



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D. C. 20503

67 FR 52558 - August 12, 2002

OFFICE OF MANAGEMENT AND BUDGET

Cost Principles for Educational Institutions, for State, Local, and Indian Tribal

Governments and for Non-Profit Organizations

AGENCY: Office of Management and Budget

ACTION: Proposed revisions to Office of Management and Budget (OMB) cost principles' Circulars A-21, A-87, and A-122

SUMMARY: OMB proposes to amend OMB cost principles A-21, A-87, and A-122. These changes are intended to further the objectives of Public Law (P. L.) 106-107, the Federal Financial Assistance Management Improvement Act. On May 18, 2001, agencies working with OMB published a plan to implement P. L.106-107. The plan included a proposal to simplify the cost principles to make the descriptions of similar cost items consistent with one another where possible, thus reducing the possibility of misinterpretation.

DATES: All comments on this proposal should be in writing and must be received by October 11, 2002.

ADDRESSES: Due to potential delays in OMB's receipt and processing of mail sent through the U. S. Postal Service, we encourage respondents to submit comments electronically to ensure timely receipt. We cannot guarantee that comments mailed will be received before the comment closing date.

Electronic comments may be submitted to: hai_m_tran@omb.eop.gov. Please include "Cost Principles Revision Comments" in the subject line and put the full body of your comments in the text of the electronic message and as an attachment. Please include your name, title, organization, postal address, telephone number, and E-mail address in the text of the message. Comments may also be submitted via facsimile to 202-395-4915.

Comments may be mailed to Gilbert Tran, Office of Federal Financial Management, Office of Management and Budget, Room 6025, New Executive Office Building, NW, Washington, DC 20503.

FOR FURTHER INFORMATION CONTACT: Gilbert Tran, Office of Federal Financial Management, Office of Management and Budget, (202) 395-3052 (direct) or (202) 395-3993 (main office) and E-mail: hai_m_tran@omb.eop.gov.

SUPPLEMENTARY INFORMATION:

Background

The Federal Financial Assistance Management Improvement Act of 1999 (P.L.106-107) provides both a mandate and a challenge for the administration of Federal financial assistance programs and activities. The purposes of P. L. 106-107 are to (1) improve the effectiveness and performance of Federal financial assistance programs, (2) simplify Federal financial assistance application and reporting requirements, (3) improve the delivery of services to the public, and (4) facilitate greater coordination among those responsible for delivering the services. Federal

financial assistance includes grants, cooperative agreements, loans, loan guarantees, scholarships, and other forms of assistance.

The grant and cooperative agreement portion of that enterprise, commonly referred to as “grants,” involves more than 600 programs and their subprograms, with awards of more than \$325 billion a year administered by 26 Federal agencies. Grant programs stimulate or support public purposes in areas such as health, social services, law enforcement, agriculture, housing, community and regional development, economic development, education and training, and national security. Many of these programs require complex arrangements, such as intergovernmental coordination or public-private partnerships, to coordinate and deliver the needed services. Among the recipient constituencies are State, local, and Native American tribal governments, public housing authorities and resident organizations, and private, non-profit organizations, including institutions of higher education. The funding mechanisms for these programs include mandatory grants, such as formula and block grants, and discretionary grants and cooperative agreements in support of specific programs or projects.

P. L. 106-107 states that some Federal administrative requirements are duplicative, burdensome, and conflicting, sometimes impeding cost-effective delivery of services at the local level. Grant recipients deal with increasingly complex problems that require the delivery and coordination of many kinds of services. Their need to respond to numerous Federal grant administration requirements only adds to that complexity.

Implementation of P. L. 106-107

The Director of OMB partnered with the Department of Health and Human Services (HHS) and the former Grants Management Committee (GMC) of the Chief Financial Officers Council to coordinate and oversee the government-wide implementation of P. L. 106-107. Five interagency groups were established to implement the steps laid out in the plan that was submitted to Congress and OMB on May 18, 2001.

The General Policy and Oversight group provides detailed oversight of the other work groups' planning and implementation efforts and is examining broad issues. Three groups represent various parts of the grant life cycle: Pre-Award; Post-Award; and Audit Oversight. The Electronic Processing group supports the development of an electronic option for application for and reporting of grants.

The Post-Award group includes a cost consistency sub-group charged with reviewing the cost principles in OMB Circulars A-21, A-87, and A-122 to ensure they are current, consistent, and appropriate for covered recipients. The sub-group's objectives are to make the descriptions of similar cost items consistent, where possible, and reduce the possibility of misinterpretation by clarifying existing policies. The sub-group's mission did not include adding restrictions or modifying current requirements.

The three OMB's cost circulars established government-wide principles for costs incurred under Federal awards (Circulars A-21, "Cost Principles for Educational Institutions;" A-87, "Cost Principles for State, Local and Indian Tribal Governments;" and A-122, "Cost Principles for Non-Profit Organizations"). These cost principles specify allowable and unallowable costs. The

three circulars apply to different types of recipient entities and were developed accordingly. As a result, in a number of cases, similar cost items are described in varying terms. This can cause inconsistent interpretations by Federal staff, recipients, and auditors. Public comments indicate the need for language that is more consistent and for clarification regarding some aspects of the cost principles. Many Federal assistance grant programs require organizations that are subject to different cost circulars to work together in consortia to achieve the objectives of a grant program. It is important in these situations that, to the greatest extent possible, all participants in a consortium be subject to the same treatment for the same kinds of transactions.

The groups' focused initially on the definitions in the circulars and the 30 cost items that appear in all three cost circulars. They drafted common descriptions for those cost items that should have similar treatment, but are currently described differently. Where different outcomes are intended, the language should definitely show the difference. Those cost items that are currently in one or more but not all of the circulars also have been reviewed to determine if it is appropriate and beneficial to include them in one or both of the other cost circulars. In those cases where the groups believe that a cost principle in one circular might be applicable to entities subject to the other circulars, they have tried to state the principle in such a way that it does not change the current policy in the circulars to which the principle is added. In all of the cases where a cost principle in one circular has been applied to one or both of the other circulars, we have done that only to clarify that the outcome is the same under the circular(s) to which the principle is added.

The approach included:

- Reviewing the cost item descriptions in all the circulars;
- Noting the similarities and differences in the descriptions;
- Researching the history of the cost policies related to the cost item;
- Determining if the cost policies are consistent among the circulars;
- Preparing common language, where possible, for the descriptions of those cost items that have a consistent cost policy basis; and
- Restating the principles in simpler language, to the extent possible without changing the meaning of the principles.

Presentation of the Circulars

Rather than include the revised language in the three cost principles separately, the team created a chart that allows side-by-side comparison of proposed changes to the language contained in the current circulars. In addition, the three circulars use different standard terminology to refer to “recipients” and “awards;” the groups adopted conventions for the circulars so they would all use the same standard terminology. The conventions are as follows:

<u>Proposed change language</u>	<u>Existing terms in A-21, A-87, and A-122</u>
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"Non-Federal entity"

"Institution," "unit of government" and "organization"

"Federal award"

"Sponsored agreement," "Federal award" and "Sponsored award"

When the cost principles are published in final form, OMB will use the new conventions in the revised version. However, OMB plans to use the same words to describe the units of organization, i.e., A-21 would still be divided into "sections" and "subsections" while A-87 and A-122 would still use "paragraphs" and "subparagraphs."

Clarity of the Regulations

Executive Order 12866, *Regulatory Planning and Review*, and the Presidential memorandum on "Plain Language in Government Writing" require each agency to write regulations that are easy to understand. OMB invites comments on how to make these cost principles easier to understand, including answers to questions such as the following:

- Are the requirements in the proposed circulars clearly stated?
- Do the cost principles contain technical terms or other wording that interferes with their clarity?
- Would the cost principles be easier to understand if divided into more (but shorter) paragraphs or sections; or used the question and answer format?
- What else would make the proposed circulars easier to understand?

To give commenters an idea about how a circular might appear in plain language, the groups provided at the end of the chart a plain language version of one cost item to show how it would look in a different style of drafting.

Send any comments that concern how we could make these proposed regulations easier to understand to the person listed in the ADDRESSES section of the preamble. If the comments generated by the plain language treatment indicate that the circulars could be written using this convention, OMB will publish any changes based on those comments for another round of comment.

Inadvertent Changes in Policy

OMB has not attempted to change the policy in any of the circulars. However, in the effort to make the language more consistent, some unintended changes in policy may have been made. OMB encourages comments on any proposed changes that could be construed as changes to current policy.

Also, there are places where different language in the current circulars for a particular treatment could be viewed either as intending the same or intending different policies. When faced with this ambiguity, in most cases, OMB has not attempted to write a common treatment. However, OMB is interested in comments on the extent to which some of these treatments could be viewed as expressing the same policy in all three circulars.

Response to Public Bodies and Cost Shifting

Where professional bodies such as the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB) have issued pronouncements that contradicted existing circular provisions or otherwise clarified “generally accepted accounting principles” (GAAP), the policy of the professional bodies has been reflected in this draft.

Lastly, in the process of reviewing the circulars for better consistency and clarity, we concluded that this provided another opportunity to address an area of much confusion concerning one of the general standards contained in A-87, Attachment A, C.3., Allocable costs. In attempting to recognize situations where two or more Federal programs might allow identical services or assistance and served the identical population, an effort was made to distinguish between ‘funding allocations’ vs. ‘cost allocation’. Unfortunately, this section was phrased in a manner that could be interpreted as allowing cost shifting. Cost shifting has always been unallowable. The confusing language has been eliminated in this Notice and no change in policy is intended. The following reflects the proposed revision to OMB Circular A-87, Attachment A, C.3.c., where the last sentence in brackets would be deleted.

“Any cost allocable to a particular Federal award or cost objective under the principles provided for in this Circular may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of Federal awards, or for other reasons. [However, this prohibition would not preclude governmental units from shifting costs that are allowable under two or more awards in accordance with existing program agreements.]”

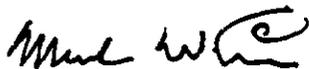
Organization of the Chart

In the chart, the first column lists the current A-21 item, the second column lists the similar item, if any, from A-87, the third column lists the similar item, if any, from A-122 and the fourth column lists any proposed change to the item and which of the circulars would include the revised item. In some cases one or more of the circulars do not have a cost item that is included in one or more of the other circulars. If a circular does not have an item equivalent to the other circulars, the column for that circular is blank. Also, given the separate development of the three circulars, some items contain more than one concept and some of those concepts are stated in different places in the other circulars. In some cases, we have moved a cost item in one circular to the place where that item appears in the other circulars. In every case where one circular handles an item in a different place than the others, we explain in the fourth column where we propose to treat a particular concept in the three circulars.

How to Obtain the Chart

Due to its size, the chart is not printed in this *Federal Register* notice. It is displayed on the OMB website at: <http://www.omb.gov> under the "Grants Management/Current Documents" section. You can also request a hard copy by calling Gilbert Tran at (202) 395-3052.

Date



Mark W. Everson

Controller

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
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Cost items in all three circulars			
1. Advertising and public relations costs.	2. Advertising and public relations costs.	1. Advertising and public relations costs.	Advertising and public relations costs.
			<i>All three circulars would be amended to add "electronic or computer transmittals" to the list of examples of advertising media.</i>
<p>a. The term advertising costs means the costs of advertising media and corollary administrative costs.</p> <p>Advertising media include magazines, newspapers, radio and television programs, direct mail, exhibits, and the like.</p>	<p>a. The term "advertising costs" means the costs of advertising media and corollary administrative costs.</p> <p>Advertising media include magazines, newspapers, radio and television programs, direct mail, exhibits, and the like.</p>	<p>a. The term advertising costs means the costs of advertising media and corollary administrative costs.</p> <p>Advertising media include magazines, newspapers, radio and television programs, direct mail, exhibits, and the like.</p>	<p>a. The term advertising costs means the costs of advertising media and corollary administrative costs.</p> <p>Advertising media include magazines, newspapers, radio and television, direct mail, exhibits, electronic or computer transmittals and the like.</p>
<p>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.</p>	<p>b. The term "public relations" includes community relations and means those activities dedicated to maintaining the image of the governmental unit or maintaining or promoting understanding and favorable relations with the community or public at large or any segment of the public.</p>	<p>b. The term public relations includes community relations and means those activities dedicated to maintaining the image of the organization or maintaining or promoting understanding and favorable relations with the community or public at large or any segment of the public.</p>	<p>b. The term public relations includes community relations and means those activities dedicated to maintaining the image of the non-Federal entity or maintaining or promoting understanding and favorable relations with the community or public at large or any segment of the public.</p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
			<p><i>Circular A-87</i></p> <p><i>The lead-in to paragraph c. for A-87 would be revised to conform to the language in the other two circulars, to read as follows:</i></p>
<p>c. The only allowable advertising costs are those which are solely for:</p>	<p>c. Advertising costs are allowable only when incurred for</p>	<p>c. The only allowable advertising costs are those which are solely for:</p>	<p>c. The only allowable advertising costs are those which are solely for:</p>
			<p><i>All three circulars would be revised to use standard language for recruitment advertising.</i></p>
<p>(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;</p>	<p>the recruitment of personnel,</p>	<p>(1) The recruitment of personnel required for the performance by the organization of obligations arising under a sponsored award, when considered in conjunction with all other recruitment costs, as set forth in paragraph 44 ("Recruiting costs");</p>	<p>(1) The recruitment of personnel required for the performance by the entity of obligations arising under a Federal award;</p>
			<p><i>All three circulars would be revised to use the same standard language.</i></p>
<p>(2) The procurement of goods and services for the performance of the sponsored agreement;</p>	<p>the procurement of goods and services,</p>	<p>(2) The procurement of goods and services for the performance of a sponsored award;</p>	<p>(2) The procurement of goods and services for the performance of a Federal award;</p>
			<p><i>All three circulars would</i></p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
			<i>be revised to use the same standard language.</i>
(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	the disposal of surplus materials, and any other specific purposes necessary to meet the requirements of the Federal award. Advertising costs associated with the disposal of surplus materials are not allowable where all disposal costs are reimbursed based on a standard rate as specified in the grants management common rule.	(3) The disposal of scrap or surplus materials acquired in the performance of a sponsored award except when organizations are reimbursed for disposal costs at a predetermined amount in accordance with OMB Circular A-110, Sec.____.34, "Equipment"; or	(3) The disposal of scrap or surplus materials acquired in the performance of a Federal award except when entities are reimbursed for disposal costs at a predetermined amount; or
			<i>The general provision would be added to A-87, to read as follows:</i>
(4) Other specific purposes necessary to meet the requirements of the sponsored agreement.		(4) Other specific purposes necessary to meet the requirements of the sponsored award.	(4) Other specific purposes necessary to meet the requirements of the Federal award.
			<i>All three circulars would be revised to use the same standard language.</i>
d. The only allowable public relations costs are: (1) Costs specifically required by sponsored agreements;	d. Public relations costs are allowable when: Specifically required by the Federal award and then only as a direct cost;	d. The only allowable public relations costs are: (1) Costs specifically required by sponsored awards;	d. The only allowable public relations costs are: (1) Costs specifically required by the Federal award;
			<i>All three circulars would be revised to use the same standard</i>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
(2) Costs of communicating with the public and press pertaining to specific activities or accomplishments which result from performance of sponsored agreements; or	(2) Incurred to communicate with the public and press pertaining to specific activities or accomplishments that result from performance of the Federal award and then only as a direct cost; or	(2) Costs of communicating with the public and press pertaining to specific activities or accomplishments which result from performance of sponsored awards (these costs are considered necessary as part of the outreach effort for the sponsored awards); or	<i>language.</i> (2) Costs of communicating with the public and press pertaining to specific activities or accomplishments which result from performance of Federal awards (these costs are considered necessary as part of the outreach effort for the Federal award); or
			<i>All three circulars would be revised to use the same standard language.</i>
(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.	(3) Necessary to conduct 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 Federal contract/grant awards, financial matters, etc.	(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.	(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 Federal contract/grant awards, financial matters, etc.
			<i>All three circulars would be revised to use the same standard language.</i>
e. Costs identified in subsections c and d if incurred for more than		e. Costs identified in subparagraphs c and d if incurred for more than	e. Costs identified in subsections c and d if incurred for more than one Federal award or for

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>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.</p>		<p>one sponsored award or for both sponsored work and other work of the organization, are allowable to the extent that the principles in paragraphs B ("Direct Costs") and C ("Indirect Costs") of Attachment A are observed.</p>	<p>both sponsored work and other work of the entity, are allowable to the extent that the principles in Sections b. ("Direct Costs") and c. ("Indirect Costs") of Attachment A are observed.</p>
			<p><i>All three circulars would use the same standard language.</i></p>
<p>f. Unallowable advertising and public relations costs include the following:</p> <p>(1) All advertising and public relations costs other than as specified in subsections c, d, and e;</p>	<p>e. Unallowable advertising and public relations costs include the following:</p> <p>(1) All advertising and public relations costs other than as specified in subsections c. and d.;</p>	<p>f. Unallowable advertising and public relations costs include the following:</p> <p>(1) All advertising and public relations costs other than as specified in subparagraphs c, d, and e;</p>	<p>f. Unallowable advertising and public relations costs include the following:</p> <p>(1) All advertising and public relations costs other than as specified in [subsections] [subparagraphs] c, d, and e;</p>
			<p><i>All three circulars would be revised to use the same standard language.</i></p>
<p>(2) Costs of convocations or other events related to instruction or other institutional activities including:</p>	<p>(2) Except as otherwise permitted by these cost principles, costs of conventions, meetings, or other events related to other activities of the governmental unit including:</p>	<p>(2) Costs of meetings or other events related to fund raising or other organizational activities including:</p>	<p>(2) Costs of meetings, conventions, convocations or other events related to other activities of the non-Federal entity including:</p>
<p>(i) Costs of displays, demonstrations, and exhibits;</p>	<p>(a) Costs of displays, demonstrations, and exhibits;</p>	<p>(i) Costs of displays, demonstrations, and exhibits;</p>	<p>(a) Costs of displays, demonstrations, and exhibits;</p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
(ii) Costs of meeting rooms, hospitality suites, and other special facilities used in conjunction with shows and other special events; and	(b) Costs of meeting rooms, hospitality suites, and other special facilities used in conjunction with shows and other special events; and	(ii) Costs of meeting rooms, hospitality suites, and other special facilities used in conjunction with shows and other special events; and	(b) 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;	(c) Salaries and wages of employees engaged in setting up and displaying exhibits, making demonstrations, and providing briefings;	(iii) Salaries and wages of employees or cost of services engaged in setting up and displaying exhibits, making demonstrations, and providing briefings;	(c) 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;	(3) Costs of promotional items and memorabilia, including models, gifts, and souvenirs; and	(3) Costs of promotional items and memorabilia, including models, gifts, and souvenirs;	(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.	(4) Costs of advertising and public relations designed solely to promote the governmental unit.	(4) Costs of advertising and public relations designed solely to promote the organization.	(4) Costs of advertising and public relations designed solely to promote the non-Federal entity.
2. Alcoholic beverages. Costs of alcoholic beverages are unallowable.	4. Alcoholic beverages. Costs of alcoholic beverages are unallowable.	2. Alcoholic beverages. Costs of alcoholic beverages are unallowable.	2. Alcoholic beverages. <i>No Change.</i>
4. Bad debts.	7. Bad debts.	3. Bad debts.	Bad debts.
			<i>All three circulars would be revised to use the same standard language. The A-87 version would contain added language providing an exception</i>

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Any losses, whether actual or estimated, arising from uncollectable accounts and other claims, related collections costs, and related legal costs, are unallowable.	Any losses arising from uncollectable accounts and other claims, and related costs, are unallowable unless provided for in Federal program award regulations.	Bad debts, including losses (whether actual or estimated) arising from uncollectable accounts and other claims, related collection costs, and related legal costs, are unallowable.	<i>[as set out in brackets], to read as follows:</i> Bad debts, including losses (whether actual or estimated) arising from uncollectable accounts and other claims, related collection costs, and related legal costs, are unallowable [A-87 only: unless provided for in Federal program award regulations].
7. Communication costs.	10. Communications.	6. Communication costs.	Communication costs.
			<i>All three circulars would be revised to use the same standard language. A new item has been added to reflect recent technological developments, adding "electronic or computer transmittal services" to all three circulars, to read as follows:</i>
Costs incurred for telephone services, local and long distance telephone calls, telegrams, radiograms, postage and the like, are allowable.	Costs of telephone, mail, messenger, and similar communication services are allowable.	Costs incurred for telephone services, local and long distance telephone calls, telegrams, radiograms, postage and the like are allowable.	Costs incurred for telephone services, local and long distance telephone calls, telegrams, radiograms, postage, messenger, electronic or computer transmittal services and the like are allowable.
8. Compensation for personal services.	11. Compensation for personnel services.	7. Compensation for personal services.	7. Compensation for personal services.
			<i>All three circulars would be unchanged, based on significant differences.</i>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
			<i>To the extent the circulars have similar provisions, those provisions are generally displayed together for comparison. A few paragraphs would be revised to the extent that they have the same substantive outcomes</i>
<p>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.</p>	<p>General. Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards,</p>	<p>a. Definition. Compensation for personal services includes all compensation paid currently or accrued by the organization for services of employees rendered during the period of the award (except as otherwise provided in subparagraph h).</p>	
<p>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</p>	<p>including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this Circular, and that the total compensation for individual employees:</p>	<p>It includes, but is not limited to, salaries, wages, director's and executive committee member's fees, incentive awards, fringe benefits, pension plan costs, allowances for off-site pay, incentive pay, location allowances, hardship pay, and cost of living differentials.</p> <p>b. Allowability. Except as otherwise specifically provided in this paragraph, the costs of such compensation are allowable to the extent</p>	

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
below.		that: (1) Total compensation to individual employees is	
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	1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non-Federal activities;	reasonable for the services rendered and conforms to the established policy of the organization consistently applied to both Federal and non-Federal activities; and	

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
institution.	(2) Follows an appointment made in accordance with a governmental unit's laws and rules and meets merit system or other requirements required by Federal law, where applicable; and		
	(3) Is determined and supported as provided in subsection h.	(2) Charges to awards whether treated as direct or indirect costs are determined and supported as required in this paragraph.	
	<p>b. Reasonableness.</p> <p>Compensation for employees engaged in work on Federal awards will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the governmental unit. In cases where the kinds of employees required for Federal awards are not found in the other activities of the governmental unit, compensation will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the employing government</p>	<p>c. Reasonableness.</p> <p>(1) When the organization is predominantly engaged in activities other than those sponsored by the Federal Government, compensation for employees on federally-sponsored work will be considered reasonable to the extent that it is consistent with that paid for similar work in the organization's other activities.</p> <p>(2) When the organization is predominantly engaged in federally-sponsored activities and in cases where the kind of</p>	

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	<p>competes for the kind of employees involved. Compensation surveys providing data representative of the labor market involved will be an acceptable basis for evaluating reasonableness.</p>	<p>employees required for the Federal activities are not found in the organization's other activities, compensation for employees on federally-sponsored work will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor markets in which the organization competes for the kind of employees involved.</p> <p>d. Special considerations in determining allowability. Certain conditions require special consideration and possible limitations in determining costs under Federal awards where amounts or types of compensation appear unreasonable. Among such conditions are the following:</p> <p>(1) Compensation to members of non-profit organizations, trustees, directors, associates, officers, or the immediate families thereof. Determination should be made that such compensation is reasonable for the actual personal services rendered rather than a</p>	

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
		<p>distribution of earnings in excess of costs.</p> <p>(2) Any change in an organization's compensation policy resulting in a substantial increase in the organization's level of compensation, particularly when it was concurrent with an increase in the ratio of Federal awards to other activities of the organization or any change in the treatment of allowability of specific types of compensation due to changes in Federal policy.</p>	
	<p>c. Unallowable costs. Costs which are unallowable under other sections of these principles shall not be allowable under this section solely on the basis that they constitute personnel compensation.</p>	<p>e. Unallowable costs. Costs which are unallowable under other paragraphs of this Attachment shall not be allowable under this paragraph solely on the basis that they constitute personal compensation.</p>	
<p><i>d. Salary rates for faculty members.</i></p> <p>(1) Salary rates for academic year. Charges for work performed on sponsored agreements by faculty members during</p>			

