**WorkforceGPS**

**SMART 3.0 Series: Real Property and Leases**

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GRACE MCCALL: And welcome to "Real Property and Leases SMART 3.0 Training." So without further ado, I'd like to turn things over to our two speakers for today, Ramona Melo, systems accountant, United States Department of Labor Region 1, Boston, Massachusetts and Lorraine Jamison, accountant, United States Department of Labor Region 5, Chicago, Illinois. Ramona?

RAMONA MELO: Good afternoon, everyone. So today we will be presenting on real property and leases. Next, so we will look at the SMART 3.0 Training strategies and again, many of you have already taken several of these trainings and we will define SMART, what is the SMART 3.0 Training Series? It indicates strategies, monitoring, accountability, risk mitigation and transparency.

These four things are weaved throughout the OMB uniform administrative requirements, cost principles and audit requirements for federal awards, also known as Uniform Guidance, which can be found at 2 CFR Part 200 and 2 CFR Part 2900 for the exceptions. Next, the grant management toolbox. Throughout the SMART modules, you will see this icon, the grant management toolbox, with direct links to the tools being discussed.

SMART Training 3.0 is one of the several tools of the grant management toolbox created to help FPOs and grantees manage grants. Also available are the 2018 core monitoring guide, the ETA grantee handbook and the soon to be published Technical Assistance Guides, or TAGs, which are grant and financial management and the funding the One-Stop delivery system on WorkforceGPS.

Other resources, such as sample MOUs and the infrastructure toolkit are many other resources that are also available relating to specific grants can be found on WorkforceGPS. Today's SMART Training and other additional trainings will be made available on the grants application and management community located on WorkforceGPS.

So if you're prescribed in your profile to grants application and management community, you will get regular emails. Be sure to access all available tools when managing your grant. Next, first we're going to go over the module overview.

We're going to discuss guidance, which is the training and employment guidance letter that was recently issued in 2019, types of real properties, we're going to describe allowable cost for non-central entity-owned properties, we're going to discuss special conditions and provisions related to property with federal or Reed Act equity, we're going to talk about leases and describe the difference between capital and operating leases, we're going to describe the limitations on sale and lease-back and less-than-arms-length agreements and the unallowability of home offices.

Lastly, we'll touch on property management, the administration, the maintenance and repair costs versus capital improvement costs, insurance coverage and plant and security costs, idle facilities and idle capacity costs, interest costs, depreciation on donated property, documentation issues and common mistakes. Next, so when we're looking at the guidance, key terms and definitions, you'll need to understand each one of the definitions in order to understand what we're talking about.

So we will go through that briefly. We'll furthermore discuss the allowability and costs for real property and capital improvements of such property. Next, so real property guidance, you will notice, on the top of this slide, 2 CFR 200.85. Whenever you see only two digits after the dot, that will indicate a definition in the Uniform Guidance.

So real property means land, including land improvement, structures, buildings and [inaudible] there too. Guidance relating to real property, under ETA-funded grants, was issued on July 15, 2019 under training and employment guidance letter number 3-19. This TEGL highlights the fact that normally the purchase of real property is no longer allowed, however, 8it is allowed under certain program exceptions, which we'll discuss later on.

To talk about real property, we will need to provide some clarity by defining some terms. Next, so one of the terms we'll discuss is capital assets. The definition of capital assets, again, can be found at 2 CFR 200.12. Capital assets means tangible or intangible assets used in operations having a useful life of more than one year which are capitalized in accordance with GAAP.

The capitalization level for DOL grants is $5,000. Capital assets include land, building, facilities, additions, improvements, modifications, replacements, rearrangements, reinstallations, renovations or alterations to capital assets that materially increase their value or useful life. They are not ordinary repairs or maintenance.

Next, capital expenditures. Capital expenditures means expenditures that require capital assets or expenditures to make additions, improvement or modifications, replacements, rearrangements, reinstallations, renovations or alterations to capital assets that materially increase their value or useful life. The Uniform Guidance requires the capital expenditures to be depreciated and not be charged as outright expenditures to the grant.

