

Standards for Reimbursable Costs

1. Guiding Policies

The following Standards for Reimbursable Costs represents a compilation of definitions and principles from:

- i. State of Washington Office of Financial Management's State Administrative and Accounting Manual (SAAM)
- ii. Federal Office of Management and Budget
 - a. Circular A-122 Cost Principles for Non-Profit Organizations
 - b. Circular A-87 Cost Principles for State, Local, and Indian Tribal Governments

These standards are provided solely as technical assistance and are not intended to circumvent the Contractor's need to follow the referenced rules.

2. Definitions

The following terms and phrases shall have the meanings indicated when used in this exhibit, except where the context clearly requires otherwise.

- i. "Acquisition cost" shall mean the net cost of equipment, including the costs for modifications, attachments, accessories, or auxiliary apparatus necessary to make the equipment useable for the purpose for which it was acquired.
- ii. "Arm's length transaction" shall mean a transaction resulting from good faith bargaining between a buyer and a seller, where the parties have adverse positions in the marketplace.
- iii. "Contractor or subcontractor property" shall mean property used in performance of a contract which is not departmental property.
- iv. "Cost" shall mean the historical amount of money involved in a transaction which decreases an asset or increases a liability, whether recognized on a cash or accrual basis. Cost shall not include repayments of borrowing, expenditures to acquire assets, distributions to owners, and corrections to prior periods. Corrections to prior periods are included as costs in that prior period.
- v. "Cost related or cost reimbursement" shall mean a contract or subcontract where the amount of payment being made is related to the actual costs of the subcontractor or a class of subcontractors to perform the contract, subject to ceilings, allowances, limitations and conditions adopted by the Department, but without regard to the method of payment.
- vi. "Cost related subcontractor" shall mean a subcontractor that has a cost related subcontract.
- vii. "Customary charge" shall mean the average charge for a similar service, activity or procedure for non- departmental clients or purchasers by providers whose training and experience is similar to the contractor or subcontractor and are located in the same area. The area considered in determining customary charge shall be as large as necessary to provide a reasonable measure of the market for such services, activities or procedures.
- viii. "Clients" shall mean individuals who receive or benefit from services or activities for which the contractor was reimbursed in part or entirely by HCA.
- ix. "Funds" shall mean any funds paid by HCA to a contractor, including funds passed through to subcontractors without regards to the source of those funds. HCA funds include federal funds which pass through HCA.

- x. "Property" shall mean property owned by HCA, and property for which title is vested in HCA.
- xi. "Equipment" means an article of non-expendable tangible personal property having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit. Items not meeting this definition shall not be classified as equipment. Purchase of equipment must be approved in advance by the contract manager.
- xii. "Fee for Service" shall mean a contract or subcontract where the amount of reimbursement is a negotiated fixed rate of pay based on performance of defined unit of service such as per treatment, per hour or per session.
- xiii. "Personal property" shall mean property of any kind except real property, either tangible or intangible.
- xiv. "Price related" shall mean a contract or subcontract where the amount of reimbursement is related to market prices for services, and without consideration of the contractor's or subcontractor's actual or anticipated costs.
- xv. "Real property" shall mean land, land improvements, structures, and appurtenances thereto, but excluding movable machinery and equipment.
- xvi. "Subcontract" shall mean any agreement for compensation between the contractor and a subcontractor, or between a subcontractor and another subcontractor, to provide property, services or construction needed in performance of the contract.
- xvii. "Subcontractor" shall mean any person, partnership, corporation, association or organization, not in the employment of the contractor, who has a subcontract agreement directly with the contractor or a subsequent tier subcontract agreement with an intermediate subcontractor
- xviii. "Supplies" shall mean tangible personal property other than equipment.
- xix. "Third party" shall mean an individual or organization other than the Department, the contractor, any subcontractor or any departmental client.
- xx. "Usual charge" shall mean the charge which the contractor or subcontractor most frequently charges non-HCA clients or purchasers for a similar service, activity or procedure.
- xxi. "Working capital" shall mean a fund balance accumulated and maintained for a period of more than twelve months, or remaining at the termination or expiration of a contract, which is not segregated in a reserve account and is used primarily to maintain the entity's cash flow.

