



POLICIES ON COST ALLOWABILITY

A. General Principles

1. The Foundation will reimburse only those costs that are considered allowable under its funding agreements. Costs that the Foundation will recognize for cost-sharing purposes must also be allowable. Allowable costs must be: (1) determined in accordance with Generally Accepted Accounting Principles; (2) reasonable in their nature and amount; (3) allocable to the project to be performed under the funding agreement; and (4) not specifically disallowed under the rules set forth in Section B below.

2. Costs that are allocable to Foundation-sponsored projects include: (1) direct costs (i.e., costs that are incurred specifically for the project, or that benefit both the project and other work and can be distributed in reasonable proportion to the benefits received); and (2) overhead costs equal to 30% of allowable direct costs.

3. Specific rules on the allowability of selected items of cost are set forth in Section B below. Failure to mention a particular item of cost does not imply that it is unallowable; costs that are not specifically addressed in Section B are allowable so long as they are determined in accordance with Generally Acceptable Accounting Principles, reasonable, and allocable to the project. Similarly, any costs that do not satisfy these three requirements are unallowable even if they fall into categories of cost that are treated as generally allowable under Section B.

B. Selected Items of Cost

1. Advertising costs. Advertising costs mean the costs of media advertising (such as magazines, newspapers, radio and television programs, direct mail, or exhibits) and associated costs. The only allowable advertising costs are those direct project costs that are solely for: (i) the recruitment of personnel; (ii) the procurement of goods and services; or (iii) the disposal of surplus materials.

2. Bonding costs. Bonding costs arise when the Foundation requires assurance against financial loss to itself or others by reason of the act or default of the organization, or when the organization requires similar assurance. Included are such bonds as bid, performance, payment, advance payment, infringement, and fidelity bonds. Costs of bonding are allowable only if included in the approved project budget.

3. Compensation for Personal Services. Compensation for personal services includes all compensation paid currently or accrued for employee services rendered during project performance (including but 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). Compensation costs are allowable to the extent the costs are adequately documented, reasonable for the services rendered, and incurred in accordance with established and consistently-applied policies of the organization. Total compensation for individual employees will be considered reasonable to the extent the compensation is consistent with the compensation paid for similar work on the organization's other activities, or, if the organization's other activities do not involve similar work, to the extent it is consistent with the compensation paid for similar work in the labor markets where the organization competes for the kind of employees involved.

4. Contingency provisions. Contributions to a contingency reserve or any similar provision made for the occurrence of unpredictable events are unallowable. Contingency reserves do not include self-insurance plans, pension funds, or reserves for normal severance pay.

5. Contributions. Contributions and donations by the organization to others are unallowable.

6. Depreciation and use allowances.

a. Allowable costs for the use of buildings, other capital improvements, and equipment on hand may be based on use allowances or depreciation. The computation of use allowances or depreciation shall be based on the asset's acquisition cost or the fair market value of a donated asset at the time of the donation, and must exclude: (i) the cost of land; and (ii) any portion of the asset's cost borne by the U.S. or Israeli government. Portions of the asset's costs that are recognized for cost-sharing purposes or reimbursement purposes must be mutually exclusive.

b. 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 cost, and the annual allowance for equipment will not exceed six and two-thirds percent of acquisition cost.

c. Where the depreciation method is followed, the period of useful life established for an asset must reflect factors such as the type of construction, nature of the equipment, technological developments in the particular program area, and the replacement policies followed for the individual items or classes of assets involved. The method of depreciation used to assign the asset's cost to accounting periods shall reflect the pattern of consumption of the asset during its useful life. Straight-line depreciation will be used unless the expected consumption of the asset will vary significantly during its useful life. When the depreciation method is used for a particular class of assets, no depreciation may be allowed on any assets that would be viewed as fully depreciated, but a reasonable use allowance may be permitted if included in the approved project budget.

7. Donations. The value of services, goods, or space donated to the organization by others is an allowable cost for purposes of satisfying cost-sharing requirements but not

for purposes of reimbursement. Donated services, goods, or space will be valued in the same manner as they would have been valued if they had been furnished by the organization.

8. Employee morale, health, and welfare. The costs of house publications, health or first-aid clinics or infirmaries, recreational activities, employee counseling services, and similar expenses for the improvement of working conditions, employer-employee relations, employee morale, and employee performance are allowable when incurred in accordance with the organization's established practice and equitably apportioned to all its activities.

9. Entertainment costs. Costs of amusement, diversion, social activities, ceremonials, and associated costs such as meals, lodging, rentals, transportation, and gratuities are unallowable.

10. Equipment and other capital expenditures.

a. "Equipment" means an article of nonexpendable tangible personal property having a useful life of more than two years and an acquisition cost of \$500 or more per unit, whether used for general or specialized purposes. "Acquisition cost" means the net invoice unit price of an item of equipment, including the cost of any modifications or additions necessary to make it usable for its intended purpose and any ancillary charges (such as taxes, duty, protective in transit insurance, freight, and installation) included in acquisition cost under the organization's regular accounting practices.

b. Capital expenditures for equipment with a unit acquisition cost of \$5000 or more, land or buildings, or improvements to land, buildings, or equipment that materially increase their value or useful life are unallowable unless included in the approved project budget.

