

FULL TEXT OF PROPOSED OMB UNIFORM GUIDANCE

(2) The obligation of the recipient to return any funds due as a result of later refunds, corrections, or other transactions.

(3) Audit requirements in Subchapter G- Audit Requirements.

(4) Property management requirements in section __.503 Property Standards.

(5) Records retention as required in section __.506 Record Retention and Access.

(b) After closeout of a Federal award, a relationship created under the award may be modified or ended in whole or in part with the consent of the Federal awarding agency and the recipient, provided the responsibilities of the recipient referred to in paragraph (a) of this section including those for property management as applicable, are considered and provisions made for continuing responsibilities of the recipient, as appropriate.

__.510 Collection Of Amounts Due

(a) Any funds paid to a recipient in excess of the amount to which the recipient is finally determined to be entitled under the terms of the Federal award constitute a debt to the Federal government. If not paid within 90 days after demand, the Federal agency may reduce the debt by:

(1) Making an administrative offset against other requests for reimbursements,

(2) Withholding advance payments otherwise due to the recipient, or

(3) Other action permitted by law.

(b) Except where otherwise provided by statutes or regulations, the Federal agency will charge interest on an overdue debt in accordance with the Federal Claims Collection Standards Standards (31 CFR 9). The date from which interest is computed is not extended by litigation or the filing of any form of appeal.

Subchapter F: Cost Principles

Subtitle I General Provisions

__.601 Policy guide

The application of these cost principles is based on the fundamental premises that:

(a) Non-Federal entities are responsible for the efficient and effective administration of Federal awards through the application of sound management practices.

FULL TEXT OF PROPOSED OMB UNIFORM GUIDANCE

(b) Non-Federal entities assume responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award.

(c) Non-Federal entities, in recognition of their own unique combination of staff, facilities, and experience, will have the primary responsibility for employing whatever form of organization and management techniques may be necessary to assure proper and efficient administration of Federal awards.

(d) The application of these cost principles should require no significant changes in the internal accounting policies and practices of non-Federal entities. However, the accounting practices must support the accumulation of costs as required by the principles, and must provide for adequate documentation to support costs charged to Federal awards.

(e) Cognizant agencies involved in negotiating indirect (or facilities and administrative (F&A)) cost rates and auditing should assure that non-Federal entities are generally applying these cost accounting principles on a consistent basis during their review and negotiation of indirect cost proposals. Where wide variations exist in the treatment of a given cost item among non-Federal entities, the reasonableness and equity of such treatments should be fully considered during rate negotiations and audits. See Appendix I Definitions, Facilities and Administrative (indirect (F&A)) Costs.

_.602 Application

(a) General. These principles shall be used in determining the allowable costs of work performed by non-Federal entities under Federal awards. The principles shall also be used in determining the allowability of the costs of work performed by such non-Federal entities under subgrants, cost-reimbursement subcontracts, and other awards made to them under Federal awards. They also shall be used as a guide in the pricing of fixed-price contracts and subcontracts where costs are used in determining the appropriate price. The principles do not apply to:

- (1) Arrangements under which Federal financing is in the form of loans, scholarships, fellowships, traineeships, or other fixed amounts based on such items as education allowance or published tuition rates and fees of an institution.
- (2) Capitation awards, which are awards based on case counts or number of beneficiaries.
- (3) Other awards under which the entity is not required to account to the Federal government for actual costs incurred such as fixed-price contracts.

(b) Federal Contract. Where a Federal contract awarded to a non-Federal entity incorporates a Cost Accounting Standards (CAS) clause, the requirements of that clause shall apply. In such cases, the non-Federal entity and the cognizant Federal agency shall establish an appropriate

FULL TEXT OF PROPOSED OMB UNIFORM GUIDANCE

advance agreement on how the entity will comply with applicable CAS requirements when estimating, accumulating, and reporting costs under CAS-covered contracts. The agreement shall indicate that the requirements of this guidance will be applied to other Federal awards. In all cases, only one set of records needs to be maintained by the non-Federal entity.

