U.S. DEPARTMENT OF EDUCATION | REHABILITATION SERVICES ADMINISTRATION

Real Property Cost Classification

for the State Vocational Rehabilitation Services Program

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SF-429 Follow-up

- Questions and Answers

Questions Received from VR Agencies

1. Is RSA extending the extended due date?

Answer: No. Over two years ago, in November 2023, RSA announced the implementation of the SF-429 forms. The forms and instructions were available at that time. VR is the last program at ED to implement the requirement and requests for additional time were denied.

Questions Received from VR Agencies

2. Has there been consideration of only moving in a forward direction with making this a requirement as of 2026 instead?

Answer: Agencies have used a substantial amount of VR funds for improvements to real property in previous years. Disregarding those funds and the Federal interest would not be in the VR program's interest. The intent is to ensure the benefits are maintained for the VR program.

Questions Received from VR Agencies

3. Can you confirm how far back we must go?

<u>Answer</u>: 20 years – back to FFY 2005 since this first submission is for FFY 2025.

Questions Received from VR Agencies

4. Does this include money spent from ARRA funds in 2009-2011?

Answer: Yes, ARRA funds are considered Federal funds and Federal interest resulting from their expenditure must be reported.

Questions Received from VR Agencies

5. What if we no longer have the information SF-429 information available?

Answer: The VR agency should make a good faith effort to complete the information as accurately as possible. This may involve obtaining an historical appraisal or obtaining related documentation from other sources. If the State is aware that a Federal interest exists in a real property, that property must be reported on an SF-429 form.

Questions Received from VR Agencies

6. If funds that an agency pays to another entity are used for renovations, do they have to report them on a SF-429?

Answer: It is unclear what authority is being used to pay another entity for renovations. Please contact your Financial Management Specialist.

Questions Received from VR Agencies

7. How can we get an appraisal on a building retroactively?

Answer: Possibly hire a certified appraiser experienced in historical valuations to determine a property's market value on a specific, past date. The appraiser will use historical multiple listing service (MLS) data, tax records, and market trends from that time.

Note: The Uniform Guidance has specific criteria for appraisals (2 C.F.R. §§ 200.311 and 200.315)

Questions Received from VR Agencies

8. How can we get an appraisal on a building where we only rented part of the building? How do we determine the value of the specific part we rented?

Answer: In such circumstances, VR agencies are encouraged to talk with qualified appraisers to determine what is possible and may need to apply a cost allocation methodology for space occupied by the VR program.

9. Can RSA provide an example of language for inclusion in leases, alerting landlords to potential Federal Interest?

Answer: Any lease language must be specific to both State and Federal requirements. RSA cannot provide suggested language that would be universally applicable to meet all State requirements. VR agencies should work with their program attorneys to draft language sufficient to meet all requirements for leasing agreements.

Questions Received from VR Agencies

10. Do leased buildings that do NOT involve capital improvements require an SF-429 form?

Answer: No. Reporting is only required when VR funds (Federal, program income, or non-Federal match) are used to acquire, construct, or improve real property.

Questions Received from VR Agencies

11. What happens if we made leasehold improvements, but the lease ended early?

<u>Answer</u>: Leasehold improvements paid with Federal award funds create a "Federal Interest" in the property, requiring compliance with 2 C.F.R. Part 200 regulations, including potential liens, reporting, and reimbursement obligations if the lease terminates early.

Questions Received from VR Agencies

12. What if rent costs are part of an agency's <u>indirect</u> costs in a cost allocation plan approved by cognizant Federal agency?

<u>Answer</u>: Rental costs may be included as part of an indirect cost rate; however, the rent would not include capital improvements. Reminder, rent costs in isolation do not establish a Federal interest.

Questions Received from VR Agencies

13. Are building leases considered right-to-use assets or right-to-use operating lease assets that do not require prior approval?

Answer: Generally, a standard building lease neither requires prior approval nor creates a Federal interest. Prior approval requirements are related to specific grant award activities identified in 2 C.F.R. § 200.407.

Questions Received from VR Agencies

14. Are SF-429s required for disposition of leased properties with a Federal interest when a lease agreement ends?

Answer: An SF-429 form is not required for lease agreements. However, if capital improvements are made to a leased building, reporting of the Federal interest is required using an SF-429 form. Prior approval is also required. In the event the leased space with Federal interest is no longer used for program purposes, disposition would be required.

Purpose

The purpose of this presentation is to provide a basic framework for decision-making related to real property costs assigned to the State Vocational Rehabilitation (VR) Services program. This presentation and the associated Classification Table do not include all potential Federal regulatory requirements or considerations for assignment of real property costs to the VR program.