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<p>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</p>			

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<p>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.</p> <p>(2) Periods outside the academic year.</p> <p>(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</p>			

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<p>the number of months covered by the faculty member's official academic year appointment.</p> <p>(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.</p> <p>(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-</p>			

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<p>half of \$5000, or \$2500.</p> <p><i>e. Noninstitutional professional activities.</i></p> <p>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-</p>			

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case basis.			
f. Fringe benefits.	d. Fringe benefits.	f. Fringe benefits.	Fringe Benefits.
			<p><i>Paragraph (f) (1) of the current A-21 would be amended by removing the cross reference to Sabbatical leave, which appears at the end of that section. Sabbatical leave would be moved from its current location at section 40 of A-21 and added to fringe benefits as new sub-sections (a) and (b) at the end of section f. (1). The treatment of sabbatical leave would not be applied to A-87 or A-122. the revised section f. (1) would read as follows:</i></p>
<p>(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</p>	<p>(1) Fringe benefits are allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave, employee insurance, pensions, and unemployment benefit plans. Except as provided elsewhere in these principles, the costs of fringe benefits are allowable to the extent that the benefits are reasonable and are required by law,</p>	<p>(1) Fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as vacation leave, sick leave, military leave, and the like, are allowable, provided such costs are absorbed by all organization activities in proportion to the relative amount of time or effort actually devoted to each.</p>	<p>(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.</p> <p>(a) Costs of leave of absences by employees for performance of graduate</p>

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<p>leave.</p>	<p>governmental unit-employee agreement, or an established policy of the governmental unit.</p> <p>(2) The cost of 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, holidays, court leave, military leave, and other similar benefits, are allowable if: (a) they are provided under established written leave policies; (b) the costs are equitably allocated to all related activities, including Federal awards; and, (c) the accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the governmental unit.</p> <p>(3) When a governmental unit uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid for. Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the</p>		<p>work or sabbatical study, travel, or research are allowable provided the non-Federal entity 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 non-Federal entity.</p> <p>(b) If 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 non-Federal entity during the base period must be reasonable in relation to the non-Federal entity's actual experience under its sabbatical leave policy.</p>

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	<p>governmental unit or component.</p> <p>(4) The accrual basis may be only used for those types of leave for which a liability as defined by Generally Accepted Accounting Principles (GAAP) exists when the leave is earned. When a governmental unit uses the accrual basis of accounting, in accordance with GAAP, allowable leave costs are the lesser of the amount accrued or funded.</p> <p>(5) The cost of fringe benefits in the form of employer contributions or expenses for social security; employee life, health, unemployment, and worker's compensation insurance (except as indicated in section 25, Insurance and indemnification); pension plan costs (see subsection e.); and other similar benefits are allowable, provided such benefits are granted under established written policies. Such benefits, whether treated as indirect costs or as direct costs, shall be allocated to Federal awards and all other activities in a manner consistent with the</p>		

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	<p>pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such Federal awards and other activities.</p>	<p>(3) (a) Provisions for a</p>	

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		<p>reserve under a self-insurance program for unemployment compensation or workers' compensation are allowable to the extent that the provisions represent reasonable estimates of the liabilities for such compensation, and the types of coverage, extent of coverage, and rates and premiums would have been allowable had insurance been purchased to cover the risks. However, provisions for self-insured liabilities which do not become payable for more than one year after the provision is made shall not exceed the present value of the liability.</p> <p>(b) Where an organization follows a consistent policy of expensing actual payments to, or on behalf of, employees or former employees for unemployment compensation or workers' compensation, such payments are allowable in the year of payment with the prior approval of the awarding agency, provided they are allocated to all activities of the organization.</p>	

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		<p>(4) Costs of insurance on the lives of trustees, officers, or other employees holding positions of similar responsibility are allowable only to the extent that the insurance represents additional compensation. The costs of such insurance when the organization is named as beneficiary are unallowable.</p>	
<p>(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</p>		<p>(2) Fringe benefits in the form of employer contributions or expenses for social security, employee insurance, workmen's compensation insurance, pension plan costs (see subparagraph h), and the like, are allowable, provided such benefits are granted in accordance with established written organization policies. Such benefits whether treated as indirect costs or as direct costs, shall be distributed to particular awards and other activities in a manner consistent with the pattern of benefits accruing to the individuals or group of employees whose salaries and wages are chargeable to such awards and other</p>	

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remission provided to students.		activities.	
<p>(3) Rules for pension plan costs are as follows:</p> <p>(a) Costs of the institution's pension plan which are incurred in accordance with the established policies of the institution are allowable, provided:</p>	<p>e. Pension plan costs.</p> <p>Pension plan costs may be computed using a pay-as-you-go method or an acceptable actuarial cost method in accordance with established written policies of the governmental unit.</p>	<p>h. Pension plan costs.</p> <p>(1) Costs of the organization's pension plan which are incurred in accordance with the established policies of the organization are allowable, provided:</p>	
(i) such policies meet the test of reasonableness,		(a) Such policies meet the test of reasonableness;	
(ii) the methods of cost allocation are equitable for all activities,		(b) The methods of cost allocation are not discriminatory;	
(iii) the amount of pension cost assigned to each fiscal year is determined in accordance with subsection (b), and		(c) The cost assigned to each fiscal year is determined in accordance with generally accepted accounting principles (GAAP), as prescribed in Accounting Principles Board Opinion No. 8 issued by the American Institute of Certified Public Accountants; 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,		(d) The costs assigned to a given fiscal year are funded for all plan participants within six months after the end of that year. However,	

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<p>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.</p>		<p>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.</p>	
<p>(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).</p>			
<p>(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.</p>		<p>(2) Pension plan termination insurance premiums paid 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.</p>	
<p>Excise taxes on accumulated funding deficiencies and prohibited transactions of pension plan fiduciaries imposed under ERISA are also unallowable.</p>		<p>(3) Excise taxes on accumulated funding deficiencies and other penalties imposed under ERISA are unallowable.</p>	

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	<p>(1) For pension plans financed on a pay-as-you-go method, allowable costs will be limited to those representing actual payments to retirees or their beneficiaries.</p> <p>(2) Pension costs calculated using an actuarial cost- based method recognized by GAAP are allowable for a given fiscal year if they are funded for that year within six months after the end of that year. Costs funded after the six month period (or a later period agreed to by the cognizant agency) are allowable in the year funded. The cognizant agency may agree to an extension of the six month period if an appropriate adjustment is made to compensate for the timing of the charges to the Federal Government and related Federal reimbursement and the governmental unit's contribution to the pension fund. Adjustments may be made by cash refund or other equitable procedures to compensate the Federal Government for the time value of Federal reimbursements in excess of contributions to the</p>		

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
	<p>pension fund.</p> <p>3) Amounts funded by the governmental unit in excess of the actuarially determined amount for a fiscal year may be used as the governmental unit's contribution in future periods.</p> <p>(4) When a governmental unit converts to an acceptable actuarial cost method, as defined by GAAP, and funds pension costs in accordance with this method, the unfunded liability at the time of conversion shall be allowable if amortized over a period of years in accordance with GAAP.</p> <p>(5) The Federal Government shall receive an equitable share of any previously allowed pension costs (including earnings thereon) which revert or inure to the governmental unit in the form of a refund, withdrawal, or other credit.</p> <p>f. Post-retirement health benefits. Post-retirement health benefits (PRHB) refers to costs of health insurance or health services not included in a pension plan covered by</p>		

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	<p>subsection e. for retirees and their spouses, dependents, and survivors. PRHB costs may be computed using a pay-as-you-go method or an acceptable actuarial cost method in accordance with established written policies of the governmental unit.</p> <p>(1) For PRHB financed on a pay as-you-go method, allowable costs will be limited to those representing actual payments to retirees or their beneficiaries.</p> <p>2) PRHB costs calculated using an actuarial cost method recognized by GAAP are allowable if they are funded for that year within six months after the end of that year. Costs funded after the six month period (or a later period agreed to by the cognizant agency) are allowable in the year funded. The cognizant agency may agree to an extension of the six month period if an appropriate adjustment is made to compensate for the timing of the charges to the Federal Government and related Federal reimbursements and the governmental unit's</p>		

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	<p>contributions to the PRHB fund. Adjustments may be made by cash refund, reduction in current year's PRHB costs, or other equitable procedures to compensate the Federal Government for the time value of Federal reimbursements in excess of contributions to the PRHB fund.</p> <p>(3) Amounts funded in excess of the actuarially determined amount for a fiscal year may be used as the government's contribution in a future period.</p> <p>(4) When a governmental unit converts to an acceptable actuarial cost method and funds PRHB costs in accordance with this method, the initial unfunded liability attributable to prior years shall be allowable if amortized over a period of years in accordance with GAAP, or, if no such GAAP period exists, over a period negotiated with the cognizant agency.</p> <p>(5) To be allowable in the current year, the PRHB costs must be paid either to:</p>		

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
	<p>(a) An insurer or other benefit provider as current year costs or premiums, or</p> <p>(b) An insurer or trustee to maintain a trust fund or reserve for the sole purpose of providing post-retirement benefits to retirees and other beneficiaries.</p> <p>(6) The Federal Government shall receive an equitable share of any amounts of previously allowed post-retirement benefit costs (including earnings thereon) which revert or inure to the governmental unit in the form of a refund, withdrawal, or other credit.</p>		
<p>(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</p>			

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<p>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.</p>			
<p>43. <i>Severance pay.</i></p>	<p>g. <i>Severance pay.</i></p>	<p>k. <i>Severance pay. See paragraph 49.</i></p>	<p><i>Severance pay.</i></p>
			<p><i>The cross reference in A-122 would be removed and the treatments of severance pay in both A-21 and A-122 would be moved to this part of the circular to be consistent with A-87 and among other treatments relating to compensation for personal services. For purposes of comparison, the severance pay provisions of all three circulars are presented here.</i></p>
<p>a. <i>Severance pay is</i></p>	<p>(1)</p>	<p>a. <i>Severance pay, also commonly referred to as</i></p>	

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>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</p> <p>by law, by</p> <p>employer-employee agreement, by</p> <p>established policy that constitutes in effect an implied agreement on the institution's part, or by</p> <p>circumstances of the particular employment.</p> <p>b. Severance payments that are due to normal recurring turnover and which otherwise meet the conditions of subsection a may be allowed provided</p>	<p>Payments in addition to regular salaries and wages made to</p> <p>workers whose employment is being terminated are allowable to the extent that, in each case, they are required</p> <p>by (a) law, (b)</p> <p>employer-employee agreement, or</p> <p>(c) established written policy.</p> <p>(2) Severance payments</p>	<p>dismissal wages, is a payment in addition to regular salaries and wages, by organizations to workers whose employment is being terminated. Costs of severance pay are allowable only to the extent that in each case, it is required</p> <p>by (i) law,</p> <p>(ii) employer-employee agreement,</p> <p>(iii) established policy that constitutes, in effect, an implied agreement on the organization's part, or</p> <p>(iv) circumstances of the particular employment.</p> <p>b. Costs of severance payments are divided into two categories as follows:</p> <p>(1) Actual normal turnover severance payments</p> <p>shall be allocated to all activities; or, where the organization provides for a reserve for normal severances, such method will be acceptable if</p> <p>the charge to current</p>	

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<p>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.</p> <p>c. Severance payments that are due to abnormal or mass terminations are of</p> <p>such conjectural nature that allowability must be determined on a case-by-case basis.</p> <p>However, the Federal Government recognizes its obligation to</p> <p>participate, to the extent of its fair share, in any specific payment.</p>	<p>(but not accruals) associated with normal turnover are allowable. Such payments shall be allocated to all activities of the governmental unit as an indirect cost.</p> <p>(3) Abnormal or mass severance pay will be considered on a case-by-case basis and is allowable only if approved by the cognizant Federal agency.</p>	<p>operations is reasonable in light of payments actually made for normal severances over a representative past period, and if amounts charged are allocated to all activities of the organization.</p> <p>(2) Abnormal or mass severance pay is of</p> <p>such a conjectural nature that measurement of costs by means of an accrual will not achieve equity to both parties. Thus, accruals for this purpose are not allowable.</p> <p>However, the Federal Government recognizes its obligation to participate, to the extent of its fair share, in any specific payment. Thus, allowability will be considered on a case-by-case basis in the event or occurrence.</p> <p>c. Costs incurred in certain severance pay packages (commonly known as "a golden parachute" payment) which are in an</p>	

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<p>d. Costs incurred</p> <p>in excess of the institution's normal severance pay policy applicable to all persons employed by the institution upon termination of employment are unallowable.</p>		<p>amount</p> <p>in excess of the normal severance pay paid by the organization to an employee upon termination of employment and are paid to the employee contingent upon a change in management control over, or ownership of, the organization's assets are unallowable.</p> <p>d. Severance payments to foreign nationals employed by the organization outside the United States, to the extent that the amount exceeds the customary or prevailing practices for the organization in the United States are unallowable, unless they are necessary for the performance of Federal programs and approved by awarding agencies.</p> <p>e. Severance payments to foreign nationals employed by the organization outside the United States due to the termination of the foreign national as a result of the closing of, or curtailment of activities by, the organization in that country, are unallowable, unless they are necessary for the performance of</p>	

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		Federal programs and approved by awarding agencies.	
		<p>i. Incentive compensation.</p> <p>Incentive compensation to employees based on cost reduction, or efficient performance, suggestion awards, safety awards, etc., are allowable to the extent that the overall compensation is determined to be reasonable and such costs are paid or accrued pursuant to an agreement entered into in good faith between the organization and the employees before the services were rendered, or pursuant to an established plan followed by the organization so consistently as to imply, in effect, an agreement to make such payment.</p>	<p>Incentive compensation.</p> <p><i>No change.</i></p>
		<p>j. Overtime, extra-pay shift, and multi-shift premiums. See paragraph 32.</p>	<p>Overtime, extra-pay shift, and multi-shift premiums.</p> <p><i>The cross reference in A-122, paragraph j. would be removed and replaced by the provisions in paragraph 32. These provisions are edited and added to circulars A-21 and A-87. See the third</i></p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
			<i>part of this table regarding provisions only in one circular.</i>
<p>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.</p>		<p>g. Organization-furnished automobiles. That portion of the cost of organization-furnished automobiles that relates to personal use by employees (including transportation to and from work) is unallowable as fringe benefit or indirect costs regardless of whether the cost is reported as taxable income to the employees. These costs are allowable as direct costs to sponsored award when necessary for the performance of the sponsored award and approved by awarding agencies.</p>	
		<p>l. Training and education costs. See paragraph 53.</p>	<p>Training and education costs. <i>This cross reference would be removed.</i></p>
<p>b. Payroll distribution. (1) General Principles.</p>	<p>h. Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.</p>	<p>m. Support of salaries and wages.</p>	
<p>(a) The distribution of salaries and wages, whether treated as direct</p>	<p>(1) Charges to Federal awards for salaries and wages, whether treated as</p>	<p>(1) Charges to awards for salaries and wages, whether treated as direct</p>	

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<p>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.</p>	<p>direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.</p>	<p>costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports, as prescribed in subparagraph (2), except when a substitute system has been approved in writing by the cognizant agency. (See subparagraph E.2 of Attachment A.)</p>	
	<p>(2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.</p>		
<p>(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</p>		<p>(2) Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. In addition, in order to support the allocation of</p>	

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<p>for employee's activities, and (3) distinguish the employees' direct activities from their F&A activities.</p> <p>(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.</p> <p>(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</p>		<p>indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities if a distribution of their compensation between such functions or activities is needed in the determination of the organization's indirect cost rate(s) (e.g., an employee engaged part-time in indirect cost activities and part-time in a direct function).</p>	

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acceptable, if a mutually satisfactory alternative agreement is reached.			
	<p>(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.</p> <p>(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency.</p>		
(2) Criteria for		Reports maintained by	

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<p>Acceptable Methods.</p> <p>(a) The payroll distribution system will</p> <p>(i) be incorporated into the official records of the institution,</p>		<p>non-profit organizations to satisfy these requirements must meet the following standards:</p>	
	<p>Such documentary support will be required where employees work on:</p> <p>(a) More than one Federal award,</p> <p>(b) A Federal award and a non-Federal award,</p> <p>(c) An indirect cost activity and a direct cost activity,</p> <p>(d) Two or more indirect activities which are allocated using different allocation bases, or</p> <p>(e) An unallowable activity and a direct or indirect cost activity.</p>		
	<p>(5) Personnel activity reports or equivalent documentation must meet the following standards:</p>		
<p>(ii) reasonably reflect the activity for which the employee is compensated by the</p>			

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<p>institution, and</p> <p>(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.)</p>			
<p>(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.</p>	<p>(a) They must reflect an after-the-fact distribution of the actual activity of each employee,</p>	<p>(a) The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.</p>	
<p>(c) The payroll distribution system will allow confirmation of</p>	<p>(b) They must account for the total activity for which each employee is</p>	<p>(b) Each report must account for the total activity for which</p>	

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<p>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.</p>	<p>compensated,</p>	<p>employees are compensated and which is required in fulfillment of their obligations to the organization.</p>	
<p>(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.</p>			
<p>(e) Direct and F&A</p>			

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<p>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.</p>			
	<p>(c) They must be prepared at least monthly and must coincide with one or more pay periods, and</p>	<p>(d) The reports must be prepared at least monthly and must coincide with one or more pay periods.</p>	
	<p>(d) They must be signed by the employee.</p>	<p>(c) The reports must be signed by the individual employee, or by a responsible supervisory official having first hand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the</p>	

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		<p>reports.</p> <p>(3) Charges for the salaries and wages of nonprofessional employees, in addition to the supporting documentation described in subparagraphs (1) and (2), must also be supported by records indicating the total number of hours worked each day maintained in conformance with Department of Labor regulations implementing the Fair Labor Standards Act (FLSA) (29 CFR Part 516). For this purpose, the term "nonprofessional employee" shall have the same meaning as "nonexempt employee," under FLSA.</p>	
<p>(f) The system will provide for independent internal evaluations to ensure the system's effectiveness and compliance with the above standards.</p> <p>(g) For systems which meet these standards, the institution will not be required to provide additional support or documentation for the effort actually performed.</p>	<p>(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:</p> <p>(i) The governmental unit's system for establishing the estimates produces reasonable approximations of the</p>		

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<p>c. Examples of Acceptable Methods for Payroll Distribution:</p> <p>(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:</p> <p>(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.</p> <p>(b) The system will reasonably reflect only the activity for which the employee is compensated by the institution (compensation</p>	<p>activity actually performed;</p> <p>(ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and</p> <p>(iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.</p> <p>(6) Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort.</p>		

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<p>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.)</p> <p>(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).</p> <p>(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</p>	<p>(a) Substitute systems which use sampling methods (primarily for Aid to Families with Dependent Children (AFDC), Medicaid, and other public assistance programs) must meet acceptable statistical sampling standards including:</p> <p>(i) The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results except as provided in subsection (c);</p> <p>(ii) The entire time period involved must be covered by the sample; and</p> <p>(iii) The results must be statistically valid and applied to the period being sampled.</p> <p>(b) Allocating charges for the sampled employees' supervisors, clerical and support staffs, based on the results of the sampled employees, will be acceptable.</p> <p>(c) Less than full compliance with the statistical sampling standards noted in subsection (a) may be accepted by the cognizant</p>		

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<p>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.</p> <p>(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.</p> <p>(f) The system will provide for independent internal evaluation to ensure the system's</p>	<p>agency if it concludes that the amounts to be allocated to Federal awards will be minimal, or if it concludes that the system proposed by the governmental unit will result in lower costs to Federal awards than a system which complies with the standards.</p>		

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<p>integrity and compliance with the above standards.</p> <p>(g) In the use of this method, an institution shall not be required to provide additional support or documentation for the effort actually performed.</p> <p>(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.</p> <p>(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).</p> <p>(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</p>			

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<p>differences are indicated by activity records.</p> <p>(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.</p> <p>(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).</p> <p>(e) For professorial and professional staff, the reports will be prepared</p>			

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<p>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.</p> <p>(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).</p> <p>(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.</p> <p>(a) For employees covered by the system, there will be direct cost records to reflect the distribution</p>			

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<p>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).</p> <p>(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.</p> <p>(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).</p> <p>(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.</p>			

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<p>(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.</p> <p>(f) The reports will be prepared each academic term, but no less frequently than every six months.</p> <p>(g) Where the institution uses time cards or other forms of after-the-fact payroll documents as original documentation for payroll and payroll</p>			

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charges, such documents shall qualify as records for this purposes, provided they meet the requirements in subsections (a) through (f).			
	(7) Salaries and wages of employees used in meeting cost sharing or matching requirements of Federal awards must be supported in the same manner as those claimed as allowable costs under Federal awards.	(4) Salaries and wages of employees used in meeting cost sharing or matching requirements on awards must be supported in the same manner as salaries and wages claimed for reimbursement from awarding agencies.	
9. Contingency provisions.	2. Contingencies.	8. Contingency provisions.	Contingency provisions.
			<i>The first sentence of this paragraph would be the same for all three circulars, to read as follows.</i>
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.)	Contributions to a contingency reserve or any similar provision made for events the occurrence of which cannot be foretold with certainty as to time, or intensity, or with an assurance of their happening, are unallowable. The term "contingency reserve" excludes self-insurance reserves (see subsection 25.c.), pension plan reserves (see subsection 11.e.), and post-	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. The term "contingency reserve" excludes self-insurance reserves (see subparagraphs 7.f (3) and 22.a(2) (d); pension funds	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[.] Note: A second sentence would be added to A-21 to conform to A-87 and A-122, however, the cross

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	retirement health and other benefit reserves (see subsection 11.f.) computed using acceptable actuarial cost methods.	(see subparagraph 7.h); and reserves for normal severance pay (see subparagraph 49.b(1)).	<p><i>references are kept general. The other two circulars maintain the specific citations. The remaining text for each follows:</i></p> <p>A-21: ... unallowable, except as noted in the cost principles in this circular regarding self insurance, pensions, severance and post-retirement health costs.</p> <p>A-87: The term "contingency reserve" excludes self-insurance reserves (see subsection 25.c.), pension plan reserves (see subsection 11.e.), and post-retirement health and other benefit reserves (see subsection 11.f.) computed using acceptable actuarial cost methods.</p> <p>A-122: The term "contingency reserve" excludes self-insurance reserves (see subparagraphs 7.f (3) and 22.a(2) (d); pension funds (see subparagraph 7.h): and reserves for normal severance pay (see subparagraph 49.b (1)).</p>
13. Donations and contributions.	13. Contributions and donations.	9. Contributions.	Contributions and donations.

