period or periods in which any types of expense and any types of adjustment to expense (including prior-period adjustments) are accumulated and allocated.

The same cost accounting period shall be used for accumulating costs in an indirect cost pool as for establishing its allocation base, except that the contracting parties may agree to use a different period for establishing an allocation base.

Techniques for Application

(a) The cost of an indirect function which exists for only a part of a cost accounting period may be allocated on the basis of data for that part of the cost accounting period if the cost is (1) material in amount, (2) accumulated in a separate indirect cost pool or expense pool, and (3) allocated on the basis of an appropriate direct measure of the activity or output of the function during that part of the period.

(b) The practices required by this standard shall include appropriate practices for deferrals, accruals, and other adjustments to be used in identifying the cost accounting periods among which any types of expense and any types of adjustment to expense are distributed. If an expense, such as insurance or employee leave, is identified with a fixed, recurring, annual period which is different from the educational institution's cost accounting period, the standard permits continued use of that different period. Such expenses shall be distributed to cost accounting periods in accordance with the educational institution's established practices for accruals, deferrals, and other adjustments.

(c) Indirect cost allocation rates, based on estimates, which are used for the purpose of expediting the closing of sponsored agreements which are terminated or completed prior to the end of a cost accounting period need not be those finally determined or negotiated for that cost accounting period. They shall, however, be developed to represent a full cost accounting period, except as provided in paragraph (a) of this subsection.

(d) An educational institution may, upon mutual agreement with the Government, use as its cost accounting period a fixed annual period other than its fiscal year, if the use of such a period is an established practice of the educational institution and is consistently used for managing and controlling revenues and disbursements, and appropriate accruals, deferrals or other adjustments are made with respect to such annual periods.

(e) The parties may agree to use an annual period which does not coincide precisely with the cost accounting period for developing the data used in establishing an allocation base: Provided,

(1) The practice is necessary to obtain significant administrative convenience, (2) the practice is consistently followed by the educational institution, (3) the annual period used is representative of the activity of the cost accounting period for which the indirect costs to be allocated are accumulated, and (4) the practice can reasonably be estimated to provide a distribution to cost objectives of the cost accounting period not materially different from that which otherwise would be obtained.

(f) When a transitional cost accounting period is required, educational institution may select any one of the following: (1) the period, less than a year in length, extending from the end of its previous cost accounting period to the beginning of its next regular cost accounting period, (2) a period in excess of a year, but not longer than 15 months, obtained by combining the period described in subparagraph (f)(1) of this subsection with the previous cost accounting period, or (3) a period in excess of a year, but not longer than 15 months, obtained by combining the period

described in subparagraph (f)(1) of this subsection with the next regular cost accounting period. A change in the educational institution's cost accounting period is a change in accounting practices for which an adjustment in the sponsored agreement price may be required.

Illustrations

(a) An educational institution allocates indirect expenses for Organized Research on the basis of a modified total direct cost base. In a proposal for a sponsored agreement, it estimates the allocable expenses based solely on the estimated amount of indirect costs allocated to Organized Research and the amount of the modified total direct cost base estimated to be incurred during the 8 months in which performance is scheduled to be commenced and completed. Such a proposal would be in violation of the requirements of this standard that the calculation of the amounts of both the indirect cost pools and the allocation bases be based on the educational institution's cost accounting period.

(b) An educational institution whose cost accounting period is the calendar year, installs a computer service center to begin operations on May 1. The operating expense related to the new service center is expected to be material in amount, will be accumulated in an intermediate cost objective, and will be allocated to the benefiting cost objectives on the basis of measured usage. The total operating expenses of the computer service center for the 8-month part of the cost accounting period may be allocated to the benefiting cost objectives of that same 8-month period.

(c) An educational institution changes its fiscal year from a calendar year to the 12-month period ending May 31. For financial reporting purposes, it has a 5-month transitional ''fiscal year.'' The same 5-month period must be used as the transitional cost accounting period; it may not be combined, because the transitional period would be longer than 15 months. The new fiscal year must be adopted thereafter as its regular cost accounting period. The change in its cost accounting period is a change in accounting practices; adjustments of the sponsored agreement prices may thereafter be required.

(d) Financial reports are prepared on a calendar year basis on a university-wide basis. However, the contracting segment does all internal financial planning, budgeting, and internal reporting on the basis of a twelve month period ended June 30. The contracting parties agree to use the period ended June 30 and they agree to overhead rates on the June 30 basis. They also agree on a technique for prorating fiscal year assignment of the university's central system office expenses between such June 30 periods. This practice is permitted by the standard.

(e) Most financial accounts and sponsored agreement cost records are maintained on the basis of a fiscal year which ends November 30 each year. However, employee vacation allowances are regularly managed on the basis of a ''vacation year'' which ends September 30 each year. Vacation expenses are estimated uniformly during each ''vacation year.'' Adjustments are made each October to adjust the accrued liability to actual, and the estimating rates are modified to the extent deemed appropriate. This use of a separate annual period for determining the amounts of vacation expense is permitted.