If you have questions about a specific real property cost, please contact the RSA Financial Management Specialist assigned to your agency.

Agenda

What we'll cover today …

- ❖ Why Property Classification Matters
- ❖ Responsibilities of VR agencies
- ❖ VR Property Classification Table
    - ❖ Rearrangement & Reconversion
    - ❖ Maintenance & Repair Costs
    - ❖ Minor Remodeling
    - ❖ Capital Improvements
    - ❖ Establishment & Construction Authority
- ❖ Community Rehabilitation Programs (CRPs)
- ❖ CRPs & Establishment Authority
- ❖ Establishment Authority Checklist
- ❖ Worked Examples — Security, Plumbing, HVAC & Accessibility
- ❖ Administrative Costs, Structural Barriers & Property Improvements
- ❖ Gray Areas & Common Issues
- ❖ Quick Classification Decision Guide
- ❖ VR Property Reporting Period — Decision Flowchart
- ❖ Key Takeaways
- ❖ Questions and Answers

Why It Matters

Why does property classification matter?

Compliance

The Rehabilitation Act and Federal cost principles under 2 C.F.R. Part 200 and 34 C.F.R. Part 77 determine what costs are allowable, allocable, reasonable, and necessary. Misclassification can result in disallowed costs and repayment to the Federal government.

Prior Approval

Some property costs require prior written approval before work begins. Proceeding without approval — even if the cost is otherwise allowable — is a compliance violation and a common audit finding.

Accounting

Classification drives accounting treatment. For example, capital expenditures are unallowable as indirect costs (2 C.F.R. § 200.439(b)(7)).

Getting this wrong could result in financial misstatements.

Federal Interest

Capital improvements made with Federal funds create a Federal interest in the property. This affects how you can use, transfer, or dispose of that property — even after the grant ends.

Responsibility of VR Agencies to Assure that Expenditures are Allowable

It is the responsibility of the VR agency to determine the authority to be used under the Rehabilitation Act of 1973 (the Act) prior to incurring any costs for maintenance, repairs, construction, minor remodeling, renovation, rearrangement, establishment, or alterations of buildings. The requirements differ for each authority and a full understanding of the facts of the proposed expenditures is essential to making this determination.

VR Property Classification Table

Real Property Expenditures under the State Vocational Rehabilitation (VR) Services

This document is for technical assistance purposes only. It does not address every Federal requirement related to the cost categories below. It is the recipient's responsibility to ensure that any funds expended for such purposes meet all State and Federal requirements.

Subject	Rearrangement and Reconversion Costs	Maintenance and Repair Costs (M&R)	Minor Remodeling	Capital Improvements (Construction and Establishment Authority)
Definition	• Costs incurred for ordinary and normal rearrangement and alteration of facilities are *allowable as indirect costs.* • Costs for Special arrangements and alterations incurred specifically for a Federal award are allowable as a direct cost with the prior approval of the Federal agency. • Costs incurred in the restoration or rehabilitation of the non-Federal entity's facilities to approximately the same condition existing immediately prior to commencement of Federal awards, less costs related to normal wear and tear, are allowable.	• Costs incurred for … security, necessary maintenance … repair, or upkeep of buildings and equipment (including Federal property unless otherwise provided for) which neither add to the permanent value of the property nor appreciably prolong its intended life but keep it an efficient operating condition.	• Minor alterations in a previously completed facilities project. The term also includes the extension of utility lines, such as water and electricity, from points beyond the confines of the previously completed facility. • Does not include construction or renovation, structural alterations to buildings, facilities maintenance, repairs, or the purchase of equipment.	• Expenditures to acquire capital assets or expenditures to make additions, improvements, modifications, replacements, rearrangements, reinstallations, renovations, or alterations to capital assets that materially increase their value or useful life. • Capital assets are tangible or intangible assets used in operation having a useful life of more than one year which are capitalized in accordance with Generally Accepted Accounting Principles (GAAP). • *Rehabilitation Act only allows for capital expenditures under the establishment and construction authorities.*

VR Property Classification Table (continued)

Real Property Expenditures under the State Vocational Rehabilitation (VR) Services

This document is for technical assistance purposes only. It does not address every Federal requirement related to the cost categories below. It is the recipient's responsibility to ensure that any funds expended for such purposes meet all State and Federal requirements.