An exception is improvements for accessibility. In this case, rearrangements, reinstallations and alterations that increase the useful life of facilities may receive written prior approval from the ETA grant officer. All non-federal entities must comply with the American Disabilities Act standards regarding access to facilities.

If a non-federal entity receives prior approval for capital expenditures, they will be charged in the period in which the expenditure is incurred unless a different period is otherwise determined appropriate by DOL. The Uniform Guidance does not allow and ETA will not approve property acquisitions. The Uniform Guidance only allows depreciation over the useful life of the property or the improvement.

Capital improvement projects may be approved by ETA or its designee in some instances. This prior approval will be determined on a case by case basis. Remember, there needs to be a process in place at the pass-through entity level for subrecipients to submit requests for prior approval. So make sure you have your policies and procedures noting how they submit that request.

Are there time limitations to it? Next, facilities at 2 CFR 200.446(a)(1) means land and buildings on any portion thereof, equipment individually or collectively or any other tangible asset wherever located and whether owned or leased by the non-federal entity. Next, capital improvements, 2 CFR 200.439 indicates that capital improvements that were discussed earlier are improvements that materially increase the value or useful life of the property.

Are they additions, are they improvements or modifications, are they replacements, rearrangements, is it a new roof, reinstallations, renovations or alterations? Capital improvements follow the same rules for allowable cost recovery as real property. Next, real property prior approval. Before we can get into a discussion about the types of real property situations, let's talk about a couple of issues related to funding real property, construction, acquisition and capital improvements.

The Uniform Guidance at 2 CFR 200.439(b)(1) and (3) provides that expenditures for buildings and land and related capital improvements are unallowable as direct charges to federal grants, except with the prior written approval. Therefore, real property, construction and acquisitions are not allowable costs to most ETA grants, except when explicitly authorized by program statutes and regulations.

While WIOA prohibits the use of Title I grant funds for acquiring, constructing or making capital improvements to real property, the – except with the prior written approval of the secretary provision of 20 CFR 683.235 provides the secretary, not the governor, with the flexibility authorized under WIOA to use funds for construction in any situation where it might be necessary.

DOL determined that it would not be prudent to limit this flexibility by imposing any requirements or exclusive lists of the use of DOL funds. DOL has granted certain flexibility in the acquisition, leasing and renovation of real property for YouthBuild, Migrant Seasonal and Farmworkers Program and National Dislocated Worker Grants for disaster relief projects under WIOA Section 170D.

For real property issues that arise in these programs, more information is provided in the specific guidance related to these programs and in the Funding Opportunity Accouchements in effect for the applicable program year. For example, TEGL 5-10 Change 1 contains YouthBuild real property guidance.

Next, types of real property, we'll describe allowable costs for non-federal entity-owned properties, we'll discuss special conditions and provisions related to property with federal or Reed Act equity and we'll discuss various lease types and allowable costs for rented properties. Next, what are the types of real property categories, non-federal entity-owned, state-owned with federal equity, Reed Act properties and leased properties.

Facilities owned by non-federal entities operating DOL grant programs fall into one of these four categories of real property. We'll discuss the conditions related to each of these type of properties. Next, we'll look at the non-federal entity-owned properties. The non-federal entities that own their real property recovery of property costs is through depreciation.

The rules for depreciation are found at 2 CFR 200.436. The amount of compensation for the use of the property is determined by computing depreciation for the accounting period based upon the pattern of use. Allocation for depreciation must be made in accordance with 2 CFR 200 Appendices IV through VIII which cover indirect costs.

Next, depreciation. Depreciation is the method for allocating the cost of fixed assets to periods benefitting from the asset use. We indicated that the non-federal entities must recover its own real property costs through depreciation. Remember, prior approval is not required for an entity to charge depreciation.

The non-federal entity may be compensated for the use of its buildings, capital improvements, equipment and software projects capitalized in accordance with GAAP provided they are used, they are needed in the non-federal entities' activities and they are properly allocated to federal awards. The IRS has useful life schedules that accountants often use to calculate depreciation in accordance with GAAP.