BILLING CODE 3110–01–P

Appendix B—Disclosure Statement (DS–2) for Educational Institutions

FORM APPROVED OMB NUMBER
0348-0055

COST ACCOUNTING STANDARDS BOARD DISCLOSURE STATEMENT REQUIRED BY PUBLIC LAW 100-679 EDUCATIONAL INSTITUTIONS	INDEX

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FORM CASB DS-2 (REV 10/94)

COST ACCOUNTING STANDARDS BOARD DISCLOSURE STATEMENT REQUIRED BY PUBLIC LAW 100-679 EDUCATIONAL INSTITUTIONS	GENERAL INSTRUCTIONS

1. This Disclosure Statement has been designed to meet the requirements of Public Law 100-679, and persons completing it are to describe the educational institution and its cost accounting practices. For complete regulations, instructions and timing requirements concerning submission of the Disclosure Statement, refer to Section 9903.202 of Chapter 99 of Title 48 CFR (48 CFR 9903).

2. Part I of the Statement provides general information concerning each reporting unit (e.g., segments, business units, and central system or group (intermediate administration) offices). Parts II through VI pertain to the types of costs generally incurred by the segment or business unit directly performing under Federally sponsored agreements (e.g., contracts, grants and cooperative agreements). Part VII pertains to the types of costs that are generally incurred by a central or group office and are allocated to one or more segments performing under Federally sponsored agreements.

3. Each segment or business unit required to disclose its cost accounting practices should complete the Cover Sheet, the Certification, and Parts I through VI.

4. Each central or group office required to disclose its cost accounting practices for measuring, assigning and allocating its costs to segments performing under Federally sponsored agreements should complete the Cover Sheet, the Certification, Part I and Part VII of the Disclosure Statement. Where a central or group office incurs the types of cost covered by Parts IV, V and VI, and the cost amounts allocated to segments performing under Federally sponsored agreements are material, such office(s) should complete Parts IV, V, or VI for such material elements of cost. While a central or group office may have more than one reporting unit submitting Disclosure Statements, only one Statement needs to be submitted to cover the central or group office operations.

5. The Statement must be signed by an authorized signatory of the reporting unit.

6. The Disclosure Statement should be answered by marking the appropriate line or inserting the applicable letter code which describes the segment's (reporting unit's) cost accounting practices.

7. A number of questions in this Statement may need narrative answers requiring more space than is provided. In such instances, the reporting unit should use the attached continuation sheet provided. The continuation sheet may be reproduced locally as needed. The number of the question involved should be indicated and the same coding required to answer the questions in the Statement should be used in presenting the answer on the continuation sheet. Continuation sheets should be inserted at the end of the pertinent Part of the Statement. On each continuation sheet, the reporting unit should enter the next sequential page number for that Part and, on the last continuation sheet used, the words "End of Part" should be inserted after the last entry.

COST ACCOUNTING STANDARDS BOARD DISCLOSURE STATEMENT REQUIRED BY PUBLIC LAW 100-679 EDUCATIONAL INSTITUTIONS	GENERAL INSTRUCTIONS

8. Where the cost accounting practice being disclosed is clearly set forth in the institution's existing written accounting policies and procedures, such documents may be cited on a continuation sheet and incorporated by reference. In such cases, the reporting unit should provide the date of issuance and effective date for each accounting policy and/or procedures document cited. Alternatively, copies of the relevant parts of such documents may be attached as appendices to the pertinent Disclosure Statement Part. Such continuation sheets and appendices should be labeled and cross-referenced with the applicable Disclosure Statement item number. Any supplementary comments needed to fully describe the cost accounting practice being disclosed should also be provided.

9. Disclosure Statements must be amended when disclosed practices are changed to comply with a new CAS or when practices are changed with or without agreement of the Government (Also see 48 CFR 9903.202-3).

10. Amendments shall be submitted to the same offices to which submission would have to be made were an original Disclosure Statement being filed.

11. Each amendment should be accompanied by an amended cover sheet (indicating revision number and effective date of the change) and a signed certification. For all resubmissions, on each page, insert "Revision Number ____" and "Effective Date _____" in the Item Description block; and, insert "Revised" under each Item Number amended. Resubmitted Disclosure Statements must be accompanied by similar notations identifying the items which have been changed.

ATTACHMENT - Blank Continuation Sheet

FORM CASB DS-2 (REV 10/94)

COST ACCOUNTING STANDARDS BOARD DISCLOSURE STATEMENT REQUIRED BY PUBLIC LAW 100-679 EDUCATIONAL INSTITUTIONS	CONTINUATION SHEET NAME OF REPORTING UNIT

Item No.	Item description

FORM CASB DS-2 (REV 10/94)

COST ACCOUNTING STANDARDS BOARD DISCLOSURE STATEMENT REQUIRED BY PUBLIC LAW 100-679 EDUCATIONAL INSTITUTIONS	COVER SHEET AND CERTIFICATION

0.1 Educational Institution

(a) Name

(b) Street Address

(c) City, State and ZIP Code

(d) Division or Campus of (if applicable)

0.2 Reporting Unit is: (Mark one.)

A. _____ Independently Administered Public Institution
B. _____ Independently Administered Nonprofit Institution
C. _____ Administered as Part of a Public System
D. _____ Administered as Part of a Nonprofit System
E. _____ Other (Specify) _____

0.3 Official to Contact Concerning this Statement:

(a) Name and Title

(b) Phone Number (include area code and extension)

0.4 Statement Type and Effective Date:

A. (Mark type of submission. If a revision, enter number)

(a) _____ Original Statement
(b) _____ Amended Statement; Revision No. _____

B. Effective Date of this Statement: (Specify) _____

0.5 Statement Submitted To (Provide office name, location and telephone number, include area code and extension):

A. Cognizant Federal Agency: _____
_____

B. Cognizant Federal Auditor: _____
_____

FORM CASB DS-2 (REV 10/94)

COST ACCOUNTING STANDARDS BOARD DISCLOSURE STATEMENT REQUIRED BY PUBLIC LAW 100-679 EDUCATIONAL INSTITUTIONS	COVER SHEET AND CERTIFICATION

CERTIFICATION

I certify that to the best of my knowledge and belief this Statement, as amended in the case of a Revision, is the complete and accurate disclosure as of the date of certification shown below by the above-named organization of its cost accounting practices, as required by the Disclosure Regulations (48 CFR 9903.202) of the Cost Accounting Standards Board under 41 U.S.C. § 422.