Subject	Rearrangement and Reconversion Costs	Maintenance and Repair Costs (M&R)	Minor Remodeling	Capital Improvements (Construction and Establishment Authority)
Considerations	• Does not include rearrangement or reconversion costs that materially increase the capital asset's value or useful life. • Rearrangement usually moves existing items to a new layout within confined space, without …	• Ordinary repairs and maintenance are not capital expenditures.	• Limited to non-structural modifications that adapt existing space for grant-related use without adding capacity, extending useful life or increasing value materially. Can include extension of utilities from within the building to the space occupied by the recipient.	• Includes land and buildings (facilities), whether acquired by purchase, construction, manufacture, lease-purchase, exchange, or through capital leases.

Rearrangement & Reconversion · 2 C.F.R. § 200.462

a) Costs incurred for ordinary and normal rearrangement and alteration of facilities are allowable as indirect costs. Special arrangements and alterations costs incurred specifically for a Federal award are allowable as a direct cost with the prior approval of the Federal awarding agency or pass-through entity.

b) Costs incurred in the restoration or rehabilitation of the non-Federal entity's facilities to approximately the same condition existing immediately prior to commencement of the Federal award, less costs related to normal wear and tear, are allowable.

Rearrangement examples

- Reconfiguring modular office furniture for new program team
- Temporarily converting a conference room to an assessment lab
- Relocating vocational evaluation equipment between buildings
- Running temporary surface-mount network cabling
- Non-structural one-time floor redesign for expanded services (prior approval required)

Reconversion examples

- Returning training room to general office at grant close-out
- Removing temporary AV mounts and restoring walls
- Removing surface-mount cabling installed during the grant period

Note: Costs related to normal wear and tear are NOT allowable under (b). Only restoration to pre-award condition qualifies.

Prior approval & accounting

- Ordinary rearrangements are allowable as INDIRECT costs (expensed as incurred) - no prior written approval needed.
- Special rearrangements specifically for a Federal award are allowable as DIRECT costs with prior written approval from RSA.

The moment you build a permanent wall rather than move a partition, you have crossed out of 2 C.F.R. § 200.462 and into minor remodeling or capital improvement.

Maintenance & Repair Costs · 2 C.F.R. § 200.452

Costs incurred for utilities, insurance, security, necessary maintenance, janitorial services, repair, or upkeep of buildings and equipment which neither add to the permanent value of the property nor appreciably prolong its intended life but keep it in an efficient operating condition. These costs are normally charged as indirect costs. Maintenance and repair costs are allowable only to the extent not paid through rental or other agreements.

Maintenance ***(preventive / scheduled)***
Routine, recurring work that prevents deterioration and keeps assets in efficient operating condition. Examples: annual HVAC servicing, janitorial contracts, pest control, scheduled inspections, filter replacements.

Repair ***(reactive / restorative)***
Work that restores a broken or deteriorated asset to its prior operating condition using like-kind materials or parts. Examples: fixing a leaking pipe, replacing a broken windowpane, patching a failed roof section.

Accounting

Expense in the period incurred. Do not capitalize. Must be consistent with how similar costs are treated.

Rental Limitation

Allowable ONLY to the extent NOT paid through rental or other agreements (2 C.F.R. § 200.452). If your lease or rental agreement already covers maintenance, utilities, or repairs, you cannot also charge those costs separately to the Federal award. Review your lease terms carefully.

Prior approval

GENERALLY, NO — routine maintenance does not require prior approval. Costs must be allowable, allocable, reasonable, and necessary. Unusually large one-time repair costs may warrant agency consultation.

End-of-life trap

A large one-time repair at the end of an asset's useful life may extend the life of the asset — making it a capital improvement, not maintenance/repair. Document your professional judgment and remaining useful life determination.

Key rule: Does the work restore prior condition without extending useful life? If yes → maintenance/repair. If no → re-evaluate as capital improvement.

Minor Remodeling · 34 C.F.R. § 77.1

Minor remodeling means minor alterations in a previously completed facilities project. The term also includes the extension of utility lines, such as water and electricity, from points beyond the confines of the space in which the minor remodeling is undertaken but within the confines of the previously completed facility. The term may also include related designs and drawings for these projects. The term does not include construction or renovation, structural alterations to buildings, facilities maintenance, or repairs.

This category is unique to the Department of Education via EDGAR.

Key requirements

- Limited to non-structural modifications that adapt existing space for grant-related use without adding capacity, extending useful life or increasing value materially
- Must be required for and tied directly to the grant program
- Must be an already completed building — not new construction
- No Federal dollar threshold

Examples

- Adding a ramp to an existing doorway
- Removing a non-load-bearing wall for a new assessment room
- Installing built-in cabinetry affixed to building
- Adding dedicated electrical circuits for assistive technology
- Painting or drywall repair as a part of the minor remodeling to fix any affected walls.

