

# APPENDIX B – UNALLOWABLE AND ALLOWABLE COSTS FOR STATE GOVERNMENTS

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*Last Updated: 14 March 2013*

## UNALLOWABLE COSTS FOR STATE GOVERNMENTS

All costs must be associated with project activities that enhance the competitiveness of specialty crops. Failure to mention a particular item of cost in this section is not intended to imply that it is allowable. Please see [2 CFR Part 225](#) for further guidance on cost principles for State governments.

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### ADVERTISING AND PUBLIC RELATIONS

Costs of advertising and public relations designed solely to promote the governmental unit.

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### ALCOHOLIC BEVERAGES

Except when the costs are associated with enhancing the competitiveness of wine grapes and prior approval is given from the awarding agency.

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### BAD DEBTS

Including losses (whether actual or estimated) arising from uncollectable accounts and other claims, related collection costs, and related legal costs.

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### CAPITAL EXPENDITURES FOR GENERAL PURPOSE EQUIPMENT, BUILDINGS, AND LAND

Capital expenditures for general purpose equipment, buildings, and land are considered unallowable. Capital expenditures are expenditures for the acquisition cost of capital assets (equipment, buildings, land), or expenditures to make improvements to capital assets that materially increase their value or useful life.

“General purpose equipment” is equipment, which is not limited to research, medical, scientific or other technical activities. Examples include office equipment and furnishings, modular offices, telephone networks, information technology equipment and systems, air conditioning equipment, reproduction and printing equipment, and motor vehicles.

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#### CONTINGENCY PROVISIONS

Contributions to a contingency reserve or any similar provision made for events the occurrence of which cannot be foretold with certainty as to time, intensity, or with an assurance of their happening.

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#### CONTRACTUAL COSTS

Contractual hourly rates that exceed the salary of a GS-14 step 10 Federal employee in your area (for more information please go to [www.opm.gov](http://www.opm.gov) and click on Salaries and Wages), unless one of the following justifications is provided.

1. A description of the steps you took to hire a contractor, which includes obtaining a cost/price analysis from at least three contractors who can perform the service. The purpose of the cost analysis is to review and evaluate each element of cost to determine reasonableness. (Please provide company name and contract amount for each analysis.)

**OR**

2. Due to the complexity or uniqueness of the project, the pool of available and qualified contractors is limited. Therefore, the selected contractor’s specialized qualifications necessitate hiring at a rate beyond a GS-14 step 10. (Please outline the unique qualifications of the contractor.)

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#### DONATED SERVICES

Donated or volunteer services may be furnished to a governmental unit by professional and technical personnel, consultants, and other skilled and unskilled labor. The value of these services is not reimbursable either as a direct or indirect cost.

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#### DONATIONS AND CONTRIBUTIONS

Contributions or donations, including cash, property, and services, made by the governmental unit, regardless of the recipient.

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#### ENTERTAINMENT

Amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities).

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#### EXCESSIVE AIRFARE COSTS

Airfare costs in excess of the customary standard commercial airfare (coach or equivalent), Federal Government contract airfare, or the lowest commercial discount airfare.

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#### FINES AND PENALTIES

Fines, penalties, damages, and other settlements resulting from violations (or alleged violations) of, or failure of the governmental unit to comply with, Federal, State, local, or Indian tribal laws and regulations.

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#### FUNDRAISING

Organized fund raising, including financial campaigns, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions regardless of the purpose for which the funds will be used.

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#### GENERAL COSTS OF GOVERNMENT

These include: (1) Salaries and expenses of the Office of the Governor of a State or the chief executive of a political subdivision or the chief executive of federally-recognized Indian tribal government; (2) Salaries and other expenses of a State legislature, tribal council, or similar local governmental body, such as a county supervisor, city council, school board, etc., whether incurred for purposes of legislation or executive direction; (3) Costs of the judiciary branch of a government; (4) Costs of prosecutorial activities; and (5) Costs of other general types of government services normally provided to the general public, such as fire and police.

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#### GOODS OR SERVICES FOR PERSONAL USE

Costs of goods or services for personal use of the governmental unit's employees regardless of whether the cost is reported as taxable income to the employees.

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#### INVESTMENT MANAGEMENT COST

Costs of investment counsel and staff and similar expenses incurred to enhance income from investments.

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#### LOBBYING

Development or participation in lobbying activities including costs of membership in organizations substantially engaged in lobbying.

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#### MEALS

Business meals may not be charged as project costs when individuals decide to go to lunch or dinner together when no need exists for continuity of a meeting. Such activity is considered to be an entertainment cost. In contrast, lunch or dinner meals may be charged to the project if a justification is provided that such activity maintains the continuity of the meeting and to do otherwise will impose arduous conditions on the meeting participants. ***Breakfasts for conference attendees are usually considered unallowable as it is expected these individuals will have sufficient time to obtain this meal on their own before the conference begins in the morning.***

Note: Meals consumed while in official travel status do not fall in this category. They are considered per diem expenses and should be reimbursed in accordance with the organization’s established written travel policies.

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## POLITICAL ACTIVITIES

Development or participation in political activities in accordance with provisions of the Hatch Act (5 U.S.C. 1501-1508 and 7324-7326).

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## SUPPLANTING STATE FUNDS

Grant funds shall supplement the expenditure of State funds in support of specialty crops grown in that State, rather than replace State funds.