Date of Certification: _____

_____
(Signature)

_____
(Print or Type Name)

_____
(Title)

THE PENALTY FOR MAKING A FALSE STATEMENT IN THIS DISCLOSURE IS PRESCRIBED IN 18 U.S.C. § 1001

FORM CASB DS-2 (REV 10/94)

COST ACCOUNTING STANDARDS BOARD DISCLOSURE STATEMENT REQUIRED BY PUBLIC LAW 100-679 EDUCATIONAL INSTITUTIONS	PART I - GENERAL INFORMATION NAME OF REPORTING UNIT

Item No.	Item description
	Part I
1.1.0	Description of Your Cost Accounting System for recording expenses charged to Federally sponsored agreements (e.g., contracts, grants and cooperative agreements) . (Mark the appropriate line(s) and if more than one is marked, explain on a continuation sheet.) A. _____ Accrual B. _____ Modified Accrual Basis 1/ C. _____ Cash Basis Y. _____ Other 1/
1.2.0	Integration of Cost Accounting with Financial Accounting. The cost accounting system is: (Mark one. If B or C is marked, describe on a continuation sheet the costs which are accumulated on memorandum records.) A. _____ Integrated with financial accounting records (Subsidiary cost accounts are all controlled by general ledger control accounts.) B. _____ Not integrated with financial accounting records (Cost data are accumulated on memorandum records.) C. _____ Combination of A and B
1.3.0	Unallowable Costs. Costs that are not reimbursable as allowable costs under the terms and conditions of Federally sponsored agreements are: (Mark one) A. _____ Specifically identified and recorded separately in the formal financial accounting records. 1/ B. _____ Identified in separately maintained accounting records or workpapers. 1/ C. _____ Identifiable through use of less formal accounting techniques that permit audit verification. 1/ D. _____ Combination of A, B or C 1/ E. _____ Determinable by other means. 1/ 1/ Describe on a Continuation Sheet.

FORM CASB DS-2 (REV 10/94)

COST ACCOUNTING STANDARDS BOARD DISCLOSURE STATEMENT REQUIRED BY PUBLIC LAW 100-679 EDUCATIONAL INSTITUTIONS	PART I - GENERAL INFORMATION NAME OF REPORTING UNIT

Item No.	Item description
1.3.1	Treatment of Unallowable Costs. (Explain on a continuation sheet how unallowable costs and directly associated costs are treated in each allocation base and indirect expense pool, e.g., when allocating costs to a major function or activity; when determining indirect cost rates; or, when a central office or group office allocates costs to a segment.)
1.4.0	Cost Accounting Period: _____ (Specify the twelve month period used for the accumulation and reporting of costs under Federally sponsored agreements, e.g., 7/1 to 6/30. If the cost accounting period is other than the institution's fiscal year used for financial accounting and reporting purposes, explain circumstances on a continuation sheet.)
1.5.0	State Laws or Regulations. Identify on a continuation sheet any State laws or regulations which influence the institution's cost accounting practices, e.g., State administered pension plans, and any applicable statutory limitations or special agreements on allowance of costs.
	1/ Describe on a Continuation Sheet.

FORM CASB DS-2 (REV 10/94)

COST ACCOUNTING STANDARDS BOARD DISCLOSURE STATEMENT REQUIRED BY PUBLIC LAW 100-679 EDUCATIONAL INSTITUTIONS	PART II - DIRECT COSTS NAME OF REPORTING UNIT

Item No.	Item description
	Instructions for Part II Institutions should disclose what costs are, or will be, charged directly to Federally sponsored agreements or similar cost objectives as Direct Costs. It is expected that the disclosed cost accounting practices (as defined at 48 CFR 9903.302-1) for classifying costs either as direct costs or indirect costs will be consistently applied to all costs incurred by the reporting unit.
2.1.0	Criteria for Determining How Costs are Charged to Federally Sponsored Agreements or Similar Cost Objectives. (For all major categories of cost under each major function or activity such, as instruction, organized research, other sponsored activities and other institutional activities, describe on a continuation sheet, your criteria for determining when costs incurred for the same purpose, in like circumstances, are treated either as direct costs only or as indirect costs only with respect to final cost objectives. Particular emphasis should be placed on items of cost that may be treated as either direct or indirect costs (e.g., Supplies, Materials, Salaries and Wages, Fringe Benefits, etc.) depending upon the purpose of the activity involved. Separate explanations on the criteria governing each direct cost category identified in this Part II are required. Also, list and explain if there are any deviations from the specified criteria.)
2.2.0	Description of Direct Materials. All materials and supplies directly identified with Federally sponsored agreements or similar cost objectives. (Describe on a continuation sheet the principal classes of materials which are charged as direct materials and supplies.)
2.3.0	Method of Charging Direct Materials and Supplies. (Mark the appropriate line(s) and if more than one is marked, explain on a continuation sheet.)
2.3.1	Direct Purchases for Projects are Charged to Projects at: A. _____ Actual Invoiced Costs B. _____ Actual Invoiced Costs Net of Discounts Taken Y. _____ Other(s) 1/ Z. _____ Not Applicable
2.3.2	Inventory Requisitions from Central or Common, Institution-owned Inventory. (Identify the inventory valuation method used to charge projects): A. _____ First In, First Out B. _____ Last In, First Out C. _____ Average Costs 1/ D. _____ Predetermined Costs 1/ Y. _____ Other(s) 1/ Z. _____ Not Applicable 1/ Describe on a Continuation Sheet.