Caution -- Accounting treatment: Generally EXPENSE in period incurred if below capitalization threshold. If cost exceeds the threshold AND extends useful life, reclassify as a capital improvement.

Capital Improvements · 2 C.F.R. § 200.439

A cost qualifies as a capital improvement if it meets ANY ONE of the following:

1. Extends useful life beyond original estimate
2. Adds new capability or capacity not previously present
3. Adapts property to a significantly different use

Accounting

- Capital expenditures are unallowable as indirect costs (2 C.F.R. § 200.439(b)(7)).
- Non-Federal entities must use their own documented procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law (2 C.F.R. § 200.317).

Prior approval

YES — required per 2 C.F.R. § 200.439(b). Must seek and receive prior written approval to charge directly to a Federal award.

Federal interest

Federal government retains proportional interest in improved property (2 C.F.R. § 200.311). Disposition rules apply when property no longer needed for the originally authorized purpose – agency may need to compensate the Federal share.

Depreciation rule

Cannot double-dip. If the improvement was directly charged to the award, you cannot also charge depreciation on that same improvement to a Federal award going forward.

Examples: Installing a new elevator · Full HVAC replacement at end-of-life · Complete roof replacement · Upgrading windows to increase efficiency

Establishment & Construction Authority · 34 C.F.R. Part 361

What is it?

Under the Rehabilitation Act and 34 C.F.R. Part 361, State VR agencies may use VR formula grant funds for the "establishment, development, or improvement" of a VR facility — including construction and major renovation — when specifically authorized. This is a separate authority from the Uniform Guidance Federal Cost Principles in 2 C.F.R. Part 200 and carries its own requirements.

The Rehabilitation Act primarily allows for capital expenditures under the establishment and construction authorities. However, constructing a new building may not be done under the establishment authority.

When is it allowed?

The construction or major renovation must be for a facility used to provide VR services that meets the definition of a community rehabilitation program (CRP) at 34 C.F.R. § 361.5(c)(7). The work must be included in the State Plan and approved by RSA. It is subject to the Federal interest and property standard requirements under 2 C.F.R. § 200.311.

How does it differ from capital improvements?

Capital improvements under 2 C.F.R. § 200.439 cover betterments to existing property charged as direct costs. Establishment and Construction authorities cover broader construction and major projects — including building new facilities — addressed in the VR program statute and regulations, not just the Federal cost principles.

Federal interest

- Included in approved State Plan
- Prior RSA approval required
- Federal interest retained (2 C.F.R. § 200.311)
- Disposition rules apply when property no longer needed for its originally authorized purpose
- Cannot charge both directly and through depreciation.

Community Rehabilitation Programs (CRPs) · 34 C.F.R. § 361.5(c)(7)

What is a Community Rehabilitation Program (CRP)?

Regulatory definition — 34 C.F.R. § 361.5(c)(7) | Note: The definition of a CRP is broad and includes agency-operated training centers.

A CRP is a program that provides directly or facilitates the provision of vocational rehabilitation services to individuals with disabilities, and that provides, singly or in combination, one or more of the following services: medical, psychiatric, psychological, social, and vocational services; supported employment services; extended employment services; psychosocial rehabilitation services; and other services to persons with disabilities to enable them to maximize their opportunities for competitive integrated employment. As noted, CRPs are defined as programs, not as agencies. Therefore, for public or non-profit organizations that provide a variety of services to different populations, the definition of a CRP may apply only to the portion of the building in which VR services are provided.

Public or nonprofit only

A CRP may be a public or nonprofit agency or organization. Establishment and Construction authorities under 34 C.F.R. § 361.49(a)(1) is expressly limited to public or nonprofit CRPs. Your own agency-operated training centers also qualify as CRPs under this definition.

Broad definition — includes your training centers

The CRP definition is intentionally broad. It includes external CRPs your agency partners with AND facilities your agency itself operates to deliver VR services.

Key regulatory cross-references

- 34 C.F.R. § 361.5(c)(7) — CRP definition
- 34 C.F.R. § 361.5(c)(10) — Definition of construction of a facility for a public or nonprofit community rehabilitation program
- 34 C.F.R. § 361.5(c)(16) — Definition of establishment, development, or improvement of a CRP
- 34 C.F.R. § 361.5(c)(17) — Definition of establishment of a facility for a public or nonprofit CRP
- 34 C.F.R. § 361.49(a)(1) — Establishment authority

CRPs & Establishment Authority · 34 C.F.R. § 361.49(a)(1)

How do CRPs connect to establishment & construction authority?

