OMB Guidance

unjustifiably increase the Federal award’s cost.

§ 200.405 Allocable costs.

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

(1) Is incurred specifically for the Federal award;

(2) Benefits both the Federal award and other work of the non-Federal en-
tity and can be distributed in proportions that may be approximated using reasonable methods; and

(3) Is necessary to the overall operation of the non-Federal entity and is
assignable in part to the Federal award in accordance with the principles in
this subpart.

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

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

(d) 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 in-
volved, then, notwithstanding para-
graph (c) of this section, the costs may be allocated or transferred to bene-

§ 200.406 Applicable credits.

(a) Applicable credits refer to those receipts or reduction-of-expenditure-type transactions that offset or reduce expense items allocable to the Federal award as direct or indirect (F&A) costs. Examples of such transactions are: pur-
chase discounts, rebates or allowances, recoveries or indemnities on losses, ins-
urance refunds or rebates, and adjust-
ments of overpayments or erroneous charges. To the extent that such cred-
its accruing to or received by the non-
Federal entity relate to allowable costs, they must be credited to the Federal award either as a cost reduc-

dation or cash refund, as appropriate.

(b) In some instances, the amounts received from the Federal government to finance activities or service oper-
atations of the non-Federal entity should be treated as applicable credits. Spe-
cifically, the concept of netting such credit items (including any amounts used to meet cost sharing or matching requirements) should be recognized in determining the rates or amounts to be charged to the Federal award. (See §§200.436 Depreciation and 200.468 Spe-
cialized service facilities, for areas of potential application in the matter of Federal financing of activities.)