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			<p><i>This treatment would be revised in all three circulars to bring uniformity where possible. Paragraph a and b.(1) would be identical for all three circulars, except for differences in terminology.</i></p>
<p>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.</p> <p>b. Donations or contributions made by the institution, regardless of the recipient, are unallowable.</p>	<p>Contributions and donations, including cash, property, and services, by governmental units to others, regardless of the recipient, are unallowable.</p>	<p>Contributions and donations by the organization to others are unallowable.</p>	<p>a. Contributions or Donations rendered.</p> <p>Contributions or donations, including cash, property, and services, made by the non-Federal entity, regardless of the recipient, are unallowable.</p> <p>b. Donated services received.</p> <p>[A-87 & 122:(1)] [All three:] Donated or volunteer services may be furnished to a non-Federal entity by professional and technical personnel, consultants, and other skilled and unskilled labor. The value of these services is not reimbursable either as a direct or [A-21: F&A] [A-87 & A-122: indirect] cost. However, the value of donated services may be used to meet cost sharing or matching requirements in accordance with [A-21 &</p>

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			<p>122: Circular A-110] [A-87: the Common Rule].</p> <p><i>The following provisions apply only to A-87 & A-122.</i></p> <p>(2) The value of donated services utilized in the performance of a direct cost activity shall, when material in amount, be considered in the determination of the non-Federal entity's indirect costs or rate(s) and, accordingly, shall be allocated a proportionate share of applicable indirect costs [A-87: .</p> <p>(3) To the extent feasible, donated services will be supported by the same methods used by the non-Federal entity to support the allocability of regular personnel services.]</p> <p>[A-122: when the following exist:</p> <p>(a) The aggregate value of the services is material;</p> <p>(b) The services are supported by a significant amount of the indirect costs incurred by the non-Federal</p>

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			<p>entity; and</p> <p>(c) The direct cost activity is not pursued primarily for the benefit of the Federal Government.</p> <p>(3) In those instances where there is no basis for determining the fair market value of the services rendered, the recipient and the cognizant agency shall negotiate an appropriate allocation of indirect cost to the services.</p> <p>(4) Where donated services directly benefit a project supported by an award, the indirect costs allocated to the services will be considered as a part of the total costs of the project. Such indirect costs may be reimbursed under the award or used to meet cost sharing or matching requirements.</p> <p>(5) The value of the donated services may be used to meet cost sharing or matching requirements under conditions described in Sec. __.23 of Circular A-110. Where donated services are treated as indirect costs, indirect cost</p>

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			<p>rates will separate the value of the donations so that reimbursement will not be made.]</p> <p>[A-21: c. Donated property.</p> <p>The value of donated property is not reimbursable 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 property may be used to meet cost sharing or matching requirements, in accordance with Circular A-110.]</p> <p>[A-122: c. Donated goods or space.</p> <p>(1) Donated goods; i.e., expendable personal property/supplies, and donated use of space may be furnished to a non-Federal entity. The value of the goods and space is not reimbursable either as a direct or indirect cost.</p> <p>(2) The value of the donations may be used to meet cost sharing or matching share requirements under the conditions described in</p>

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			Circular A-110. Where donations are treated as indirect costs, indirect cost rates will separate the value of the donations so that reimbursement will not be made.
11. Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringement.	14. Defense and prosecution of criminal and civil proceedings, and claims.	10. Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringement.	Defense and prosecution of criminal and civil proceedings, and claims. <i>No Change.</i>
<p>a. Definitions.</p> <p>"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.</p> <p>"Costs," include, but are not limited to,</p>	<p>a. The following costs are unallowable for contracts covered by 10 U.S.C. 2324(k), "Allowable costs under defense contracts."</p> <p>(1) Costs incurred in defense of any civil or criminal fraud proceeding or similar proceeding (including filing of false certification brought by the United States where the contractor is found liable or has pleaded nolo contendere to a charge of fraud or similar proceeding (including filing of a false certification).</p> <p>(2) Costs incurred by a contractor in connection with any criminal, civil</p>	<p>a. Definitions.</p> <p>(1) Conviction, as used herein, means a judgment or a conviction of a criminal offense by any court of competent jurisdiction, whether entered upon as a verdict or a plea, including a conviction due to a plea of nolo contendere.</p> <p>(2) Costs include, but are not limited to, administrative and clerical expenses; the cost of legal services, whether performed by in-</p>	

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<p>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.</p> <p>"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.</p> <p>"Penalty," does not include restitution, reimbursement, or compensatory damages.</p>	<p>or administrative proceedings commenced by the United States or a State to the extent provided in 10 U.S.C. 2324(k).</p> <p>b. Legal expenses required in the administration of Federal programs are allowable. Legal expenses for prosecution of claims against the Federal Government are unallowable.</p>	<p>house or private counsel; and the costs of the services of accountants, consultants, or others retained by the organization 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.</p> <p>(3) Fraud, as used herein, means (i) acts of fraud 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.</p> <p>(4) Penalty does not include restitution, reimbursement, or compensatory damages.</p> <p>(5) Proceeding includes an investigation.</p> <p>b. (1) Except as otherwise described</p>	

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<p>"Proceeding," includes an investigation.</p> <p>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</p> <p>(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</p> <p>(b) results in any of the following dispositions:</p> <p>(i) In a criminal proceeding, a conviction.</p> <p>(ii) In a civil or administrative proceeding involving an allegation of fraud or similar misconduct, a determination of</p>		<p>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:</p> <p>(1) relates to a violation of, or failure to comply with, a Federal, State, local or foreign statute or regulation by the organization (including its agents and employees), and</p> <p>(2) results in any of the following dispositions:</p> <p>(a) In a criminal proceeding, a conviction.</p> <p>(b) In a civil or administrative proceeding involving an allegation of fraud or similar misconduct, a determination of organizational liability.</p> <p>(c) In the case of any civil or administrative proceeding, the imposition of a monetary penalty.</p> <p>(d) A final decision by</p>	

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<p>institutional liability.</p> <p>(iii) In the case of any civil or administrative proceeding, the imposition of a monetary penalty.</p> <p>(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.</p> <p>(v) A disposition by consent or compromise, if the action could have resulted in any of the dispositions described in subsections (i) through (iv).</p> <p>(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.</p> <p>c. If a proceeding referred to in subsection b is commenced by the</p>		<p>an appropriate Federal official to debar or suspend the organization, 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.</p> <p>(e) A disposition by consent or compromise, if the action could have resulted in any of the dispositions described in (a), (b), (c) or (d).</p> <p>(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 subparagraph b.(1).</p> <p>c. If a proceeding referred to in subparagraph b is commenced by the Federal Government and is resolved by consent or compromise pursuant to an agreement entered into by the organization and the Federal Government, then the costs incurred by the organization in connection with such proceedings that are otherwise not allowable</p>	

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<p>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.</p> <p>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.</p> <p>e. Costs incurred in connection with proceedings described in</p>		<p>under subparagraph b may be allowed to the extent specifically provided in such agreement.</p> <p>d. If a proceeding referred to in subparagraph b is commenced by a State, local or foreign government, the authorized Federal official may allow the costs incurred by the organization 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 award, or (2) specific written direction of an authorized official of the sponsoring agency.</p> <p>e. Costs incurred in connection with proceedings described in subparagraph b, but which are not made unallowable by that subparagraph, may be allowed by the Federal Government, but only to the extent that:</p> <p>(1) The costs are reasonable in relation to the activities required to deal with the proceeding and the underlying cause of action;</p>	

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<p>subsection b, but which are not made unallowable by that subsection, may be allowed by the Federal Government, but only to the extent that:</p> <p>(1) The costs are reasonable in relation to the activities required to deal with the proceeding and the underlying cause of action;</p> <p>(2) Payment of the costs incurred, as allowable and allocable costs, is not prohibited by any other provision(s) of the sponsored agreement;</p> <p>(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,</p> <p>(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</p>		<p>(2) Payment of the costs incurred, as allowable and allocable costs, is not prohibited by any other provision(s) of the sponsored award;</p> <p>(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,</p> <p>(4) The percentage of costs allowed does not exceed the percentage determined by an authorized Federal official to be appropriate, considering the complexity of the 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 subparagraph c has explicitly considered this 80 percent limitation and permitted a higher percentage, then the full amount of costs</p>	

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<p>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.</p> <p>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.</p> <p>g. Costs of legal, accounting, and consultant services, and related costs, incurred in connection with</p>		<p>resulting from that agreement shall be allowable.</p> <p>f. Costs incurred by the organization 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 organization was found liable or settled, are unallowable.</p> <p>g. Costs of legal, accounting, and consultant services, and related costs, incurred in connection with defense against Federal Government claims or appeals, antitrust suits, or the prosecution of claims or appeals against the Federal Government, are unallowable.</p> <p>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 awards.</p> <p>i. Costs which may be</p>	

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>defense against Federal Government claims or appeals, or the prosecution of claims or appeals against the Federal Government, are unallowable.</p> <p>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.</p> <p>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</p>		<p>unallowable under this paragraph, including directly associated costs, shall be segregated and accounted for by the organization separately. During the pendency of any proceeding covered by subparagraphs 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 agreements by the organization to repay all unallowable costs, plus interest, if the costs are subsequently determined to be unallowable.</p>	

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
interest, if the costs are subsequently determined to be unallowable.			
12. Depreciation and use allowances.	15. Depreciation and use allowances.	11. Depreciation and use allowances.	Depreciation and use allowances.
			<i>The three circulars have similar treatment for many of the provisions under depreciation and use allowances. A few minor changes would be made where the three circulars appear to intend the same treatment but use different language.</i>
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	a. Depreciation and use allowances are means of allocating the cost of fixed assets to periods benefiting from asset use. Compensation for the use of fixed assets on hand may be made through depreciation or use allowances. A combination of the two methods may not be used in connection with a single class of fixed assets (e.g., buildings, office equipment, computer equipment, etc.) except as provided in subsection g. Except for enterprise funds and internal service funds that are included as part of a State/local cost allocation plan, classes of assets shall be	a. Compensation for the use of buildings, other capital improvements, and equipment on hand may be made through use allowances or depreciation. However, except as provided in subparagraph f, a combination of the two methods may not be used in connection with a single class of fixed assets (e.g., buildings, office equipment, computer equipment, etc.).	

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
Section F.2. Depreciation and use allowances are computed applying the following rules:	determined on the same basis used for the government-wide financial statements.		
			<p><i>This general introduction to depreciation and use allowances is not changed for Circulars A-87 and A-122.</i></p> <p><i>Circular A-21 is changed by adding a new sentence, after the first sentence and before the introduction to the list, as follows:</i></p>
<p>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</p>	<p>b. The computation of depreciation or use allowances shall be based on the acquisition cost of the assets involved. Where actual cost records have not been maintained, a reasonable estimate of the original acquisition cost may be used. The value of an asset donated to the governmental unit by an unrelated third party shall be its fair market value at the time of donation. Governmental or quasi-governmental organizations located within the same State shall not be considered unrelated third parties for this purpose.</p> <p>c. The computation of depreciation or use</p>	<p>b. The computation of use allowances or depreciation shall be based on the acquisition cost of the assets involved. The acquisition cost of an asset donated to the organization by a third party shall be its fair market value at the time of the donation.</p> <p>c. The computation of use allowances or depreciation will</p>	<p>For an asset donated to the non-Federal entity by a third party, its fair market value at the time of the donation shall be considered as the acquisition cost.</p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>(1) the cost of land;</p> <p>(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</p> <p>(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.</p>	<p>allowances will exclude:</p> <p>(1) The cost of land;</p> <p>(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 presently resides; and</p> <p>(3) Any portion of the cost of buildings and equipment contributed by or for the governmental unit, or a related donor organization, in satisfaction of a matching requirement.</p>	<p>exclude:</p> <p>(1) The cost of land;</p> <p>(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 presently resides; and</p> <p>(3) Any portion of the cost of buildings and equipment contributed by or for the organization in satisfaction of a statutory matching requirement.</p>	<p>Circular A-21.</p> <p><i>The second sentence of paragraph (3) would be moved to the introductory paragraph for depreciation and use allowances.</i></p>
<p>d. In the use of the depreciation method, the following shall be observed:</p> <p>(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</p>	<p>e. Where the depreciation method is followed,</p> <p>the period of useful service (useful life) established in each case for usable capital assets must take into consideration such factors</p>	<p>e. Where depreciation method is followed,</p> <p>the period of useful service (useful life) established in each case for usable capital assets must take into consideration such factors as type of construction, nature of</p>	

A-21	A-87	A-122	Proposed Change
<p>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.</p>	<p>as type of construction, nature of the equipment used, historical usage patterns, technological developments, and the renewal and replacement policies of the governmental unit followed for the individual items or classes of assets involved.</p>	<p>the equipment used, technological developments in the particular program area, and the renewal and replacement policies followed for the individual items or classes of assets involved.</p>	
<p>(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.</p> <p>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.</p> <p>Depreciation methods once used shall not be changed unless approved in advance by the cognizant Federal agency. The depreciation methods used to calculate the</p>	<p>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 of depreciation shall be used.</p> <p>Depreciation methods once used shall not be changed unless approved by the Federal cognizant or awarding agency. When the</p>	<p>The method of depreciation used to assign 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.</p> <p>In the absence of clear evidence indicating that the expected consumption of the asset will be significantly greater or lesser in the early portions of its useful life than in the later portions, the straight-line method shall be presumed to be the appropriate method.</p> <p>Depreciation methods once used shall not be changed unless approved in advance by the cognizant Federal agency. When the depreciation method is introduced for application to assets previously subject to a</p>	<p>Circular A-21.</p> <p><i>Paragraph d.(1) would be changed. Instead of "or useful life," the revised provision would read "(useful life)" for consistency with A-87 and A-122.</i></p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>depreciation amounts for F&A rate purposes shall be the same methods used by the institution for its financial statements. This requirement does not apply to institutions (e.g., public institutions) which are not required to record depreciation by applicable generally accepted accounting principles (GAAP).</p>	<p>depreciation method is introduced for application to an asset previously subject to a use allowance, the annual depreciation charge thereon may not exceed the amount that would have resulted had the depreciation method been in effect from the date of acquisition of the asset. The combination of use allowances and depreciation applicable to the asset shall not exceed the total acquisition cost of the asset or fair market value at time of donation.</p> <p>f. When the depreciation method is used for buildings, a building's shell may be segregated from the major component of the building (e.g., plumbing system, heating, and air conditioning system, etc.) and each major component depreciated over its estimated useful life, or the entire building (i.e., the shell and all components) may be treated as a single asset and depreciated over a single useful life.</p>	<p>use allowance, the combination of use allowances and depreciation applicable to such assets must not exceed the total acquisition cost of the assets.</p> <p>When the depreciation method is used for buildings, a building's shell may be segregated from each building component (e.g., plumbing system, heating, and air conditioning system, etc.) and each item depreciated over its estimated useful life; or the entire building (i.e., the shell and all components) may be treated as a single asset and depreciated over a single useful life.</p>	<p>Circular A-122.</p> <p><i>The last sentence of paragraph e. in circular A-122 would be moved to a separate paragraph to be consistent with circular A-87 to read as follows:</i></p> <p>When the depreciation method is used for buildings, a building's shell may be segregated from each building component (e.g., plumbing system, heating, and air conditioning system, etc.) and each item depreciated over its estimated useful life; or the entire building (i.e., the shell and all components) may be treated as a single asset and depreciated over a single useful life.</p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>(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.</p> <p>(4) The entire building, including the shell and all components, may be treated as a single asset and depreciated over a single useful life. A building may also be divided into multiple components. Each</p>			

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>component item may then be depreciated over its estimated useful life. The building components shall be grouped into three general components of a building: building shell (including construction and design costs), building services systems (e.g., elevators, HVAC, plumbing system and heating and air-conditioning system) and fixed equipment (e.g., sterilizers, casework, fume hoods, cold rooms and glassware/washers). In exceptional cases, a Federal cognizant agency may authorize an institution to use more than these three groupings. When an institution elects to depreciate its buildings by its components, the same depreciation methods must be used for F&A purposes and financial statements purposes, as described in subsection (2).</p> <p>(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</p>		<p>d. Where the use allowance method is followed, the use allowance for buildings and improvement (including land improvements, such as paved parking areas, fences, and sidewalks) will be computed at an annual rate not exceeding</p>	

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>c.(3)</p> <p>c. Under the use allowance method, the following shall be observed:</p> <p>(1) The use allowance for buildings and improvements (including improvements such as paved parking areas, fences, and sidewalks) shall be computed at an annual rate not exceeding two percent of acquisition cost.</p> <p>The use allowance for equipment shall be computed at an annual rate not exceeding six and two-thirds percent of acquisition cost. Use allowance recovery is limited to the acquisition cost of the assets. For donated assets, use allowance is limited to the fair market value of the assets at the time of donation.</p> <p>(2) In contrast to the depreciation method, the entire building must be treated as a single asset without separating its "shell" from other</p>	<p>d. Where the use allowance method is followed, the use allowance for buildings and improvements (including land improvements, such as paved parking areas, fences, and sidewalks) will be computed at an annual rate not exceeding two percent of acquisition costs.</p>	<p>two percent of acquisition cost.</p> <p>The use allowance for equipment will be computed at an annual rate not exceeding six and two-thirds percent of acquisition cost. When the use allowance method is used for buildings, the entire building must be treated as a single asset; the building's components (e.g., plumbing system, heating and air conditioning, etc.) cannot be segregated from the building's shell.</p> <p>The two percent limitation, however, need not be applied to</p>	

A-21	A-87	A-122	Proposed Change
<p>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.</p> <p>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</p> <p>(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</p>	<p>The use allowance for equipment will be computed at an annual rate not exceeding 6 2/3 percent of acquisition cost. When the use allowance method is used for buildings, the entire building must be treated as a single asset; the building's components (e.g., plumbing system, heating and air condition, etc.) cannot be segregated from the building's shell.</p>	<p>equipment which is merely attached or fastened to the building but not permanently fixed to it and which is used as furnishings or decorations or for specialized purposes (e.g., dentist chairs and dental treatment units, counters, laboratory benches bolted to the floor, dishwashers, carpeting, etc.). Such equipment will be considered as not being permanently fixed to the building if it can be removed without the need for costly or extensive alterations or repairs to the building or the equipment. Equipment that meets these criteria will be subject to the six and two-thirds percent equipment use allowance limitation.</p>	<p>Circulars A-21 and A-122.</p> <p><i>In the examples of equipment that is not fastened to a building, "modular furniture" would be added.</i></p>

A-21	A-87	A-122	Proposed Change
<p>which meet these criteria will be subject to the six and two-thirds percent equipment use allowance.</p> <p>(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.</p> <p>(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).</p> <p>d. Except as otherwise provided in subsections b</p>	<p>The two percent limitation, however, need not be applied to equipment which is merely attached or fastened to the building but not permanently fixed to it and which is used as furnishings or decorations or for specialized purposes</p> <p>(e.g., dentist chairs and dental treatment units, counters, laboratory benches bolted to the floor, dishwashers, modular furniture, carpeting, etc.). Such equipment will be considered as not being permanently fixed to the building if it can be removed without the destruction of, or need for costly or extensive alterations or repairs, to the building or the equipment. Equipment that meets these criteria will be subject to the 6 2/3 percent equipment use allowance limitation.</p> <p>g. 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</p>	<p>g. 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 (a statistical sampling basis is acceptable) to ensure that assets exist</p>	

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>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).</p> <p>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.</p> <p>f. This section applies to the largest college and university recipients of Federal research and development funds as displayed in Exhibit A.</p> <p>(1) Institutions shall expend currently, or reserve for expenditure</p>	<p>previously charged to the 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.</p>	<p>and are usable and needed. When the depreciation method is followed, adequate depreciation records indicating the amount of depreciation taken each period must also be maintained.</p>	

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<p>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.</p> <p>(2) An assurance that an amount equal to the Federal reimbursements has been appropriately expended or reserved to acquire or improve research facilities shall</p>	<p>h. Charges for use allowances or depreciation must be supported by adequate property records. Physical inventories must be taken at least once every two years (a statistical sampling approach is acceptable) to ensure that assets exist, and are in use. Governmental units will manage equipment in accordance with State laws and procedures. When the depreciation method is followed, depreciation records indicating the amount of depreciation taken each period must also be maintained.</p>		

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<p>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.</p>			
<p>14. Employee morale, health, and welfare costs and credits.</p>	<p>17. Employee morale, health, and welfare costs.</p>	<p>13. Employee morale, health, and welfare costs and credits.</p>	<p>Employee morale, health, and welfare costs.</p> <p><i>The first paragraph for all three circulars would be the same and would read as follows:</i></p>
<p>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</p>	<p>The costs of health or first-aid clinics and/or infirmaries, recreational facilities, employee counseling services, employee information publications, and any related expenses incurred in accordance with a</p>	<p>The costs of house publications, health or first-aid clinics, and/or infirmaries, recreational activities, employees' counseling services, and other expenses incurred in accordance with the organization's established practice or</p>	<p>a. The costs of employee information publications, health or first-aid clinics and/or infirmaries, recreational activities, employee counseling services, and any other expenses incurred in accordance with the non-Federal entity's established</p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance, are allowable.</p>	<p>governmental unit's policy are allowable. Income generated from any of these activities will be offset against expenses.</p>	<p>custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance are allowable.</p>	<p>practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance are allowable.</p>
			<p><i>The remaining paragraphs would appear as follows:</i></p>
<p>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.</p>		<p>Such costs will be equitably apportioned to all activities of the organization. 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.</p>	<p>[A-21 & A-122: b. Such costs will be equitably apportioned to all activities of the non-Federal entity. 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.]</p> <p>[A-87: b. Such costs will be equitably apportioned to all activities of the non-Federal entity. Income generated from any of these activities will be offset against expenses.]</p> <p><i>Circular A-21 would have an additional paragraph c., to read as follows:</i></p> <p>c. Losses resulting from operating food services are allowable only if the non-Federal entity's</p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>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.</p>			<p>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 non-Federal entity can demonstrate unusual circumstances, and (b) with the approval of the cognizant Federal agency.</p>
<p>15. Entertainment costs.</p> <p>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.</p>	<p>18. Entertainment.</p> <p>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.</p>	<p>14. Entertainment costs.</p> <p>Costs of amusement, diversion, social activities, ceremonials, and costs relating thereto, such as meals, lodging, rentals, transportation, and gratuities are unallowable (but see paragraphs 13 and 30).</p>	<p>Entertainment costs.</p> <p><i>All three circulars would use the same standard language as follows:</i></p> <p>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.</p>
<p>16. Equipment and other capital expenditures.</p>	<p>19. Equipment and other capital expenditures.</p>	<p>15. Equipment and other capital expenditures.</p>	<p>Equipment and other capital expenditures.</p> <p><i>Generally, the provisions of the three circulars</i></p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
			<p>would be made more consistent with one another. However, some differences would remain which are noted where they appear.</p> <p>Paragraph a and would be the same for all three circulars, to read as follows:</p>
<p>a. For purposes of this subsection, the following definitions apply:</p>	<p>a. As used in this section the following terms have the meanings as set forth below:</p>	<p>a. As used in this paragraph, the following terms have the meanings set forth below:</p>	<p>a. For purposes of this subsection, the following definitions apply:</p>
<p>(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.</p>	<p>(1) "Capital expenditure" means the cost of the asset including the cost to put it in place. Capital expenditure for equipment 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 governmental unit's regular accounting practices.</p>	<p>(2) Acquisition cost means the net invoice unit price of an item of 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 shall be included in or excluded from acquisition cost in accordance with the organization's regular written accounting practices.</p>	<p>(1) "Capital Expenditures" means expenditures for the acquisition cost of capital assets (equipment, original complements of low cost equipment, buildings, land), or expenditures to make improvements to capital assets that materially increase their value or useful life. Acquisition cost means the cost of the asset including the cost to put it in place. Acquisition cost 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</p>

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			<p>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 the acquisition cost in accordance with the non-Federal entity's regular accounting practices.</p>
			<p>Circulars A-21 and A-122.</p> <p><i>The provisions relating to the unamortized portions of equipment would be moved from the definitions in paragraph a. to a new paragraph b(6). A new sentence is added at the end of the "Equipment," definition. The three circulars would read as follows:</i></p>
<p>(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</p>	<p>(2) "Equipment" means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals the lesser of (a) the capitalization level established by the governmental unit for financial statement purposes, or (b) \$5000.</p>	<p>(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 (a) the capitalization level established by the organization for the financial statement purposes, or (b) \$5000. The unamortized portion of any equipment written off as a result of a change in capitalization</p>	<p>(2) "Equipment" means an article or an original complement 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 non-Federal entity for financial statement purposes, or \$5000. An original complement of low cost equipment means</p>