A VR agency may expend VR formula grant funds to establish, develop, or improve a public or nonprofit CRP to the extent that activities are designed to provide VR services to State VR agency applicants and eligible individuals AND promote integration and competitive employment in the community for groups of individuals with disabilities (34 C.F.R. § 361.49(a)(1)).

Allowability and Proportionality

- Costs are allowable only to the extent VR applicants and eligible individuals benefit. If the CRP also serves individuals who are NOT VR consumers, VR funds may only cover the proportional share — e.g., the percentage of space or staff time dedicated to VR consumers.
- Costs must be allocable to the Federal award (2 C.F.R. § 200.405) and subject to internal controls (2 C.F.R. § 200.303).

Construction-specific limits

When construction is involved, additional limits apply:

- Federal share may not exceed 50% of total project cost (34 C.F.R. § 361.60(a)(2))
- Federal share may not exceed 10% of the State's VR allotment in a FFY (34 C.F.R. § 361.61)
- Davis-Bacon Act wage requirements apply
- Build America Buy America Act provisions must be addressed
- Non-Federal match requirements apply (34 C.F.R. § 361.60)

Proportionality rule: VR funds may only cover the share of construction or improvement costs commensurate with the benefit VR applicants and consumers receive. Document your cost allocation methodology before obligating funds.

Establishment Authority Planning Checklist

Pre-planning phase

- ❑ Do you have current written policies on establishing, developing, or improving a CRP, consistent with 34 C.F.R. §§ 361.5(c)(7), (10) (16), (17) and 34 C.F.R. § 361.49(a)(1)?
- ❑ Were policies developed with input from the Client Assistance Program and State Rehabilitation Council, with public comment opportunity (34 C.F.R. § 361.20)?
- ❑ Does your triennial CSNA indicate a need for establishment projects? Have you identified specific services or underserved populations to be addressed (34 C.F.R. § 361.29(a))?
- ❑ Have you conducted a public meeting describing plans to establish, develop, or improve a CRP, and included results in your State Plan submission?

Planning phase — cost questions

- ❑ Do the proposed activities fit within the definition of establishment or construction of a CRP facility at 34 C.F.R. § 361.5(c)(10) or (17)?
- ❑ Are activities designed to provide VR services to State VR agency applicants and eligible individuals?
- ❑ Are costs allowable under 2 C.F.R. § 200.403 and allocable under 2 C.F.R. § 200.405?
- ❑ What proportional cost methodology will you use — e.g., space used by VR participants vs. others?
- ❑ Have you sought and received prior written approval for applicable establishment or construction costs (2 C.F.R. § 200.407)?

Building-specific questions

- ❑ Is the work subject to the Davis-Bacon Act? Have Build America Buy America Act provisions been addressed?
- ❑ Does the Federal share stay within 50% of total project cost (34 C.F.R. § 361.60(a)(2)) AND within 10% of the State's VR allotment for a given FFY (34 C.F.R. § 361.61)?
- ❑ Does your agency address non-Federal match requirements (34 C.F.R. 361.60), including contributions from private entities earmarked for the CRP (34 C.F.R. § 361.60(b)(3)(i))?
- ❑ How will your agency safeguard the long-term Federal interest in the property to ensure only VR applicants or recipients continue to benefit?
- ❑ Has the non-Federal portion of the project amount been subtracted from non-Federal share when determining Maintenance of Effort compliance (34 C.F.R. § 361.62(b))?

Example 1 Security Costs · 2 C.F.R. § 200.457
How the Four Categories Apply

Regulatory description — 2 C.F.R. § 200.457 (Plant and Security Costs)

"Necessary and reasonable expenses incurred for protection and security of facilities, personnel, and work products are allowable. Such costs include, but are not limited to: wages and uniforms of personnel engaged in security activities; equipment; barriers; protective (non-military) gear, devices, and equipment; contractual security services; and consultants. Capital expenditures for security purposes are subject to prior approval requirements (see § 200.439)."

Capital improvement
2 C.F.R. § 200.439
Security costs become capital improvements when they permanently increase the value or useful life of the building or add new capability not previously present.
Examples:
- Permanently wired access control system (card readers, electronic locks integrated into building)
- Structural installation of a surveillance camera network with in-wall conduit
- Construction of a permanent guard booth or security enclosure
- Permanent perimeter fencing or barriers anchored to the ground
- Building-integrated panic alarm system

Note: Prior written RSA approval required (2 C.F.R. § 200.439(b)).