FORM CASB DS-2 (REV 10/94)

COST ACCOUNTING STANDARDS BOARD DISCLOSURE STATEMENT REQUIRED BY PUBLIC LAW 100-679 EDUCATIONAL INSTITUTIONS	PART II - DIRECT COSTS NAME OF REPORTING UNIT

Item No.	Item description
2.4.0	Description of Direct Personal Services. All personal services directly identified with Federally sponsored agreements or similar cost objectives. (Describe on a continuation sheet the personal services compensation costs, including applicable fringe benefits costs, if any, within each major institutional function or activity that are charged as direct personal services.)
2.5.0	Method of Charging Direct Salaries and Wages. (Mark the appropriate line(s) for each Direct Personal Services Category to identify the method(s) used to charge direct salary and wage costs to Federally sponsored agreements or similar cost objectives. If more than one line is marked in a column, fully describe on a continuation sheet, the applicable methods used.)

	Direct Personal Services Category			
	Faculty (1)	Staff (2)	Students (3)	Other 1/ (4)
A. Payroll Distribution Method (Individual time card/actual hours and rates)	____	____	____	____
B. Plan - Confirmation (Budgeted, planned or assigned work activity, updated to reflect significant changes)	____	____	____	____
C. After-the-fact Activity Records (Percentage Distribution of employee activity)	____	____	____	____
D. Multiple Confirmation Records (Employee Reports prepared each academic term, to account for employee's activities, direct and indirect charges are certified separately.)	____	____	____	____
Y. Other(s) 1/	____	____	____	____

1/ Describe on a Continuation Sheet.

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COST ACCOUNTING STANDARDS BOARD DISCLOSURE STATEMENT REQUIRED BY PUBLIC LAW 100-679 EDUCATIONAL INSTITUTIONS	PART II - DIRECT COSTS NAME OF REPORTING UNIT

Item No.	Item description
2.5.1	Salary and Wage Cost Distribution Systems. Within each major function or activity, are the methods marked in Item 2.5.0 used by all employees compensated by the reporting unit? (If "NO", describe on a continuation sheet, the types of employees not included and describe the methods used to identify and distribute their salary and wage costs to direct and indirect cost objectives.) ____ Yes ____ No
2.5.2	Salary and Wage Cost Accumulation System. (Within each major function or activity, describe, on a continuation sheet, the specific accounting records or memorandum records used to accumulate and record the share of the total salary and wage costs attributable to each employee's direct (Federally sponsored projects, non-sponsored projects or similar cost objectives) and indirect activities. Indicate how the salary and wage cost distributions are reconciled with the payroll data recorded in the institution's financial accounting records.)
2.6.0	Description of Direct Fringe Benefits Costs. All fringe benefits that are attributable to direct salaries and wages and are charged directly to Federally sponsored agreements or similar cost objectives. (Describe on a continuation sheet all of the different types of fringe benefits which are classified and charged as direct costs, e.g., actual or accrued costs of vacation, holidays, sick leave, sabbatical leave, premium pay, social security, pension plans, post-retirement benefits other than pensions, health insurance, training, tuition, tuition remission, etc.)
2.6.1	Method of Charging Direct Fringe Benefits. (Describe on a continuation sheet, how each type of fringe benefit cost identified in item 2.6.0. is measured, assigned and allocated (for definitions, See 9903.302-1); first, to the major functions (e.g., instruction, research); and, then to individual projects or direct cost objectives within each function.)
2.7.0	Description of Other Direct Costs. All other items of cost directly identified with Federally sponsored agreements or similar cost objectives. (List on a continuation sheet the principal classes of other costs which are charged directly, e.g., travel, consultants, services, subgrants, subcontracts, malpractice insurance, etc.)

COST ACCOUNTING STANDARDS BOARD DISCLOSURE STATEMENT REQUIRED BY PUBLIC LAW 100-679 EDUCATIONAL INSTITUTIONS	PART II - DIRECT COSTS NAME OF REPORTING UNIT

Item No.	Item description
2.8.0	Cost Transfers. When Federally sponsored agreements or similar cost objectives are credited for cost transfers to other projects, grants or contracts, is the credit amount for direct personal services, materials, other direct charges and applicable indirect costs always based on the same amount(s) or rate(s) (e.g., direct labor rate, indirect costs) originally used to charge or allocate costs to the project (Consider transactions where the original charge and the credit occur in different cost accounting periods). (Mark one , if "No" , explain on a continuation sheet how the credit differs from original charge.) ____ Yes ____ No
2.9.0	Interorganizational Transfers. This item is directed only to those materials, supplies, and services which are, or will be transferred to you from other segments of the educational institution. (Mark the appropriate line(s) in each column to indicate the basis used by you as transferee to charge the cost or price of interorganizational transfers or materials, supplies, and services to Federally sponsored agreements or similar cost objectives. If more than one line is marked in a column, explain on a continuation sheet.)