They have several instances where it tells you what's acceptable for how long the useful life should be for a building, for vehicles. So it's important to go and look before you make that determination. Depreciation is computed for the accounting period based upon the pattern of use plus allowable financing or interest from a third party, which is located at 2 CFR 200.449.

Next, we'll discuss depreciation and no use allowance. 2 CFR 200.436(d)(4) indicates that depreciation cannot be charged on buildings or equipment which are older than their depreciable lives. Grantees may no longer charge a use allowance for fully depreciated property. Repair and maintenance costs may be charged on fully depreciated equipment.

Furthermore, grantees may charge depreciation on capital improvements if not fully depreciated. Next, depreciation costs. The computation of depreciation must be based on the historical acquisition cost of the asset involved and the useful life of the property. Acquisition costs exclude the cost of the land. Useful life period must be taken into consideration when you're looking at the type of construction.

Again, is the building made of concrete? Because that would last longer than a building made out of wood; correct? So it all – you also need to look at the historical data, entities' property renewal and replacement policies. Make sure your policies are updated to reflect the current Uniform Guidance. Next, depreciation calculation.

We must use straight line depreciation. The presumptive method for charging depreciation is the straight line method. Absent clear evidence indicating property's consumption is greater earlier than later in its useful life. The non-federal entity must not change depreciation methods without the prior approval of its cognizant agency.

We've talked about the use allowance no longer being allowable under the Uniform Guidance. This represents a change for states and other non-federal entities who use the use allowance method. Since this is a change, your cognizant agency should approve any changes regarding remaining depreciation costs that may be recovered if any remaining useful life is determined.

Changes in depreciation methods require prior approval. Next, depreciation, two methods. Section 200.436(d)(3) provides 2 methods for depreciating buildings. The first method the entire building may be treated as a single asset and depreciated over a single useful life. The second option is a building, may also be divided into multiple components with each component depreciated over its estimated useful life.

For this option, there are three required components, the shell of the building, including construction and design costs, building service systems, such as elevators, HVAC, the plumbing system and fixed equipment, sterilizers, casework, [inaudible], cold rooms and the reason why they are for these two separate methods is because you can see that separating the building, the shell of a concreate building, might be able to be depreciated over 50 years whereas the HVAC system, it's not going to last 50 years; right?

So that might have a depreciation method that might be 20 years or 15 years. Again, look at IRS guidelines. Next, we're going to look at a knowledge check. Knowledge check one, true or false, after a building has been fully depreciated, a grantee may begin charging a 2 percent use allowance for the property?

LORRAINE JAMISON: I see some votes are coming in. Some thinks it's true, some thinks it's false.

MS. MELO: OK. Let's go to the answer. Next, after a building has been fully depreciated, a grantee may begin charging a 2 percent allowance for property, that is false. Use allowance ended quite some time ago. Next, property with federal Reed Act equity. So 20 CFR 683.240 states that some state real properties that house DOL-funded grants were funded wholly or partially with DOL unemployment insurance and/or Wagner-Peyser funds and/or state Reed Act funds.

Some properties may also have been acquired with WIA and JTPA funds. WIOA regulations at 20 CFR 683.240 provides specific instructions of using and disposing of these federal equity or Reed Act equity properties. Next, unemployment insurance/Wagner-Peyser Equity. I'm going to provide you with some background information.

While WIOA prohibits the use of WIOA Title I funds to purchase real property in the past, the states have been allowed to use federal funds to amortize their cost of real property against funds awards under Title III of the Social Security Act Unemployment Compensation Program and Wagner-Peyser Act Grants rather than charging depreciation.

While these amortization agreements created federal equity and state-owned real properties, states retained the title to the property. Some of the properties paid for under old state and DOL amortization agreements are in use today to operate WIOA, Title I, Wagner-Peyser and UI programs. Consequently, 20 CFR 683.240 provides instructions for using real property with federal equity.