Minor remodeling
34 C.F.R. § 77.1
Security alterations to an existing completed building that do not rise to a capital improvement — not structurally significant and required for the grant program.
Examples:
- Adding additional security keypads or card readers requiring minor wiring in existing building
- Adding additional cameras to existing security system
- Adding door reinforcement hardware permanently affixed to building frames
- Running surface conduit for cameras in an existing completed building

Maintenance & repair
2 C.F.R. § 200.452
Routine and recurring security costs that keep existing security systems or facilities in efficient operating condition — not adding value or extending life.
Examples:
- Annual inspection and servicing of existing alarm or camera systems
- Replacing a broken security camera with a like-kind unit
- Software/firmware updates for existing security systems
- Testing and recertifying existing fire alarm systems

Rearrangement & reconversion
2 C.F.R. § 200.462
Temporary repositioning of security equipment or arrangements to accommodate a Federal program, with intent to restore.
Examples:
- Temporarily relocating portable security cameras to cover a new grant program area
- Setting up a temporary security screening station for a grant-funded program
- Moving portable barriers to a temporary program space
- Reconverting security layouts to original configuration at grant close-out

Note: Ordinary rearrangements = indirect (no approval). Special arrangements for award = direct with prior approval (2 C.F.R. § 200.462(a)).

KEY QUESTION: Is the security cost permanent and structural (capital)? A minor building alteration (minor remodeling)? Routine upkeep of existing systems (maintenance/repair)? Or a temporary arrangement for a program (rearrangement)? The same dollar amount can fall into any category depending on what the work does.

Example 2: Plumbing Work · How the Four Categories Apply

Applicable Regulations: Plumbing work can fall under any of the four cost categories depending entirely on what the work physically does — not what it costs. The same licensed plumber doing similar work in the same building can produce costs in different categories. 2 C.F.R. § 200.452 (maintenance/repair); 34 C.F.R. § 77.1 (minor remodeling); 2 C.F.R. § 200.439 (capital improvements).

Capital improvement
2 C.F.R. § 200.439

Plumbing costs become capital improvements when they permanently increase the value or useful life of the building or add new capacity not previously present.

Examples:

- Replacing the entire building plumbing system with higher-capacity piping
- Installing a new water main or sewer line connection to serve expanded program space
- Replacing a plumbing system at end of useful life that extends the building's life

Note: Prior written RSA approval required (2 C.F.R. § 200.439(b)).

Minor Remodeling
34 C.F.R. § 77.1

Plumbing alterations to an existing completed building required for the grant program — not rising to a capital improvement.

Examples:

- Rerouting supply lines to accommodate a new program room configuration
- Relocating existing fixtures within an existing completed building for program purposes

Note: Must be a minor alteration in a previously completed building.

Maintenance & repair
2 C.F.R. § 200.452

Routine and recurring plumbing costs that keep existing systems in efficient operating condition — not adding value or extending useful life.

Examples:

- Fixing a leaking or burst pipe
- Replacing a broken faucet or fixture with a like-kind unit
- Clearing a drain blockage or clog
- Replacing worn washers, seals, or valves
- Routine annual plumbing inspection

Note: Allowable only to the extent not paid through rental or other agreements (2 C.F.R. § 200.452).

KEY QUESTION: Does the plumbing work repair broken items (maintenance and repair)? Alter an existing completed building for program use (minor remodeling)? Add new permanent capacity (capital improvement)? Classification turns on what the work does — not solely what it costs.

Example 3: HVAC Work · How the Four Categories Apply

Why HVAC is particularly tricky: HVAC is one of the most complex cost categories in Federal grant audits because routine maintenance, mid-life repairs, and full replacements can look similar — and the end-of-life trap is especially common. The critical question is always: does this restore prior working condition of the unit, or does it extend useful life or add new capability? 2 C.F.R. § 200.452 (maintenance/repair); 34 C.F.R. § 77.1 (minor remodeling); and 2 C.F.R. § 200.439 (capital improvements).

Capital improvement
2 C.F.R. § 200.439

HVAC costs become capital improvements when they permanently extend the useful life of the building, add new capability, or adapt the system to a different use.

Examples:

- Full HVAC system replacement at or near end of useful life (extends life)
- Installing a new HVAC system in a space that had no prior climate control
- Adding new HVAC zones or capacity to serve an expanded program area
- Installing a dedicated precision climate control system for a new server or equipment room

Note: Prior written RSA approval required (2 C.F.R. § 200.439(b)).

Minor Remodeling
34 C.F.R. § 77.1

HVAC alterations to an existing completed building required for the grant program — not rising to a capital improvement.

