

## **RENTAL/LEASE COSTS (buildings or equipment) - SUMMARY**

- State, local, and Indian tribal governments: OMB Cost Circular A-87, Attachment B, paragraphs 37 and 11; EDGAR, section 80.24(d)(2)
- Institutions of higher education: OMB Cost Circular A-21, Section J, paragraphs 43 and 14; EDGAR, section 74.23(h)(2) and (3)
- Non-profit organizations: OMB Cost Circular A-122, Attachment B, paragraphs 43 and 11; EDGAR, section 74.23(h)(2) and (3)

**General** (A-87, Attachment B, paragraph 37; A-21, Section J, paragraph 43; A-122, Attachment B, paragraph 43; EDGAR, section 80.24(d)(2) and section 74.23(h)(2) and (3))

- If the space or equipment is owned by a third party, the rental or lease cost generally is allowable if reasonable in amount (see “Basic Guidelines” or “Basic Considerations” in the applicable OMB Cost Circular), in light of the fair rental value of comparable property and other factors indicated in the cost circulars.
- If the space or equipment is being rented or leased under a “**less than arms length transaction**” (for example, the Early Reading First grantee or close partner owns the space or equipment), the cost is allowable only up to the amount that would be allowed if title had vested in the grantee. That amount would include expenses such as depreciation or use allowance, maintenance, taxes, and insurance (see below).
- For a description of “less than arms length,” see the applicable OMB Cost Circular and the Informal Early Reading First Glossary.

**Depreciation and use allowances** (A-87, Attachment B, paragraph 11; A-21, Section J, paragraph 14; A-122, Attachment B, paragraph 11)

- Are based on the acquisition cost of the assets involved. When actual cost records are not available, a reasonable estimate of the original acquisition cost is allowed.
- Depreciation or use allowances exclude –
  - cost of land;
  - any Federally provided portion of cost of buildings and equipment
  - any matching contribution
- Depreciation method: considers acquisition cost and useful life; generally straight line method of depreciation (talk with your fiscal experts).
- Use allowance is limited to:
  - Buildings/improvements – annual rate is **not to exceed 2%** of acquisition cost.
  - Equipment – annual rate **not to exceed 6 2/3%** of acquisition cost.