Transfer of equity, federal equity acquired in real property through grants to states awarded under Title III of the Social Security Act or under the Wagner-Peyser Act, including state employment security agency real property is transferred to the state that use the grants to acquire the equity at 20 CFR 683.240(a).

The use, the portion of any real property that is attributable to the federal equity transferred under 20 CFR 683.240 shall be used to carry out activities authorized under WIOA, Title III of the Social Security Act or the Wagner-Peyser Act. Disposition, when such real property is no longer needed for the activities authorized under WIOA, Title III of the Social Security Act or the Wagner-Peyser Act, the states must request disposition instructions from the grant officer prior to disposition or sale of the property.

The position of the proceeds from the disposition of the real property that is attributable to the federal equity transferred under this section must be used to carry out activities authorized under WIOA, Title III of the Social Act or the Wagner-Peyser Act. Next, WIOA Job Training Partnership Act Equity. Real property that was purchased with WIA funds or that was transferred from JTPA to WIA now is transferred to the WIOA Title I programs and must be used for WIOA purposes.

When such real property is no longer needed for the activities of WIOA, the non-federal entity must seek instructions from the grant officer or state in the case of the subrecipient before the disposition or the sale. That is located at 20 CFR 683.240. Next, State Reed Act property. So I'm going to provide you with a little bit of background again.

We previously discussed how federal equity was established in some state amortization agreements. The most common arrangement used by state workforce agencies to acquire office buildings and other real property prior to the enactment of WIOA was for a state to buy or construct a building using state Reed Act funds from its unemployment trust fund account maintained in the U.S. Treasury.

The state then repaid the Reed Act funds used to buy the building using Wagner-Peyser or UI Grant funds over a period of years, much like a mortgage repayment. Some property states may have funded with state Reed Act funds were never amortized against federal funds, thus these properties have Reed Act equity.

Reed Act funds are restricted to the payment of CSA administrative costs or unemployment benefits. Consequently, 20 CFR 683.240 provides instructions for using real property with Reed Act equity and you can find that in TEGL 3-19.

Use, properties with Reed Act equity may be used for the One-Stop delivery system to the extent that the proportionate share of Reed Act equity is less than or equal to the proportionate share of occupancy by the Unemployment Compensation and Wagner-Peyser Act programs in such properties.

Disposition, when such real property is no longer needed for authorized purposes, the state must request disposition instructions from the grant officer prior to disposition or sale. The portion of the proceeds from the disposition or sale of the real property that is attributable to Reed Act equity must be returned to the state's account in the Unemployment Trust Fund and used in accordance with DOL-issued guidance.

Next, leases, we'll describe the difference between capital and operating leases, we'll describe limitations on sale and lease-back and less-than-arms-length agreements and lastly, the unallowability of home offices. Next, general perimeters for leases, under 2 CFR 200.465, subject to certain limitations, rental costs are allowable to the extent that the lease rates are reasonable.

Over the next few slides, we'll discuss reasonableness, limitations and restrictions on the amount of certain types of leases. Rental arrangements should be reviewed periodically to determine if circumstances have changed and other options are available. Competitive procurement should always be used in leasing property; right?

We want to cast a wide net, because maybe there's a property that you haven't even thought of that would be a really great fit and you might get a better bang for your buck; right? Conflict of interest also applies. Next, reasonableness factors, rental costs are allowable to the extent that the lease rates are reasonable in light of such factors.

Rental costs of comparable property. Did you do your due diligence? Did you look in the area and see what the square footage in the area that you're looking is? Do you have that documentation so when you finally sign a lease you can show that it was a comparable property; right? What are the market conditions in the area?

Are there other alternatives available? And what are the type, the life expectancy, the condition and – of the value of the property you're leasing? Next, limitations, sale and lease-back. Certain limitations on sale and lease-back arrangements and less-than-arms-length leases restrict the amount of allowable costs that can be charged to DOL grants.