3. Reimbursable Costs

- i. Reimbursable costs shall include costs which are necessary for the proper and efficient performance of the contract, are reasonable and allocable to the contract and are allowable under the provisions of this exhibit.
- ii. Reimbursable costs include costs incurred in paying subcontractors for fulfilling or assisting the contractor to fulfill the contractor's obligations to HCA.
 - a. If the subcontract is price related, the reimbursable cost of the subcontract shall be the share of payments to the subcontractor which equals the usual charge or the customary charge, whichever is less. If the subcontractor has only departmental clients, the reimbursable cost shall be the share of payments to the subcontractor which equal the customary charge.
 - b. If the subcontract is cost related, the reimbursable cost of the subcontract shall be the share of payments to the subcontractor for subcontractor costs which are necessary for the proper and

efficient performance of the contract, are reasonable and allocable to the subcontract and are allowable under the provisions of this exhibit. If the cost-related subcontractor is a for-profit entity, reimbursable costs may also include payments for ordinary profit, provided such profit is computed on a basis other than a percentage of contract costs. Costs used to determine subcontract payments may be either actual costs during the contract period or estimated costs for the contract period based on actual costs in a prior period, and may be either costs of the subcontractor or costs of a class or subclass of facilities providing similar services, activities or procedures.

- c. If the subcontract is fee for service, the reimbursable cost of the subcontract shall be the share of the payments based on an established rate structure set by laws, regulation or policy, or may be based on cost information provided by the contractor during a competitive solicitation or contract negotiations.

4. Reasonableness

- i. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent and reasonable person under circumstances prevailing at the time the decision was made to incur the cost.
- ii. In determining the reasonableness of a given cost, the following shall be given careful consideration:
 - a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the contractor or the performance of the contract.
 - b. Whether the cost was incurred after the contractor complied with sound business practices, including arm's length bargaining.
 - c. Whether the contractor acted with prudence in the circumstances considering its responsibilities to the organization, its members, employees, clients, the public at large, and the Department.
 - d. Whether the contractor deviated from established practices of the contractor, which may unjustifiably increase the cost.

5. Allocable Costs

- i. A cost is allocable to the contract if all of the following conditions are met:
 - a. It is assignable or chargeable to the contract in accordance with the relative benefit received because either:
 - 1. It was incurred specifically and solely for the performance of the contract; or
 - 2. It benefits both contract and non-contract objectives and can be distributed between them in reasonable proportion to the benefits received; or
 - 3. It is necessary for the overall operation of the contractor even if a direct relationship to the contract cannot be shown.
 - b. It is not allocable to or included as a cost of any other contract, grant, agreement or program in either the present or any prior period, or used as cost-sharing or matching for another contract or grant, except when the contract specifically authorizes such duplicate allocation.
 - c. It is accorded consistent treatment with costs of a similar nature.
- i. **Contract-Specific Direct Costs:** If a cost is allocable to the contract pursuant to subsection (l)(a)(i) of this section, the entire amount may be charged to the contract.
- ii. **Shared Direct Costs:** If a cost is allocable to the contract pursuant to subsection (l)(a)(ii) of this section, the charge shall be considered to be in reasonable proportion to the benefits received if the charge is based on time distribution records, random moment time samples, equivalent work units, or space utilization.

Other equitable methods may be used with the prior approval of the Department. Allocation of charges based on revenue distribution is not an acceptable method.

- iii. Admin (also known as Indirect Costs): If a cost is allocable to the contract pursuant to subsection (l)(a)(iii) of this section, the charge shall be considered to be in proportion to benefits received if it is based on the total distribution of costs allocated pursuant to subsections (2) and (3) of this section, or if it is based on staff time directly spent in contract and non-contract activities. Other equitable methods may be used with the prior, written approval of the Department.
- iv. Contractors and cost-related subcontractors shall maintain a current cost allocation plan describing how costs are allocated.
- v. HCA approvals required in subsections (3) and (4) of this section shall be obtained by submitting a cost allocation plan to the contract manager. The cost allocation plan shall identify the period of time covered by the plan, the cost items to be allocated, the allocation method, the program areas to which costs are allocated, and the resulting allocations using budgeted costs. Copies of indirect cost allocation plans submitted for federal grant purposes may be used to apply for HCA approval under subsection (4) of this section.