(c) Exemptions. Some nonprofit organizations, because of their size and nature of operations, can be considered to be similar to commercial concerns for purpose of applicability of cost principles. Such nonprofit organizations shall operate under Federal cost principles applicable to commercial concerns located at FAR part 31. A listing of these organizations is contained in Appendix IX- Nonprofit Organizations Exempted From Subchapter F Cost Principles. Other organizations, as approved by the cognizant Federal agency, may be added from time to time.

_.603 Inquiries

All inquiries from Federal agencies concerning the cost principles contained in this guidance, including the administration and implementation of these principles shall be addressed by the Office of Federal Financial Management at OMB. Non-Federal entities' inquiries should be addressed to the cognizant agency.

Subtitle II. Basic Considerations

_.604 Composition of Costs

(a) Total cost. The total cost of an award is the sum of the allowable direct and allocable indirect costs less any applicable credits.

_.605 Factors Affecting Allowability of Costs

To be allowable under Federal awards, costs must meet the following general criteria:

- (a) Be reasonable for the performance of the award and be allocable thereto under these principles.
- (b) Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items.
- (c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization.
- (d) Be accorded consistent treatment.
- (e) Be determined in accordance with generally accepted accounting principles (GAAP).
- (t) Not be included as a cost or used to meet cost sharing or matching requirements of any other

FULL TEXT OF PROPOSED OMB UNIFORM GUIDANCE

federally-financed program in either the current or a prior period.

(g) Be adequately documented.

_.606 Reasonable Costs

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. In determining reasonableness of a given cost, consideration shall be given to:

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

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

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

(d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, the public at large, and the Federal government.

(e) Significant deviations from the established practices and policies of the non-Federal entity regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.

_.607 Allocable Costs

(a) A cost is allocable to a particular Federal award if the goods or services involved are chargeable or assignable to that award in accordance with relative benefits received.

(b) All activities which benefit from the non-Federal entity's indirect (F&A) cost, including unallowable activities and donated services by the non-Federal entity or third parties, will receive an appropriate allocation of indirect costs.

(c) Any cost allocable to a particular Federal award under the principles provided for in this guidance may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons. However, this prohibition would not preclude non-Federal entities from shifting costs that are allowable under two or more awards in accordance with existing program agreements, Federal legislation, or regulation.

(d) Direct cost allocation principles. If a cost benefits two or more projects or activities in

FULL TEXT OF PROPOSED OMB UNIFORM GUIDANCE

proportions that can be determined without undue effort or cost, the cost should be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then, notwithstanding paragraph (c), the costs may be allocated or transferred to benefitted projects on any reasonable documented basis.

_.608 Applicable Credits

(a) Applicable credits refer to those receipts or reduction-of-expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect (F&A) costs. Examples of such transactions are: purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the non-Federal entity relate to allowable costs, they shall be credited to the Federal award either as a cost reduction or treated as program income as described in _.502 Standards for Financial and Program Management paragraph (g), as appropriate.

(b) In some instances, the amounts received from the Federal government to finance activities or service operations of the non-Federal entity should be treated as applicable credits. Specifically, the concept of netting such credit items (including any amounts used to meet cost sharing or matching requirements) should be recognized in determining the rates or amounts to be charged to Federal awards. (See C-15 Depreciation and C-47 Specialized Service Facilities, for areas of potential application in the matter of Federal financing of activities.)

(c) For rules covering program income (i.e., gross income earned from federally supported activities), non-Federal entities should refer to section .502 Standards for Financial and Program Management paragraph (g) Program Income.

_.609 Documentation

Federal requirements for documentation are specified in sections _.505 Performance and Financial Monitoring and Reporting and _.506 Record Retention and Access of this guidance.

_.610 Advance Understanding

Under any given award, the reasonableness and allocability of certain items of costs may be difficult to determine. This is particularly true in connection with non-Federal entities that receive a preponderance of their support from Federal agencies. In order to avoid subsequent disallowance or dispute based on unreasonableness or nonallocability, a non-Federal entity may seek a written agreement with the cognizant or awarding agency in advance of the incurrence of special or unusual costs. The absence of an advance agreement on any element of cost will not, in itself, affect the reasonableness or allocability of that element.