	Materials (1)	Supplies (2)	Services (3)
A. At full cost excluding indirect costs attributable to group or central office expenses.	____	____	____
B. At full cost including indirect costs attributable to group or central office expenses.	____	____	____
C. At established catalog or market price or prices based on adequate competition.	____	____	____
Y. Other(s) 1/	____	____	____
Z. Interorganizational transfers are not applicable	____	____	____

1/ Describe on a Continuation Sheet.

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COST ACCOUNTING STANDARDS BOARD DISCLOSURE STATEMENT REQUIRED BY PUBLIC LAW 100-679 EDUCATIONAL INSTITUTIONS	PART III - INDIRECT COSTS NAME OF REPORTING UNIT

Item No.	Item description
	Instructions for Part III Institutions should disclose how the segment's total indirect costs are identified and accumulated in specific indirect cost categories and allocated to applicable indirect cost pools and service centers within each major function or activity, how service center costs are accumulated and "billed" to users, and the specific indirect cost pools and allocation bases used to calculate the indirect cost rates that are used to allocate accumulated indirect costs to Federally sponsored agreements or similar final cost objectives. A continuation sheet should be used wherever additional space is required or when a response requires further explanation to ensure clarity and understanding. The following Allocation Base Codes are provided for use in connection with Items 3.1.0 and 3.3.0. A. Direct Charge or Allocation B. Total Expenditures C. Modified Total Cost Basis D. Modified Total Direct Cost Basis E. Salaries and Wages F. Salaries, Wages and Fringe Benefits G. Number of Employees (head count) H. Number of Employees (full-time equivalent basis) I. Number of Students (head count) J. Number of Students (full-time equivalent basis) K. Student Hours – classroom and work performed L. Square Footage M. Usage N. Unit of Product O. Total Production P. More than one base (Separate Cost Groupings) 1/ Y. Other(s) 1/ Z. Category or Pool not applicable 1/ List on a continuation sheet, the category and subgrouping(s) of expense involved and the allocation base(s) used.

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COST ACCOUNTING STANDARDS BOARD DISCLOSURE STATEMENT REQUIRED BY PUBLIC LAW 100-679 EDUCATIONAL INSTITUTIONS	PART III - INDIRECT COSTS NAME OF REPORTING UNIT

Item No.	Item description
3.1.0	Indirect Cost Categories - Accumulation and Allocation. This item is directed at the identification, accumulation and allocation of all indirect costs of the institution. (Under the column heading, "Accumulation Method," insert "Yes" or "No" to indicate if the cost elements included in each indirect cost category are identified, recorded and accumulated in the institution's formal accounting system. If "No," describe on a continuation sheet, how the cost elements included in the indirect cost category are identified and accumulated. Under the column heading "Allocation Base," enter one of the allocation base codes A through P, Y, or Z, to indicate the basis used for allocating the accumulated costs of each indirect cost category to other applicable indirect cost categories, indirect cost pools, other institutional activities, specialized service facilities and other service centers. Under the column heading "Allocation Sequence," insert 1, 2, or 3 next to each of the first three indirect cost categories to indicate the sequence of the allocation process. If cross-allocation techniques are used, insert "CA." If an indirect cost category listed in this section is not used, insert "NA.")

Indirect Cost Category	Accumulation Method	Allocation Base Code	Allocation Sequence
(a) Depreciation/Use Allowances/Interest			___
Building	___	___	
Equipment	___	___	
Capital Improvements to Land 1/	___	___	
Interest 1/	___	___	
(b) Operation and Maintenance	___	___	_
(c) General Administration and General Expense	___	___	___
(d) Departmental Administration	___	___	
(e) Sponsored Projects Administration	___	___	
(f) Library	___	___	
(g) Student Administration and Services	___	___	
(h) Other 1/	___	___	

1/ Describe on a Continuation Sheet.

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COST ACCOUNTING STANDARDS BOARD DISCLOSURE STATEMENT REQUIRED BY PUBLIC LAW 100-679 EDUCATIONAL INSTITUTIONS	PART III - INDIRECT COSTS NAME OF REPORTING UNIT

Item No.	Item description
3.2.0	Service Centers. Service centers are departments or functional units which perform specific technical or administrative services primarily for the benefit of other units within a reporting unit. Service Centers include "recharge centers" and the "specialized service facilities" defined in Section J of Circular A-21. (The codes identified below should be inserted on the appropriate line for each service center listed. The column numbers correspond to the paragraphs listed below that provide the codes. Explain on a Continuation Sheet if any of the services are charged to users on a basis other than usage of the services. Enter "Z" in Column 1, if not applicable.)

		(1)	(2)	(3)	(4)	(5)	(6)
(a)	Scientific Computer Operations	___	___	___	___	___	___
(b)	Business Data Processing	___	___	___	___	___	___
(c)	Animal Care Facilities	___	___	___	___	___	___
(d)	Other Service Centers with Annual Operating Budgets exceeding $1,000,000 or that generate significant charges to Federally sponsored agreements either as a direct or indirect cost. (Specify below; use a Continuation Sheet, if necessary)						
	_____	___	___	___	___	___	___
	_____	___	___	___	___	___	___

(1) Category Code: Use code "A" if the service center costs are billed only as direct costs of final cost objectives; code "B" if billed only to indirect cost categories or indirect cost pools; code "C" if billed to both direct and indirect cost objectives.

(2) Burden Code: Code "A" – center receives an allocation of all applicable indirect costs; Code "B" – partial allocation of indirect costs; Code "C" – no allocation of indirect costs.

