

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

Circular A-87 provides principles and standards for determining costs for federal awards, including grants, cost reimbursement contracts, and other agreements with state and local governments, and federally recognized Indian tribal governments. Website: [http://www.whitehouse.gov/omb/circulars\\_a087\\_2004](http://www.whitehouse.gov/omb/circulars_a087_2004)

**Attachment A–Basic Guidelines**

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

**Allowability of Costs**

To be allowable a cost must:

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

Allowable if:

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

**Reasonable Costs**

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

**Attachment B–Specific Items of Cost**

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

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

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

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

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

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

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