

## Allowable and Unallowable Costs

**Effective Date:** 07/01/2018

### Allowable Costs

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Allowable and unallowable costs vary by grant program and funding source; specifics are identified within grant program policies and/or guidance.

Allowable costs are costs that can be charged to the grant or used as match. Generally, a cost is allowable if it is incurred through work activities that are:

- Necessary for producing the outcomes described in the grant agreement and associated work plan; and
- Occur during the grant period.

Expenses incurred before the grant is executed, or after expiration, are not allowed (exceptions exist for the Disaster Recovery Assistance Program and may occur in other instances, check the individual grant program policy for details).

Allowable costs include, but are not limited to, the items described below.

1. **Staff Time.** The salary, benefits, and leave for staff of the grantee are allowable if necessary to activities funded by the grant and supported by time and effort documentation. Examples of staff activities (consistent with the Activity Categories in eLINK):
  - Administration/Coordination (of the grant; see also Facilities and Administration below)
  - Education/Information
  - Inventory/Mapping
  - Monitoring/Data Collection
  - Planning and Assessment
  - Project Development
  - Regulations/Ordinances/Enforcement
  - Technical/Engineering Assistance

Not all categories are allowable activities for all grants. For how to document staff time worked on grants, see Time and Effort Documentation section of this manual. For how to charge staff time through a billing rate, see Determining a Billing Rate section of this manual. See also #5 Contractors / Services/ Project Costs below.

2. **Facilities and Administration.** Facilities are operations and maintenance expenses. Administration is a term for general expenses, shared across an enterprise, such as accounting, human resources, and

management. The costs of facilities and administration are commonly grouped together as overhead costs. Facilities and administration should be included in the billing rate or indirect cost allocation.

Examples of facilities:

- Insurance
- Office Maintenance
- Rent
- Severance packages
- Supervisor expenses
- Unemployment / Workers Compensation insurance
- Utilities

Facilities and administration costs can also include the staff time of support personnel (including the cost of grant oversight) that is not charged directly to the grant, provided that it is directly related to and necessary for grant activities.

3. **Donated Services or Property.** The cost or estimated costs of services or property donated to the grant recipient may not be charged to the grant, or included in a billing rate or indirect cost allocation (costs that are not actually incurred may not be charged to grants). Non-state donated services or property that can be quantified may be used to meet cost sharing or match requirements.

To the extent feasible, donated services or property contributed as match should be supported by the same standards of documentation as costs charged to the grant.

4. **Supplies.** Supplies are defined as all property that costs less than the threshold amount for equipment (as it is defined in section 5). Supplies also have a shorter useful life than equipment. Supplies may be charged directly to the grant program(s) that benefit from their use. Or if necessary for all grant programs, supplies may be included in the billing rate or indirect cost allocation. Examples of supplies:

- Office supplies
- Software
- Tools
- Fuel
- Repairs

5. **Contractors / Services / Project Costs.** The actual costs of construction, professional and technical services, and other goods and services provided by contractors hired by grant recipients or land occupiers are allowable. Grantees may not inflate contractor costs. Contractors / Project Costs must be charged directly to the grant program(s) that benefit from their use. Examples of contractors / project costs:

- Construction services
- Materials and supplies and incoming freight charges for them
- Signage

- Professional services specified in the approved work plan that are rendered by individuals or organizations
- Equipment rental or lease costs;
- Publication and printing expenses (including the process of composition, plate-making, press work, binding, and the end products produced) necessary for work products production and reports relating to work plan accomplishments, if specifically identified in the approved work plan for the grant.
- Reasonable food costs if included in the cost of meetings or conferences, as part of a standard per diem, or as part of a public participation event or training.

When a local government unit is providing services to another local government unit that will be paid for with BWSR grant funds or used to match BWSR grant funds, compensation or contributions in money, services, materials, or otherwise must be consistent with the actual cost or reasonable value of the services. See the BWSR Determining a Billing Rate Chapter of the GAM to determine reasonableness of hourly rates. All invoices for services associated with state funded initiatives are subject to BWSR review.

6. **Incentive Payments.** If BWSR grant programs allow incentive payments they must be reasonable, justifiable, and supported by grant recipient policy.
7. **Equipment and Other Capital Expenditures.** Equipment is defined as property having a useful life of more than one year that costs more than a certain threshold amount. A local government unit may establish a threshold amount defining equipment in its own policies, or if not defined, equipment is property with an acquisition cost of \$5,000 or more. Examples of equipment include:
  - Vehicles (e.g. pickup, SUV, or car)
  - All-terrain vehicle
  - Survey equipment

If equipment is already owned by the grant recipient, it is a capital asset (see below for instructions on how to charge capital assets to BWSR grants).