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<p>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.</p>		<p>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 as negotiated with the Federal cognizant agency.</p>	<p>a group of items acquired for the initial outfitting of a tangible capital asset or an operational unit, or a new addition to either. The items in the group individually cost less than the minimum amount established by the capitalization level for the classes of assets acquired but in the aggregate they represent a material investment (e.g. information technology systems). The group, as a complement, is expected to be held for continued service beyond the current period. Initial outfitting of the unit is completed when the unit is ready and available for normal operations.</p>
			<p><i>The definitions of special purpose equipment and general purpose equipment would be added to A-87.</i></p> <p><i>In paragraph (a) (4) "automatic data processing" would be changed to "information technology equipment and systems" for all three circulars. The examples of special purpose equipment in A-122 would be added to A-21 and the new definition for A-87.</i></p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
			<i>As revised, the three circulars would read as follows:</i>
<p>(3) "Special purpose equipment" means equipment which is used only for research, medical, scientific, or other technical activities.</p> <p>(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.</p>		<p>(3) Special purpose equipment means equipment which is usable only for research, medical, scientific, or technical activities. Examples of special purpose equipment include microscopes, x-ray machines, surgical instruments, and spectrometers.</p> <p>(4) General purpose equipment means equipment which is usable for other than research, medical, scientific, or technical activities, whether or not special modifications are needed to make them suitable for a particular purpose. Examples of general purpose equipment include office equipment and furnishings, air conditioning equipment, reproduction and printing equipment, motor vehicles, and automatic data processing equipment.</p>	<p>(3) "Special purpose equipment" means equipment which is used only for research, medical, scientific, or other technical activities. Examples of special purpose equipment include microscopes, x-ray machines, surgical instruments, and spectrometers.</p> <p>(4) "General purpose equipment" means equipment, which is not limited to research, medical, scientific or other technical activities. Examples include office equipment and furnishings, modular offices, telephone networks, information technology equipment and systems, air conditioning equipment, reproduction and printing equipment, and motor vehicles.</p>
			<i>The definition of "other capital assets" in A-87 would be removed because it would be included in the definition of</i>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
			<p>"capital expenditures," as would be revised by this proposal. The larger scope in A-21, including "buildings and land," would be included in both A-87 and A-122. The introduction to paragraph b. and subparagraph b.(1) for all three circulars would read as follows:</p>
<p>b. The following rules of allowability shall apply to equipment and other capital expenditures:</p> <p>(1) Capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except where approved in advance by the sponsoring agency.</p>	<p>(3) "Other capital assets" mean buildings, land, and improvements to buildings or land that materially increase their value or useful life.</p>	<p>b. (1) Capital expenditures for general purpose equipment are unallowable as a direct cost except with the prior approval of the awarding agency.</p>	<p>b. The following rules of allowability shall apply to equipment and other capital expenditures:</p> <p>(1) Capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except where approved in advance by the awarding agency.</p>
	<p>b. Capital expenditures which are not charged directly to a Federal award may be recovered through use allowances or depreciation on buildings, capital improvements, and equipment (see section 15). See also section 38 for allowability of rental costs for buildings and equipment.</p>		

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
			<p><i>The rule in both A-21 and A-122 regarding allowability of special purpose equipment would be added to A-87. Paragraph b. of A-87 would be removed because it is included in paragraph b. (5).</i></p>
<p>(2) Expenditures for special purpose equipment are allowable as direct charges with the approval of the sponsoring agency.</p>		<p>(2) Capital expenditures for special purpose equipment are allowable as direct costs, provided that items with a unit cost of \$5000 or more have the prior approval of awarding agency.</p>	<p>(2) Capital expenditures for special purpose equipment are allowable as direct costs, provided that items with a unit cost of \$5000 or more have the prior approval of awarding agency.</p>
			<p><i>Circular A-87. Paragraphs c. and d. would be removed because the content of paragraph c. would be incorporated into paragraphs b. (1), (2), and (3) and the content of paragraph d. would be contained in the revised paragraph b. (2), as proposed above.</i></p>
	<p>c. Capital expenditures for equipment, including replacement equipment, other capital assets, and improvements which materially increase the value or useful life of equipment or other capital assets are allowable as a direct cost when approved by the awarding agency. Federal awarding agencies</p>		

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
	<p>are authorized at their option to waive or delegate this approval requirement.</p> <p>d. Items of equipment with an acquisition cost of less than \$5000 are considered to be supplies and are allowable as direct costs of Federal awards without specific awarding agency approval.</p>		
			<p><i>The provisions of paragraph e. in A-87 would be moved to a new paragraph b. (6).</i></p>
	<p>e. The unamortized portion of any equipment written off as a result of a change in capitalization levels may be recovered by (1) continuing to claim the otherwise allowable use allowances or depreciation charges on the equipment or by (2) amortizing the amount to be written off over a period of years negotiated with the cognizant agency.</p>		
			<p>Circular A-122.</p> <p><i>Paragraph c. in Circular A-122 would be removed because the content would be moved to paragraph b. (1).</i></p> <p>All circulars.</p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
			<p><i>The substance of paragraphs b. (3) in Circular A-21 and d. in Circular A-122 would be added to A-87 and consistent language would be used for all three circulars. A new paragraph (4) would be included in all three circulars to clarify that charges must be made during the period they are incurred. Paragraphs (3) and (4) in all three circulars would read as follows:</i></p>
	<p>f. When replacing equipment purchased in whole or in part with Federal funds, the</p>	<p>c. Capital expenditures for land or buildings are unallowable as a direct cost except with the prior approval of the awarding agency.</p> <p>d. Capital expenditures for improvements to land, buildings, or equipment which materially increase their value or useful life are unallowable as a direct cost except with the prior approval of the awarding agency.</p>	<p>(3) Capital expenditures for improvements to land, buildings, or equipment which materially increase their value or useful life are unallowable as a direct cost except with the prior approval of the awarding agency.</p> <p>(4) When approved as a direct charge pursuant to (1), (2), and (3) above, capital expenditures will be charged in the period in which the expenditure is incurred.</p> <p><i>The introduction in paragraph b. (4) in A-21 would be modified to read "Equipment and other</i></p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
	<p>governmental unit may use the equipment to be replaced as a trade-in or sell the property and use the proceeds to offset the cost of the replacement property.</p>		<p>capital . . . expenditures." <i>This paragraph would be redesignated paragraph b. (5). The similar paragraph e. in A-122 also would be redesignated paragraph b. (5). The substance of this paragraph is carried several places in A-87. For consistency, it would be separately stated in a paragraph b. (5) as in circulars A-21 and A-122, so all three circulars would read as follows:</i></p> <p>(5) Equipment and other capital expenditures are unallowable as indirect costs. However, see section 15 for allowability of use allowances or depreciation on buildings, capital improvements, and equipment. Also, see paragraph 38 for allowability of rental costs for land, buildings, and equipment.</p> <p><i>All Circulars.</i></p> <p><i>The provisions regarding the unamortized portion of equipment that is written off which are currently in the definition of "Equipment" for circulars A-21 and A-</i></p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>(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.</p>		<p>e. Equipment and other capital expenditures are unallowable as indirect costs. However, see paragraph 11 for allowability of use allowances or depreciation on buildings, capital improvements, and equipment. Also, see paragraph 46 for allowability of rental costs for land, buildings, and equipment.</p>	<p><i>122 and paragraph f. in A-87 would be moved to a new paragraph b.(6) to read as follows:</i></p> <p>(6) 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.</p> <p><i>Circular A-87.</i></p> <p><i>Paragraph f. in A-87 would be redesignated paragraph b.(7) but not added to A-21 and A-122.</i></p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>(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.</p>			
<p>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</p>	<p>20. Fines and penalties. Fines, penalties, damages, and other settlements resulting from violations (or alleged violations) of, or failure of the governmental unit to comply with, Federal, State, local, or Indian tribal laws and regulations are</p>	<p>16. Fines and penalties. Costs of fines and penalties resulting from violations of, or failure of the organization to comply with Federal, State, and local laws and regulations are unallowable except when incurred as a result of compliance with specific</p>	<p>Fines and penalties. <i>No Changes.</i></p>

A-21	A-87	A-122	Proposed Change
provisions of the sponsored agreement, or instructions in writing from the authorized official of the sponsoring agency authorizing in advance such payments.	unallowable except when incurred as a result of compliance with specific provisions of the Federal award or written instructions by the awarding agency authorizing in advance such payments.	provisions of an award or instructions in writing from the awarding agency.	
22. [Interest], fund raising, and investment management costs.	21. Fund raising and investment management costs.	[Interest,] fund raising and investment management costs	Fund raising and investment management costs.
			<i>The treatment of interest would be treated separately in A-21 and A-122, as is currently done in A-87. See "Interest" later in this chart.</i>
<p>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.</p> <p>c. Costs of investment counsel and staff and similar expenses incurred</p>	<p>a. Costs of organized fund raising, including financial campaigns, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions are unallowable, regardless of the purpose for which the funds will be used.</p> <p>b. Costs of investment counsel and staff and similar expenses incurred</p>	<p>b. Costs of organized fundraising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions are unallowable.</p> <p>c. Costs of investment counsel and staff and similar expenses incurred solely to enhance income from investments are</p>	<p><i>Regarding the costs of fund raising and investment management costs, paragraph a. in A-87 is not changed. Paragraphs b. in A-21 and A-122 are amended by removing the word "solely."</i></p> <p><i>Paragraph c. in circulars A-21 and A-122 would be revised to provide the same text as in paragraph b. of A-87, to read as follows:</i></p> <p>Costs of investment counsel and staff and similar expenses incurred to enhance income from investments are</p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>solely to enhance income from investments are unallowable.</p> <p>d. Costs related to the physical custody and control of monies and securities are allowable.</p>	<p>to enhance income from investments are unallowable. However, such costs associated with investments covering pension, self-insurance, or other funds which include Federal participation allowed by this Circular are allowable.</p> <p>c. Fund raising and investment activities shall be allocated an appropriate share of indirect costs under the conditions described in subsection C.3.b. of Attachment A.</p>	<p>unallowable.</p> <p>d. Fundraising and investment activities shall be allocated an appropriate share of indirect costs under the conditions described in subparagraph B.3 of Attachment A.</p>	<p>unallowable. However, such costs associated with investments covering pension, self-insurance, or other funds which include Federal participation allowed by this Circular are allowable.</p> <p><i>Paragraph c. of A-87 and paragraph d. of A-122 would eliminate the internal cross references, to read as follows:</i></p> <p>Fund raising and investment activities shall be allocated an appropriate share of indirect costs.</p> <p><i>No Change to sub-section d. of A-21.</i></p>
33. Profits and losses on	22. Gains and losses on	40. Profits and losses on	Profits and losses on

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
disposition of plant equipment or other capital assets.	disposition of depreciable property and other capital assets and substantial relocation of Federal programs.	disposition of depreciable property or other capital assets.	disposition of depreciable property and other capital assets [and substantial relocation of Federal programs].
			<i>No change would be made to the substance of the circulars. However, the title for the A-87 treatment would be changed by substituting "Profits" for "Gains" so the provisions regarding this treatment would appear in the same general place in all three circulars.</i>
<p>a. (1) Gains and losses on the sale, retirement, or other disposition of depreciable property shall be included in the year in which they occur as credits or charges to the asset cost grouping(s) in which the property was included. The amount of the gain or loss to be included as a credit or charge to the appropriate asset cost grouping(s) shall be the difference between the amount realized on the property and the un-depreciated basis of the property.</p> <p>(2) Gains and losses on</p>	<p>a. (1) Gains and losses on the sale, retirement, or other disposition of depreciable property shall be included in the year in which they occur as credits or charges to the asset cost grouping(s) in which the property was included. The amount of the gain or loss to be included as a credit or charge to the appropriate asset cost grouping(s) shall be the difference between the amount realized on the property and the un-depreciated basis of the property.</p> <p>(2) Gains and losses on</p>	<p>a. (1) Gains and losses on sale, retirement, or other disposition of depreciable property shall be included in the year in which they occur as credits or charges to cost grouping(s) in which the depreciation applicable to such property was included. The amount of the gain or loss to be included as a credit or charge to the appropriate cost grouping(s) shall be the difference between the amount realized on the property and the un-depreciated basis of the property.</p> <p>(2) Gains and losses on the disposition of</p>	

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>the disposition of depreciable property shall not be recognized as a separate credit or charge under the following conditions:</p> <p>(a) The gain or loss is processed through a depreciation account and is reflected in the depreciation allowable under Section J.12.</p> <p>(b) The property is given in exchange as part of the purchase price of a similar item and the gain or loss is taken into account in determining the depreciation cost basis of the new item.</p> <p>(c) A loss results from the failure to maintain permissible insurance, except as otherwise provided in Section J.21.d.</p> <p>(d) Compensation for the use of the property was provided through use allowances in lieu of depreciation.</p>	<p>the disposition of depreciable property shall not be recognized as a separate credit or charge under the following conditions:</p> <p>(a) The gain or loss is processed through a depreciation account and is reflected in the depreciation allowable under sections 15 and 19.</p> <p>(b) The property is given in exchange as part of the purchase price of a similar item and the gain or loss is taken into account in determining the depreciation cost basis of the new item.</p> <p>(c) A loss results from the failure to maintain permissible insurance, except as otherwise provided in subsection 25.d.</p> <p>(d) Compensation for the use of the property was provided through use allowances in lieu of depreciation.</p>	<p>depreciable property shall not be recognized as a separate credit or charge under the following conditions:</p> <p>(a) The gain or loss is processed through a depreciation reserve account and is reflected in the depreciation allowable under paragraph 11.</p> <p>(b) The property is given in exchange as part of the purchase price of a similar item and the gain or loss is taken into account in determining the depreciation cost basis of the new item.</p> <p>(c) A loss results from the failure to maintain permissible insurance, except as otherwise provided in subparagraph 22.a(3).</p> <p>(d) Compensation for the use of the property was provided through use allowances in lieu of depreciation in accordance with paragraph 11.</p>	<p>Circular A-122.</p> <p><i>Paragraph a.(2)(a) in A-122 would be amended by removing the word "reserve" for consistency with the other two circulars.</i></p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>b. Gains or losses of any</p>	<p>b. Substantial relocation of Federal awards from a facility where the Federal Government participated in the financing to another facility prior to the expiration of the useful life of the financed facility requires Federal agency approval. The extent of the relocation, the amount of the Federal participation in the financing, and the depreciation charged to date may require negotiation of space charges for Federal awards.</p> <p>c. Gains or losses of any nature arising from the sale or exchange of property other than the property covered in subsection a., e.g., land or included in the fair market value used in any</p>	<p>(e) Gains and losses arising from mass or extraordinary sales, retirements, or other dispositions shall be considered on a case-by-case basis.</p> <p>b. Gains or losses of any nature arising from the sale or exchange of property other than the property covered in subparagraph a shall be excluded in computing award costs.</p>	

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>nature arising from the sale or exchange of property other than the property covered in subsection a shall be excluded in computing Federal award costs.</p> <p>c. 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, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations."</p>	<p>adjustment resulting from a relocation of Federal awards covered in subsection b. shall be excluded in computing Federal award costs.</p>		
<p>21. Insurance and indemnification.</p>	<p>25. Insurance and indemnification.</p>	<p>22. Insurance and indemnification.</p>	<p>Insurance and indemnification.</p>
		<p>a. Insurance includes insurance which the organization is required to carry, or which is approved, under the terms of the award and any other insurance which the organization maintains in connection with the</p>	<p><i>No Change.</i></p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>a. Costs of insurance required or approved, and maintained, pursuant to the sponsored agreement, are allowable.</p> <p>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:</p> <p>(1) types and extent and cost of coverage must be in accordance with sound institutional practice;</p>	<p>a. Costs of insurance required or approved and maintained, pursuant to the Federal award, are allowable.</p> <p>b. Costs of other insurance in connection with the general conduct of activities are allowable subject to the following limitations:</p> <p>(1) Types and extent and cost of coverage are in accordance with the governmental unit's policy and sound business practice.</p>	<p>general conduct of its operations. This paragraph does not apply to insurance which represents fringe benefits for employees (see subparagraphs 7.f and 7.h(2)).</p> <p>(1) Costs of insurance required or approved, and maintained, pursuant to the award are allowable.</p> <p>(2) Costs of other insurance maintained by the organization in connection with the general conduct of its operations are allowable subject to the following limitations:</p> <p>(a) Types and extent of coverage shall be in accordance with sound business practice and the rates and premiums shall be reasonable under the circumstances.</p> <p>(b) Costs allowed for business interruption or other similar insurance shall be limited to exclude coverage of management fees.</p> <p>(c) Costs of insurance or of any provisions for a reserve covering the risk of loss or damage to</p>	

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>(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</p>	<p>(2) Costs of insurance or of contributions to any reserve covering the risk of loss of, or damage to, Federal Government property are unallowable except to the extent that the awarding agency has specifically required or approved such costs.</p>	<p>Federal property are allowable only to the extent that the organization is liable for such loss or damage.</p>	
<p>(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.</p>	<p>c. Actual losses which could have been covered by permissible insurance (through a self-insurance program or otherwise) are unallowable, unless expressly provided for in</p>		

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
	<p>the Federal award or as described below. However, the Federal Government will participate in actual losses of a self insurance fund that are in excess of reserves. Costs incurred because of losses not covered under nominal deductible insurance coverage provided in keeping with sound management practice, and 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.</p>		
<p>c. Contributions to a reserve for a self-insurance program are allowable, to the extent that the types of</p>	<p>d. Contributions to a reserve for certain self-insurance programs including workers compensation, unemployment compensation, and severance pay are allowable subject to the following provisions:</p> <p>(1) The type of coverage and the extent of coverage and the rates and premiums would have been allowed had insurance (including reinsurance) been purchased to cover the risks. However, provision for known or reasonably estimated self-insured liabilities, which do not become payable for more</p>	<p>(d) Provisions for a reserve under a self-insurance program are allowable to the extent that types of coverage, extent of coverage, rates, and premiums would have been allowed had insurance been purchased to cover the risks.</p>	

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>coverage, extent of coverage, and the rates and premiums would have been allowed had insurance been purchased to cover the risks.</p> <p>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.</p>	<p>than one year after the provision is made, shall not exceed the discounted present value of the liability. The rate used for discounting the liability must be determined by giving consideration to such factors as the governmental unit's settlement rate for those liabilities and its investment rate of return.</p>	<p>However, provision for known or reasonably estimated self-insured liabilities, which do not become payable for more than one year after the provision is made, shall not exceed the present value of the liability.</p>	
<p>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</p>	<p>(2) Earnings or investment income on reserves must be credited to those reserves.</p> <p>(3) Contributions to reserves must be based on sound actuarial principles</p>	<p>(e) Costs of insurance on the lives of trustees, officers, or other employees holding positions of similar responsibilities are allowable only to the extent that the insurance represents additional</p>	

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<p>the institution only to the extent expressly provided for in the sponsored agreement, except as provided in subsection d.</p>	<p>using historical experience and reasonable assumptions. Reserve levels must be analyzed and updated at least biennially for each major risk being insured and take into account any reinsurance, coinsurance, etc. Reserve levels related to employee-related coverages will normally be limited to the value of claims (a) submitted and adjudicated but not paid, (b) submitted but not adjudicated, and (c) incurred but not submitted. Reserve levels in excess of the amounts based on the above must be identified and justified in the cost allocation plan or indirect cost rate proposal.</p> <p>(4) Accounting records, actuarial studies, and cost allocations (or billings) must recognize any significant differences due to types of insured risk and losses generated by the various insured activities or agencies of the governmental unit. If individual departments or agencies of the governmental unit experience significantly different levels of claims</p>	<p>compensation (see subparagraph 7.f(4)). The cost of such insurance when the organization is identified as the beneficiary is unallowable.</p>	

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	<p>for a particular risk, those differences are to be recognized by the use of separate allocations or other techniques resulting in an equitable allocation.</p> <p>(5) Whenever funds are transferred from a self-insurance reserve to other accounts (e.g., general fund), refunds shall be made to the Federal Government for its share of funds transferred, including earned or imputed interest from the date of transfer.</p> <p>e. Actual claims paid to or on behalf of employees or former employees for workers' compensation, unemployment compensation, severance pay, and similar employee benefits (e.g., subsection 11.f. for post retirement health benefits), are allowable in the year of payment</p> <p>provided (1) the governmental unit follows a consistent costing policy and (2) they are allocated as a general administrative expense to all activities of the governmental unit.</p>		

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	<p>f. Insurance refunds shall be credited against insurance costs in the year the refund is received.</p>		
<p>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.</p> <p>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.</p>		<p>(f) Insurance against defects. Costs of insurance with respect to any costs incurred to correct defects in the organization's materials or workmanship are unallowable.</p> <p>(g) Medical liability (malpractice) insurance. Medical liability insurance is an allowable cost of Federal research programs only to the extent that the Federal research programs involve human subjects or training of participants in research techniques. 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.</p> <p>(3) Actual losses which could have been covered by permissible insurance (through the purchase of insurance or a self-</p>	

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		<p>insurance program) are unallowable unless expressly provided for in the award, except:</p> <p>(a) Costs incurred because of losses not covered under nominal deductible insurance coverage provided in keeping with sound business practice are allowable.</p> <p>(b) Minor losses not covered by insurance, such as spoilage, breakage, and disappearance of supplies, which occur in the ordinary course of operations, are allowable.</p> <p>b. Indemnification includes securing the organization against liabilities to third persons and any other loss or damage, not compensated by insurance or otherwise. The Federal Government is obligated to indemnify the organization only to the extent expressly provided in the award.</p>	
	<p>g. Indemnification includes securing the governmental unit against liabilities to third persons and other losses</p>		

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	<p>not compensated by insurance or otherwise. The Federal Government is obligated to indemnify the governmental unit only to the extent expressly provided for in the Federal award, except as provided in subsection d.</p> <p>h. Costs of commercial insurance that protects against the costs of the contractor for correction of the contractor's own defects in materials or workmanship are unallowable.</p>		
22. Interest, [fund raising, and investment management costs].	26. Interest.	23. Interest, [fundraising, and investment management costs].	Interest.
			<p><i>Fund raising and investment management sections of A-21 and A-122 have been moved to a separate paragraph. The revised Interest section for A:21 would read as follows.</i></p>
a. Costs incurred for interest on borrowed capital or temporary use of endowment funds, however represented, are unallowable, except as indicated in subsection e.	a. Costs incurred for interest on borrowed capital or the use of a governmental unit's own funds, however represented, are unallowable except as specifically provided in	<p>a. Interest.</p> <p>(1) Costs incurred for interest on borrowed capital or temporary use of endowment funds, however represented, are unallowable.</p>	<p>Costs incurred for interest on borrowed capital, temporary use of endowment funds, or the use of the non-Federal entity's own funds, however represented, are unallowable. However, interest on debt incurred</p>

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<p>July 1, 1982.</p> <p>(2) Major reconstruction and remodeling of existing buildings completed on or after July 1, 1982.</p> <p>(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.</p> <p>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:</p> <p>(1) For facilities costing over \$500,000, the educational institution shall prepare, prior to the acquisition or</p>	<p>costs of building acquisition, construction, or fabrication, reconstruction or remodeling completed on or after October 1, 1980 is allowable, subject to the conditions in (1)-(4).</p> <p>Financing costs (including interest) paid or incurred on or after the effective date of this Circular associated with otherwise allowable costs of equipment is allowable, subject to the conditions in (1)-(4).</p> <p>(1) The financing is provided (from other than tax or user fee sources) by a bona fide third party external to the governmental unit;</p> <p>(2) The assets are used in support of Federal awards;</p> <p>(3) Earnings on debt service reserve funds or interest earned on borrowed funds pending payment of the construction or acquisition costs are used to offset the current period's cost or the capitalized interest, as appropriate. Earnings subject to being reported</p>	<p>acquisitions (excluding renovations and alterations) costing over \$10 million where the Federal Government's reimbursement is expected to equal or exceed 40 percent of an asset's cost, the non-profit organization prepares, prior to the acquisition or replacement of the capital asset(s), a justification that demonstrates the need for the facility in the conduct of federally-sponsored activities. Upon request, the needs justification must be provided to the Federal agency with cost cognizance authority as a prerequisite to the continued allowability of interest on debt and depreciation related to the facility. The needs justification for the acquisition of a facility should include, at a minimum, the following:</p> <p>A statement of purpose and justification for facility acquisition or replacement</p> <p>A statement as to why current facilities are not adequate</p> <p>A statement of planned</p>	<p>higher than the fair market rate available to the non-Federal entity 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 non-Federal entity. 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</p>

