**APPENDIX B: ALLOWABILITY AND REASONABLE COSTS**

**200.403 Factors affecting allowability of costs.**

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

**(a)** Be necessary and reasonable for the performance of the [Federal award](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=081a194046528468942c369470c2966a&term_occur=999&term_src=Title:2:Subtitle:A:Chapter:II:Part:200:Subpart:E:Subjgrp:37:200.403) and be allocable thereto under these principles.

**(b)** Conform to any limitations or exclusions set forth in these principles or in the [Federal award](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=081a194046528468942c369470c2966a&term_occur=999&term_src=Title:2:Subtitle:A:Chapter:II:Part:200:Subpart:E:Subjgrp:37:200.403) as to types or amount of cost items.

**(c)** Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the [non-Federal entity](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=de00dfd10f09071c905d0928428a197d&term_occur=999&term_src=Title:2:Subtitle:A:Chapter:II:Part:200:Subpart:E:Subjgrp:37:200.403).

**(d)** Be accorded consistent treatment. A cost may not be assigned to a [Federal award](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=081a194046528468942c369470c2966a&term_occur=999&term_src=Title:2:Subtitle:A:Chapter:II:Part:200:Subpart:E:Subjgrp:37:200.403) as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the [Federal award](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=081a194046528468942c369470c2966a&term_occur=999&term_src=Title:2:Subtitle:A:Chapter:II:Part:200:Subpart:E:Subjgrp:37:200.403) as an indirect cost.

**(e)** Be determined in accordance with generally accepted accounting principles (GAAP), except, for [state](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=3d66cac5fd675bfc76ede4888b240176&term_occur=999&term_src=Title:2:Subtitle:A:Chapter:II:Part:200:Subpart:E:Subjgrp:37:200.403) and [local governments](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=2351077af91a56a86cf7de12032e8194&term_occur=999&term_src=Title:2:Subtitle:A:Chapter:II:Part:200:Subpart:E:Subjgrp:37:200.403) and [Indian tribes](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=2f3422fdfc29b5b6e44d5a6de124a7d8&term_occur=999&term_src=Title:2:Subtitle:A:Chapter:II:Part:200:Subpart:E:Subjgrp:37:200.403) only, as otherwise provided for in this part.

**(f)** Not be included as a cost or used to meet [cost sharing or matching](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=3c8614fb099609b7b9859701c6f6808a&term_occur=999&term_src=Title:2:Subtitle:A:Chapter:II:Part:200:Subpart:E:Subjgrp:37:200.403) requirements of any other federally-financed program in either the current or a prior period. See also [§ 200.306(b)](https://www.law.cornell.edu/cfr/text/2/200.306#b).

**(g)** Be adequately documented. See also §§ [200.300](https://www.law.cornell.edu/cfr/text/2/200.300) through [200.309](https://www.law.cornell.edu/cfr/text/2/200.309) of this part.

**(h)** Cost must be incurred during the approved [budget period](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=4ba7da17e42f14b22d66996bbceff073&term_occur=999&term_src=Title:2:Subtitle:A:Chapter:II:Part:200:Subpart:E:Subjgrp:37:200.403). The [Federal awarding agency](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=3164f893d6d82447c92d899285ce22b2&term_occur=999&term_src=Title:2:Subtitle:A:Chapter:II:Part:200:Subpart:E:Subjgrp:37:200.403) is authorized, at its discretion, to waive prior written approvals to carry forward [unobligated balances](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=948911b73593913d49fe62c6ead6dfbd&term_occur=999&term_src=Title:2:Subtitle:A:Chapter:II:Part:200:Subpart:E:Subjgrp:37:200.403) to subsequent [budget periods](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=4ba7da17e42f14b22d66996bbceff073&term_occur=999&term_src=Title:2:Subtitle:A:Chapter:II:Part:200:Subpart:E:Subjgrp:37:200.403) pursuant to [§ 200.308(e)(3)](https://www.law.cornell.edu/cfr/text/2/200.308#e_3).

[[78 FR 78608](https://www.law.cornell.edu/rio/citation/78_FR_78608), Dec. 26, 2013, as amended at [85 FR 49562](https://www.law.cornell.edu/rio/citation/85_FR_49562), Aug. 13, 2020]

**200.404 Reasonable costs.**

§ 200.404 Reasonable costs.

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally-funded. In determining reasonableness of a given cost, consideration must be given to:

**(a)** Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award.

**(b)** The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Federal award.

**(c)** Market prices for comparable goods or services for the geographic area.

**(d)** Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal Government.

**(e)** Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.

[78 FR 78608, Dec. 26, 2013, as amended at 79 FR 75885, Dec. 19, 2014]