

**ATTACHMENT M**  
**FEDERAL SELECTED DISALLOWED EXPENSES**

**Advertising:**

Advertising other than for recruitment of personnel, volunteers, or for specialized materials are not allowable.

**Bad Debts:**

Bad debts expense is not an allowable expense.

**Capital Expenditures:**

The cost of any capital purchase of \$500 or more is not allowed as an expense except through yearly depreciation.

**Client Wages:**

Wages paid by the provider to recipients of purchased services should be offset by program income and are not allowable as expenses.

**Contingencies or Reserve Funds:**

Funds reserved for specific or unforeseen future expenses are not allowable as expenses for purchased services.

**Contributions:**

Contributions or donations made by providers to others are not allowable expenses for purchased services or grants.

**Depreciation on Assets Purchased with Federal or State funds:**

Depreciation on buildings or equipment furnished by the federal government, purchased through federal grants, or by state monies is not an allowable expense.

**Entertainment Costs:**

Cost of entertainment, meals, diversions and ceremonials are not allowable expenses.

**Expenses Offset or Other Federal Revenue:**

Expenses allocable to other federal programs are not allowable expenses.

**Fines and Penalties:**

Fines and penalties are not allowable as expenses for purchased services.

**Fund Raising Costs:**

Cost incurred for fund raising should be offset by fund raising revenue and are not allowable as expenses.

**In-Kind Expenses:**

In-Kind expenses recorded to recognize the value of donated space, goods, and services are not allowable as service or grant expenses, but may qualify as required match.

**Legal Expenses:**

Legal expenses not directly benefiting purchased services are not allowable expenses.

**Lobbying Expenses:**

Costs incurred in attempting to influence legislation including lobbyists and related expenses are not allowable as expenses.

**Interest Expenses:**

Interest expense is not an allowable expense.

**Contract Supplies:**

Supplies used in the production of goods to be sold should be offset by program income and are not allowable as expenses.

**Moving Costs:**

These costs are not allowed.

**Taxes:**

Taxes for which the provider could be exempted are not allowable as expenses, and taxes and related penalties from prior years are not allowable as expenses.

**Lease with Option to Purchase or Less-Than Arms Length:**

Any items such as building, vans or other equipment leased with the provision to purchase at the expiration of a specific period of time are not allowable. 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. Such leases include, but are not limited to, those between (1) divisions of an organizations; (2) organizations under common control through common officers, directors or members; and (3) an organization and a director, trustee, officer, or key employee of the organization or his immediate family either directly or through corporations, trusts or similar arrangements in which they hold a controlling interest.

**Losses on Other Grants or Contracts:**

Any excess costs over income on any grant or contracts are not allowable as a cost of any other grant or contract.

**Raw Materials:**

The cost of raw materials to be used in products produced for contract work or the cost of any item purchased for resale ( such as bending machine supplies) are not allowable.

**Stipends:**

Stipends paid to employees attending classes are unallowable.

**THE ABOVE IS NOT INTENDED TO BE A COMPLETE LIST OF EVERY EXPENSE WHICH WOULD NOT BE ALLOWED AS A SERVICE COST OR GRANT EXPENDITURE. FEDERAL REGULATIONS REQUIRE THAT EXPENSES MUST BE REASONABLE AND NECESSARY TO ACCOMPLISH THE PURPOSE OF THE GRANT OR CONTRACT. THE ALLOWABILITY OF A SPECIFIC EXPENSE WILL BE DETERMINED ON THAT BASIS AND BY COMPARISON TO THE ABOVE LIST AS WELL AS SPECIFIC GRANT OR CONTRACT PURPOSE.**

The following is a list of items which are sometimes improperly recorded as expenses and are not allowable as service costs or grant expenditures.

**Medicare Settlements:**

When an audit by Medicare results in a repayment of funds, the repayment should be treated as adjustments to prior year's income, not as current expenses.

**Reimbursements:**

When audits by Family and Social Service Administration results in repayment, the repayments should be treated as adjustment to prior year's income, not as current expenses.

**Expenses Which Have Been Offset by Credits:**

In order to be reimbursable, expenses must be net of all applicable credits. Occasionally money received by an agency to reduce an expense is improperly recorded as income instead. Example of items which reduce expense amounts are:

- Trade, cash, or prompt payment discounts
- Refunds or credits for overcharges or duplicate payments.
- Reimbursement for expenses incurred on behalf of another entity.

**Improper Costs:**

Any cost which should be the responsibility of an individual and is paid by the grantee is not allowable. In some situations, fraud may be involved and in those cases, the controller for Family and Social Services Administration should be contacted. An example would be an employee using funds of a not-for-profit grantee to pay for personal expenses such as his or her own utility bills, etc.