(3) Billing Rate Code: Code "A" – billing rates are based on historical costs; Code "B" – rates are based on projected costs; Code "C" – rates are based on a combination of historical and projected costs; Code "D" – billings are based on the actual costs of the billing period; Code "Y" – other (explain on a Continuation Sheet).

(4) User Charges Code: Code "A" – all users are charged at the same billing rates; Code "B" – some users are charged at different rates than other users (explain on a Continuation Sheet).

(5) Actual Costs vs. Revenues Code: Code "A" – billings (revenues) are compared to actual costs (expenditures) at least annually; Code "B" – billings are compared to actual costs less frequently than annually.

(6) Variance Code: Code "A" – Annual variances between billed and actual costs are prorated to users (as credits or charges); Code "B" – variances are carried forward as adjustments to billing rate of future periods; Code "C" – annual variances are charged or credited to indirect costs; Code "Y" – other (explain on a Continuation Sheet).

COST ACCOUNTING STANDARDS BOARD DISCLOSURE STATEMENT REQUIRED BY PUBLIC LAW 100-679 EDUCATIONAL INSTITUTIONS	PART III - INDIRECT COSTS NAME OF REPORTING UNIT

Item No.	Item description
3.3.0	Indirect Cost Pools and Allocation Bases (Identify all of the indirect cost pools established for the accumulation of indirect costs, excluding service centers, and the allocation bases used to distribute accumulated indirect costs to Federally sponsored agreements or similar cost objectives within each major function or activity. For all applicable indirect cost pools, enter the applicable Allocation Base Code A through P, Y, or Z, to indicate the basis used for allocating accumulated pool costs to Federally sponsored agreements or similar cost objectives.) Indirect Cost Pools — Allocation Base Code A. Instruction ____ On-Campus _____ ____ Off-Campus _____ ____ Other 1/ _____ B. Organized Research ____ On-Campus _____ ____ Off-Campus _____ ____ Other 1/ _____ C. Other Sponsored Activities ____ On-Campus _____ ____ Off-Campus _____ ____ Other 1/ _____ D. Other Institutional Activities 1/ _____
3.4.0	Composition of Indirect Cost Pools. (For each pool identified under Items 3.1.0 and 3.2.0, describe on a continuation sheet the major organizational components, subgoupings of expenses, and elements of cost included.) 1/ Describe on a Continuation Sheet.

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COST ACCOUNTING STANDARDS BOARD DISCLOSURE STATEMENT REQUIRED BY PUBLIC LAW 100-679 EDUCATIONAL INSTITUTIONS	PART III - INDIRECT COSTS NAME OF REPORTING UNIT

Item No.	Item description
3.5.0	Composition of Allocation Bases. (For each allocation base code used in Items 3.1.0 and 3.3.0, describe on a continuation sheet the makeup of the base. For example, if a modified total direct cost base is used, specify which of the elements of direct cost identified in Part II, Direct Costs, that are included, e.g., materials, salaries and wages, fringe benefits, travel costs, and excluded, e.g., subcontract costs over first $25,000. Where applicable, explain if service centers are included or excluded. Specify the benefitting functions and activities included. If any cost objectives are excluded from the allocation base, such cost objectives and the alternate allocation method used should be identified. If an indirect cost allocation is based on Cost Analysis Studies, identify the study, and fully describe the study methods and techniques applied, the composition of the specific allocation base used, and the frequency of each recurring study.
3.6.0	Allocation of Indirect Costs to Programs That Pay Less Than Full Indirect Costs. Are appropriate direct costs of all programs and activites included in the indirect cost allocation bases, regardless of whether allocable indirect costs are fully reimbursed by the sponsoring organizations? A. ____ Yes B. ____ No 1/ 1/ Describe on a Continuation Sheet.

FORM CASB DS-2 (REV 10/94)

COST ACCOUNTING STANDARDS BOARD DISCLOSURE STATEMENT REQUIRED BY PUBLIC LAW 100-679 EDUCATIONAL INSTITUTIONS	PART IV - DEPRECIATION AND USE ALLOWANCES NAME OF REPORTING UNIT

Item No.	Item description

Part IV

4.1.0 Depreciation Charged to Federally Sponsored Agreements or Similar Cost Objectives. (For each asset category listed below, enter a code from A through C in Column (1) describing the method of depreciation; a code from A through D in Column (2) describing the basis for determining useful life; a code from A through C in Column (3) describing how depreciation methods or use allowances are applied to property units; and Code A or B in Column (4) indicating whether or not the estimated residual value is deducted from the total cost of depreciable assets. Enter Code Y in each column of an asset category where another or more than one method applies. Enter Code Z in Column (1) only, if an asset category is not applicable.)

	Asset Category	Depreciation Method (1)	Useful Life (2)	Property Unit (3)	Residual Value (4)
(a)	Land Improvements	____	____	____	____
(b)	Buildings	____	____	____	____
(c)	Building Improvements	____	____	____	____
(d)	Leasehold Improvements	____	____	____	____
(e)	Equipment	____	____	____	____
(f)	Furniture and Fixtures	____	____	____	____
(g)	Automobiles and Trucks	____	____	____	____
(h)	Tools	____	____	____	____
(i)	Enter Code Y on this line if other asset categories are used and enumerate on a continuation sheet each such asset category and the applicable codes. (Otherwise enter Code Z.)	____	____	____	____

Column (1)--Depreciation Method Code

A. Straight Line
B. Expensed at Acquisition
C. Use Allowance
Y. Other or more than one method 1/

Column (2)--Useful Life Code

A. Replacement Experience
B. Term of Lease
C. Estimated service life
D. As prescribed for use allowance by Office of Management and Budget Circular No. A-21
Y. Other or more than one method 1/

Column (3)--Property Unit Code

A. Individual units are accounted for separately
B. Applied to groups of assets with similar service lives
C. Applied to groups of assets with varying service lives
Y. Other or more than one method 1/

Column (4)--Residual Value Code

A. Residual value is deducted
B. Residual value is not deducted
Y. Other or more than one method 1/

1/ Describe on a Continuation Sheet.

