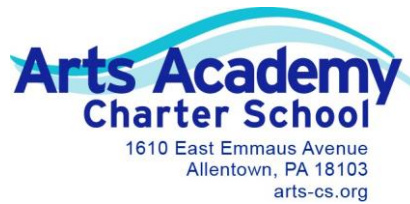


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## Board Policy 10.1

### PROGRAMS AND EXPENDITURES INVOLVING FEDERAL FUNDS

## Allowability of Cost

### Applicability

This Policy shall apply to all decisions related to the expenditure of federal grant funds, as required by federal law.

### Requirements

Expenditures must be aligned with approved budgeted items. Any changes or variations from the state-approved budget and grant application need prior approval from the state.

When determining how the school will spend its grant funds, the Executive Director or his designate will review the proposed cost to determine whether it is an allowable use of federal grant funds *before* obligating and spending those funds on the proposed good or service. All costs supported by federal education funds shall meet the standards outlined in EDGAR, 2 C.F.R. Part 3474 and 2 C.F.R. Part 200, Subpart E, which are provided in the bulleted list below.

### Guidelines

The Executive Director must consider these factors when making an allowability determination.

- **Be Necessary and Reasonable for the performance of the federal award.** School staff shall consider these elements when determining the reasonableness of a cost. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision to incur the cost was made. For example, reasonable means that sound business practices were followed, and purchases were comparable to market prices.

When determining reasonableness of a cost, consideration must be given to:

- Whether the cost is a type generally recognized as ordinary and necessary for the operation of the school or the proper and efficient performance of the federal award.
- The restraints or requirements imposed by factors, such as: sound business practices; arm's-length bargaining; federal, state and other laws and regulations; and terms and conditions of the federal award.
- Market prices for comparable goods or services for the geographic area.

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- Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the school, its employees, its students, the public at large, and the federal government.
- Whether the school significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the federal award's cost.

All expenditures shall be necessary to achieve an important program objective. The school shall be able to demonstrate and prove that the cost addresses an existing need.

When determining whether a cost is necessary, consideration may be given to:

- Whether the cost is needed for the proper and efficient performance of the grant program.
  - Whether the cost is identified in the approved budget or application.
  - Whether there is an educational benefit associated with the cost.
  - Whether the cost aligns with identified needs based on results and findings from a needs assessment.
  - Whether the cost addresses program goals and objectives and is based on program data.
- **Allocable to the federal award.** The school shall be able to demonstrate that the federal grant program derived a benefit in proportion to the funds charged to the program. For example, if 50% of a teacher's salary is paid with grant funds, the school must be able to demonstrate that the teacher spent at least 50% of his or her time on the grant program.
  - **Consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the school.**
  - **Conform to any limitations or exclusions set forth as cost principles in 2 CFR Part 200 or in the terms and conditions of the federal award.**
  - **Consistent treatment.** A cost shall not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been assigned as an indirect cost under another award.
  - **Adequately documented.** All expenditures shall be properly documented.
  - **Direct cost allocation principles:** If a cost benefits two (2) or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. If a cost benefits two (2) or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then the costs may be allocated or transferred to benefitted projects on any reasonable documented basis. (2 CFR 200.405)
  - **Be calculated in accordance with generally accepted accounting principles (GAAP), unless provided otherwise in 2 CFR Part 200.**

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- **Not included as a cost or used to meet cost-sharing requirements in either the current or a prior period, unless the specific federal program authorizes federal costs to be treated as such.** Some federal program statutes require the nonfederal entity to contribute a certain amount of nonfederal resources to be eligible for the federal program. (2 CFR 200.306)
- **Administrative closeout costs may be incurred until the due date of the final report(s).** If incurred, closeout costs must be liquidated prior to the due date of the final report(s) and charged to the final budget period of the award unless otherwise specified by the federal agency. All other costs must be incurred during the approved budget period.
- **Be the net of all applicable credits.** The term “applicable credits” refers to those receipts or reduction of expenditures that operate to offset or reduce expense items allocable to the federal award. Typical examples of such transactions are: purchase discounts; rebates or allowances; recoveries or indemnities on losses; and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the state relate to the federal award, they shall be credited to the federal award, either as a cost reduction or a cash refund, as appropriate.

Federal grant funds shall be expended consistent with federal guidelines.

### **Selected Items of Costs**

Subpart E of Part 200 sets forth principles to be applied in establishing the allowability of specific cost items (commonly referred to as Selected Items of Cost), at 2 CFR 200.420-200.476. These specific cost items are listed in the chart below along with the citation to the section of Subpart E addressing the allowability of that item. These principles are in addition to the other general allowability standards, and apply whether or not a particular item of cost is properly treated as direct cost or indirect (F&A) cost. Meeting the specific criteria for a listed item does not by itself mean the cost is allowable, as it may be unallowable under other standards or for other reasons, such as restrictions contained in the terms and conditions of a particular grant or restrictions established by the recipient or subrecipient or in Board policy. If an item is unallowable for any of these reasons, federal funds cannot be used to purchase it.

The fact that a particular item of cost is not listed is not intended to imply that it is either allowable or unallowable; rather, determination as to allowability in each case should be based on the treatment provided for similar or related items of cost and based on the principles described in applicable law and regulations. In case of discrepancy between the provisions of a specific federal award and the provisions below, the federal award governs. (2 CFR 200.102, 200.409, 200.420)

School personnel responsible for spending federal grant funds and for determining allowability must be familiar with and refer to the Part 200 selected items of cost section. These rules must be followed when charging these specific expenditures to a federal grant. When applicable, employees must check costs against the selected items of cost requirements to ensure the cost is allowable, and also check recipient, subrecipient, school and program-specific rules.

Any questions related to specific costs should be forwarded to the Executive Director, who shall consult with the Business Manager for clarification as appropriate.

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When determining reasonableness of a cost, consideration must be given to:

- Whether the cost is a type generally recognized as ordinary and necessary for the operation of the school or the proper and efficient performance of the federal award.
- The restraints or requirements imposed by factors, such as: sound business practices; arm's-length bargaining; federal, state and other laws and regulations; and terms and conditions of the federal award.
- Market prices for comparable goods or services for the geographic area.
- Whether the individual incurring the cost acted with prudence in the circumstances considering responsibilities to the school, its employees, its students, the public at large, and the federal government.
- Whether the school significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the federal award's cost. (2 CFR 200.404)

Whether a cost is **necessary** will be determined based on the needs of the program. Specifically, the expenditure must be necessary to achieve an important program objective. A key aspect in determining whether a cost is necessary is whether the school can demonstrate that the cost addresses an existing need and can prove it. For example, the school entity may deem a language skills software program necessary for a Language Instruction Educational Program.

When determining whether a cost is necessary, consideration may be given to:

- Whether the cost is needed for the proper and efficient performance of the federal award program.
- Whether the cost is identified in the approved budget or application.
- Whether there is an educational benefit associated with the cost.
- Whether the cost aligns with identified needs based on results and findings from a needs assessment.
- Whether the cost addresses program goals and objectives and is based on program data.

### **Refunds**

Payments made for costs determined to be unallowable by either the federal awarding agency, cognizant agency for indirect costs, or pass-through entity, must be refunded with interest to the federal government in accordance with instructions from the federal awarding agency that determined the costs are unallowable unless applicable statute or regulation directs otherwise. (2 CFR 200.410)