We'll discuss the allowable rent under such situations in just a minute, but first, let's talk about their characteristics. A sale and lease-back arrangement is exactly that, a non-federal entity sells a property that it owns and then it enters into a lease to rent the property from the new owner. A less-than-arms-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other.

And you can find that under 2 CFR 200.465(c). Specific examples of less-than-arms-length transaction include maybe the director has a brother who owns a piece of property and they want to lease the piece of property. So instead of going out and doing a competitive bidding process on this leased property that they want to lease, they just rent it from their brother; right?

That's less-than-arms-length transaction. The non-federal entity under common control through common offices, maybe it's somebody on the board that says, hey, I have this piece of property downtown, why don't we rent that and I'll lease that to you. You have to be very careful and ensure that there are firewalls and conflict of interest statements signed; right?

The non-federal entity and/or a director, trustee, officer, a key employee of the non-federal entity or an immediate family member, either directly or through a corporation or trust or similar arrangements in which they hold a controlling interest; right? So in plain English, any person on the board, staff or otherwise, if they have any controlling interest in a property, this is considered less-than-arms-length.

Next, limitations on allowable costs, under both sale and lease-back arrangement and less-than-arms-length leases, allowable costs cannot exceed the amount for depreciation, maintenance, taxes and insurance. So that's how you'll know whether or not you're getting a reasonable deal. Next, what is a capital lease?

A capital lease is a fixed term usually non-cancellable lease that is similar to a loan agreement for the purchase of a capital asset on installments. The lessors' services are limited financing the asset. The lessee pays all other costs, including insurance, maintenance and taxes. Capital leases are regarded as essentially equivalent to a sale by the lessor and a purchase by the lessee even though the title remains with the lessor.

Therefore, leased assets must be capitalized and shown in the lessee's books as a fixed asset. Some non-federal entities have capital leases for facilities they use for ETA grant activities. In accordance with the Uniform Guidance, when non-federal entities enter into a capital lease arrangement leased with an option to buy, the allowable federal grant costs that can be charged to ETA grants are limited to depreciation and reasonable third-party financing or a limit reimbursable interest to the least expensive alternative.

Next, what is an operating lease? In an operating lease, the lessor, or owner, transfers only the right to use the property to the lessee. At the end of the lease period, the lessee returns the property to the lessor. Since the lessee does not assume the risk of ownership, the lease expense is treated as an operating expense in the income statement and the lease does not affect the balance sheet.

A lease generally provides for early termination fees. Next, termination clauses, under 2 CFR 200.471(d), it describes termination clauses. Termination costs, which cover the provisions related to the allowability of rental costs under unexpired leases.

Non-federal entities should understand that it's their responsibility to ensure that the rental and lease agreements have reasonable termination clause to minimize lease termination costs in the event of a grant termination while generally, termination costs are allowable under certain conditions without termination clauses in your rental agreements and lease agreements, the reasonableness standard, or the prudent person rule, for allowable costs may come into play in determining the allowability of such costs.

For many non-federal entities, the federal award is the major source or only source of funding. It is the responsibility of the non-federal entity to obtain space for a reasonable period of time to operate ETA programs, meaning that a 10-year lease is not appropriate for a grant that operates with a maximum of three-year funding.

Rental costs under unexpired leases are generally allowable where clearly shown to have been reasonably necessary for the performance of the terminated federal award if amount of rental claim does not exceed reasonable use of the property leased for the award period and further reasonable period and all efforts were made to terminate, assign, settle or otherwise reduce the lease cost.

Next, the restriction on home office, under 2 CFR 200.465(c)(6), in regards to home office workspace, the rental of any property owned by an individual or entities affiliated with the non-federal entity, including commercial or residential real estate for purposes such as home office workspace is unallowable.

Next, documentation, the grantee should maintain lease agreements, record retention rules apply. Grantees should mean documentation that lease rates are reasonable in light of such factors, rental costs of a comparable property, market conditions in the area, alternatives available and the type, life expectancy, condition and the value of the property leased.