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<p>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</p>	<p>to the Federal Internal Revenue Service under arbitrage requirements are excludable.</p> <p>(4) Governmental units will negotiate the amount of allowable interest whenever cash payments (interest, depreciation, use allowances, and contributions) exceed the governmental unit's cash payments and other contributions attributable to that portion of real property used for Federal awards.</p>	<p>future use of the facility</p> <p>A description of the financing agreement to be arranged for the facility</p> <p>A summary of the building contract with estimated cost information and statement of source and use of funds</p> <p>A schedule of planned occupancy dates</p> <p>(b) For facilities costing over \$500,000, the non-profit organization prepares, prior to the acquisition or replacement of the facility, a lease/purchase analysis in accordance with the provisions of Sec. __.30 through __.37 of Circular A-110, which shows that a financed purchase or capital lease is less costly to the organization than other leasing alternatives, on a net present value basis. Discount rates used should be equal to the non-profit organization's anticipated interest rates and should be no higher than the fair</p>	<p>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 non-Federal entity directly or as part of the lease arrangement.</p> <p>(2) The actual interest cost claimed is predicated upon interest rates that are no higher than the fair market rate available to the non-Federal entity from an unrelated (arm's length) third party.</p> <p>(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.</p> <p>(4) Reimbursements are limited to the least</p>

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<p>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.</p> <p>(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</p>		<p>market rate available to the non-profit organization 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 non-profit organization. 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 period defined above. 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 period defined above. Projected</p>	<p>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.</p> <p>b. Non-Federal entities are also subject to the following conditions:</p> <p>(1) Interest on debt incurred to finance or refinance assets acquired before or reacquired after May 8, 1996 is not allowable.</p> <p>(2) Interest attributable to fully depreciated assets is unallowable.</p> <p>(3) For debt arrangements over \$1 million incurred after May 8, 1996 unless the non-Federal entity makes an initial equity contribution to the asset purchase of 25 percent or more, non-Federal entities shall reduce claims for interest cost by an amount equal to</p>

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<p>length) third party.</p> <p>(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.</p> <p>(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.</p> <p>(5) Educational institutions are also subject to the following</p>		<p>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 non-profit organization directly or as part of the lease arrangement.</p> <p>(c) The actual interest cost claimed is predicated upon interest rates that are no higher than the fair market rate available to the non-profit organization from an unrelated ("arm's length") third party.</p> <p>(d) 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.</p> <p>(e) Reimbursements are</p>	<p>imputed interest earnings on excess cash flow, which is to be calculated as follows. Annually, non-Federal entities 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</p>

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<p>conditions:</p> <p>(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</p>		<p>limited to the least costly alternative based on the total cost analysis required under subparagraph (b). 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 performed, Federal reimbursement shall be based upon the least expensive alternative.</p> <p>(f) Non-profit organizations are also subject to the following conditions:</p> <p>(i) Interest on debt incurred to finance or refinance assets acquired before or reacquired after the effective date of this Circular is not allowable.</p> <p>(ii) For debt arrangements over \$1 million, unless the non-profit organization makes an initial equity contribution to the asset purchase of 25 percent or more, non-profit organizations shall reduce claims for</p>	<p>compute earnings on excess cash flows shall be the three-month Treasury bill closing rate as of the last business day of that month.</p> <p>(4) 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.</p> <p>(5) The allowable costs to acquire facilities and equipment are limited to a fair market value available to the non-Federal entity from an unrelated (arm's length) third party.</p> <p>c. The following definitions are to be</p>

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<p>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.</p> <p>(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</p>		<p>interest expense by an amount equal to imputed interest earnings on excess cash flow, which is to be calculated as follows. Annually, non-profit organizations 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 expense. For cash flow calculations, the annual inflow figures shall be divided by the number of months in the year (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</p>	<p>used for purposes of this section:</p> <p>(1) "Re-acquired" assets means assets held by the non-Federal entity prior to May 8, 1996 that have again come to be held by the non-Federal entity, whether through repurchase or refinancing. It does not include assets acquired to replace older assets.</p> <p>(2) "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.</p> <p>(3) "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).</p> <p><i>A-87, 26.a would remain the same and 26.b. would be changed as follows:</i></p> <p>b. Financing costs (including interest) paid or incurred which are associated with the otherwise allowable costs of building acquisition, construction, or</p>

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<p>replacement space charged to Federal programs in the future.</p> <p>(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.</p> <p>(6) The following definitions are to be used for purposes of this section:</p> <p>(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.</p> <p>(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).</p>		<p>interest expense. 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.</p> <p>(iii) 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 Federal 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.</p> <p>(iv) The allowable costs to acquire facilities and equipment are limited to a fair market value available to the non-profit organization from an unrelated ("arm's</p>	<p>fabrication, reconstruction or remodeling completed on or after October 1, 1980 is allowable subject to the conditions in (1) - (4). Financing costs (including interest) paid or incurred on or after September 1, 1995 for land or associated with otherwise allowable costs of equipment is allowable, subject to the conditions in (1) - (4).</p> <p>(1) The financing is provided (from other than tax or user fee sources) by a bona fide third party external to the non-Federal entity;</p> <p>(2) The assets are used in support of Federal awards;</p> <p>(3) Earnings on debt service reserve funds or interest earned on borrowed funds pending payment of the construction or acquisition costs are used to offset the current period's cost or the capitalized interest, as appropriate. Earnings subject to being reported to the Federal Internal Revenue Service under arbitrage requirements are excludable.</p>

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		<p>length") third party.</p> <p>(2) For non-profit organizations subject to "full coverage" under the Cost Accounting Standards (CAS) as defined at 48 CFR 9903.201, the interest allowability provisions of subparagraph a do not apply. Instead, these organizations' sponsored agreements are subject to CAS 414 (48 CFR 9903.414), cost of money as an element of the cost of facilities capital, and CAS 417 (48 CFR 9903.417), cost of money as an element of the cost of capital assets under construction.</p> <p>(3) The following definitions are to be used for purposes of paragraph 23:</p> <p>(a) Re-acquired assets means assets held by the non-profit organization prior to the effective date of this revision that have again come to be held by the organization, whether through repurchase or refinancing. It does not include assets acquired to replace older assets.</p> <p>(b) Initial equity</p>	<p>(4) Interest attributable to fully depreciated assets is unallowable.</p> <p><i>A-122,23.a.(1) would change as follows:</i> Costs incurred for interest on borrowed capital, temporary use of endowment funds, or the use of the non-Federal entity's own funds, however represented, are unallowable. However, interest on debt incurred after September 29, 1995 to acquire or replace capital assets (including renovations, alterations, equipment, land, and capital assets acquired through capital leases), acquired after September 29, 1995 and used in support of Federal awards is allowable, provided that:</p> <p><i>[23.(1)(a) - (e) would be unchanged.]</i> (f) Non-profit organizations are also subject to the following conditions: (i) Interest on debt incurred to finance or refinance assets acquired before or reacquired after September 29, 1995, is not allowable. (ii) Interest attributable to fully depreciated assets is</p>

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		<p>contribution means the amount or value of contributions made by non-Federal entities for the acquisition of the asset or prior to occupancy of facilities.</p> <p>(c) Asset costs means the capitalizable costs of an asset, including construction costs, acquisition costs, and other such costs capitalized in accordance with GAAP.</p>	<p>unallowable. [New]</p> <p>(iii) For debt arrangements over \$1 million, unless the non-profit organization makes an initial equity contribution to the asset purchase of 25 percent or more, non-profit organizations shall reduce claims for interest expense by an amount equal to imputed interest earnings on excess cash flow, which is to be calculated as follows. Annually, non-profit organizations 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 expense. For cash flow calculations, the annual inflow figures shall be divided by the number of months in the year (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</p>

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			<p>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 expense. 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.</p> <p>(iv) 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 Federal 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</p>

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			<p>to Federal programs in the future.</p> <p>(v) The allowable costs to acquire facilities and equipment are limited to a fair market value available to the non-profit organization from an unrelated ("arm's length") third party.</p> <p><i>[The remaining sections of (f) are unchanged except for reference sequencing.]</i></p>
24. Lobbying.	27. Lobbying.	25. Lobbying.	Lobbying.
			<p><i>The treatment of lobbying costs in each of the circulars would not change. However, the executive lobbying treatment from A-21 would be moved to the end of the lobbying treatment for all three circulars. The new paragraph would be section h in A-21, paragraph b in A-87 and paragraph d in A-122, to read as follows:</i></p>
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	The cost of certain influencing activities associated with obtaining grants, contracts, cooperative agreements, or loans is an unallowable cost. Lobbying with respect to certain grants,		[h][b][d] 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

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<p>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:</p> <p>a. Notwithstanding other provisions of this Circular, costs associated with the following activities are unallowable:</p> <p>(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;</p> <p>(2) Establishing, administering, contributing to, or</p>	<p>contracts, cooperative agreements, and loans shall be governed by the common rule, "New Restrictions on Lobbying" published at 55 FR 6736 (February 26, 1990), including definitions, and the Office of Management and Budget "Government-wide Guidance for New Restrictions on Lobbying" and notices published at 54 FR 52306 (December 20, 1989), 55 FR 24540 (June 15, 1990), and 57 FR 1772 (January 15, 1992), respectively.</p>	<p>a. Notwithstanding other provisions of this Circular, costs associated with the following activities are unallowable:</p> <p>(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;</p> <p>(2) Establishing, administering, contributing to, or paying the expenses of a political party, campaign, political action committee, or other organization</p>	<p>act regarding a Federal award 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 federal award or regulatory matter on any basis other than the merits of the matter.</p>

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<p>paying the expenses of a political party, campaign, political action committee, or other organization established for the purpose of influencing the outcomes of elections;</p> <p>(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;</p> <p>(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</p>		<p>established for the purpose of influencing the outcomes of elections;</p> <p>(3) 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 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 with any Government official or employee in connection with a decision to sign or veto enrolled legislation;</p> <p>(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,</p>	

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<p>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</p> <p>(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.</p> <p>b. The following activities are excepted from the coverage of subsection a:</p> <p>(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</p>		<p>rally, fundraising drive, lobbying campaign or letter writing or telephone campaign; or</p> <p>(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.</p> <p>b. The following activities are excepted from the coverage of subparagraph a:</p> <p>(1) Providing a technical and factual presentation of information on a topic 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</p>	

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<p>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;</p> <p>(2) Any lobbying made unallowable by subsection a.(3) to influence State legislation in order to directly reduce the cost, or to avoid material</p>		<p>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 hearing.</p> <p>(2) Any lobbying made unallowable by subparagraph a(3) to influence State legislation in order to directly reduce the cost, or to avoid material impairment of the organization's authority to perform the grant, contract, or other agreement.</p> <p>(3) Any activity specifically authorized</p>	

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<p>impairment of the institution's authority to perform the grant, contract, or other agreement; or</p> <p>(3) Any activity specifically authorized by statute to be undertaken with funds from the grant, contract, or other agreement.</p> <p>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.</p> <p>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.</p>		<p>by statute to be undertaken with funds from the grant, contract, or other agreement.</p> <p>c. (1) When an organization seeks reimbursement for indirect costs, total lobbying costs shall be separately identified in the indirect cost rate proposal, and thereafter treated as other unallowable activity costs in accordance with the procedures of subparagraph B.3 of Attachment A.</p> <p>(2) Organizations shall submit, as part of the annual indirect cost rate proposal, a certification that the requirements and standards of this paragraph have been complied with.</p> <p>(3) Organizations shall maintain adequate records to demonstrate that the determination of costs as being allowable or unallowable pursuant to paragraph 25 complies with the requirements of this Circular.</p> <p>(4) Time logs, calendars, or similar records shall not be required to be created</p>	

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<p>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.</p> <p>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:</p> <p>(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</p> <p>(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</p>		<p>for purposes of complying with this paragraph during any particular calendar month when:</p> <p>(1) the employee engages in lobbying (as defined in subparagraphs (a) and (b)) 25 percent or less of the employee's compensated hours of employment during that calendar month, and</p> <p>(2) within the preceding five-year period, the organization has not materially misstated allowable or unallowable costs of any nature, including legislative lobbying costs. When conditions (1) and (2) are met, organizations 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.</p>	

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<p>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.</p> <p>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.</p>		<p>(5) Agencies shall establish procedures for resolving in advance, in consultation with OMB, any significant questions or disagreements concerning the interpretation or application of paragraph 25. Any such advance resolution 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.</p>	

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25. Losses on other sponsored agreements or contracts.		26. Losses on other awards.	Losses on other awards.
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.		Any excess of costs over income on any award is unallowable as a cost of any other award. This includes, but is not limited to, the organization's contributed portion by reason of cost sharing agreements or any under-recoveries through negotiation of lump sums for, or ceilings on, indirect costs.	<i>No Change.</i>
26. Maintenance and repair costs.	28. Maintenance, operations, and repairs.	27. Maintenance and repair costs.	Maintenance and repair costs.
			<i>Circular A-87.</i> <i>No Change.</i> <i>Circulars A-21 & A-122.</i> <i>Circulars A-21 & A-122 would be revised to read as follows:</i>
Costs incurred for necessary maintenance, repair or upkeep of property (including Federal property unless otherwise provided for)	Unless prohibited by law, the cost of utilities, insurance, security, janitorial services, elevator service, upkeep of grounds, necessary maintenance, normal repairs and alterations, and the like are allowable to the extent that they:	Costs incurred for necessary maintenance, repair, or upkeep of buildings and equipment (including Federal property unless otherwise provided for) which neither add to the	Maintenance and repair costs. Costs incurred for necessary maintenance, repair, or upkeep of buildings and equipment (including Federal property unless otherwise provided for) which neither add to the

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<p>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.</p>	<p>(1) keep property (including Federal property, unless otherwise provided for) in an efficient operating condition, (2) do not add to the permanent value of property or appreciably prolong its intended life, and (3) are not otherwise included in rental or other charges for space. Costs which add to the permanent value of property or appreciably prolong its intended life shall be treated as capital expenditures (see sections 15 and 19).</p>	<p>permanent value of the property nor appreciably prolong its intended life, but keep it in an efficient operating condition, are allowable. Costs incurred for improvements which add to the permanent value of the buildings and equipment or appreciably prolong their intended life shall be treated as capital expenditures (see paragraph 15).</p>	<p>permanent value of the property nor appreciably prolong its intended life, but keep it in an efficient operating condition, are allowable. Costs incurred for improvements which add to the permanent value of the buildings and equipment or appreciably prolong their intended life shall be treated as capital expenditures .</p>
<p>27. Material costs.</p> <p>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</p>	<p>29. Materials and supplies.</p> <p>The cost of materials and supplies is allowable. Purchases should be charged at their actual prices after deducting all cash discounts, trade discounts, rebates, and allowances received. Withdrawals from general stores or stockrooms should be charged at cost under any recognized method of pricing,</p>	<p>28. Materials and supplies.</p> <p>The costs of materials and supplies necessary to carry out an award are allowable. Such costs should be charged at their actual prices after deducting all cash discounts, trade discounts, rebates, and allowances received by the organization. Withdrawals from general stores or stockrooms should be charged at cost under any recognized</p>	<p>Materials and supplies.</p> <p><i>The treatment of this item in all three circulars would be revised to read as follows:</i></p> <p>a. The cost of materials, supplies, and fabricated parts actually used in carrying out the Federal award are allowable.</p> <p>b. Materials and supplies purchased specifically for the Federal award shall be charged at their actual prices, net of applicable credits.</p> <p>c. Withdrawals from general stores or</p>

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<p>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.</p>	<p>consistently applied. Incoming transportation charges are a proper part of materials and supply costs.</p>	<p>method of pricing consistently applied. Incoming transportation charges may be a proper part of material cost. Materials and supplies charged as a direct cost should include only the materials and supplies actually used for the performance of the contract or grant, and due credit should be given for any excess materials or supplies retained, or returned to vendors.</p>	<p>stockrooms should be charged at their actual net cost under any recognized method of pricing inventory withdrawals, consistently applied. Incoming transportation charges are a proper part of materials and supplies cost.</p> <p>d. Where federally-donated or furnished materials are used in performing the Federal award, such materials will be used without charge.</p>
<p>28. Memberships, subscriptions and professional activity</p>	<p>30. Memberships, subscriptions, and professional activities.</p>	<p>30. Memberships, subscriptions, and professional activity</p>	<p>Memberships, subscriptions, and professional activity</p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>costs.</p> <p>a. Costs of the institution's membership in business, technical, and professional organizations are allowable.</p> <p>b. Costs of the institution's subscriptions to business, professional, and technical periodicals are allowable.</p> <p>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 such meetings or conferences.</p> <p>d. Costs of membership in any civic or community organization are unallowable.</p> <p>e. Costs of membership in any country club or social or dining club or organization are unallowable.</p>	<p>a. Costs of the governmental unit's memberships in business, technical, and professional organizations are allowable.</p> <p>b. Costs of the governmental unit's subscriptions to business, professional, and technical periodicals are allowable.</p> <p>c. Costs of meetings and conferences where the primary purpose is the dissemination of technical information, including meals, transportation, rental of meeting facilities, and other incidental costs are allowable.</p> <p>d. Costs of membership in civic and community, social organizations are allowable as a direct cost with the approval of the Federal awarding agency.</p> <p>e. Costs of membership in organizations</p>	<p>costs.</p> <p>a. Costs of the organization's membership in business, technical, and professional organizations are allowable.</p> <p>b. Costs of the organization's subscriptions to business, professional, and technical periodicals are allowable.</p> <p>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.</p> <p>d. Costs of membership in any civic or community organization are allowable with prior approval by Federal cognizant agency.</p> <p>e. Costs of membership in any country club or social or dining club or organization are unallowable.</p>	<p>costs.</p> <p><i>Paragraph c. in all three circulars would be removed and the remaining sections/paragraphs would be re-designated accordingly.</i></p> <p><i>The subject of meetings and conferences would be treated separately as they currently are treated in Circular A-122. See the part of this chart that deals with treatments that appear in only one circular.</i></p>

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<p>31. Preagreement costs.</p> <p>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 unless approved by the sponsoring agency.</p>	<p>substantially engaged in lobbying are unallowable.</p> <p>32. Pre-award costs.</p> <p>Pre-award costs are those incurred prior to the effective date of the award directly pursuant to the negotiation and in anticipation of the award where such costs are necessary to comply with the proposed delivery schedule or period of performance. Such costs are allowable only to the extent that they would</p>	<p>38. Pre-award costs.</p> <p>Pre-award costs are those incurred prior to the effective date of the award directly pursuant to the negotiation and in anticipation of the award where such costs are necessary to comply with the proposed delivery schedule or period of performance. Such costs are allowable only to the extent that they would have been allowable if incurred after the date of the award and only with the written approval of the awarding agency.</p>	<p>Pre-award costs.</p> <p><i>The Pre-award costs treatment in Circular A-21 is slightly different than the treatment in the A-87 and A-122. All three circulars would use the same language for this treatment. The requirement that the costs be negotiated with the awarding agency has been dropped. In its place there is a notice requirement.</i></p> <p>a. Pre-award costs are those incurred before the effective date of the Federal award.</p> <p>b. (1) Pre-award costs are allowable only to the extent that they would have been allowable if incurred after the date of the award and only with the written approval of the awarding agency.</p> <p>(2) If the entity is subject to A-110, prior approval is not required unless required by the Federal agency through a condition of the Federal award or program regulations. If the costs</p>

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	<p>have been allowable if incurred after the date of the award and only with the written approval of the awarding agency.</p>		<p>do not require prior approval, the entity must notify the awarding agency of the costs before the award is made and the costs must be necessary to comply with the proposed delivery schedule or period of performance.</p>
<p>32. <i>Professional services costs.</i></p> <p>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</p>	<p>33. Professional service costs.</p> <p>a. Cost of professional and consultant services rendered by persons or organizations that are members of a particular profession or possess a special skill, whether or not officers or employees of the governmental unit, are allowable, subject to section 14 when reasonable in relation to the services rendered and when not contingent upon</p>	<p>39. Professional service costs.</p> <p>a. Costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the organization, are allowable, subject to subparagraphs b and c when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the Federal Government.</p>	<p>Professional service costs.</p> <p><i>All three circulars would use the same language. Paragraph a. for all three circulars would read as follows:</i></p> <p>a. Costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the non-Federal entity, are allowable, subject to subparagraphs b and c when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the Federal Government.</p> <p>In addition, legal and related services are limited under paragraph ____.</p>

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<p>reasonably supported by evidence of services rendered.</p> <p>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.</p>	<p>recovery of the costs from the Federal Government.</p>	<p>b. In determining the allowability of costs in a particular case, no single factor or any special combination of factors is necessarily determinative. However, the following factors are relevant:</p> <p>(1) The nature and scope of the service rendered in relation to the service required.</p> <p>(2) The necessity of contracting for the service, considering the organization's capability in the particular area.</p> <p>(3) The past pattern of such costs, particularly in the years prior to Federal awards.</p> <p>(4) The impact of Federal awards on the organization's business (i.e., what new problems have arisen).</p>	<p>b. In determining the allowability of costs in a particular case, no single factor or any special combination of factors is necessarily determinative. However, the following factors are relevant:</p> <p>(1) The nature and scope of the service rendered in relation to the service required.</p> <p>(2) The necessity of contracting for the service, considering the non-Federal entity's capability in the particular area.</p> <p>(3) The past pattern of such costs, particularly in the years prior to Federal awards.</p> <p>(4) The impact of Federal awards on the non-Federal entity's business (i.e., what new problems have arisen).</p> <p>(5) Whether the proportion of Federal work to the non-Federal entity's total business is such as to influence the non-Federal entity in favor of incurring the</p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
		<p>(5) Whether the proportion of Federal work to the organization's total business is such as to influence the organization in favor of incurring the cost, particularly where the services rendered are not of a continuing nature and have little relationship to work under Federal grants and contracts.</p> <p>(6) Whether the service can be performed more economically by direct employment rather than contracting.</p> <p>(7) The qualifications of the individual or concern rendering the service and the customary fees charged, especially on non-Federal awards.</p> <p>(8) Adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions).</p> <p>c. In addition to the factors in subparagraph b, retainer fees to be allowable must be</p>	<p>cost, particularly where the services rendered are not of a continuing nature and have little relationship to work under Federal grants and contracts.</p> <p>(6) Whether the service can be performed more economically by direct employment rather than contracting.</p> <p>(7) The qualifications of the individual or concern rendering the service and the customary fees charged, especially on non-Federal awards.</p> <p>(8) Adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions).</p> <p>c. In addition to the factors in subparagraph b, retainer fees to be allowable must be supported by evidence of bona fide services available or rendered.</p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
		supported by evidence of bona fide services available or rendered.	
<p>35. <i>Rearrangement and alteration costs.</i></p> <p>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.</p>	<p>36. Rearrangements and alterations.</p> <p>Costs incurred for ordinary and normal rearrangement and alteration of facilities are allowable. Special arrangements and alterations costs incurred specifically for a Federal award are allowable with the prior approval of the Federal awarding agency.</p>	<p>42. Rearrangement and alteration costs.</p> <p>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 with the prior approval of the awarding agency.</p>	<p>Rearrangement and alteration costs.</p> <p><i>Circulars A-87 and A-122 would not be changed.</i></p> <p><i>Circular A-21 would be amended to read the same as the other two circulars:</i></p> <p>Rearrangement and alteration costs.</p> <p>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 with the prior approval of the sponsoring agency.</p>
<p>36. <i>Reconversion costs.</i></p>	<p>37. Reconversion costs.</p>	<p>43. Reconversion costs.</p>	<p>Reconversion costs.</p> <p><i>Minor changes would be made to A-21 and A-122 to conform to A-87. The three circulars would read as follows:</i></p> <p>Costs incurred in the</p>