C., FULL TEXT OF PROPOSED OMB UNIFORM GUIDANCE

_.611 Limitation on Allowance of Costs

Federal awards may be subject to statutory requirements that limit the allowance of costs. When the maximum amount allowable under a limitation is less than the total amount determined in accordance with the principles in this guidance, the amount not recoverable under a Federal award may not be charged to other Federal awards.

_.612 Special Considerations

In addition to the basic considerations regarding the allowability of costs highlighted in this subtitle, Subtitle III Direct and Indirect (F&A) Costs and Subtitle IV Special Considerations for State, Local and Indian Tribal Governments and Subtitle V Special Considerations for describe special considerations and requirements applicable to state, local and Indian tribal governments, and to institutions of higher education, respectively. In addition, certain provisions among the items of cost in *_.621 Selected Items of Cost*, are only applicable to certain types of entities, as specified in that section.

_.613 Collection of Unallowable Costs

The following provision applies to the collection of unallowable costs, excess costs due to noncompliance with cost policies by a non-Federal entity, increased costs due to failure to follow a disclosed accounting practice, and increased costs resulting from a change in cost accounting practice. The following costs shall be refunded (including interest) to the Federal government in accordance with applicable Federal agency regulations:

(a) Costs specifically identified as unallowable in section *_.621 Selected Items of Cost* either directly or indirectly, and charged to the Federal government.

(b) Excess costs due to failure by the non-Federal entity to comply with the cost policies in this guidance.

_.614 Adjustment of Previously Negotiated Indirect (F&A) Cost Rates Containing Unallowable Costs

Negotiated indirect (F&A) cost rates based on a proposal later found to have included costs that (a) are unallowable as specified by (i) law or regulation, (ii) *_.621 Selected Items of Cost* of this guidance, (iii) terms and conditions of Federal awards, or (b) are unallowable because they are clearly not allocable to Federal awards, shall be adjusted, or a refund shall be made, in accordance with the requirements of this section. These adjustments or refunds are designed to correct the proposals used to establish the rates and do not constitute a reopening of the rate negotiation. The adjustments or refunds will be made regardless of the type of rate negotiated (predetermined, final, fixed, or provisional).

(a) For rates covering a future fiscal year of the non-Federal entity, the unallowable costs will be

FULL TEXT OF PROPOSED OMB UNIFORM GUIDANCE

removed from the indirect (F&A) cost pools and the rates appropriately adjusted.

(b) For rates covering a past period, the Federal share of the unallowable costs will be computed for each year involved and a cash refund (including interest chargeable in accordance with applicable regulations) will be made to the Federal government. If cash refunds are made for past periods covered by provisional or fixed rates, appropriate adjustments will be made when the rates are finalized to avoid duplicate recovery of the unallowable costs by the Federal government.

(c) For rates covering the current period, either a rate adjustment or a refund, as described in paragraphs (a) and (b) of this section, shall be required by the cognizant agency. The choice of method shall be at the discretion of the cognizant agency, based on its judgment as to which method would be most practical.

(d) The amount or proportion of unallowable costs included in each year's rate will be assumed to be the same as the amount or proportion of unallowable costs included in the base year proposal used to establish the rate.

Subtitle III Direct and Indirect (F&A) Costs

_.615 Direct Costs

(a) General. Direct costs are those costs that can be identified specifically with a particular Federal award or that can be directly assigned to activities in support of a Federal award relatively easily with a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect (F&A) costs.

(b) Classification of costs. There is no universal rule for classifying certain costs as either direct or indirect (F&A) under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective. Therefore, it is essential that each item of cost be treated consistently in like circumstances either as a direct or an indirect (F&A) cost in order to avoid possible double-charging of Federal awards. Guidelines for determining direct and indirect (F&A) costs charged to Federal awards are provided in Subtitle III Direct and Indirect (F&A) Costs.

