United States Department of the Interior

FISH AND WILDLIFE SERVICE
Washington, D.C. 20240

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In Reply Refer To:
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To: State Fish and Wildlife Agencies
Secretary, Department of Natural Resources
of the Commonwealth of Puerto Rico
Governor of Guam
Governor of U.S. Virgin Islands
Governor of American Samoa
Governor of Commonwealth of the Northern Mariana Islands
Mayor of the District of Columbia

Re: Guidance on Recovery of Equipment Costs charged to Wildlife and Sport Fish Restoration Grants

This letter provides guidance to States and Territories on recovering the actual costs of their owned equipment and the costs of operating their owned equipment used on Wildlife and Sport Fish Restoration Program (WSFR) financial assistance awards (grants and cooperative agreements). We are not changing any requirements with this letter, but rather summarizing existing regulations, guidance, and resources to assist you in the proper charging the use of your owned equipment to WSFR awards.

The Office of the Inspector General (OIG) during its regular audits of Wildlife and Sport Fish Restoration Program (WSFR) grants identified the improper charging of owned equipment by several state fish and wildlife agencies. The attached Equipment Cost Recovery Guidance and FAQ (Enclosure) addresses questions on the regulations to charge the use and depreciation of equipment owned by the States and Territories that are used on WSFR awards. The document will be stored and available for use by States, Territories, and WSFR personnel in the Financial Assistance Wiki. (http://fawiki.fws.gov/)

Please contact your regional WSFR office for assistance in implementing these existing owned equipment cost recovery requirements. We look forward to helping you successfully implement this guidance.

Sincerely,

Hannibal Bolton
Assistant Director
Wildlife and Sport Fish Restoration Program

Enclosure

Equipment Cost Recovery Guidance for WSFR Grants

Purpose

This provides guidance to recipients of Wildlife and Sport Fish Restoration Program (WSFR) funds on recovering the cost of equipment and the costs of operating equipment.

Frequently Asked Questions

1. **What is the applicable guidance for equipment use charged to financial assistance awards by recipients?**

   The guidance for proper application of depreciation can be found in 2 CFR 200.436. Guidance on other operating cost items can be found in 2 CFR 200 - Subpart E - Cost Principles.

2. **May a recipient charge to a federal grant the cost of using its equipment on grant projects?**

   Yes. A recipient may recover their acquisition cost of equipment by charging depreciation to federal grants on which the equipment was used. Additionally, recipients may charge expenses to operate the equipment, including the cost of maintenance, insurance, and other related expenses.

3. **How may a recipient recover the costs associated with equipment used on a Federal grant?**

   A recipient establishes their own rates based on their costs to acquire and operate the equipment. See question #10 for additional information.
   - Depreciation (2 CFR 200.436)
   - Costs associated with operating the equipment (2 CFR 200 Subpart E)

   Allocate depreciation of equipment to a Federal award based on a methodology that properly allocates costs based on benefits received, e.g. miles or hours used.

4. **What can a recipient do if it has not established its own rate?**

   Recipients must develop their own rates based on their actual costs by June 30, 2015 to charge Federal awards beginning on or after July 1 2015, deprecation and operating costs. Until a recipient establishes its own rates, the recipient may use a rate for similar equipment established by the State or another agency within the State e.g.:
   - Adopt a State centralized motor pool rate that was created based on actual use and/or depreciation. The methodology and documentation must meet the standards of 2 CFR 200.

- Adopt the State Department of Highways equipment and vehicle rates based on actual use and/or depreciation. The methodology and documentation of the rate must meet the standards of 2 CFR 200.

5. What depreciation method may a recipient use to charge depreciation expense to federal grants?

The depreciation method used to charge the cost of an asset (or group of assets) to accounting periods must reflect the pattern of consumption of the asset during its useful life. In the absence of clear evidence indicating that the expected consumption of the asset will be significantly greater in the early portions than in the later portions of its useful life, the straight-line method must be presumed to be the appropriate method. Depreciation methods once used may not be changed unless approved in advance by the cognizant agency. (2 CFR 200.436(d)(2))

Often, states will not have a statewide policy on depreciation, because states are not required to depreciate fixed assets in their financial statements. This means that even if the state financial statements do not provide for depreciation, an agency may calculate and claim its own expense if the agency:

- uses the same capitalization threshold used in the Comprehensive Annual Financial Report (CAFR) for the fixed asset group,
- uses depreciable lives for classes of assets that are consistent throughout the agency, and
- Consistently applies componentization for buildings to asset group when it has been chosen.
- The portion of the equipment purchased by federal awards and contracts cannot be charged to federal grants as depreciation.