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COST ACCOUNTING STANDARDS BOARD DISCLOSURE STATEMENT REQUIRED BY PUBLIC LAW 100-679 EDUCATIONAL INSTITUTIONS	PART IV - DEPRECIATION AND USE ALLOWANCES NAME OF REPORTING UNIT

Item No.	Item description
4.1.1	Asset Valuations and Useful Lives. Are the asset valuations and useful lives used in your indirect cost proposal consistent with those used in the institution's financial statements? (Mark one.) A. _____ Yes B. _____ No 1/
4.2.0	Fully Depreciated Assets. Is a usage charge for fully depreciated assets charged to Federally sponsored agreements or similar cost objectives? (Mark one. If yes, describe the basis for the charge on a continuation sheet.) A. _____ Yes B. _____ No
4.3.0	Treatment of Gains and Losses on Disposition of Depreciable Property. Gains and losses are: (Mark the appropriate line(s) and if more than one is marked, explain on a continuation sheet.) A. _____ Excluded from determination of sponsored agreement costs B. _____ Credited or charged currently to the same pools to which the depreciation of the assets was originally charged C. _____ Taken into consideration in the depreciation cost basis of the new items, where trade-in is involved D. _____ Not accounted for separately, but reflected in the depreciation reserve account Y. _____ Other(s) 1/ Z. _____ Not applicable
4.4.0	Criteria for Capitalization. (Enter (a) the minimum dollar amount of expenditures which are capitalized for acquisition, addition, alteration, donation and improvement of capital assets, and (b) the minimum number of expected life years of assets which are capitalized. If more than one dollar amount or number applies, show the information for the majority of your capitalized assets, and enumerate on a continuation sheet the dollar amounts and/or number of years for each category or subcategory of assets involved which differs from those for the majority of assets.) A. Minimum Dollar Amount _____ B. Minimum Life Years _____
4.5.0	Group or Mass Purchase. Are group or mass purchases (initial complement) of similar items, which individually are less than the capitalization amount indicated above, capitalized? (Mark one.) A. _____ Yes 1/ B. _____ No 1/ Describe on a Continuation Sheet.

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COST ACCOUNTING STANDARDS BOARD DISCLOSURE STATEMENT REQUIRED BY PUBLIC LAW 100-679 EDUCATIONAL INSTITUTIONS	PART V - OTHER COSTS AND CREDITS NAME OF REPORTING UNIT

Item No.	Item description
	Part V
5.1.0	Method of Charging Leave Costs. Do you charge vacation, sick, holiday and sabbatical leave costs to sponsored agreements on the cash basis of accounting (i.e., when the leave is taken or paid), or on the accrual basis of accounting (when the leave is earned)? (Mark applicable line(s))
	A. ____ Cash
	B. ____ Accrual 1/
5.2.0	Applicable Credits. This item is directed at the treatment of "applicable credits" as defined in Section C of OMB Circular A-21 and other incidental receipts (e.g., purchase discounts, insurance refunds, library fees and fines, parking fees, etc.). (Indicate how the principal types of credits and incidental receipts the institution receives are usually handled.)
	A. ____ The credits/receipts are offset against the specific direct or indirect costs to which they relate.
	B. ____ The credits/receipts are handled as a general adjustment to the indirect pool.
	C. ____ The credits/receipts are treated as income and are not offset against costs.
	D. ____ Combination of methods 1/
	Y. ____ Other 1/
	1/ Describe on a Continuation Sheet.

FORM CASB DS-2 (REV 10/94)

COST ACCOUNTING STANDARDS BOARD DISCLOSURE STATEMENT REQUIRED BY PUBLIC LAW 100-679 EDUCATIONAL INSTITUTIONS	PART VI - DEFERRED COMPENSATION AND INSURANCE COSTS NAME OF REPORTING UNIT

Item No.	Item description
	Instructions for Part VI This part covers the measurement and assignment of costs for employee pensions, post retirement benefits other than pensions (including post retirement health benefits) and insurance. Some organizations may incur all of these costs at the main campus level or for public institutions at the governmental unit level, while others may incur them at subordinate organization levels. Still others may incur a portion of these costs at the main campus level and the balance at subordinate organization levels. Where the segment (reporting unit) does not directly incur such costs, the segment should, on a continuation sheet, identify the organizational entity that incurs and records such costs. When the costs allocated to Federally sponsored agreements are material, and the reporting unit does not have access to the information needed to complete an item, the reporting unit should require that entity to complete the applicable portions of this Part VI. (See item 4, page (i), General Instructions)
6.1.0	Pension Plans.
6.1.1	Defined-Contribution Pension Plans. Identify the types and number of pension plans whose costs are charged to Federally sponsored agreements. (Mark applicable line(s) and enter number of plans.) Type of Plan — Number of Plans A. ____ Institution employees participate in State/Local Government Retirement Plan(s) ____ B. ____ Institution uses TIAA/CREF plan or other defined contribution plan that is managed by an organization not affiliated with the institution ____ C. ____ Institution has its own Defined-Contribution Plan(s) 1/ ____
6.1.2	Defined-Benefit Pension Plan. (For each defined-benefit plan (other than plans that are part of a State or Local government pension plan) describe on a continuation sheet the actuarial cost method, the asset valuation method, the criteria for changing actuarial assumptions and computations, the amortization periods for prior service costs, the amortization periods for actuarial gains and losses, and the funding policy.) 1/ Describe on a Continuation Sheet.