(c) Application to Federal awards. Identification with the Federal award rather than the nature of the goods and services involved is the determining factor in distinguishing direct from indirect (F&A) costs of Federal awards. Typical costs charged directly to a Federal award are the compensation of employees, related fringe benefit costs, the costs of materials and other items of expense incurred for the Federal award. Direct costs may also include extraordinary utility consumption, the cost of materials supplied from stock or services rendered by specialized facilities or other institutional service operations.



FULL TEXT OF PROPOSED OMB UNIFORM GUIDANCE

(d) The salaries of administrative and clerical staff should normally be treated as indirect (F&A) costs. Direct charging of these costs may be appropriate where all of the following conditions are met:

- (1) administrative or clerical services are integral to a project or activity;
- (2) individuals involved can be specifically identified with the project or activity;
- (3) such costs are explicitly included in the budget; and
- (4) the costs are not also recovered as indirect costs.

(e) Minor items. Any direct cost of minor amount may be treated as an indirect (F&A) cost for reasons of practicality where such accounting treatment for that item of cost is consistently applied to all cost objectives.

(f) The cost of certain activities are not allowable as charges to Federal awards. However, even though these costs are unallowable for purposes of computing charges to Federal awards, they nonetheless must be treated as direct costs for purposes of determining indirect (F&A) cost rates and be allocated their share of the non-Federal entity's indirect costs if they represent activities which (1) include the salaries of personnel, (2) occupy space, and (3) benefit from the non-federal entity's indirect (F&A) costs.

(g) For nonprofit organizations, the costs of activities performed by the organization primarily as a service to members, clients, or the general public when significant and necessary to the organization's mission must be treated as direct costs whether or not allowable, and be allocated an equitable share of indirect (F&A) costs. Some examples of these types of activities include:

- (1) Maintenance of membership rolls, subscriptions, publications, and related functions.
- (2) Providing services and information to members, legislative or administrative bodies, or the public.
- (3) Promotion, lobbying, and other forms of public relations.
- (4) Meetings and conferences except those held to conduct the general administration of the organization.
- (5) Maintenance, protection, and investment of special funds not used in operation of the organization.
- (6) Administration of group benefits on behalf of members or clients, including life and

FULL TEXT OF PROPOSED OMB UNIFORM GUIDANCE

hospital insurance, annuity or retirement plans, and financial aid.

.616 Indirect (F&A) Costs

(a) General. Indirect (Facilities and Administrative (F&A)) costs are those incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect (F&A) costs. Indirect (F&A) cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived. See also Appendix IV Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Educational Institutions, section B.1.

(b) Facilities and Administration Classification. For major educational institutions and major nonprofit organizations, indirect (F&A) costs shall be classified within two broad categories: "Facilities" and "Administration." "Facilities" is defined as depreciation and use allowances on buildings, equipment and capital improvement, interest on debt associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses. "Administration" is defined as general administration and general expenses such as the director's office, accounting, personnel and all other types of expenditures not listed specifically under one of the subcategories of "Facilities" (including cross allocations from other pools, where applicable). For nonprofit organizations, library expenses are included in the "Administration" category; for institutions of higher education, they are included in the "Facilities" category. Major educational institutions are defined as those which use the standard allocation (instead of the simplified allocation) method to calculate the overhead rates. Major nonprofit organizations are those which receive more than \$10 million dollars in direct Federal funding.

(c) Federal Agency Acceptance of Negotiated Indirect Cost Rates. (Please see also section .502 Standards for financial and program management (f) cost sharing and matching.)

(1) The negotiated rates shall be accepted by all Federal agencies. Only when required by law or regulation, or when approved by a Federal agency head based on documented justification as described in paragraph (3) below may an agency use a rate different from the negotiated rate for a class of Federal awards or a single Federal award. (2) Agency heads shall notify OMB of any approved deviations.