You must keep a record of all agreements, such as lease or rental agreements for a space used for federal programs as well as occupancy records to support the charges made to the federal program. You must have supporting documentation for the charges and the methods to be used to derive the cost charged to the federal program on a program by program basis.

For more information on leasing real property, see ETA's grant and financial management TAG Chapter 6 procurement and contract administration. Next, knowledge check, true or false, a capital lease is the most common form of lease and is used by most organizations to rent space? We'll open up the poll.

MS. JAMISON: It looks like we have some false and some true.

MS. MELO: OK. Lorraine, I will turn it over to you for the answer and to continue with property management.

MS. JAMISON: OK. Thank you, Ramona. The answer to capital lease is false. The most common form of lease is an operating lease where an organization leases space for a period of time for a set monthly rate. A capital lease is a fixed term usually non-cancellable lease that is similar to a loan agreement for a purchase of a capital asset on installation.

Lessor's services are limited to financing the asset, the lessee pays all other costs, including insurance, maintenance and taxes. Capital leases are regarded as essentially equivalent to a sale of the lessor and a purchase by the lessee even though the title remains with the lessor. Now we will move into property management.

In property management in this section of the module, we will discuss maintenance or repair costs versus capital improvements, insurance coverage, idle facilities and idle capacity costs, interest costs, donated property, documentation issues and some common mistakes. Maintenance and repair costs, we define maintenance and repair costs as allowable maintenance and repair and we defined it at 2 CFR 200.452.

Such costs include utilities, insurance, security, necessary maintenance, janitorial services, repair or upkeep are all considered allowable as opposed to capital improvements, these costs neither add to the permanent value of the property nor significantly prolong its intended life, but keep it in an efficient operational condition.

No prior approval is necessary. Maintenance and repair costs that are allowable. Maintenance and repair costs are only allowable if they are covered in rental agreements or other agreements, such as leases. Normal maintenance and repair costs are allocable to programs based on a cost allocation plan. Insurance coverage, insurance costs is one type of expense covered under maintenance and repair costs.

Reasonable insurance costs are considered allowable. Capital improvements, on the other hand, the costs incurred for improvements to add to the permanent value or the useful life of the facilities are considered to be capital expenditures rather than maintenance and repair. Capital expenditures are recovered through depreciation charges, however, if such improvements receive prior written approval by DOL, such costs may be direct charge to the DOL Grant.

Rearrangements/reconversion costs, in accordance with Uniform Guidance 2 CFR 200.462(a), reasonable rearrangement and alterations that are ordinarily and normal are allowable as indirect costs to ETA Grant. Special arrangements and alterations specifically for a particular award are only allowable as a direct cost with prior approval from DOL or the pass-through entity.

The need for such improvements could be driven by factors such as changes in federal and state laws, ADA requirements, electrical needs for certain programs or projects succeeding the existing power structure. The Uniform Guidance also addresses the cost of restoration or rehabilitation of the non-federal entities' facilities to the same condition as immediately prior to occupancy of the ETA program less any normal wear and tear are also allowable costs.

Next we will talk about idle facilities and idle capacity. Idle capacity means the unused capacity of partially used facilities. It is the difference between that which a facility could achieve under 100 percent operating time on a one-shift basis less operating interruptions resulting from time lost for repair, setup, unsatisfactory materials and other normal delays and to the extent to which the facility was actually used to meet demands during the accounting period.

Idle facility means completely unused facilities that are in excess to the non-federal entities' current needs. Cost of idle facilities. The cost of idle facilities or idle capacity means costs such as maintenance, repair, housing, rent and other related costs. For example, insurance, interest and depreciation.

Once again, idle facilities are completely unused facilities that are in excess to the non-federal entities' current need. The cost of idle facilities are unallowable, except to the extent that pursuant to the Uniform Guidance 2 CFR 200.446(b), the cost of idle facilities are unallowable, except to the extent that they are necessary to meet workload requirements, which may fluctuate, and they are allocated appropriated to all benefitting programs or although not necessarily to meet fluctuation and workload, they are necessary when acquired and are not idle because of changes in program requirements, efforts to achieve more economic operations, reorganization, termination or other causes which could not have been reasonably foreseen.

