

APPENDIX II
SUMMARY OF O.M.B. CIRCULAR A-122

“Cost Principles for Non-Profit Organizations

- A. Basic Considerations - To be allowable, costs must meet the following general criteria:
 - 1. Costs must be reasonable:
 - a. Recognized as ordinary and necessary.
 - b. Arms length transactions.
 - c. Individuals concerned acted with prudence.
 - d. Not deviating from established practices of the organization.
 - 2. Costs must be allocated to the grant, project, etc. In accordance with benefits received:
 - a. Incurred specifically for the award.
 - b. Benefits both award and other work can be reasonably distributed in proportion to benefits received.
 - c. Necessary to overall operation - if no direct relationship to award can be shown.
- B. Direct Costs
 - 1. Can be identified specifically with a particular grant, award, project, etc.
 - 2. Direct costs of minor amounts may be treated as indirect.
 - 3. Unallowable costs may be treated as direct costs for computation of overhead rates.
- C. Indirect Costs
 - 1. Costs that have been incurred for common objectives but cannot be readily identified with a particular grant. *Only applicable with a HUD certified cost allocation plan.*
- D. Allocation of Indirect Costs
 - 1. Simplified Method
 - a. Used when major functions benefit from indirect costs to approximately the same degree.
 - b. Distribution base may be total direct costs, direct salaries or other equitable distribution base.
 - 2. Multiple allocation base method:
 - a. Used when major functions benefit in varying degrees from indirect costs.
 - b. Costs separated into distinct groupings. Each grouping then allocated to benefiting functions by means of base which best measures relative results.
- E. Selected Items of Cost
 - 1. Advertising - only advertising costs allowable are those associated with:
 - a. Recruitment of personnel.
 - b. Procurement of goods.
 - c. Disposal of surplus materials.
 - 2. Bad debts - unallowable.
 - 3. Bonding costs - allowable.
 - 4. Communication costs - allowable.
 - 5. Compensation for personal services:
 - a. Includes salaries, wages, director’s and executive committee fees, incentive awards, fringe benefits, pension plan costs, location allowances and cost of, living differentials.
 - b. Allowable provided they are reasonable.

- c. May be direct or indirect. Fringe benefits in the form of vacation, sick pay, holidays, and authorized absences are allowable provided they are absorbed by all organization activities in proportion to relative time or effort devoted to each.
- d. Fringe benefits in the form of social security, employee insurance, workman's compensation insurance, etc. Are allowable provided they are distributed in accordance with salaries and wages chargeable to particular awards and activities.
- e. Charges to award for salaries and wages must be supported by documented, approved payroll records:
 - i. Distribution must be supported by personnel activity reports (time sheets).
 - ii. Time sheets must be maintained by all personnel whose compensation in whole, or in part, is charged to government awards.
 - iii. Time sheets must reflect after-the-fact determination of actual activity of each employee.
 - iv. Each time sheet must account for employees total time.
 - v. Time sheets must indicate total number of hours worked each day.
 - vi. Time sheets must be signed by employee and approved by supervisor.
 - vii. Time sheets must be prepared at least monthly.
- 6. Contingency reserves - unallowable
- 7. Contributions - unallowable
- 8. Depreciation - allowable
- 9. Donated services:
 - a. Not reimbursable.
 - b. May be used in overhead computations in allocating indirect costs.
- 10. Employee morale, health, and welfare costs - allowable as indirect cost.
- 11. Entertainment costs - unallowable.
- 12. Equipment and other capital expenditures:
 - Equipment - Personal property with a useful life of more than 1 year costing \$5,000 or more per unit.
 - a. Special purpose equipment - usable only for research, medical, scientific or technical activities - allowable as direct cost with prior approval of items costing over \$5,000.
- 13. General purpose equipment – usable for other purposes
- 14. Depreciation allowable as indirect costs.
 - a. Land, buildings or improvements.
 - i. Unallowable as direct costs.
- 15. Fines and penalties - unallowable.
- 16. Idle facilities and idle capacity - unallowable.
- 17. Insurance and indemnification - allowable.
- 18. Labor relations costs - allowable
- 19. Losses on other awards - unallowable
- 20. Maintenance and repair costs - allowable
- 21. Materials and supplies - allowable
- 22. Meeting, conferences - allowable provided they do not involve entertainment costs
- 23. Membership, subscriptions and professional activity costs- allowable
- 24. Organization costs (incorporation fees, attorneys, accountants etc. in connection with establishment or reorganization of organization) - allowable
- 25. Overtime, premium pay - allowable as direct costs with prior approval.
- 26. Page charges in professional journals - (e-mail publications) - allowable
- 27. Participant support costs - allowable as direct costs with prior approval

28. Plant security costs - allowable.
29. Professional Service costs - allowable when reasonable in relation to services and not contingent upon recovery from government. In determining allowability, certain factors are relevant:
 - a. Nature and scope of service in relation to service required.
 - b. Necessity of contracting for service vs. Organization's own capability.
 - c. Past patterns.
 - d. Impact of government awards.
 - e. Does proportion of government work to total organization work, justify incurring cost.
 - f. Can service be performed more economically by hiring employee.
 - g. Qualifications of individual performing service.
 - h. Adequacy of contractual agreement.
 - i. Retainer fees must be supported by evidence of services available.
30. Public information service costs - (pamphlets, new releases and other forms of disseminating information):
 - a. Allowable as direct costs, if educational, or
 - b. Allowable as indirect costs.
31. Publication and printing costs:
 - a. Allowable as direct costs, if educational, or
 - b. Allowable as indirect costs.
32. Rearrangement and alteration costs - allowable with prior approval.
33. Reconversion costs - (restoration or rehabilitation cost) - allowable with prior approval.
34. Recruiting costs - allowable.
35. Rental costs - allowable within certain limitations.
36. Royalties and other costs for user of patents and copyrights - allowable.
37. Severance Pay - allowable to the extent required by :
 - a. Law
 - b. Employer-employee agreement
 - c. Established policy
 - d. Circumstances of particular employment
38. Specialized service facilities - allowable within certain limitations.
39. Taxes - allowable unless exemptions from taxes are available.
40. Termination costs - (costs in connection with termination of award):
 - a. For common items reasonably usable on organization's other work - allowable.
 - b. Cost continuing after termination - allowable only if cannot be discontinued despite all reasonable efforts.
 - c. Loss of value of special tooling etc. - allowable.
 - d. Rental costs - (unexpired leases) - allowable
 - e. Settlement expenses - generally allowable
41. Training and education costs - allowable
42. Travel costs:
 - a. Airline travel allowable except first-class.