(3) Agencies shall implement and make publically available, the policies, procedures and general decision making criteria that their programs will follow to seek and justify deviations from negotiated rates,

(4) Per the requirements in section .204 Announcements of Funding Opportunities, policies relating to indirect cost rate reimbursement, matching, or cost share as approved per paragraph (I) above must be included in the announcement of funding opportunity, and as appropriate,

C,

FULL TEXT OF PROPOSED OMB UNIFORM GUIDANCE

incorporated into agency outreach activities with the grantee community prior to the posting of a funding opportunity announcement.

(5) Pass-through entities making subawards are subject to the requirements in section .501
Subrecipient Monitoring and Management

(d) Indirect (F&A) cost proposals and cost allocation plans. Requirements for development and submission of indirect (F&A) cost rate proposals and cost allocation plans are contained in Appendices IV through VIII as follow:

(1) Appendix IV- Indirect (F&A)Costs Identification and Assignment, and Rate Determination for Educational Institutions

(2) Appendix V - Indirect (F&A)Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations

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▼ ▼ FULL TEXT OF PROPOSED OMB UNIFORM GUIDANCE

Appendix VI - State/Local- Wide Central Service Cost Allocation Plans

{4) Appendix VII- Public Assistance Cost Allocation Plans

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FULL TEXT OF PROPOSED OMB UNIFORM GUIDANCE

Appendix VIII- State and Local Indirect Cost Proposals

(e) In addition to the procedures outlined in the appendices above, any entity that has never received or does not currently have a negotiated indirect cost rate is eligible for a de minimis indirect cost rate of 10% of modified total direct costs (MTDC), which may be utilized for an initial period of up to four years. MTDC is defined as all salaries and wages, fringe benefits, materials and supplies, services, travel, and subgrants and subcontracts up to the first \$25,000 of each subgrant or subcontract (regardless of the period covered by the subgrant or subcontract). Equipment, capital expenditures, charges for patient care, rental costs, tuition, participant support costs and the portion of subcontracts and subawards in excess of \$25,000 shall be excluded from MTDC. Participant support costs shall generally be excluded from MTDC. Other items may only be excluded when the Federal cost cognizant agency or awarding agency determines that an exclusion is necessary to avoid a serious inequity in the distribution of indirect costs.

All entities may apply for a one-time extension of a current negotiated indirect cost rates for a period of up to 4 years. This extension will be subject to the review and approval of the indirect cost cognizant agency. If an extension is granted the entity may not request a rate review until the extension period ends.

(f) Diversity of nonprofit organizations. Because of the diverse characteristics and accounting practices of nonprofit organizations, it is not possible to specify the types of cost which may be classified as indirect (F&A) cost in all situations. Identification with the sponsored work rather than the nature of the goods and services involved is the determining factor in distinguishing direct from indirect (F&A) costs of Federal awards. However, typical examples of indirect (F&A) cost for many nonprofit organizations may include depreciation on buildings and equipment, the costs of operating and maintaining facilities, and general administration and general expenses, such as the salaries and expenses of executive officers, personnel administration, and accounting.

_.617 Required certifications

(a) To assure that expenditures are proper and in accordance with the terms and conditions of Federal awards and approved project budgets, the annual and final fiscal reports or vouchers requesting payment under the agreements will include a certification, signed by an authorized official, which reads essentially as follows: "I certify that all expenditures reported (or payment requested) are for appropriate purposes and in accordance with the provisions of the application and award documents."

(b) Certification of cost allocation plan or indirect (F&A) cost rate proposal. Each cost allocation plan or indirect (F&A) cost rate proposal submission must comply with the following:

(1) A proposal to establish a cost allocation plan or an indirect (F&A) cost rate, whether submitted to a cognizant agency or maintained on file by the non-Federal entity, must be certified

FULL TEXT OF PROPOSED OMB UNIFORM GUIDANCE

by the non-Federal entity using the Certificate of Cost Allocation Plan or Certificate of Indirect Costs as set forth in Appendices IV through VIII. The certificate must be signed on behalf of the non-Federal entity by an individual at a level no lower than chief financial officer that submits the proposal or component covered by the proposal.