If equipment is purchased with grant funds to support a program or project funded by the grant, it is a capital expenditure. Capital expenditures must be allocated to the program(s) that benefit from their use and are allowable only as direct costs (they may not be included in a billing rate or indirect cost allocation). If a capital expenditure charged to any one grant exceeds \$10,000, the expenditure must receive prior approval. Prior approval may be obtained by including the item to be purchased in the LGU's approved initial annual budget, or the grant work plan. If neither option is applicable, Board Conservationist (BC) approval must be requested and received in writing prior to the purchase. BWSR may authorize exceptions to this requirement in writing prior to grant closeout.

If approval is requested, the request must explain why the equipment purchase is necessary for the program or project and demonstrate that the cost is reasonable (compared to similar purchases for

other local governments). The BC will document the request and decision on the request in the eLINK Grant Journal.

If equipment purchased with BWSR grant funds is no longer needed for the original purpose, it may be used to support other comprehensive plan activities. If the equipment is no longer needed and the fair market value is greater than \$5,000, please contact your BC for disposal instructions.

8. **Charging Grants for Capital Assets, or Equipment Already Owned.** Capital assets are defined as tangible and intangible assets having a useful life of more than one year, the cost of which is spread out over a period of time. Charges for capital assets already owned by the grant recipient that are necessary to support programs or projects funded by the grant are allowable costs to BWSR grants, but those costs must be properly allocated, to reflect the asset's actual use.

To allocate the cost of capital assets directly, to program(s) benefitting from their use, the depreciation method may be used. Capital assets should be depreciated using straight-line depreciation unless justification can be provided that use will vary from the early to later portions of the asset's life. The depreciation method should reflect the pattern of use.

Depreciation amounts are also allowable as indirect costs, in a billing rate (as a facilities cost) or indirect cost allocation.

When the depreciation method is administratively burdensome, a use allowance for the capital asset may be established. Use allowances should be calculated by evaluating actual costs over a period of time. The basis for an allowance can also be previously established rates such as the IRS established business standard mileage rate.

If a combination of local and state funds were used to purchase the item, the use allowance must deduct the acquisition cost previously charged to the state.

Examples of capital assets:

- Buildings
- Vehicles (pickup, SUV, car)
- Additions or improvements to capital assets that materially increase their value or useful life (not ordinary repairs and maintenance).

Examples of use allowances:

- IRS established business standard mileage rate
- IRS established business standard mileage rate less the portion of the business standard rate treated as depreciation if the asset was acquired with state funds
- Custom farming rates survey / Machinery cost estimates
- Actual expenses sampled over time, and divided by miles, hours, square feet, etc. during the sampled time frame

- For buildings owned by the grant recipient, a market rate for an equivalent rental space in the area the building is located may be used as a use allowance, and included (like rent) as a facilities cost in a billing rate or indirect cost allocation.

## Unallowable Costs

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Costs that are unallowable to be charged to BWSR grants, unless specifically allowed by a grant program, include but are not limited to:

- Bad debts, late payment fees, and investment management fees
- Giving donations and fundraising
- Entertainment, gifts, prizes and decorations
- Alcohol
- Interest on loans not authorized under state statute
- Lobbying, lobbyists and political contributions
- Merit awards and bonuses.

## Resources

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Government Finance Officers Association: Determining the Estimated Useful Lives of Capital Assets	<a href="http://www.gfoa.org/determining-estimated-useful-lives-capital-assets">www.gfoa.org/determining-estimated-useful-lives-capital-assets</a>
State of Minnesota Guide to Local Government Capital Assets	<a href="http://www.osa.state.mn.us/other/GASBTools/capital_asset_guide.pdf">www.osa.state.mn.us/other/GASBTools/capital_asset_guide.pdf</a>
IRS Standard Mileage Rates	<a href="http://www.irs.gov/Tax-Professionals/Standard-Mileage-Rates/">www.irs.gov/Tax-Professionals/Standard-Mileage-Rates/</a>
University of Minnesota Extension Machinery Cost Estimates	<a href="http://extension.umn.edu/business/farm-finance">http://extension.umn.edu/business/farm-finance</a> (Follow link to “Machinery Cost Estimates”)
Custom Rate Survey	<a href="http://www.extension.iastate.edu/agdm/crops/html/a3-10.html">www.extension.iastate.edu/agdm/crops/html/a3-10.html</a>
Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Part 200 of Title 2 of the Code of Federal Regulations	<a href="http://www.ecfr.gov">www.ecfr.gov</a>

# History

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Description of revisions	Date
Revised format; minor edits and text changes from 7/1/15 version.	7/1/2017
Paragraph added to item 5, Contractors / Services / Project Costs, clarifying that billing rate requirements apply when one local government provides services to another when using state funds.	7/1/2018