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COST ACCOUNTING STANDARDS BOARD DISCLOSURE STATEMENT REQUIRED BY PUBLIC LAW 100-679 EDUCATIONAL INSTITUTIONS	PART VI - DEFERRED COMPENSATION AND INSURANCE COSTS NAME OF REPORTING UNIT

Item No.	Item description
6.2.0	Post Retirement Benefits Other Than Pensions (including post retirement health care benefits) (PRBs). (Identify on a continuation sheet all PRB plans whose costs are charged to Federally sponsored agreements. For each plan listed, state the plan name and indicate the approximate number and type of employees covered by each plan.) Z. [ ] Not Applicable
6.2.1	Determination of Annual PRB Costs. (On a continuation sheet, indicate whether PRB costs charged to Federally sponsored agreements are determined on the cash or accrual basis of accounting. If costs are accrued, describe the accounting practices used, including actuarial cost method, the asset valuation method, the criteria for changing actuarial assumptions and computations, the amortization periods for prior service costs, the amortization periods for actuarial gains and losses, and the funding policy.)
6.3.0	Self-Insurance Programs (Employee Group Insurance). Costs of the self-insurance programs are charged to Federally sponsored agreements or similar cost objectives: (Mark one.) A. _____ When accrued (book accrual only) B. _____ When contributions are made to a nonforfeitable fund C. _____ When contributions are made to a forfeitable fund D. _____ When the benefits are paid to an employee E. _____ When amounts are paid to an employee welfare plan Y. _____ Other or more than one method 1/ Z. _____ Not Applicable
6.4.0	Self-Insurance Programs (Worker's Compensation, Liability and Casualty Insurance.)
6.4.1	Worker's Compensation and Liability. Costs of such self-insurance programs are charged to Federally sponsored agreements or similar cost objectives: (Mark one.) A. _____ When claims are paid or losses are incurred (no provision for reserves) B. _____ When provisions for reserves are recorded based on the present value of the liability C. _____ When provisions for reserves are recorded based on the full or undiscounted value, as contrasted with present value, of the liability D. _____ When funds are set aside or contributions are made to a fund Y. _____ Other or more than one method 1/ Z. _____ Not Applicable 1/ Describe on a Continuation Sheet.

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COST ACCOUNTING STANDARDS BOARD DISCLOSURE STATEMENT REQUIRED BY PUBLIC LAW 100-679 EDUCATIONAL INSTITUTIONS	PART VI - DEFERRED COMPENSATION AND INSURANCE COSTS NAME OF REPORTING UNIT

Item No.	Item description
6.4.2	Casualty Insurance. Costs of such self-insurance programs are charged to Federally sponsored agreements or similar cost objectives: (Mark one.) A. _____ When losses are incurred (no provision for reserves) B. _____ When provisions for reserves are recorded based on replacement costs C. _____ When provisions for reserves are recorded based on reproduction costs new less observed depreciation (market value) excluding the value of land and other indestructibles. D. _____ Losses are charged to fund balance with no charge to contracts and grants (no provision for reserves) Y. _____ Other or more than one method 1/ Z. _____ Not Applicable 1/ Describe on a Continuation Sheet.

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COST ACCOUNTING STANDARDS BOARD DISCLOSURE STATEMENT REQUIRED BY PUBLIC LAW 100-679 EDUCATIONAL INSTITUTIONS	PART VII - CENTRAL SYSTEM OR GROUP EXPENSES NAME OF REPORTING UNIT

Item No.	Item description
	DISCLOSURE BY CENTRAL SYSTEM OFFICE, OR GROUP (INTERMEDIATE ADMINISTRATION) OFFICE, AS APPLICABLE.
	Instructions for Part VII
	This part should be completed only by the central system office or a group office of an educational system when that office is responsible for administering two or more segments, where it allocates its costs to such segments and where at least one of the segments is required to file Parts I through VI of the Disclosure Statement.
	The reporting unit (central system or group office) should disclose how costs of services provided by the reporting unit are, or will be, accumulated and allocated to applicable segments of the institution. For a central system office, disclosure should cover the entire institution. For a group office, disclosure should cover all of the subordinate organizations administered by that group office.
7.1.0	Organizational Structure.
	On a continuation sheet, list all segments of the university or university system, including hospitals, Federally Funded Research and Development Centers (FFRDC's), Government-owned Contractor-operated (GOCO) facilities, and lower-tier group offices serviced by the reporting unit.
7.2.0	Cost Accumulation and Allocation.
	On a continuation sheet, provide a description of:
	A. The services provided to segments of the university or university system (including hospitals, FFRDC's, GOCO facilities, etc.), in brief.
	B. How the costs of the services are identified and accumulated.
	C. The basis used to allocate the accumulated costs to the benefitting segments.
	D. Any costs that are transferred from a segment to the central system office or the intermediate administrative office, and which are reallocated to another segment(s). If none, so state.
	E. Any fixed management fees that are charged to a segment(s) in lieu of a prorata or allocation basis and the basis of such charges. If none, so state.

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