Examples:

- Adding ductwork extensions to deliver conditioned air to a new program room
- Modifying air distribution to accommodate a grant-funded program space reconfiguration
- Adding new supply and return vents in existing building walls

Note: Must be a minor alteration in a previously completed building. The work must be required for and tied to the grant program.

Maintenance & repair
2 C.F.R. § 200.452

Routine HVAC costs that keep existing systems in efficient operating condition — not adding value or extending useful life.

Examples:

- Seasonal servicing, filter replacement, and tune-ups
- Repairing a failed compressor with a like-kind replacement unit
- Fixing a refrigerant leak
- Replacing a broken thermostat or control board
- Cleaning ductwork and coils
- Replacing a failed blower motor with a like-kind part

Note: Replacing a compressor on an aging system at end of life may extend overall useful life — making it a capital improvement, not maintenance. Document remaining useful life at the time of repair.

End-of-Useful Life Consideration: A like-kind compressor replacement mid-life = maintenance/repair. The same replacement on a 25-year-old system nearing end of its useful life = likely a capital improvement. Always document the system's remaining useful life and your professional judgment at the time the work is authorized — not at close-out.

Administrative Costs, Structural Barriers & Property Improvements · 2 C.F.R. Part 200

The Uniform Guidance does not define "structural barriers" as a separate cost category

Costs to remove architectural barriers must still be classified and treated in accordance with requirements. Classification depends on what the work physically does to the building.

Prior approval — when is it required?

Prior written approval from RSA is required when structural barrier removal constitutes a capital expenditure — i.e., when it materially increases the value or useful life of the building or adds new capability (2 C.F.R. § 200.439(b)(3)).

Approval must be obtained BEFORE work begins. Retroactive approval does not satisfy the requirement (2 C.F.R. § 200.407).

Minor remodeling and routine maintenance and repair of existing accessible features do NOT require prior approval.

Removal of Architectural Barriers

VR agencies must be mindful of several issues:

- As recipients of Federal financial assistance, VR agencies must ensure their own facilities are accessible
- Accessibility costs still must be properly classified — the legal obligation does not make otherwise-unallowable costs allowable, nor does it waive prior approval

Best practice:

- Conduct an accessibility plan and identify and document barrier removal needs proactively
- Budget accessibility improvements in advance so prior approval can be obtained
- Distinguish one-time capital work (approval required) from ongoing maintenance of accessible features

Key principle: The legal obligation to remove barriers does not change the cost classification. A new accessible restroom addition is a capital improvement requiring prior approval.

Gray Areas & Common Issues

Same activity, different classification

Electrical work can be a capital improvement, minor remodeling OR maintenance/repair depending on the nature and purpose of the work. Adapting space for a new grant program = minor remodeling. Routine upkeep cycle = maintenance/repair.

Fix: Document the purpose at the time the work is planned.

End-of-life vs. mid-life replacement

Replacing a system worn out at end of its useful life = capital improvement (extends life). Replacing the same broken component mid-life = maintenance/repair.

Fix: Document the asset's remaining useful life and the basis for your determination.

Prior approval after the fact

Work that begins before prior written approval is obtained is a compliance violation even if the cost would otherwise be allowable. Retroactive approval does not cure this.

Fix: Obtain written approval before issuing a purchase order or signing a contract.

Depreciation double-dip

If you charge a capital improvement directly to a Federal award, you cannot also charge depreciation on that same improvement to future Federal awards.

Fix: Track improvements charged directly to awards. While charges for depreciation are not permitted, track useful like of the property or improvement.

Reconversion not documented at outset

Agencies often fail to document the pre-rearrangement condition, making it impossible to defend reconversion costs at grant close-out.