Under the above exceptions, cost of idle facilities are normally allowable for a reasonable period of time ordinarily, not to exceed one year, depending on the initiative, taken to use, lease or dispose of such facilities. Now let's take a look at idle capacity. Idle capacity is space once needed but no longer needed whereas idle capacity costs are a normal cost of doing business and a factor in the normal fluctuation of usage or indirect cost rates.

These costs are allowable with certain provisions, the idle capacity is reasonably anticipated to be necessary to carry out the purpose of the federal award or the decision to acquire the space was reasonable. The idle capacity is related to reduction or elimination of other federal awards, subletting, renting or sale in accordance with sound business, economic or security practices.

In other words, the space was once needed and is no longer needed and the non-federal entity had a reasonable termination clause in the lease agreement and attempts to get rid of the space are well documented. Widespread idle capacity throughout the facility may cause the facility to be determined idle.

Interest expense, costs incurred for interest on borrowed capital, temporary use of endowment funds or the use of a non-federal entities' own funds, however represented, are unallowable. While the Uniform Guidance provides some very limited exceptions to interest, expense being allowable, ETA does not authorize the use of WIOA or other grant funds to be used to acquire or construct real property without prior written approval by the secretary.

Donated real property, non-federal entities may charge the federal award depreciation costs for the use of donated real property to meet a match requirement or as a charge to the federal award, but it cannot be used for both. This is documented in the Uniform Guidance at 2 CFR 200.436(d). In order to charge depreciation to the award or to use donated property to meet a federal match requirement, the property must be valuated (sic)( by an independent appraiser and certified by a DOL official.

The value of the property must be based upon the fair market value at the time of the donation minus the cost of the land. The computed value is recovered from the federal program over the useful life of the property by the benefitting users and it must not be used to meet a required federal match while at the same time used to charge depreciation costs to the federal program.

This can also be found at 2 CFR 200.306(i)(1) and 2 CFR 200.436(c)(1). Donated space, in addition to donated property in which a title is transferred, real property space can also be donated for a period of time while title never transfers to the non-federal entity. In such a case, the value of donated space must not exceed the fair rental value of comparable space as established by an independent appraiser of comparable space and facilities in a privately owned building in the same locality.

This also can be found in the Uniform Guidance at 2 CFR 200.306(i)(3). Also, in accordance with TEGL 17-16, which was issued January 18, 2017, the valuation of donated space must be assessed, again, after each subsequent year. Now we have come to the knowledge check. True or false, the cost of idle facilities is an unallowable cost to the federal award, except under limited circumstances?

Some answers are coming in. The majority is saying true and the answer is true. Idle facility costs are unallowable unless they are necessary to meet fluctuation in workload or although not necessary to meet fluctuation in workload, they were necessary when acquired. Idle capacity costs are the normal costs of doing business and are allowable if the capacity is reasonable, anticipated to be necessary to carry out the purpose of the federal award or the capacity was originally reasonable.

You can find a full description of these issues at – in the Uniform Guidance at 2 CFR 200.466. Next we're going to talk about some common mistakes. These are only a few of the most common mistakes related to facilities. The first is lease agreements is missing a termination clause or includes an unreasonable termination clause.

Your organization lease should contain a reasonable termination clause, especially if you are a small nonprofit with limited resources. Recipients should ensure that lease rental agreements contain termination clauses. Two, inadequate documentation to support ETA's fair share of facilities cost. Each facility cost should be documented by such as a cost allocation plan, square footage floor plan, items such as that.

Three, depreciation charge on fully depreciated building. This is another common mistake we have found while out on a site visit where a depreciation charge on assets that have outlived their useful life under Uniform Guidance 2 CFR 200.436(d)(4), no depreciation may be allowed on any asset that has outlived their useful life.