A-21	A-87	A-122	Proposed Change
<p>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.</p>	<p>Costs incurred in the restoration or rehabilitation of the governmental unit's facilities to approximately the same condition existing immediately prior to commencement of Federal awards, less costs related to normal wear and tear, are allowable.</p>	<p>Costs incurred in the restoration or rehabilitation of the organization's facilities to approximately the same condition existing immediately prior to commencement of Federal awards, fair wear and tear excepted, are allowable.</p>	<p>restoration or rehabilitation of the non-Federal entity's facilities to approximately the same condition existing immediately prior to commencement of Federal awards, less costs related to normal wear and tear, are allowable.</p>
<p>38. <i>Rental cost of buildings and equipment.</i></p> <p>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.</p>	<p>38. Rental costs.</p> <p>a. Subject to the limitations described in subsections b. through d. of this section, rental costs are allowable to the extent that the rates are reasonable in light of such factors as: rental costs of comparable property, if any; market conditions in the area; alternatives available; and, the type, life expectancy, condition, and value of the property leased.</p>	<p>46. Rental costs.</p> <p>a. Subject to the limitations described in subparagraphs b through d, rental costs are allowable to the extent that the rates are reasonable in light of such factors as: rental costs of comparable property, if any; market conditions in the area; alternatives available; and the type, life expectancy, condition, and value of the property leased.</p>	<p>Rental Costs.</p> <p><i>All three circulars would be revised to read as follows:</i></p> <p>a. Subject to the limitations described in subparagraphs b. through d. of this section, rental costs are allowable to the extent that the rates are reasonable in light of such factors as: rental costs of comparable property, if any; market conditions in the area; alternatives available; and, the type, life expectancy, condition, and value of the property leased. Rental arrangements should be reviewed periodically to determine if circumstances have changed and other options are available.</p>

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<p>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.</p> <p>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.</p>	<p>b. Rental costs under sale and leaseback arrangements are allowable only up to the amount that would be allowed had the governmental unit continued to own the property.</p> <p>c. Rental costs under less-than-arms-length leases are allowable only up to the amount that would be allowed had title to the property vested in the governmental unit. For this purpose, less-than-arms-length leases include, but are not limited to, those where:</p> <p>(1) One party to the lease is able to control or substantially influence the actions of the other;</p> <p>(2) Both parties are parts of the same governmental unit; or</p> <p>(3) The governmental unit creates an authority or similar entity to acquire and lease the facilities</p>	<p>b. Rental costs under sale and leaseback arrangements are allowable only up to the amount that would be allowed had the organization continued to own the property.</p> <p>c. Rental costs under less-than-arms-length leases are allowable only up to the amount that would be allowed had title to the property vested in the organization. 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. Such leases include, but are not limited to those between (i) divisions of an organization; (ii) organizations under common control through common officers, directors, or members;</p>	<p>b. Rental costs under "sale and lease back" arrangements are allowable only up to the amount that would be allowed had the non-Federal entity continued to own the property. This amount would include expenses such as depreciation or use allowance, maintenance, taxes, and insurance.</p> <p>c. Rental costs under "less-than-arms-length" leases are allowable only up to the amount (as explained in section b) that would be allowed had title to the property vested in the non-Federal entity. 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. Such leases include, but are not limited to those between (i) divisions of a non-Federal entity; (ii) non-Federal entities under common control through common officers, directors, or members;</p>

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<p>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</p>	<p>to the governmental unit and other parties.</p> <p>d. Rental costs under leases which are required to be treated as capital leases under GAAP are allowable only up to the amount that would be allowed had the governmental unit purchased the property on the date the lease agreement was executed.</p>	<p>and (iii) an organization and a director, trustee, officer, or key employee of the organization or his immediate family either directly or through corporations, trusts, or similar arrangements in which they hold a controlling interest.</p> <p>d. Rental costs under leases which are required to be treated as capital leases under GAAP, are allowable only up to the amount that would be allowed had the organization purchased the property on the date the lease agreement was executed, i.e., to the amount that minimally would pay for depreciation or use allowances, maintenance, taxes, and insurance.</p>	<p>and (iii) a non-Federal entity and a director, trustee, officer, or key employee of the non-Federal entity or his immediate family either directly or through corporations, trusts, or similar arrangements in which they hold a controlling interest.</p> <p>d. Rental costs under leases which are required to be treated as capital leases under GAAP are allowable only up to the amount (as explained in section b) that would be allowed had the non-Federal entity purchased the property on the date the lease agreement was executed. The provisions of Financial Accounting Standards Board Statement 13, <i>Accounting for Leases</i>, shall be used to determine whether a lease is a capital lease. Interest costs related to capital leases are allowable to the extent they meet criteria in subparagraph 23.a. Unallowable costs include amounts paid for profit, management fees, and taxes that would not have been incurred had the non-Federal entity purchased the facility.</p>

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<p>exists when the lease:</p> <p>(1) Is noncancelable or is cancelable only upon the occurrence of some remote contingency, and</p> <p>(2) Has one or more of the following characteristics:</p> <p>(a) Title to the property passes to the institution at some time during or after the lease period.</p> <p>(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).</p> <p>(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.</p> <p>(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.</p>	<p>This amount would include expenses such as depreciation or use allowance, maintenance, and insurance. The provisions of Financial Accounting Standards Board Statement 13 shall be used to determine whether a lease is a capital lease. Interest costs related to capital leases are allowable to the extent they meet the criteria in section 26.</p>	<p>Interest costs related to capitalized leases are allowable to the extent they meet criteria in subparagraph 23.a. Unallowable costs include amounts paid for profit, management fees, and taxes that would not have been incurred had the organization purchased the facility.</p>	

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<p>(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.</p>			
<p>46. Taxes.</p> <p>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</p>	<p>39. Taxes.</p> <p>a. Taxes that a governmental unit is legally required to pay are allowable, except for self-assessed taxes that disproportionately affect Federal programs or changes in tax policies that disproportionately affect Federal programs. This provision becomes effective for taxes paid during the governmental unit's first fiscal year that begins on or after January 1, 1998, and applies thereafter.</p>	<p>51. Taxes.</p> <p>a. In general, taxes which the organization is required to pay and which are paid or accrued in accordance with GAAP, and payments made to local governments in lieu of taxes which are commensurate with the local government services received are allowable, except for</p> <p>(i) taxes from which exemptions are available to the organization directly or which are available to the organization based on an exemption afforded the Federal Government and in the latter case when the</p>	<p>Taxes.</p> <p><i>No Change.</i></p>

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<p>makes available the necessary exemption certificates; and</p> <p>(2) special assessments on land which represent capital improvements.</p> <p>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.</p> <p>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.</p>	<p>b. Gasoline taxes, motor</p>	<p>awarding agency makes available the necessary exemption certificates,</p> <p>(ii) special assessments on land which represent capital improvements, and</p> <p>(iii) Federal income taxes.</p> <p>b. Any refund of taxes, and any payment to the organization of interest thereon, which were allowed as award costs, will be credited either as a cost reduction or cash refund, as appropriate, to the Federal Government.</p>	

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	<p>vehicle fees, and other taxes that are in effect user fees for benefits provided to the Federal Government are allowable.</p> <p>c. This provision does not restrict the authority of Federal agencies to identify taxes where Federal participation is inappropriate. Where the identification of the amount of unallowable taxes would require an inordinate amount of effort, the cognizant agency may accept a reasonable approximation thereof.</p>		
48. <i>Travel costs.</i>	41. <i>Travel costs.</i>	55. <i>Travel costs.</i>	<p><i>Travel costs.</i></p> <p><i>The treatment of travel costs in all three circulars would be revised to read as presented below. However, the last sentence of [section/paragraph] a. is unique to the governmental environment and would therefore appear only in A-87. Accordingly, it is set off by brackets ([]).</i></p> <p><i>The reference to</i></p>

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<p>a. <i>General.</i> 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</p>	<p>a. <i>General.</i> Travel costs are allowable for expenses for transportation, lodging, subsistence, and related items incurred by employees traveling on official business. Such costs may be charged on an actual cost 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 results in charges consistent with</p>	<p>a. 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 organization. Travel costs are allowable subject to subparagraphs b through e, when they are directly attributable to specific work under an award or are incurred in the normal course of administration of the organization.</p> <p>b. 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 results in charges consistent with those normally allowed by the organization in its</p>	<p><i>recruitment and relocation costs in subparagraph 55.d. of the current A-122 would not be retained because that subject would be covered under the heading of "Recruitment costs."</i></p> <p>a. <i>General.</i> 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 non-Federal entity. Such costs may be charged on an actual cost 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, and results in charges consistent with those normally allowed in like circumstances in the non-Federal entity's non-federally-sponsored activities. [Notwithstanding the provisions of section [23], travel costs of officials covered by that section are allowable with the prior approval of an awarding agency</p>

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<p>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.</p> <p>b. <i>Lodging and subsistence.</i> 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.</p> <p>In the absence of an acceptable institutional policy regarding travel costs, the rates and amounts established under</p>	<p>those normally allowed in like circumstances in non-federally-sponsored activities. Notwithstanding the provisions of section 23, travel costs of officials covered by that section, when specifically related to Federal awards, are allowable with the prior approval of a grantor agency.</p> <p>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 governmental unit in its regular operations as a result of the governmental unit's policy.</p>	<p>regular operations.</p> <p>c. The difference in cost between first-class air accommodations and less than first-class air accommodations is unallowable except when less than first-class air accommodations are not reasonably available to meet necessary mission requirements, such as where less than first-class accommodations would (i) require circuitous routing, (ii) require travel during unreasonable hours, (iii) greatly increase the duration of the flight, (iv) result in additional costs which would offset the transportation savings, or (v) offer accommodations which are not reasonably adequate for the medical needs of the traveler.</p> <p>d. Necessary and reasonable costs of family movements and personnel movements of a special or mass nature are allowable, pursuant to paragraphs 44 and 45, subject to allocation on the basis of work or time period benefited when appropriate. Advance agreements are particularly important.</p>	<p>when they are specifically related to Federal awards.]</p> <p>b. <i>Lodging and subsistence.</i> 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 non-Federal entity in its regular operations as the result of the non-Federal entity's written travel policy. In the absence of an acceptable, written non-Federal entity policy regarding travel costs, the rates and amounts established under subchapter I of Chapter 57, Title 5, United States Code ("Travel and Subsistence Expenses; Mileage Allowances"), or by the Administrator of General Services, or by the President (or his or her designee) pursuant to any provisions of such subchapter shall apply to travel under Federal awards (48 CFR 31.205-46(a)).</p>

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<p>subchapter I of Chapter 57 of Title 5, United States Code,</p> <p>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).</p> <p><i>c. Commercial air travel.</i></p>	<p>In the absence of a written governmental unit policy regarding travel costs, the rates and amounts established under subchapter I of Chapter 57 of Title 5, United States Code "Travel and Subsistence Expenses; Mileage Allowances," or by the Administrator of General Services, or the President (or his designee) pursuant to any provisions of such subchapter shall be used as guidance for travel under Federal awards (41 U.S.C. 420, "Travel Expenses of Government Contractors").</p>	<p>e. Direct charges for foreign travel costs are allowable only when the travel has received prior approval of the awarding agency. Each separate foreign trip must be approved. For purposes of this provision, foreign travel is defined as any travel outside of Canada and the United States and its territories and possessions. However, for an organization located in foreign countries, the term "foreign travel" means travel outside that country.</p>	<p><i>c. Commercial air travel.</i></p> <p>(1) Airfare costs in excess of the customary standard commercial airfare (coach or equivalent), Federal Government contract airfare (where authorized and available), or the lowest commercial discount airfare are unallowable except when such accommodations would: (a) require circuitous routing; (b) require travel during unreasonable hours; (c) excessively prolong travel; (d) result in additional costs that would offset the transportation savings; or (e) offer accommodations not reasonably adequate for the traveler's medical needs. The non-Federal entity must justify and document these conditions on a case-by-case basis in order for the use of first-class airfare to be allowable in such cases.</p> <p>(2) Unless a pattern of avoidance is detected, the Federal Government will generally not question a non-Federal entity's determinations that</p>

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<p>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</p>	<p>c. Commercial air travel. Airfare costs in excess of the 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 cost that would offset</p> <p>transportation savings, or offer accommodations not reasonably adequate for the medical needs of the</p>		<p>customary standard airfare or other discount airfare is unavailable for specific trips if the non-Federal entity can demonstrate either of the following: (a) that such airfare was not available in the specific case; or (b) that it is the non-Federal entity's overall practice to make routine use of such airfare</p> <p>d. <i>Air travel by other than commercial carrier.</i> Costs of travel by non-Federal entity-owned, -leased, or -chartered aircraft include the cost of lease, charter, operation (including personnel costs), maintenance, depreciation, insurance, and other related costs. The portion of such costs that exceeds the cost of allowable commercial air travel, as provided for in [subsection][subparagraph] c., is unallowable.</p> <p>e. <i>Foreign travel.</i> Direct charges for foreign travel costs are allowable only when the travel has received prior approval of the awarding agency. Each separate foreign trip must receive such approval. For</p>

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<p>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.</p> <p>d. <i>Air travel by other than commercial carrier.</i> "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.</p>	<p>traveler. Where a governmental unit can reasonably demonstrate to the awarding agency either the nonavailability of customary standard airfare or Federal Government contract airfare for individual trips or, on an overall basis, that it is the governmental unit'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 governmental unit must justify and document on a case-by-case basis the applicable condition(s) set forth above.</p> <p>d. <i>Air travel by other than commercial carrier.</i> Cost of travel by governmental unit-owned, -leased, or -chartered aircraft, as used in this section, includes the cost of lease, charter, operation (including</p>		<p>purposes of this provision, "foreign travel" includes any travel outside Canada, the United States, and any United States territories and possessions. However, the term "foreign travel" for a non-Federal entity located in a foreign country means travel outside that country.</p>

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	<p>personnel costs), maintenance, depreciation, interest, insurance, and other related costs. Costs of travel via governmental unit-owned, -leased, or -chartered aircraft are unallowable to the extent they exceed the cost of allowable commercial air travel, as provided for in subsection c.</p>		

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Cost items in only two circulars			
	<p data-bbox="638 212 909 237">8. Bonding costs.</p> <p data-bbox="638 423 1020 597">Costs of bonding employees and officials are allowable to the extent that such bonding is in accordance with sound business practice.</p>	<p data-bbox="1062 212 1333 237">5. Bonding costs.</p> <p data-bbox="1062 423 1478 894">a. Bonding costs arise when the Federal Government requires assurance against financial loss to itself or others by reason of the act or default of the organization. They arise also in instances where the organization requires similar assurance. Included are such bonds as bid, performance, payment, advance payment, infringement, and fidelity bonds.</p> <p data-bbox="1062 1084 1444 1198">b. Costs of bonding required pursuant to the terms of the award are allowable.</p> <p data-bbox="1062 1235 1444 1373">c. Costs of bonding required by the organization in the general conduct of its operations are allowable</p>	<p data-bbox="1514 212 1730 237">Bonding costs.</p> <p data-bbox="1514 272 1913 386"><i>The bonding provisions in A-122 would be used for all three circulars, to read as follows:</i></p> <p data-bbox="1514 423 1913 927">a. Bonding costs arise when the Federal Government requires assurance against financial loss to itself or others by reason of the act or default of the non-Federal entity. They arise also in instances where the non-Federal entity requires similar assurance. Included are such bonds as bid, performance, payment, advance payment, infringement, and fidelity bonds.</p> <p data-bbox="1514 964 1892 1078">b. Costs of bonding required pursuant to the terms of the award are allowable.</p> <p data-bbox="1514 1115 1892 1373">c. Costs of bonding required by the non-Federal entity in the general conduct of its operations are allowable to the extent that such bonding is in accordance with sound business practice and the rates</p>

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		to the extent that such bonding is in accordance with sound business practice and the rates and premiums are reasonable under the circumstances.	and premiums are reasonable under the circumstances.
<p>19. <i>Goods or services for personal use.</i></p> <p>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.</p>		<p>18. Goods or services for personal use.</p> <p>Costs of goods or services for personal use of the organization's employees are unallowable regardless of whether the cost is reported as taxable income to the employees.</p>	<p>Goods or services for personal use.</p> <p><i>This treatment would be added to Circular A-87, to read as follows:</i></p> <p>Costs of goods or services for personal use of the non-Federal entity's employees are unallowable regardless of whether the cost is reported as taxable income to the employees.</p>
<p>20. <i>Housing and personal living expenses.</i></p> <p>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.</p> <p>b. The term "officers" includes current and past</p>		<p>19. Housing and personal living expenses.</p> <p>a. Costs of housing (e.g., depreciation, maintenance, utilities, furnishings, rent, etc.), housing allowances and personal living expenses for/of the organization's officers are unallowable as fringe benefit or indirect costs regardless of whether the cost is reported as taxable income to the employees. These costs are allowable as direct costs to sponsored</p>	<p>Housing and personal living expenses.</p> <p><i>No change.</i></p>

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officers.		<p>award when necessary for the performance of the sponsored award and approved by awarding agencies.</p> <p>b. The term "officers" includes current and past officers and employees.</p>	
	<p>24. Idle facilities and idle capacity.</p> <p>a. As used in this section the following terms have the meanings set forth below:</p> <p>(1) "Facilities" means land and buildings or any portion thereof, equipment individually or collectively, or any other tangible capital asset, wherever located, and whether owned or leased by the governmental unit.</p> <p>(2) "Idle facilities" means completely unused facilities that are excess to the governmental unit's current needs.</p>	<p>20. Idle facilities and idle capacity.</p> <p>a. As used in this paragraph, the following terms have the meanings set forth below:</p> <p>(1) Facilities means land and buildings or any portion thereof, equipment individually or collectively, or any other tangible capital asset, wherever located, and whether owned or leased by the organization.</p> <p>(2) Idle facilities means completely unused facilities that are excess to the organization's current needs.</p>	<p>Idle facilities and idle capacity.</p> <p><i>This treatment would be added to A-21 and the three circulars would use standard language, to read as follows:</i></p> <p>a. As used in this section the following terms have the meanings set forth below:</p> <p>(1) "Facilities" means land and buildings or any portion thereof, equipment individually or collectively, or any other tangible capital asset, wherever located, and whether owned or leased by the non-Federal entity.</p> <p>(2) "Idle facilities" means completely unused facilities that are excess to the non-Federal entity's current needs.</p>

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	<p>(3) "Idle capacity" means the unused capacity of partially used facilities. It is the difference between (a) that which a facility could achieve under 100 percent operating time on a one-shift basis less operating interruptions resulting from time lost for repairs, setups, unsatisfactory materials, and other normal delays and (b) the extent to which the facility was actually used to meet demands during the accounting period. A multi-shift basis should be used if it can be shown that this amount of usage would normally be expected for the type of facility involved.</p> <p>(4) "Cost of idle facilities or idle capacity" means costs such as maintenance, repair, housing, rent, and other related costs, e.g., insurance, interest, and depreciation or use allowances.</p>	<p>(3) Idle capacity means the unused capacity of partially used facilities. It is the difference between that which a facility could achieve under 100 percent operating time on a one-shift basis less operating interruptions resulting from time lost for repairs, setups, unsatisfactory materials, and other normal delays, and the extent to which the facility was actually used to meet demands during the accounting period. A multi-shift basis may be used if it can be shown that this amount of usage could normally be expected for the type of facility involved.</p> <p>(4) Costs of idle facilities or idle capacity means costs such as maintenance, repair, housing, rent, and other related costs, e.g., property taxes, insurance, and depreciation or use allowances.</p>	<p>(3) "Idle capacity" means the unused capacity of partially used facilities. It is the difference between (a) that which a facility could achieve under 100 percent operating time on a one-shift basis less operating interruptions resulting from time lost for repairs, setups, unsatisfactory materials, and other normal delays and (b) the extent to which the facility was actually used to meet demands during the accounting period. A multi-shift basis should be used if it can be shown that this amount of usage would normally be expected for the type of facility involved.</p> <p>(4) "Cost of idle facilities or idle capacity" means costs such as maintenance, repair, housing, rent, and other related costs, e.g., insurance, interest, property taxes and depreciation or use allowances.</p>

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	<p>b. The costs of idle facilities are unallowable except to the extent that:</p> <p>(1) They are necessary to meet fluctuations in workload; or</p> <p>(2) Although not necessary to meet fluctuations in workload, they were necessary when acquired and are now idle because of changes in program requirements, efforts to achieve more economical operations, reorganization, termination, or other causes which could not have been reasonably foreseen. Under the exception stated in this subsection, costs of idle facilities are allowable for a reasonable period of time, ordinarily not to exceed one year, depending on the initiative taken to use, lease, or dispose of such facilities.</p>	<p>b. The costs of idle facilities are unallowable except to the extent that:</p> <p>(1) They are necessary to meet fluctuations in workload; or</p> <p>(2) Although not necessary to meet fluctuations in workload, they were necessary when acquired and are now idle because of changes in program requirements, efforts to achieve more economical operations, reorganization, termination, or other causes which could not have been reasonably foreseen. Under the exception stated in this subparagraph, costs of idle facilities are allowable for a reasonable period of time, ordinarily not to exceed one year, depending upon the initiative taken to use, lease, or dispose of such facilities (but see subparagraphs 48.b and d).</p>	<p>b. The costs of idle facilities are unallowable except to the extent that:</p> <p>(1) They are necessary to meet fluctuations in workload; or</p> <p>(2) Although not necessary to meet fluctuations in workload, they were necessary when acquired and are now idle because of changes in program requirements, efforts to achieve more economical operations, reorganization, termination, or other causes which could not have been reasonably foreseen. Under the exception stated in this subparagraph, costs of idle facilities are allowable for a reasonable period of time, ordinarily not to exceed one year, depending on the initiative taken to use, lease, or dispose of such facilities [A-122:(but see subparagraphs 48.b and d)].</p>