## ALLOWABLE COSTS FOR STATE GOVERNMENTS

All costs must be associated with project activities that enhance the competitiveness of specialty crops. Failure to mention a particular item of cost in these sections is not intended to imply that it is unallowable. See [2 CFR Part 225](#) for further guidance on cost principles for State governments.

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## ADVERTISING AND PUBLIC RELATIONS

Advertising and public relations costs that solely enhance the competitiveness of eligible specialty crops.

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## ADVISORY COUNCILS

Costs incurred by advisory councils or committees

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## AUDIT COSTS

The cost of audits made in accordance with the provisions of [7 CFR Part 3052](#), “Audit of States, Local Governments, and Non-profit Organizations”.

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## CAPITAL EXPENDITURES FOR SPECIAL PURPOSE EQUIPMENT

With acceptance from AMS, costs associated with capital expenditures for special purpose equipment with a unit cost of \$5,000 or more. *Note: Acceptance from AMS means that the special purpose equipment must be included in the State Plan, and the State Plan must receive approval from AMS.* “Special purpose equipment” is equipment that is used only for research, medical, scientific, or other technical activities.

Examples of special purpose equipment include microscopes, spectrometers, and equipment used for a single purpose to solely enhance the competitiveness of eligible specialty crops and benefit the specialty crop industry. This equipment cannot only benefit a particular commercial product or provide a profit to a single organization, institution, or individual.

Maintenance costs for special purpose equipment, which include the cost of utilities, insurance, security, janitorial services, elevator service, upkeep of grounds, necessary maintenance, normal repairs and

alterations, and the like are allowable to the extent that they keep property (including Federal property, unless otherwise provided for) in an efficient operating condition, do not add to the permanent value of property or appreciably prolong its intended life, and are not otherwise included in rental or other charges for space. Costs which add to the permanent value of property or appreciably prolong its intended life shall be treated as capital expenditures.

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#### COMPENSATION FOR PERSONNEL SERVICES

Compensation for personnel services during the period of performance under the Federal award, including salaries, wages, and fringe benefits to the extent that they are reasonable for the services rendered and they are supported with adequate documentation in accordance with [2 CFR 225 App. B ¶8h](#).

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#### COMMUNICATION COSTS

Costs incurred for telephone services, local and long distance telephone calls, telegrams, postage, messenger, electronic or computer transmittal services and the like.

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#### FOREIGN TRAVEL

With prior approval from AMS, direct charges for foreign travel. Each separate foreign trip must receive such approval. For purposes of this provision, “foreign travel” includes any travel outside Canada, Mexico, the United States, and any United States territories and possessions. However, the term “foreign travel” for a governmental unit located in a foreign country means travel outside that country. An applicant with a proposal that involves foreign market development must determine if the project is more appropriate for grant programs administered by the Foreign Agricultural Service or funded through the State-Regional Trade Groups. Any proposal involving foreign travel must be well justified.

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#### INDIRECT COSTS

The limit on indirect costs will be published in a Federal Register notice each fiscal year.

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#### MATERIALS AND SUPPLIES

Costs incurred for materials, supplies, and fabricated parts necessary to carry out a Federal award. Purchased materials and supplies shall be charged at their actual prices, net of applicable credits. Withdrawals from general stores or stockrooms should be charged at their actual net cost under any recognized method of pricing inventory withdrawals, consistently applied. Incoming transportation charges are a proper part of materials and supplies costs. Only materials and supplies actually used for the performance of a Federal award may be charged as direct costs. Where federally-donated or furnished materials are used in performing the Federal award, such materials will be used without charge.

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#### MEETINGS AND CONFERENCES

Costs of meetings and conferences with the primary purpose of dissemination of technical information. This includes costs of meals, transportation, rental of facilities, speakers' fees, and other items incidental to such meetings or conferences with the exception of entertainment costs as described under unallowable costs.

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#### PROFESSIONAL SERVICE COSTS

Costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the governmental unit when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the Federal Government.

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#### PROPOSAL COSTS

Costs of preparing proposals for potential Federal awards. Proposal costs should be treated as indirect costs and should be allocated to all activities of the governmental unit utilizing the cost allocation plan and indirect cost rate proposal.

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#### 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 costs also include page charges in professional publications. If these costs are not identifiable with a particular cost objective, they should be allocated as indirect costs to all benefiting activities of the governmental unit. Page charges for professional journal publications are allowable as a necessary part of research costs where: (1) The research papers report work supported by the Federal Government; and (2) The charges are levied impartially on all research papers published by the journal, whether or not by federally-sponsored authors.

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#### RECONVERSION

Costs incurred in the restoration or rehabilitation of the governmental unit's facilities to approximately the same condition existing immediately prior to commencement of Federal awards, less costs related to normal wear and tear.

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#### RENTAL COSTS OF BUILDINGS, VEHICLES AND EQUIPMENT

To the extent that the rates are reasonable in light of such factors as: rental costs of comparable property, if any; market conditions in the area; alternatives available; and the type, life expectancy, condition, and value of the property, vehicle, or equipment leased. Rental arrangements should be reviewed periodically to determine if circumstances have changed and other options are available.

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#### TRAINING COSTS

The cost of training provided for employee development.

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## TRAVEL COSTS

Travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the governmental unit. Such costs may be charged on an actual cost basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip and not to selected days of the trip, and results in charges consistent with those normally allowed in like circumstances in the governmental unit's non-federally-sponsored activities.