(2) The Federal government may either disallow all indirect (F&A) costs or unilaterally establish such a plan or rate when the non-Federal entity fails to submit a certified proposal for establishing such a plan or rate in accordance with the requirements. Such a plan or rate may be based upon audited historical data or such other data that have been furnished to the cognizant agency and for which it can be demonstrated that all unallowable costs have been excluded. When a cost allocation plan or indirect cost rate is unilaterally established by the Federal government because of failure of the non-Federal entity to submit a certified proposal, the plan or rate established will be set to ensure that potentially unallowable costs will not be reimbursed.

(c) Certifications by non-profit organization that they did not meet the definition of a major corporation as defined in section .616 Indirect (F&A) Costs paragraph (b).

Subtitle IV Special Considerations for State, Local and Indian Tribal Governments

The provisions in Subtitle IV pertain only to state, local and Indian tribal governments and do not apply to other non-Federal entities.

.618 Cost allocation Plans and Indirect Cost Proposals

For state, local and Indian tribal governments, certain services, such as motor pools, computer centers, purchasing, accounting, etc., are provided to operating agencies on a centralized basis. Since federally-supported awards are performed within the individual operating agencies, there needs to be a process whereby these central service costs can be identified and assigned to benefitted activities on a reasonable and consistent basis. The central service cost allocation plan provides that process.

At the individual operating agencies (governmental department or agency), indirect costs are normally charged to Federal awards by the use of an indirect cost rate. A separate indirect cost rate(s) proposal for each operating agency is usually necessary to claim indirect costs under Federal awards. Indirect costs include (a) the indirect costs originating in each department or agency of the governmental unit carrying out Federal awards and (b) the costs of central governmental services distributed through the central service cost allocation plan and not otherwise treated as direct costs.

The requirements for development and submission of cost allocation plans (for central service costs and public assistance programs) and indirect cost rate proposals are contained in Appendices VI, VII and VIII.

.619 Interagency Service

C

FULL TEXT OF PROPOSED OMB UNIFORM GUIDANCE

The cost of services provided by one agency to another within the governmental unit may include allowable direct costs of the service plus a pro-rated share of indirect costs. A standard indirect cost allowance equal to ten percent of the direct salary and wage cost of providing the service (excluding overtime, shift premiums, and fringe benefits) may be used in lieu of determining the actual indirect costs of the service. These services do not include centralized services included in central service cost allocation plans as described in Appendix VI.

Subtitle V Special Considerations for Institutions of Higher Education

The provision under Subtitle V pertains only to institutions of higher education (institutions) and do not apply to other types of non-Federal entities.

_.620 Costs incurred by State and local governments

Costs incurred or paid by state or local governments on behalf of their colleges and universities for fringe benefit programs, such as pension costs and FICA and any other costs specifically incurred on behalf of, and in direct benefit to, the institutions, are allowable costs of such institutions whether or not these costs are recorded in the accounting records of the institutions, subject to the following:

- (a) The costs meet the requirements of Subtitle II. Basic Considerations
- (b) The costs are properly supported by approved cost allocation plans in accordance with applicable Federal cost accounting principles.
- (c) The costs are not otherwise borne directly or indirectly by the Federal government.

Subtitle VI General Provisions for Selected Items of Cost

_.621 Selected Items of Cost

This section provides principles to be applied in establishing the allowability of certain items involved in determining cost. These principles should apply irrespective of whether a particular item of cost is properly treated as direct cost or indirect (F&A) cost. Failure to mention a particular item of cost 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, or based on the principles described in Subtitle II. Basic Considerations. In case of a discrepancy between the provisions of a specific Federal award and the provisions below, the award should govern. For this subpart, "entity" means non-Federal entity. In determining allowability, emphasis should be placed on the applicability of the criteria outlined in section *_.605 Factors Affecting Allowability of Costs*.

C-1 Advertising and Public Relations

- (1) The term advertising costs means the costs of advertising media and corollary administrative costs.