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	<p>c. The costs of idle capacity are normal costs of doing business and are a factor in the normal fluctuations of usage or indirect cost rates from period to period. Such costs are allowable, provided that the capacity is reasonably anticipated to be necessary or was originally reasonable and is not subject to reduction or elimination by use on other Federal awards, subletting, renting, or sale, in accordance with sound business, economic, or security practices. Widespread idle capacity throughout an entire facility or among a group of assets having substantially the same function may be considered idle facilities.</p>	<p>c. The costs of idle capacity are normal costs of doing business and are a factor in the normal fluctuations of usage or indirect cost rates from period to period. Such costs are allowable, provided the capacity is reasonably anticipated to be necessary or was originally reasonable and is not subject to reduction or elimination by subletting, renting, or sale, in accordance with sound business, economics, or security practices. Widespread idle capacity throughout an entire facility or among a group of assets having substantially the same function may be idle facilities.</p>	<p>c. The costs of idle capacity are normal costs of doing business and are a factor in the normal fluctuations of usage or indirect cost rates from period to period. Such costs are allowable, provided that the capacity is reasonably anticipated to be necessary or was originally reasonable and is not subject to reduction or elimination by use on other Federal awards, subletting, renting, or sale, in accordance with sound business, economic, or security practices. Widespread idle capacity throughout an entire facility or among a group of assets having substantially the same function may be considered idle facilities.</p>
<p>23. <i>Labor relations costs.</i></p> <p>Costs incurred in maintaining satisfactory relations between the institution and its employees, including costs of labor management committees, employees'</p>		<p>24. Labor relations costs.</p> <p>Costs incurred in maintaining satisfactory relations between the organization and its employees, including costs of labor management committees, employee publications, and other</p>	<p>Labor relations costs.</p> <p><i>No change.</i></p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
publications, and other related activities, are allowable.		related activities are allowable.	
<p>29. <i>Patent costs.</i></p> <p>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.)</p>		<p>35. Patent costs.</p> <p>a. Costs of (i) preparing disclosures, reports, and other documents required by the award and of searching the art to the extent necessary to make such disclosures, (ii) preparing documents and any other patent costs in connection with the filing and prosecution of a United States patent application where title or royalty-free license is required by the Federal Government to be conveyed to the Federal Government, and</p> <p>(iii) general counseling services relating to patent and copyright matters, such as advice on patent and copyright laws, regulations, clauses, and employee agreements are allowable (but see</p>	<p>Patent costs.</p> <p><i>The patent costs treatment would be added to A-87. The standard language for all three circulars would read as follows:</i></p> <p>a. Costs of (i) preparing disclosures, reports, and other documents required by the Federal award and of searching the art to the extent necessary to make such disclosures, (ii) preparing documents and any other patent costs in connection with the filing and prosecution of a United States patent application where title or royalty-free license is required by the Federal Government to be conveyed to the Federal Government, and (iii) general counseling services relating to patent and copyright matters, such as advice on patent and copyright laws, regulations, clauses, and employee agreements are allowable (but see [section]</p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
		<p>paragraph 39) .</p> <p>b. Cost of preparing disclosures, reports, and other documents and of searching the art to the extent necessary to make disclosures, if not required by the award, are unallowable. Costs in connection with (i) filing and prosecuting any foreign patent application, or (ii) any United States patent application, where the award does not require conveying title or a royalty-free license to the Federal Government, are unallowable (also see paragraph 47) .</p>	<p>[paragraph] ___) .</p> <p>b. Cost of preparing disclosures, reports, and other documents and of searching the art to the extent necessary to make disclosures, if not required by the award, are unallowable. Costs in connection with (i) filing and prosecuting any foreign patent application, or (ii) any United States patent application, where the Federal award does not require conveying title or a royalty-free license to the Federal Government, are unallowable (but see paragraph ___) .</p>
<p>30. <i>Plant security costs.</i></p> <p>Necessary expenses incurred to comply with security requirements, including wages, uniforms and equipment of personnel engaged in plant protection, are allowable.</p>		<p>37. Plant security costs.</p> <p>Necessary expenses incurred to comply with Federal security requirements or for facilities protection, including wages, uniforms, and equipment of personnel are allowable.</p>	<p>Plant security costs.</p> <p><i>The plant security costs treatment would be added to A-87 and all three treatments would read as follows:</i></p> <p>Necessary expenses incurred to comply with Federal security requirements or for facilities protection, including wages, uniforms, and equipment of personnel engaged in plant protection, are</p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>34. <i>Proposal costs.</i></p> <p>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</p>	<p>34. Proposal costs</p> <p>Costs of preparing proposals for potential Federal awards are allowable. Proposal costs should normally be treated as indirect costs and should be allocated to all activities of the governmental unit utilizing the cost allocation plan and indirect cost rate proposal. However, proposal costs may be charged directly to Federal awards with the prior approval of the Federal awarding agency.</p>		<p>allowable.</p> <p>Proposal costs</p> <p><i>This treatment would be added to A-122, using the language from A-87:</i></p> <p>Costs of preparing proposals for potential Federal awards are allowable. Proposal costs should normally be treated as indirect costs and should be allocated to all activities of the non-Federal entity utilizing the cost allocation plan and indirect cost rate proposal. However, proposal costs may be charged directly to Federal awards with the prior approval of the Federal awarding agency.</p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>reasonable and equitable.</p>	<p>35. Publication and printing costs.</p> <p>Publication costs, including the costs of printing (including the processes of composition, plate-making, press work, and binding, and the end products produced by such processes), distribution, promotion, mailing, and general handling are allowable.</p>	<p>41. Publication and printing costs.</p> <p>a. Publication costs include the costs of printing (including the processes of composition, plate-making, press work, binding, and the end products produced by such processes), distribution, promotion, mailing, and general handling.</p> <p>b. If these costs are not identifiable with a particular cost objective, they should be allocated as indirect costs to all benefiting activities of the organization.</p> <p>c. Publication and</p>	<p>Publication and printing costs.</p> <p><i>This treatment would be revised to follow the A-122 model and applied to all three circulars. Also, the treatment would be amended to clarify the allowability of page charges. The treatment for all three circulars would read as follows:</i></p> <p>Publication and printing costs.</p> <p>a. Publication costs include the costs of printing (including the processes of composition, plate-making, press work, binding, and the end products produced by such processes), distribution, promotion, mailing, and general handling. Publication costs also include page charges in professional publications.</p> <p>b. If these costs are not identifiable with a particular cost objective, they should be allocated as indirect costs to all benefiting</p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
		<p>printing costs are unallowable as direct costs except with the prior approval of the awarding agency.</p> <p>d. The cost of page charges in journals is addressed paragraph 33.</p>	<p>activities of the non-Federal entity.</p> <p>c. Publication and printing costs are unallowable as direct costs except with the prior approval of the awarding agency.</p> <p>d. Page charges for professional journal publications are allowable as a necessary part of research costs, where:</p> <p>(1) The research papers report work supported by the Federal Government; and</p> <p>(2) The charges are levied impartially on all research papers published by the journal, whether or not by federally-sponsored authors.</p>
37. <i>Recruiting costs.</i>		44. Recruiting costs.	<p>Recruiting and relocation costs.</p> <p><i>The heading of this treatment would be revised to reflect the addition of relocation costs, which would be moved here from paragraph 45 of A-122. As revised, the treatment would be applied to all three circulars, to read as follows:</i></p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>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</p>		<p>a. Subject to subparagraphs 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 organization uses employment agencies, costs that are not in excess of standard commercial rates for such services are allowable.</p> <p>b. In publications, costs</p>	<p>a. Recruiting costs are allowable to the extent that such costs are incurred pursuant to a well-managed recruitment program and provided that the size of the staff recruited and maintained is in keeping with workload requirements. These costs include 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. Where the non-Federal entity uses employment agencies, costs not in excess of standard commercial rates for such services are allowable.</p> <p>b. Costs of "help wanted advertising" are subject to subsections (1), and (2) below:</p> <p>(1) Costs of help wanted advertising in</p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>standard commercial rates for such services are allowable.</p> <p>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.</p> <p>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.</p> <p>d. Where relocation costs incurred incident to recruitment of a new employee have been</p>		<p>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 organizational practices in this respect), are unallowable.</p> <p>c. Costs of help wanted advertising, special emoluments, fringe benefits, and salary allowances incurred to attract professional personnel from other organizations that do not meet the test of reasonableness or do not conform with the established practices of the organization, are unallowable.</p> <p>d. Where relocation costs incurred incident to recruitment of a new employee have been allowed either as an allocable direct or indirect cost, and the newly hired employee resigns for reasons within his control within twelve months after being hired, the</p>	<p>publications that is excessive in size or utilization of color, taking into consideration the intended recruitment purpose and normal institutional practice, are unallowable.</p> <p>(2) Costs of help-wanted advertising that includes content not related to the recruitment purpose are unallowable.</p> <p>c. Costs of recruitment that do not meet the test of reasonableness or do not conform to the established practices of the non-Federal entity are unallowable. These costs include advertising, special incentives, fringe benefits, and salary allowances incurred to attract personnel from other entities.</p> <p>d. Relocation costs are costs incident to the permanent change of duty assignment (for an indefinite period or for a stated period of not less than 12 months) of an existing employee or upon recruitment of a new employee. Relocation</p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>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.</p>		<p>organization will be required to refund or credit such relocation costs to the Federal Government.</p>	<p>costs are allowable, subject to the limitation described in subparagraphs e, f, and g, provided that:</p> <p>(1) The move is for the benefit of the employer.</p> <p>(2) Reimbursement to the employee is in accordance with an established written policy consistently followed by the employer.</p> <p>(3) The reimbursement does not exceed the employee's actual (or reasonably estimated) expenses.</p> <p>e. Allowable relocation costs for current employees are limited to the following:</p> <p>(1) The costs of transportation of the employee, members of his immediate family and his household, and personal effects to the new location.</p> <p>(2) The costs of finding a new home, such as advance trips by employees and spouses to locate living quarters</p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
			<p>and temporary lodging during the transition period, up to maximum period of 30 days, including advance trip time.</p> <p>(3) Closing costs, such as brokerage, legal, and appraisal fees, incident to the disposition of the employee's former home. These costs, together with those described in (4), are limited to 8 per cent of the sales price of the employee's former home.</p> <p>(4) The continuing costs of ownership of the vacant former home after the settlement or lease date of the employee's new permanent home, such as maintenance of buildings and grounds (exclusive of fixing up expenses), utilities, taxes, and property insurance.</p> <p>(5) Other necessary and reasonable expenses normally incident to relocation, such as the costs of canceling an unexpired lease, disconnecting and reinstalling household</p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
			<p>appliances, and purchasing insurance against loss of or damages to personal property. The cost of canceling an unexpired lease is limited to three times the monthly rental.</p> <p>f. Allowable relocation costs for new employees are limited to those described in (1) and (2) of subparagraph e. When relocation costs incurred incident to the recruitment of new employees have been allowed either as a direct or indirect cost and the employee resigns for reasons within his control within 12 months after hire, the non-Federal entity shall refund or credit the Federal Government for its share of the cost. However, the costs of travel to an overseas location shall be considered travel costs in accordance with paragraph ___ and not relocation costs for the purpose of this paragraph if dependents are not permitted at the location for any reason and the costs do not include</p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
			<p>costs of transporting household goods.</p> <p>g. The following costs related to relocation are unallowable:</p> <p>(1) Fees and other costs associated with acquiring a new home.</p> <p>(2) A loss on the sale of a former home.</p> <p>(3) Continuing mortgage principal and interest payments on a home being sold.</p> <p>(4) Income taxes paid by an employee related to reimbursed relocation costs.</p>
<p>39. <i>Royalties and other costs for use of patents.</i></p> <p>Royalties on a patent or amortization of the cost of acquiring a patent or invention or rights thereto, necessary for the proper performance of</p>		<p>47. Royalties and other costs for use of patents and copyrights.</p> <p>a. Royalties on a patent or copyright or amortization of the cost of acquiring by purchase a copyright, patent, or rights thereto, necessary</p>	<p>Royalties and other costs for use of patents and copyrights.</p> <p><i>This treatment would be added to A-87 and all three circulars would use standard language, to read as follows:</i></p> <p>a. Royalties on a patent or copyright or amortization of the cost of acquiring by purchase a copyright, patent, or rights thereto, necessary for the proper</p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>the sponsored agreement and applicable to tasks or processes thereunder, are allowable unless</p> <p>the Federal Government has a license or the right to free use of the patent,</p> <p>the patent has been adjudicated to be invalid or has been administratively determined to be invalid,</p> <p>the patent is considered to be unenforceable, or</p> <p>the patent has expired.</p>		<p>for the proper performance of the award are allowable unless:</p> <p>(1) The Federal Government has a license or the right to free use of the patent or copyright.</p> <p>(2) The patent or copyright has been adjudicated to be invalid, or has been administratively determined to be invalid.</p> <p>(3) The patent or copyright is considered to be unenforceable.</p> <p>(4) The patent or copyright is expired.</p> <p>b. Special care should be exercised in determining reasonableness where the royalties may have arrived at as a result of less-than-arm's-length bargaining, e.g.:</p> <p>(1) Royalties paid to persons, including corporations, affiliated with the organization.</p>	<p>performance of the award are allowable unless:</p> <p>(1) The Federal Government has a license or the right to free use of the patent or copyright.</p> <p>(2) The patent or copyright has been adjudicated to be invalid, or has been administratively determined to be invalid.</p> <p>(3) The patent or copyright is considered to be unenforceable.</p> <p>(4) The patent or copyright is expired.</p> <p>b. Special care should be exercised in determining reasonableness where the royalties may have arrived at as a result of less-than-arm's-length bargaining, e.g.:</p> <p>(1) Royalties paid to persons, including corporations, affiliated with the non-Federal entity.</p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
		<p>(2) Royalties paid to unaffiliated parties, including corporations, under an agreement entered into in contemplation that a Federal award would be made.</p> <p>(3) Royalties paid under an agreement entered into after an award is made to an organization.</p> <p>c. In any case involving a patent or copyright formerly owned by the organization,</p> <p>the amount of royalty allowed should not exceed the cost which would have been allowed had the organization retained title thereto.</p>	<p>(2) Royalties paid to unaffiliated parties, including corporations, under an agreement entered into in contemplation that a Federal award would be made.</p> <p>(3) Royalties paid under an agreement entered into after an award is made to a non-Federal entity.</p> <p>c. In any case involving a patent or copyright formerly owned by the non-Federal entity, the amount of royalty allowed should not exceed the cost which would have been allowed had the non-Federal entity retained title thereto.</p>
42. <i>Selling and marketing.</i>		48. Selling and marketing.	<p>Selling and marketing.</p> <p><i>The first sentence that currently exists in A-21 (with references specific to that circular) would be added to A-87 and revised for A-122. The second sentence would remain in A-122 but not added to in the other two</i></p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>Costs of selling and marketing any products or services of the institution (unless allowed under Section J.1.c. or J.34) are unallowable.</p>		<p>Costs of selling and marketing any products or services of the organization</p> <p>(unless allowed under paragraph 1 as allowable public relations costs) are unallowable.</p> <p>These costs, however, are allowable as direct costs, with prior approval by awarding agencies, when they are necessary for the performance of Federal programs.</p>	<p><i>circulars:</i></p> <p>Costs of selling and marketing any products or services of the non-Federal entity are unallowable (unless allowed under paragraph ___ as allowable public relations costs or paragraph ___ as allowable proposal costs).</p>
<p>43. <i>Severance pay.</i></p>		<p>49. Severance pay.</p>	<p>Severance pay.</p> <p><i>The treatment of severance pay in circulars A-21 and A-122 would be moved to appear with other treatments regarding compensation for personal services, where A-87 already carries this treatment.</i></p>
<p>44. <i>Specialized service facilities.</i></p>		<p>50. Specialized service facilities.</p>	<p>Specialized service facilities.</p> <p><i>The Specialized service facilities item would not be added to A-87 because:</i></p> <p><i>(a) governments generally</i></p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>a. The costs of institutional services involving the use of highly complex or specialized facilities</p> <p>such as electronic computers, wind tunnels, and reactors are allowable, provided the charge for the service meets the conditions of subsections b through d.</p> <p>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.</p>		<p>a. The costs of services provided</p> <p>by highly complex or specialized facilities operated by the organization,</p> <p>such as electronic computers and wind tunnels, are allowable, provided the charges for the services meet the conditions of either subparagraph b or c and, in addition,</p> <p>take into account any items of income or Federal financing that qualify as</p>	<p><i>account for specialized service facilities in internal service funds (ISFs); and (b) A-87, Attachment C (Central Service Cost Allocation Plans) discusses ISFs in detail. The treatment of specialized service facilities in A-21 and A-122 would be revised to read as follows:</i></p> <p>a. The costs of services provided by</p> <p>highly complex or specialized facilities operated by the non-Federal entity, such as computers, wind tunnels, reactors and motor pools are allowable, provided the charges for the services meet the conditions of either [A-21: subsection b. or c.] [A-122: subparagraph b. or c.] and, in addition,</p> <p>take into account any items of income or Federal financing that qualify as applicable</p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>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</p>		<p>applicable credits under subparagraph A.5 of Attachment A.</p> <p>b. The costs of such services, when material, must be charged directly to applicable awards based on actual usage of the services on the basis of a schedule of rates or established methodology that</p> <p>(i) does not discriminate against federally-supported activities of the organization, including usage by the organization for internal purposes, and</p> <p>(ii) is designed to recover only the aggregate costs of the services. The costs of each service shall consist normally of both its direct costs and its allocable share of all indirect costs. Advance agreements pursuant to subparagraph A.6 of Attachment A are particularly important in</p>	<p>credits under [A-21: subsection ____][A-122: subparagraph ____ of Attachment A].</p> <p>b. The costs of such services, when material, must be charged directly to applicable awards based on actual usage of the services on the basis of a schedule of rates or established methodology that</p> <p>(i) does not discriminate against federally-supported activities of the non-Federal entity, including usage by the non-Federal entity for internal purposes, and</p> <p>(ii) is designed to recover only the aggregate costs of the services. The costs of each service shall consist normally of both its direct costs and its allocable share of all indirect costs. Rates shall be adjusted no less frequently than bi-annually and shall take into consideration over/under applied costs of the previous period(s).</p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>reviewed periodically for consistency with the long-term plan and adjusted if necessary.</p> <p>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.</p> <p>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.</p>		<p>this situation.</p> <p>c. Where the costs incurred for a service are not material, they may be allocated as indirect costs.</p>	<p>c. Where the costs incurred for a service are not material, they may be allocated as indirect costs.</p>
<p>49. <i>Termination costs applicable to sponsored agreement.</i></p> <p>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</p>		<p>52. Termination costs.</p> <p>Termination of awards generally give rise to the incurrence of costs, or the need for special treatment of costs, which would not have arisen had the award not been</p>	<p>Termination costs.</p> <p><i>The treatment of termination costs would be revised as follows and used in all three circulars, except subsection e.3 applies only to A-87 and A-122.</i></p> <p>Termination of awards generally give rise to the incurrence of costs, or the need for special treatment of costs, which would not have arisen had</p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>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.</p> <p>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,</p> <p>consideration should be given to the institution's plans and orders for current and scheduled</p>		<p>terminated. Cost principles covering these items are set forth below. They are to be used in conjunction with the other provisions of this Circular in termination situations.</p> <p>a. Common items. The cost of items reasonably usable on the organization's other work shall not be allowable unless the organization submits evidence that it would not retain such items at cost without sustaining a loss. In deciding whether such items are reasonably usable on other work of the organization, the awarding agency should consider the organization's plans and orders for current and scheduled activity.</p> <p>Contemporaneous purchases of common items by the organization shall</p>	<p>the Federal award not been terminated. Cost principles covering these items are set forth below. They are to be used in conjunction with the other provisions of this Circular in termination situations.</p> <p>a. The cost of items reasonably usable on the non-Federal entity's other work shall not be allowable unless the non-Federal entity submits evidence that it would not retain such items at cost without sustaining a loss. In deciding whether such items are reasonably usable on other work of the non-Federal entity, the awarding agency should consider the non-Federal entity's plans and orders for current and scheduled activity.</p> <p>Contemporaneous purchases of common items by the non-Federal entity shall be regarded as evidence that such items are reasonably usable on the non-Federal entity's other work. Any acceptance of common items as allocable to the terminated portion of the</p>

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<p>work.</p> <p>Contemporaneous purchases of common items by the institution will</p> <p>be regarded as evidence that such items are reasonably usable on the institution's</p> <p>other work. Any acceptance of common items as allowable to the terminated portion of the agreement</p> <p>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.</p> <p>c. If in a particular case, despite all reasonable efforts by the institution,</p> <p>certain costs cannot be discontinued immediately after the effective date</p>		<p>be regarded as evidence that such items are reasonably usable on the organization's</p> <p>other work. Any acceptance of common items as allocable to the terminated portion of the award</p> <p>shall 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.</p> <p>b. Costs continuing after termination. If in a particular case, despite all reasonable efforts by the organization,</p> <p>certain costs cannot be discontinued immediately after the effective date of termination, such costs are generally allowable within the limitations set forth in this Circular, except that any such costs continuing after</p>	<p>Federal award shall 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.</p> <p>b. If in a particular case, despite all reasonable efforts by the non-Federal entity, certain costs cannot be discontinued immediately after the effective date of 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 non-Federal entity to discontinue such costs shall be unallowable.</p> <p>c. Loss of useful value of special tooling, machinery and equipment which was not charged to the Federal award as a capital expenditure is</p>

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<p>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</p> <p>discontinue such costs will be considered unacceptable.</p> <p>d. Loss of useful value of special tooling, and special machinery and equipment is</p> <p>generally allowable, provided</p> <p>(1) such special tooling, machinery, or equipment is not reasonably capable of use in the other work of the institution;</p> <p>(2) the interest of the Federal Government is protected by transfer of title or by other means</p>		<p>termination due to the negligent or willful failure of the organization to</p> <p>discontinue such costs shall be unallowable.</p> <p>c. Loss of useful value. Loss of useful value of special tooling, machinery and equipment which was not charged to the award as a capital</p> <p>expenditure is generally allowable if:</p> <p>(1) Such special tooling, machinery, or equipment is not reasonably capable of use in the other work of the organization.</p> <p>(2) The interest of the Federal Government is protected by transfer of title or by other means deemed appropriate by the awarding agency;</p>	<p>generally allowable if:</p> <p>(1) Such special tooling, machinery, or equipment is not reasonably capable of use in the other work of the non-Federal entity,</p> <p>(2) The interest of the Federal Government is protected by transfer of title or by other means deemed appropriate by the awarding agency, and</p> <p>(3) The loss of useful value as to any one terminated Federal award 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 Federal award bears to the entire terminated Federal award and other Federal awards for which the special tooling, special machinery, or equipment was acquired.</p> <p>d. Rental costs under unexpired leases are generally allowable where clearly shown to have been reasonably necessary for the performance of</p>

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<p>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</p> <p>and other Federal agreements for which the special tooling, special machinery, or equipment was acquired.</p> <p>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</p> <p>(1) the amount of such rental claimed does not exceed the reasonable use value of the property leased for the period of</p>		<p>d. Rental costs. Rental costs under unexpired leases are generally allowable</p> <p>where clearly shown to have been reasonably necessary for the performance of the terminated award less the residual value of such leases, if</p> <p>(i) the amount of such rental claimed does not exceed the reasonable use value of the property leased for the period of the award and such</p> <p>further period as may be reasonable, and</p> <p>(ii) the organization</p>	<p>the terminated Federal award less the residual value of such leases, if:</p> <p>(1) the amount of such rental claimed does not exceed the reasonable use value of the property leased for the period of the Federal award and such further period as may be reasonable, and</p> <p>(2) the non-Federal entity 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 alterations were necessary for the performance of the Federal award, and of reasonable restoration required by the provisions of the lease.</p> <p>e. Settlement expenses including the following are generally allowable:</p> <p>(1) Accounting, legal, clerical, and similar costs reasonably necessary for:</p>

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<p>the agreement and such further period as may be reasonable; and</p> <p>(2) the institution</p> <p>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.</p> <p>f. Settlement expenses including the following are generally allowable:</p> <p>(1) accounting, legal, clerical, and similar costs reasonably necessary for</p> <p>the preparation and presentation to contracting officers or equivalent of settlement</p>		<p>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</p> <p>alterations were necessary for the performance of the award, and of reasonable restoration required by the provisions of the lease.</p> <p>e. Settlement expenses. Settlement expenses including the following are generally allowable:</p> <p>(1) Accounting, legal, clerical, and similar costs reasonably necessary for:</p> <p>(a) The preparation and presentation to awarding agency of settlement claims and supporting data with respect to the terminated portion of the award,</p> <p>unless the termination is for default (see Sec. .61 of Circular A-110);</p>	<p>(a) The preparation and presentation to awarding agency of settlement claims and supporting data with respect to the terminated portion of the Federal award, unless the termination is for default (see Sec. __.61 of Circular A-110); and</p> <p>(b) The termination and settlement of sub awards.</p> <p>(2) Reasonable costs for the storage, transportation, protection, and disposition of property provided by the Federal Government or acquired or produced for the Federal award, except when</p> <p>grantees or contractors are reimbursed for disposals at a predetermined amount in accordance with Sections __.32 through __.37 of Circular A-110.</p> <p>(3) Indirect costs related to salaries and wages incurred as settlement expenses in [subsections] [subparagraphs] (1) and</p>

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<p>claims and supporting data with respect to the terminated portion of the agreement, and the termination and settlement of sub agreements; and</p> <p>(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.</p>		<p>and</p> <p>(b) The termination and settlement of sub awards.</p> <p>(2) Reasonable costs for the storage, transportation, protection, and disposition of property provided by the Federal Government or acquired or produced for the award, except when grantees or contractors are reimbursed for disposals at a predetermined amount in accordance with Sec. __.30 through __.37 of Circular A-110.</p> <p>(3) Indirect costs related to salaries and wages incurred as settlement expenses in subparagraphs (1) and (2). Normally, such indirect costs shall be limited to fringe benefits, occupancy cost, and immediate supervision.</p> <p>f. Claims under sub awards. Claims under sub awards, including the allocable portion of claims which are common to</p>	<p>(2). Normally, such indirect costs shall be limited to fringe benefits, occupancy cost, and immediate supervision.</p> <p>f. Claims under sub awards. Claims under sub awards, including the allocable portion of claims which are common to the Federal award, and to other work of the non-Federal entity are generally allowable.</p> <p>An appropriate share of the non-Federal entity's indirect expense may be allocated to the amount of settlements with subcontractors and/or subgrantees, provided that the amount allocated is otherwise consistent with the basic guidelines contained in Attachment A. The indirect expense so allocated shall exclude the same and similar costs claimed directly or indirectly as settlement expenses.</p>

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<p>g. Claims under sub agreements, including the allocable portion of claims which are common to the agreement</p> <p>and to other work of the institution, are generally allowable.</p>		<p>the award,</p> <p>and to other work of the organization are generally allowable.</p> <p>An appropriate share of the organization's</p> <p>indirect expense may be allocated to the amount of settlements with subcontractors and/or subgrantees, provided that the amount allocated is otherwise consistent with the basic guidelines contained in Attachment A. The indirect expense so allocated shall exclude the same and similar costs claimed directly or indirectly as settlement expenses.</p>	
	<p>40. Training.</p> <p>The cost of training provided for employee development is allowable.</p>	<p>53. Training and education costs.</p> <p>a. Costs of preparation and maintenance of a program of instruction including but not limited to on-the-job, classroom, and apprenticeship</p>	<p>Training.</p> <p><i>The treatment of training costs in A-87 would be added to A-21, to read as follows:</i></p> <p>The cost of training provided for employee development is allowable.</p>

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		<p>training, designed to increase the vocational effectiveness of employees, including training materials, textbooks, salaries or wages of trainees (excluding overtime compensation which might arise therefrom), and (i) salaries of the director of training and staff when the training program is conducted by the organization; or (ii) tuition and fees when the training is in an institution not operated by the organization, are allowable.</p> <p>b. Costs of part-time education, at an undergraduate or post-graduate college level, including that provided at the organization's own facilities, are allowable only when the course or degree pursued is relative to the field in which the employee is now working or may reasonably be expected to work, and are limited to:</p> <ul style="list-style-type: none"> (1) Training materials. (2) Textbooks. 	