6. Allowable Costs

A cost is allowable if:

- i. It is authorized or not prohibited by federal, state, or local laws and regulations.
- ii. It conforms to any limitations or exclusions set forth in the contract terms and approved budget, or in applicable state or federal law or regulation.
- iii. It is approved in advance and in writing by HCA, if it is a cost requiring approval.
- iv. It is not an unallowable cost.
- v. It is consistent with policies, regulations, directives, and procedures of the contractor.
- vi. It is accorded consistent treatment through application of generally accepted accounting principles.
- vii. It is adequately documented in source records such as payroll registers and invoices.
- viii. It is the net of all applicable credits, such as purchase discounts, rebates, and allowances.

7. Costs Allowable with Prior Approval

Costs described in this section are allowable only if they are approved in advance by HCA. Approval shall be deemed given if the cost is specifically identified in the contract budget or other clause or attachment to the contract. Approval of costs not specifically identified in the contract shall be made by letter or other document which sets forth the nature and amount of the approved cost and the contract for which it is allowed.

- i. Client cash payments: Any direct cash payments to departmental clients are allowable only with prior written approval of HCA.
- ii. Capital expenditures: Cost of acquiring by purchase or capitalized lease land, buildings, or equipment and cost of repair, remodeling, renovation, or improvements which would materially increase the value or useful life of buildings are allowable only with the prior written approval of the Department.
- iii. Honorariums for speakers is unallowable.
- iv. Incentives: SAMHSA discretionary grant funds may be used for non-cash incentives up to \$30 in accordance with SAMHSA guidelines: <https://www.samhsa.gov/grants/grants-management/policies-regulations/additional-directives>.

- v. Training and education: Cost of training which requires staff to be relieved of regular duties for more than ten (10) business days per training event is allowable only upon prior written approval of the Department.
- vi. Purchase of equipment must be approved in advance by the contract manager. Title to equipment shall vest in the HCA unless otherwise determined by the contract manager at the time of purchase.

8. Interest Expense

- i. Interest on borrowed funds is treated differently depending on the source of funds reimbursing the cost.
 - a. Costs incurred for interest on borrowed capital or temporary use of endowment funds, however represented, are unallowable as reimbursable costs against a federal grant.
 - b. Interest on borrowed funds is allowable against state funding if the interest expense meets the applicable requirements of this section.
- ii. Interest on borrowed funds used to purchase equipment or real property is allowable against state funding with the prior written approval of HCA.
- iii. Interest on borrowed funds used to create, replenish, or maintain working capital is allowable against state funding, if the following conditions are met:
 - a. Working capital is depleted due to unusual cash flow, such as abnormally high costs or delays in reimbursement; or working capital has been insufficient for an extended period of time, because the contractor or subcontractor has insufficient eligible income in excess of expenses to accumulate adequate working capital.
 - b. The borrowed funds are not used to supplant funds which otherwise would be available to finance working capital. Borrowed funds shall be considered to supplant contractor working capital if a decision to deplete working capital is evident, whether the working capital is depleted before or after the arrangements to borrow funds are made.
 - c. The working capital in aggregate does not exceed ninety (90) calendar days cash flow.
 - d. The interest expense is approved in advance and in writing by HCA.
- iv. Approval shall be deemed given if the interest cost is specifically identified in the contract budget or other clause or attachment to the contract. Approval of interest cost not specifically identified in the contract shall be made by letter or other document which sets forth the nature and amount of the approved cost and the contract under which it is allowed.

9. Unallowable Costs

The following costs are unallowable, whether incurred directly by the contractor or any cost related subcontractor:

- i. Bad debts: Any losses arising from uncollectible accounts and other claims and related costs are unallowable. In double entry accounting systems, write-offs of client fees deemed uncollectible shall be treated as adjustments to revenue.
- ii. Chief executive: The salaries and expenses of the chief executive of a political subdivision are unallowable.
- iii. Contingencies: Contributions to a contingency reserve or any similar provision for unforeseen events.
- iv. Contributions and donations: Costs of a contractor or subcontractor in the form of contributions and donations to other organizations, including costs of donated services and property, are unallowable.
- v. Depreciation of state financed property: Costs of depreciation of departmental property are unallowable.
- vi. Entertainment: Costs of amusements, social activities, sporting events, and incidental costs relating thereto such as meals, beverages, lodging, rentals, transportation, and gratuities are unallowable, except

for costs of entertainment specifically for departmental clients and necessary expenses of staff who supervise departmental clients on contractor or subcontractor sponsored activities.