Four, accelerated depreciation charge without justification. ETA has also had issues with non-federal entities regarding accelerated depreciation charges through both direct and indirect charges. Recipients must comply with the requirements regarding depreciation over the useful life of facilities. The useful life of a grade A building is approximately 50 years and if this useful life is unknown, appraisals must be obtained to determine the useful life.

Mortgage payment that are charged to the grant, unless the mortgage payment is tied to the actual useful life of the facility any charges that are greater than those attributable to the facility's useful life are unallowable. If you are uncertain about the useful life of the facility or the cost attributable to the land, you must document how this is resolved.

We recommend an appraisal, but this is not necessarily a full-blown appraisal. Non-federal entities must limit the cost recovered from ETA programs to the useful life of the facility plus allowable interest cost. The cost of land must be excluded from the calculation. In all ownership cases, the cost of land must be established and excluded from the depreciation schedule.

Capital improvement projects have not received proper prior written approval. Some of these capital improvement projects would have been approved if prior approval was sough. Non-federal entities must follow the requirements for written prior approvals. And lastly, interagency transfers for capital projects reflected as expenditures in the book of account, once again, capital expenditures must have prior approval and must only charge depreciation.

As a reminder, in the Core Monitoring Guide related to property management are questions that may be reviewed as part of monitoring the oversight of your grant during a site visit to your organization. Each indicator, as you can see, provides questions and examples are listed on the slide for each objective. Note there are multiple questions for considerations per indicator and please see the Core Monitoring Guide for more information on real property and leases.

Now we have come to the SMART checklist. This is the equipment and tangible property checklist from the grants management financial TAG. This is a valuable tool and key areas of grant recipients should consider in managing property. You should develop and update policies to ensure the distinguished allowable costs of operating a capital lease, which may require prior approval.

You should make sure all policies and procedures are updated to the new requirements for use of idle or vacant space, develop policies and procedures to determine whether or not rental costs for the real property and equipment are reasonable. Where it is applicable, develop and update procedures to incorporate the requirements for disposition of any facility or property containing federal equity.

And lastly, communicate and train staff on all changes and new requirements governing property management found in the Uniform Guidance. Lastly, we have come to the module overview. This is the end of our module today and there are some key concepts covered in training. Written prior approvals must be obtained for capital improvement projects that will be charged directly to ETA awards, may be charged as depreciation if DOL Grants benefit from it.

ETA does not allow for land purchases, the amortization of mortgages or the cost or construction of facilities to be charged to its grant. The secretary has the authority to prove it's allowed by statute. The recovery of the cost of facility owned by a non-federal entity is limited to depreciation. This includes the cost of capital lease arrangement, sale, lease-back arrangement and less-than-arms-length transaction.

Space costs charged to grant must be relative to occupancy. There is no free space. DOL programs must only pay their fair share of the rent space cost based on occupancy and/or usage in compliance with federal requirements. ADA requirements must be followed. Here is a list of various sections in the Uniform Guidance that is applicable to this module as well as WIOA regulations, the Core Monitoring Guide and the TAG.

Next, these are some additional web resources that are listed here you can use in your organization. And lastly, remember the grant management toolbox. These tools are available to help you in management of your grant. You should print it out and use it as managing your grant. We're going to now take a few seconds and review any questions that have come in.

OK. A question came in, "Can a non-federal entity charge depreciation and operating costs when calculating maintenance in lieu of rent?" A grantee-owned – a non-federal entity building must only charge depreciation. Unless the building is fully depreciation, we do not pay depreciation on an outlived asset.

And regard to maintenance costs, maintenance costs are just general maintenance and repair costs and should be charged as used. We're just seeing if there are any more questions.

We had a question, "Please define material increase." If it changed the cost of the item or the building, then it is materially increased – increased the life of the building, I think that's what you are asking me.

We're now checking to see if more questions are coming in. The current real property TEGL is 3-19. It was issued on July 15th of this year and it will discuss everything that we've talked about today in this presentation, but we're still looking at questions to get more understanding of one. So give me one second.

While we're waiting on more questions, I must tell you that the real property TEGL is the first guidance on real property that has been published and the last one was published 15 years ago.

(END)