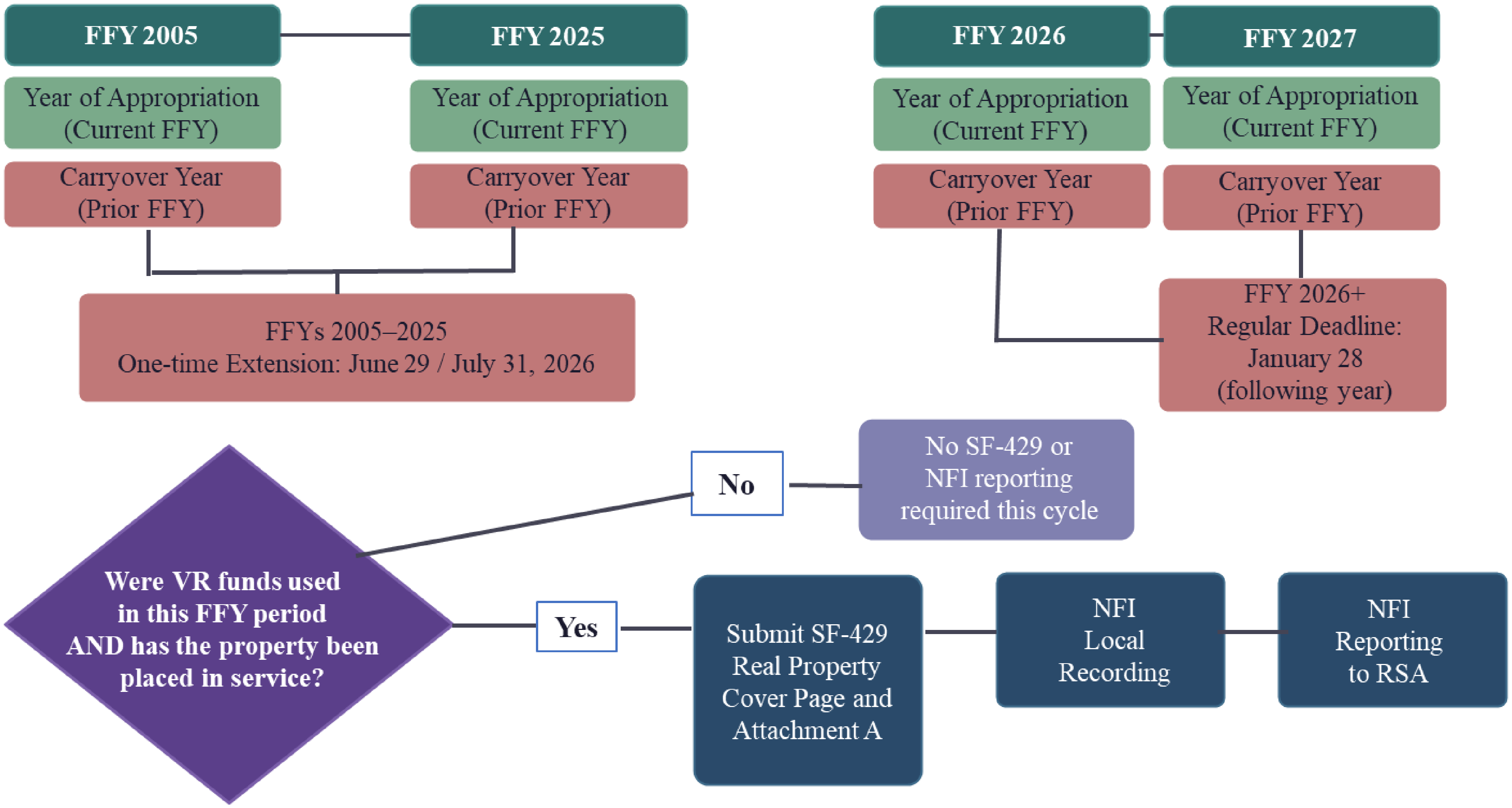
Fix: Take photos and prepare a written condition report before rearrangement work begins.

Quick Reference Summary

Quick Classification Guide

If you ask …	Classify as …	Reference	Prior approval?
Permanent change? Extends life or adds new capability?	**Capital improvement**	**2 C.F.R. § 200.439**	**Yes — required**
Minor alteration to an existing completed building, required by the grant?	**Minor remodeling**	**34 C.F.R. § 77.1**	**Not required**
Routine upkeep, restores unit to previous working condition, does not extend useful life?	**Ordinary Maintenance & repair**	**2 C.F.R. § 200.452**	**Not required**
Temporary reposition to serve a program, with intent to restore?	**Rearrangement & reconversion**	**2 C.F.R. § 200.462**	**Yes — required**

VR Property Reporting Period — Decision Flowchart



Key takeaways

1) Classification drives both accounting treatment and prior approval requirements — getting it wrong can result in disallowed costs, audit findings, and repayment obligations.
2) Establishment and construction authority under 34 C.F.R. Part 361 is a VR-specific authority separate from general cost principles — it requires State Plan inclusion and RSA approval.
3) The same activity (repainting, flooring) can fall into different categories depending on WHY it is being done. Always document the purpose at the time of authorization.
4) Prior approval must be obtained IN WRITING before work begins — not after. A verbal approval or retroactive approval does not satisfy 2 C.F.R. § 200.439(b).
5) For borderline cases, consult your Financial Management Specialist before committing costs. Document your classification rationale in writing.

Questions? Contact your Financial Management Specialist.

End of Webinar