11. Fines and penalties. Costs of fines and penalties resulting from failure to comply with laws or regulations are unallowable.

12. Insurance. Costs of insurance or provisions for a self-insurance reserve are allowable only if included in the approved project budget.

13. Interest costs. Costs incurred for interest on borrowed funds, however represented, are unallowable.

14. Labor relations costs. Costs incurred in maintaining satisfactory relations with employees, including costs of labor-management committees, employee publications, and other related activities are allowable.

15. Losses on other awards. Any excess of costs over income on any other contract or agreement is unallowable. This includes but is not limited to the organization's contribution to cost-sharing agreements, or any underrecoveries resulting from negotiated limits on indirect costs.

16. Maintenance and repair costs. Costs incurred for necessary maintenance, repair, or upkeep of buildings and equipment that neither add to the permanent value of the property nor appreciably prolong its intended life are allowable. Costs of improvements that add to the property's permanent value or appreciably prolong its intended life shall be treated as capital expenditures.

17. Materials and supplies. The costs of materials and supplies are allowable. Such costs should be charged at their actual prices after deducting all cash or trade discounts, rebates, and allowances received by the organization. Withdrawals from general inventory should be charged at cost under any recognized method of pricing consistently applied. Incoming transportation charges may be a proper part of material cost. Due credit should be given for any excess materials or supplies retained or returned to vendors.

18. Meetings and conferences. Costs associated with the conduct of project-related meetings and conferences (including the cost of renting facilities, meals, speakers' fees, and the like) are allowable so long as they do not represent "entertainment costs."

19. Organization costs. Costs incurred in connection with the establishment or reorganization of an organization (such as incorporation fees, or fees to brokers, promoters, organizers, management consultants, attorneys, accountants, or investment counselors, whether or not employed by the organization) are unallowable unless included in the approved project budget.

20. Page charges in professional journals. Page charges for professional journal publications are allowable as a necessary part of research costs, where the research papers report Foundation-sponsored work and the charges are levied impartially on all research papers published by the journal.

21. Plant security costs. Necessary expenses incurred to comply with security requirements imposed by law or for facilities protection, including wages, uniforms, and equipment of personnel are allowable.

22. Preaward costs. Costs incurred prior to award of the funding agreement are generally unallowable. In special circumstances, costs incurred prior to the award of the funding agreement will be allowed if included in the approved project budget.

23. Public information service costs. Public information service costs include the cost associated with pamphlets, news releases, and other forms of information services, normally incurred to inform or instruct individuals, groups, or the general public, to promote participation in a service program of the organization, or to disseminate the results of sponsored and nonsponsored activities. Public information service costs are allowable if included in the approved project budget.

24. Publication and printing costs. 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 and printing costs are allowable if included in the approved project budget.

25. Rearrangement and alteration costs. Costs incurred for ordinary rearrangement and alteration of facilities are allowable. Special arrangement and alteration costs incurred specifically for the project are allowable if included in the approved project budget.

26. Reconversion costs. Costs incurred in restoring the organization's facilities to approximately the same condition existing immediately prior to project performance, fair wear and tear excepted, are allowable.

27. Recruiting costs. The following recruiting costs are allowable: (i) cost of "help wanted" advertising; (ii) costs of operating an employment office or educational testing program; (iii) travel expenses (including food and lodging) of employees engaged in recruitment or applicants interviewing for employment; (iv) relocation costs incurred incident to recruitment of new employees; and (v) costs of employment agency services not in excess of standard commercial rates.

28. Royalties and other costs for use of patents and copyrights. Royalties or amortization costs associated with acquiring copyright or patent rights necessary for project performance are allowable unless: (i) the U.S. or Israeli government has a license or the right to free use of the patent or copyright; (ii) the patent or copyright has been administratively determined or adjudicated to be invalid; (iii) the patent or copyright is expired or considered to be unenforceable; or (iv) the organization previously owned the patent or copyright.

29. Specialized service facilities. The costs of highly complex or specialized service facilities operated by the organization (such as electronic computers and wind tunnels) are allowable provided that any material costs of such services are charged directly to the project based on actual usage, in accordance with a uniformly-applied pricing methodology that is designed to recover only the aggregate direct and indirect costs of the services. Where the costs incurred for specialized facilities are not material, they may be allocated to the project.

30. Travel costs. Travel costs are the expenses for transportation, lodging, subsistence and related items incurred by employees on official business of the organization. Project-related travel costs are generally allowable, and may be charged at actual cost, on a per diem or mileage basis, or a combination of the two resulting in charges consistent with those normally allowed by the organization in its regular operations. The cost differential between first-class and regular air fare is unallowable unless regular accommodations would require circuitous routing, travel during unreasonable hours, greatly-increased flight duration, additional costs that would offset the transportation savings, or inadequate accommodations for the traveler's medical needs. Cost of travel outside the traveler's country are allowable only if included in the approved project budget.