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		<p>(3) Fees charges by the educational institution.</p> <p>(4) Tuition charged by the educational institution or, in lieu of tuition, instructors' salaries and the related share of indirect costs of the educational institution to the extent that the sum thereof is not in excess of the tuition which would have been paid to the participating educational institution.</p> <p>(5) Salaries and related costs of instructors who are employees of the organization.</p> <p>(6) Straight-time compensation of each employee for time spent attending classes during working hours not in excess of 156 hours per year and only to the extent that circumstances do not permit the operation of classes or attendance at classes after regular working hours; otherwise, such compensation is unallowable.</p> <p>c. Costs of tuition,</p>	

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		<p>fees, training materials, and textbooks (but not subsistence, salary, or any other emoluments) in connection with full-time education, including that provided at the organization's own facilities, at a post-graduate (but not undergraduate) college level, are allowable only when the course or degree pursued is related to the field in which the employee is now working or may reasonably be expected to work, and only where the costs receive the prior approval of the awarding agency. Such costs are limited to the costs attributable to a total period not to exceed one school year for each employee so trained. In unusual cases the period may be extended.</p> <p>d. Costs of attendance of up to 16 weeks per employee per year at specialized programs specifically designed to enhance the effectiveness of executives or managers or to prepare employees for such positions are allowable. Such costs include enrollment fees,</p>	

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		<p>training materials, textbooks and related charges, employees' salaries, subsistence, and travel. Costs allowable under this paragraph do not include those for courses that are part of a degree-oriented curriculum, which are allowable only to the extent set forth in subparagraphs b and c.</p> <p>e. Maintenance expense, and normal depreciation or fair rental, on facilities owned or leased by the organization for training purposes are allowable to the extent set forth in paragraphs 11, 27, and 46.</p> <p>f. Contributions or donations to educational or training institutions, including the donation of facilities or other properties, and scholarships or fellowships, are unallowable.</p> <p>g. Training and education costs in excess of those otherwise allowable under subparagraphs b and c may be allowed with prior approval of the awarding agency. To be considered</p>	

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		for approval, the organization must demonstrate that such costs are consistently incurred pursuant to an established training and education program, and that the course or degree pursued is relative to the field in which the employee is now working or may reasonably be expected to work.	
<p>47. <i>Transportation costs.</i></p> <p>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</p> <p>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</p>		<p>54. <i>Transportation costs.</i></p> <p>Transportation costs include freight, express, cartage, and postage charges relating either to goods purchased, in process, or delivered. These costs are allowable.</p> <p>When such costs can readily be identified with the items involved, they may be directly charged as transportation costs or added to the cost of such items (see paragraph 28). Where identification with the materials received cannot readily be made,</p> <p>transportation costs may be charged to the appropriate indirect cost accounts if the organization follows a</p>	<p>Transportation costs.</p> <p><i>No change.</i></p>

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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.		consistent, equitable procedure in this respect.	
50. <i>Trustees.</i> Travel and subsistence costs of trustees (or directors) are allowable. The costs are subject to restrictions regarding lodging, subsistence and air travel costs provided in Section 48.		56. <i>Trustees.</i> Travel and subsistence costs of trustees (or directors) are allowable. The costs are subject to restrictions regarding lodging, subsistence and air travel costs provided in paragraph 55.	<i>Trustees.</i> <i>No change.</i>
Cost items in only one circular			
	1. <i>Accounting.</i> The cost of establishing and maintaining accounting and other information systems is allowable.		<i>Accounting.</i> <i>This treatment would be deleted.</i>
	3. <i>Advisory councils.</i> Costs incurred by advisory councils or committees are allowable as a direct cost where authorized by the Federal awarding agency or as an indirect cost where allocable to Federal awards.		<i>Advisory councils.</i> <i>This treatment would be added to all the circulars, to read as follows:</i> Costs incurred by advisory councils or committees are allowable as a direct cost where authorized by the Federal awarding agency or as an indirect cost where allocable to Federal awards.

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<p>3. <i>Alumni/ae activities.</i></p> <p>Costs incurred for, or in support of, alumni/ae activities and similar services are unallowable.</p>			<p>Alumni/ae activities.</p> <p><i>No change.</i></p>
	<p>5. Audit services.</p> <p>The costs of audits are allowable provided that the audits were performed in accordance with the Single Audit Act, as implemented by Circular A-128, "Audits of State and Local Governments." [Note: In June 1997, OMB rescinded Circular A-128 and co-located all audit requirements in a re-titled Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."] Generally, the percentage of costs charged to</p>		<p>Audit and related services.</p> <p><i>The title of this treatment would be revised to reflect the true scope of the treatment and applied to all three circulars. The treatment would be amended to reflect the new Circular A-133, to read as follows:</i></p> <p>a.(1) The costs of audits are allowable provided that the audits were performed in accordance with the Single Audit Act, as implemented by Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."</p> <p>(2) Generally, the</p>

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	<p>Federal awards for a single audit shall not exceed the percentage derived by dividing Federal funds expended by total funds expended by the recipient or sub recipient (including program matching funds) during the fiscal year.</p> <p>The percentage may be exceeded only if appropriate documentation demonstrates higher actual costs.</p> <p>Other audit costs are allowable if specifically approved by the awarding or cognizant agency as a direct cost to an award or included as an indirect cost in a cost allocation plan or rate.</p>		<p>percentage of costs charged to Federal awards for a single audit shall not exceed the percentage derived by dividing the recipient or sub recipient's amount of Federal funds expended by the recipient or sub recipient's amount of total funds (including program matching funds) during the fiscal year.</p> <p>(3) The percentage may be exceeded only if appropriate documentation demonstrates higher actual costs.</p> <p>b. Other audit costs are allowable if specifically approved by the awarding or cognizant agency as a direct cost to an award or included as an indirect cost in a cost allocation plan or rate.</p> <p>c. The cost of agreed-upon procedures engagements used by non-Federal entities, to monitor subrecipients exempted from the OMB Circular A-133 audit requirement under section 200(d) of that Circular is allowable, provided:</p> <p>(1) the non-Federal</p>

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			entity, arranges and pays for the work; and (2) the scope of the work is limited to the types of compliance requirements listed in paragraph 230(b)(2) of Circular A-133.
	6. Automatic electronic data processing. The cost of data processing services is allowable (but see section 19, Equipment and other capital expenditures).		Automatic electronic data processing. <i>This treatment would be deleted.</i>
		Bid and Proposal costs. (Reserved)	Bid and Proposal costs. (Reserved) <i>This heading would be deleted.</i>
	9. Budgeting. Costs incurred for the development, preparation, presentation, and execution of budgets are allowable.		Budgeting. <i>This treatment would be deleted.</i>
5. <i>Civil defense costs.</i> 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			Civil defense costs. <i>This treatment would be deleted.</i>

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<p>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.</p>			
<p>6. <i>Commencement and convocation costs.</i> Costs incurred for commencements and convocations are unallowable, except as provided for in Section F.9.</p>			<p>Commencement and convocation costs.</p> <p><i>No change.</i></p>
<p>10. <i>Deans of faculty and graduate schools.</i> The</p>			<p>Deans of faculty and graduate schools.</p>

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salaries and expenses of deans of faculty and graduate schools, or their equivalents, and their staffs, are allowable.			<i>No change.</i>
	16. Disbursing service. The cost of disbursing funds by the Treasurer or other designated officer is allowable.		Disbursing service. <i>This treatment would be deleted.</i>
17. <i>Executive lobbying costs.</i> 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.			Executive lobbying costs. <i>This treatment would be moved to appear with the treatment of other lobbying costs and applied to all three circulars.</i>
		17. Fringe benefits. See subparagraph 7.f.	Fringe benefits. <i>This cross reference would be deleted.</i>
	23. General government		General government

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	<p>expenses.</p> <p>a. The general costs of government are unallowable (except as provided in section 41). These include:</p> <p>(1) Salaries and expenses of the Office of the Governor of a State or the chief executive of a political subdivision or the chief executives of federally-recognized Indian tribal governments;</p> <p>(2) Salaries and other expenses of State legislatures, tribal councils, or similar local governmental bodies, such as county supervisors, city councils, school boards, etc., whether incurred for purposes of legislation or executive direction;</p> <p>(3) Cost of the judiciary branch of a government;</p>		<p>expenses.</p> <p><i>This treatment would be edited and would continue to apply only to A-87.</i></p> <p>a. The general costs of government are unallowable (except as provided in section 41). These include:</p> <p>(1) Salaries and expenses of the Office of the Governor of a State or the chief executive of a political subdivision or the chief executive of federally-recognized Indian tribal government;</p> <p>(2) Salaries and other expenses of a State legislature, tribal council, or similar local governmental body, such as a county supervisor, city council, school board, etc., whether incurred for purposes of legislation or executive direction;</p> <p>(3) Costs of the judiciary branch of a government;</p> <p>(4) Costs of prosecutorial activities unless treated as a direct cost to a</p>

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	<p>(4) Cost of prosecutorial activities unless treated as a direct cost to a specific program when authorized by program regulations (however, this does not preclude the allowability of other legal activities of the Attorney General); and</p> <p>(5) Other general types of government services normally provided to the general public, such as fire and police, unless provided for as a direct cost in program regulations.</p> <p>b. For federally-recognized Indian tribal governments and Councils Of Governments (COGs), the portion of salaries and expenses directly attributable to managing and operating Federal programs by the chief executive and his staff is allowable.</p>		<p>specific program if authorized by program statute or regulation (however, this does not preclude the allowability of other legal activities of the Attorney General); and</p> <p>(5) Costs of other general types of government services normally provided to the general public, such as fire and police, unless provided for as a direct cost under a program statute or regulation.</p> <p>b. For federally-recognized Indian tribal governments and Councils Of Governments (COGs), the portion of salaries and expenses directly attributable to managing and operating Federal programs by the chief executive and his staff is allowable.</p>
		<p>21. Independent research and development. [Reserved]</p>	<p>Independent research and development.</p> <p><i>This cross reference would be deleted.</i></p>

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		<p>29. Meetings and conferences.</p> <p>a. Costs associated with the conduct of meetings and conferences include the cost of renting facilities, meals, speakers' fees, and the like. But see paragraph 14, Entertainment costs, and paragraph 34, Participant support costs.</p> <p>b. To the extent that these costs are identifiable with a particular cost objective, they should be charged to that objective (see paragraph B of Attachment A). These costs are allowable, provided that they meet the general tests of allowability, shown in paragraph A of Attachment A to this Circular.</p> <p>c. Costs of meetings and conferences held to conduct the general administration of the organization are</p>	<p>Meetings and conferences.</p> <p><i>This treatment would be applied to all three circulars, to read as follows:</i></p> <p>a. Costs of meetings and conferences, the primary purpose of which is dissemination of technical information are allowable. This includes costs of meals, transportation, rental of facilities, speakers' fees, and other items incidental to such meetings or conferences. But see [section][paragraph] ____, Entertainment, and Participant support costs, [section] [paragraph] ____.] [A-122, only: Costs of meetings or conferences held to conduct the general business of the non-Federal entity are allowable.]</p>

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		allowable.	
	<p>31. Motor pools.</p> <p>The costs of a service organization which provides automobiles to user governmental units at a mileage or fixed rate and/or provides vehicle maintenance, inspection, and repair services are allowable.</p>		<p>Motor pools.</p> <p><i>This treatment would be deleted.</i></p>
		<p>31. Organization costs.</p> <p>Expenditures, such as incorporation fees, brokers' fees, fees to promoters, organizers or management consultants, attorneys, accountants, or investment counselors, whether or not employees of the organization, in connection with establishment or reorganization of an organization, are unallowable except with prior approval of the awarding agency.</p>	<p>Organization costs.</p> <p><i>No change.</i></p>
		<p>32. Overtime, extra-pay shift, and multi-shift premiums.</p>	<p>Overtime, extra-pay shift, and multi-shift premiums.</p> <p><i>This treatment would be moved to the part of the circulars addressing compensation for personal services and applied to</i></p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
		<p>Premiums for overtime, extra-pay shifts, and multi-shift work are allowable only with the prior approval of the awarding agency except:</p> <p>a. When necessary to cope with emergencies, such as those resulting from accidents, natural disasters, breakdowns of equipment, or occasional operational bottlenecks of a sporadic nature.</p> <p>b. When employees are performing indirect functions, such as administration, maintenance, or accounting.</p> <p>c. In the performance of tests, laboratory procedures, or other similar operations which are continuous in nature and cannot reasonably be interrupted or otherwise completed.</p> <p>d. When lower overall cost to the Federal Government will result.</p>	<p><i>all three circulars, except section b only applies to A-87 and A-122.</i></p> <p>Premiums for overtime, extra-pay shifts, and multi-shift work are allowable only with the prior approval of the awarding agency except:</p> <p>a. When necessary to cope with emergencies, such as those resulting from accidents, natural disasters, breakdowns of equipment, or occasional operational bottlenecks of a sporadic nature.</p> <p>b. When employees are performing indirect functions, such as administration, maintenance, or accounting.</p> <p>c. In the performance of tests, laboratory procedures, or other similar operations which are continuous in nature and cannot reasonably be interrupted or otherwise completed.</p> <p>d. When lower overall cost to the Federal Government will result.</p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
		<p>33. Page charges in professional journals. Page charges for professional journal publications are allowable as a necessary part of research costs, where:</p> <p>a. The research papers report work supported by the Federal Government; and</p> <p>b. The charges are levied impartially on all research papers published by the journal, whether or not by federally-sponsored authors.</p>	<p>Page charges in professional journals.</p> <p><i>This treatment would be deleted and the substance would be carried under the treatment "Publication and printing costs" which is addressed in the part of this table covering those treatments that appear in two cost circulars.</i></p>
		<p>34. Participant support costs.</p> <p>Participant support costs are direct costs for items such as stipends or subsistence allowances, travel allowances, and registration fees paid to or on behalf of participants or trainees (but not employees) in connection with meetings, conferences, symposia, or</p>	<p>Participant support costs.</p> <p><i>This treatment would be added to the other two circulars, using the same text, to read as follows:</i></p> <p>Participant support costs are direct costs for items such as stipends or subsistence allowances, travel allowances, and registration fees paid to or on behalf of participants or trainees (but not employees) in connection with meetings, conferences, symposia, or training projects. These</p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
		training projects. These costs are allowable with the prior approval of the awarding agency.	costs are allowable with the prior approval of the awarding agency.
		36. Pension plans. See subparagraph 7.h.	Pension plans. <i>This cross reference would be deleted.</i>
		<p>45. Relocation costs.</p> <p>a. Relocation costs are costs incident to the permanent change of duty assignment (for an indefinite period or for a stated period of not less than 12 months) of an existing employee or upon recruitment of a new employee. Relocation costs are allowable, subject to the limitation described in subparagraphs b, c, and d, provided that:</p> <p>(1) The move is for the benefit of the employer.</p> <p>(2) Reimbursement to the employee is in accordance with an established written policy consistently followed by the employer.</p> <p>(3) The reimbursement does not exceed the employee's actual (or reasonably estimated)</p>	<p>Relocation costs.</p> <p><i>This treatment would be moved to the treatment of "Recruiting costs" and included in all three circulars.</i></p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
		<p>expenses.</p> <p>b. Allowable relocation costs for current employees are limited to the following:</p> <p>(1) The costs of transportation of the employee, members of his immediate family and his household, and personal effects to the new location.</p> <p>(2) The costs of finding a new home, such as advance trips by employees and spouses to locate living quarters and temporary lodging during the transition period, up to maximum period of 30 days, including advance trip time.</p> <p>(3) Closing costs, such as brokerage, legal, and appraisal fees, incident to the disposition of the employee's former home. These costs, together with those described in (4), are limited to 8 per cent of the sales price of the employee's former home.</p> <p>(4) The continuing costs</p>	

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
		<p>of ownership of the vacant former home after the settlement or lease date of the employee's new permanent home, such as maintenance of buildings and grounds (exclusive of fixing up expenses), utilities, taxes, and property insurance.</p> <p>(5) Other necessary and reasonable expenses normally incident to relocation, such as the costs of canceling an unexpired lease, disconnecting and reinstalling household appliances, and purchasing insurance against loss of or damages to personal property. The cost of canceling an unexpired lease is limited to three times the monthly rental.</p> <p>c. Allowable relocation costs for new employees are limited to those described in (1) and (2) of subparagraph b. When relocation costs incurred incident to the recruitment of new employees have been allowed either as a</p>	

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
		<p>direct or indirect cost and the employee resigns for reasons within his control within 12 months after hire, the organization shall refund or credit the Federal Government for its share of the cost. However, the costs of travel to an overseas location shall be considered travel costs in accordance with paragraph 55 and not relocation costs for the purpose of this paragraph if dependents are not permitted at the location for any reason and the costs do not include costs of transporting household goods.</p> <p>d. The following costs related to relocation are unallowable:</p> <p>(1) Fees and other costs associated with acquiring a new home.</p> <p>(2) A loss on the sale of a former home.</p> <p>(3) Continuing mortgage principal and interest payments on a home being sold.</p> <p>(4) Income taxes paid by</p>	

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
		an employee related to reimbursed relocation costs.	
<p>40. <i>Sabbatical leave costs.</i></p> <p>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.</p>			<p>Sabbatical leave costs.</p> <p><i>This treatment would be moved to the treatment in A-21 of fringe benefits under "Compensation for personal services." This treatment would not be applied to A-87 or A-122.</i></p>
<p>41. <i>Scholarships and student aid costs.</i></p>			<p>Scholarships and student aid costs.</p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>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</p>			<p><i>This treatment was amended to incorporate the clarification in OMB memorandum M-01-06, regarding tuition remission costs. The clarification made clear that a graduate student did not have to be an employee of the non-Federal entity for tax purposes in order for the tuition remission treatment to apply. The revised treatment, only for A-21, would read as follows:</i></p> <p>a. Costs of scholarships, fellowships, and other programs of student aid are allowable only when the purpose of the Federal award 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</p> <p>(1) The individual is conducting activities necessary to the Federal award;</p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>(1) there is a bona fide employer-employee relationship between the student and the institution for the work performed,</p> <p>(2) the tuition or other payments are reasonable compensation for the work performed and are conditioned explicitly</p>			<p>(2) Tuition remission and other support are provided in accordance with established educational institutional policy and consistently provided in a like manner to students in return for similar activities conducted in nonsponsored as well as sponsored activities; and</p> <p>(3) During the academic period, the student is enrolled in an advanced degree program at a grantee or affiliated non-Federal entity and the activities of the student in relation to the Federally-sponsored research project are related to the degree program;</p> <p>(4) the tuition or other payments are reasonable compensation for the work performed and are conditioned explicitly upon the performance of necessary work; and</p> <p>(5) it is the non-Federal entity's practice to similarly compensate students in nonsponsored</p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
<p>upon the performance of necessary work, and</p> <p>(3) it is the institution's practice to similarly compensate students in nonsponsored as well as sponsored activities.</p> <p>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.</p>			<p>as well as sponsored activities.</p> <p>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.</p>
<p>45. <i>Student activity costs.</i> Costs incurred for intramural activities, student publications, student clubs, and other student activities, are unallowable, unless specifically provided for in the sponsored agreements.</p>			<p>Student activity costs.</p> <p><i>No change.</i></p>

<u>A-21</u>	<u>A-87</u>	<u>A-122</u>	<u>Proposed Change</u>
	42. Under recovery of costs under Federal agreements. Any excess costs over the Federal contribution under one award agreement are unallowable under other award agreements.		Under recovery of costs under Federal agreements. <i>This treatment, which repeats concepts already covered in the "Basic Considerations" coverage of A-87, would be deleted.</i>

Plain Language Version

As stated at the beginning of the preamble, we prepared a short table to compare how the cost principle for “Pre-award costs” appears as proposed in the chart with a plain language version of how the same principle might appear if it were stated in simple short sentences.

Proposed language from chart	Plain Language Example
<p>a. Pre-award costs are those incurred before the effective date of the Federal award that directly pursuant to the negotiation and in anticipation of the award where such costs are necessary to comply with the proposed delivery schedule or period of performance.</p> <p>b. (1) Pre-award costs are allowable only to the extent that they would have been allowable if incurred after the date of the award and only with the written approval of the awarding agency.</p> <p>(2) If the entity is subject to A-110, prior approval is not required unless required by the Federal agency through a condition of the Federal award or program regulations. If the costs do not require prior approval, the entity must notify the awarding agency of the costs before the award is made and the costs must be necessary to</p>	<p>a. Pre-award costs are costs made before the effective date of the Federal award.</p> <p>b. These costs are allowable if they meet the following criteria:</p> <p>(1) The funds you expend are for costs that would be allowable if incurred during the award period;</p> <p>(2) The funds you expend are provided by you and reimbursed from award funds that become available during the award period;</p> <p>(3) The Federal awarding agency is notified of the Pre-award expenditure during negotiation for the award; and</p> <p>(4) (i) You obtain written approval from the awarding agency before you expend your funds for the cost; or</p> <p>(ii) (a) The cost is allowed without written approval under Circular A-110; or</p> <p>(iii) Prior approval is not required under the terms of</p>

<p>comply with the proposed delivery schedule or period of performance.</p>	<p>the grant or program regulations; and</p> <p>(b) The costs are needed to comply with the proposed delivery schedule or period of performance.</p> <p>c. If you do not get an award, the Federal government will not pay for the pre-award costs you incurred.</p>
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