6. How is straight-line depreciation calculated?

The straight-line method of depreciation is calculated with the formula:

Depreciation = (Acquisition Cost - Residual Value) / Useful Life.

For example, a vehicle may have an acquisition cost of $25,000 and is expected to last for 8 years (useful life). At the end of the 8 years the vehicle can no longer be used, but is worth $1,000 as its scrap or salvage value (residual value). The annual depreciation would be $3,000, which is calculated as follows: $25,000 (acquisition value) less $1,000 (residual value) divided by 8 (life in years).

7. **What is the acquisition cost?**

Acquisition Cost of an asset is the contract price less any discounts, plus any freight, assembly, installation, modification or other such costs (supplementary costs) that are required so that the recipient can use the asset for its intended purpose. The value of donated assets is the estimated Fair Market Value of the asset at the time of donation and any supplementary costs required so that the recipient can use the asset for its intended purpose.

8. **How must a recipient document depreciation?**

Adequate property records must support charges for depreciation, and physical inventories must be taken at least once every two years to ensure that the assets exist and are usable, used, and needed. Statistical sampling techniques may be used in taking these inventories. In addition, adequate depreciation records showing the amount of depreciation taken each period must also be maintained. (2 CFR 200.436(e))

9. **May recipients include equipment purchased using a federal grant or contract in the depreciation charged to federal awards?**

No. Directly charging the acquisition cost of equipment provides the recipient with complete recovery of equipment acquisition costs. Recipients may recover only the cost of operating the equipment. This may necessitate the establishment of separate use rate for equipment acquired as a direct cost to a Federal award.

10. **Can a recipient use a predetermined rate schedule published by another Federal agency for equipment used on a WSFR award?**

No. The cost principles allow the recipient to establish a rate based on their actual costs to own and operate equipment. Additionally, recipients may charge expenses to operate equipment, including the cost of maintenance, insurance, and other related expenses.

Predetermined rates or schedules are often administratively determined and are not based on market rates; hence, they do not meet the criteria for allowable costs. Additionally, they are not specific to a recipient and therefore do not represent actual costs to acquire and operate.

11. Can a recipient charge market rental prices for recipient-owned equipment used on Federal awards?

No, depreciation is the only allowable method of recovering the cost of an asset.

12. What are the general requirements for the establishment of a rate for equipment?

Recipients use equipment rental rates as a uniform method to charge users of equipment for proportionate shares of costs of operations. Such rental rates must be developed to recover actual costs of ownership (depreciation) and operation only using generally accepted accounting principles (GAAP). Federal financial assistance participation is limited to actual costs properly allocable to and incurred for the benefit of an award. Methods used to develop these rates may be through the use of clearing accounts, separate rates for each piece of equipment or by class of equipment, separate rates for direct and indirect costs, or a combination of either method. The method used will vary between recipients.

13. What cost items may be included in an equipment rate?

Direct costs are those that are incurred for the benefit of and associated with a specific piece of equipment or allocated to a class of equipment. Examples of direct costs are depreciation, equipment specific insurance premiums, fuel, oil, grease, tires and tubes, repair labor costs, repair parts and similar costs.

14. What cost items may not be included in an equipment rate?

Indirect costs are incurred for the recipient's operations as a whole or are otherwise not associated with individual pieces of equipment and should not be include into the cost pool for development of an equipment use rate. Recovery of indirect occurs based on the terms of the negotiated indirect cost rate agreement (NICRA).

Typical examples of indirect costs may include recipient's general insurance premiums, utilities, office space and other administrative support functions. A cost category included in the indirect cost pool may not be charged as a direct cost under most circumstances.