- vii. Fines and penalties: Costs resulting from violations of or failure to comply with federal, state, and local laws and regulations are unallowable.
- viii. First class air accommodations: 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.
- ix. Fund raising: Costs of organized fund raising are unallowable.
- x. Legal fees to bring suit against federal or state government: The cost of legal expenses for the prosecution or defense of claims by or against the federal or state government is unallowable.
- xi. Legislative expenses: The salaries and other expenses of county councilmen or councilwomen, supervisors, commissioners, etc., whether incurred for the purposes of the legislation or executive direction, are unallowable.
- xii. Lobbying expenses: The cost of attempting to influence legislation pending before any federal or state legislative body is unallowable except as provided for in RCW 42.17.190.
- xiii. Losses: Costs of actual losses which could have been covered either by insurance or by contributions to a self-insurance reserve are unallowable, except for losses not covered under nominal deductible insurance coverage and minor losses not covered by insurance which occur in the ordinary course of operations, such as spoilage and breakage.
- xiv. Memberships:
 - a. Costs of the [non-Federal entity](#)'s membership in business, technical, and professional organizations are allowable.
 - b. Costs of the [non-Federal entity](#)'s subscriptions to business, professional, and technical periodicals are allowable.
 - c. Costs of membership in any civic or community organization are allowable with prior approval by the [Federal awarding agency](#) or [pass-through entity](#).
 - d. Costs of membership in any country club or social or dining club or organization are unallowable.
 - e. Costs of membership in organizations whose primary purpose is lobbying are unallowable. See also [§ 200.450](#) Lobbying.
- i. Under-recovery of costs in other contract agreements: Any costs incurred in excess of the federal and state contribution under any other contract agreement is unallowable.

10. Unallowable Costs; Federal Alcohol, Drug Abuse, and Mental Health Services Block Grant

- i. Unless an explicit and specific federal waiver is obtained, the following costs are unallowable under any contract which includes federal alcohol, drug abuse and mental health services block grant funds:
 - a. Costs of hospital inpatient services;
 - b. Cash payments to departmental clients;
 - c. Cost of purchase or permanent improvement of land or facilities, other than minor remodeling;
 - d. Cost of purchase of major medical equipment, with an acquisition cost in excess of \$5,000;
 - e. Costs used as cost-sharing or matching for other federal funds requiring nonfederal matching funds;
 - f. Costs of financial assistance to any entity which is not either public or nonprofit; or

- g. Costs that in effect supplant or otherwise reduce the amount of state or local funds that would have been used for alcoholism, drug abuse or mental health programs in the absence of federal block grant funding. For the purposes of this section, supplantation shall be deemed to occur if the amount of state or local funds used is less than the amount expended during federal fiscal year ending September 30, 1981.
 - h. Carry out any program of distributing sterile needles for the hypodermic injection of any illegal drug or distributing bleach for the purpose of cleansing needles for such hypodermic injection.
 - i. Carry out any testing for the etiologic agent for acquired immune deficiency syndrome (AIDS), unless such testing is accompanied by appropriate pre-test counseling and appropriate post-test counseling.
 - j. EXCESS SALARY: By law, none of the funds awarded can be used to pay salary of an individual at a rate in excess of the Executive Level I, which is \$181,100 annually.
 - k. Youth tobacco enforcement.
- ii. The use of federal funds to influence or attempt to influence the award of, or amendment to, any federal contract, grant, loan, or cooperative agreement is prohibited.
 - a. The use of funds other than federal funds for such purposes shall require the contractor to submit all required federal and state forms disclosing such lobbying activity.
 - b. The contractor must include this language in any contracts resulting from this agreement and that all subrecipients understand and agree to these terms.
- iii. Costs that are unallowable under subsection (1) of this section are allowable using state funds if all of the following conditions are met:
 - a. The contract includes state funds at least equal to the total amount of all items of cost under consideration;
 - b. If the costs are incurred by a subcontractor, the subcontract document clearly indicates only state funds are included in the subcontract; and
 - c. The cost is otherwise allowed.