COMMONWEALTH OF VIRGINIA

WORKFORCE INVESTMENT ACT

VIRGINIA EMPLOYMENT COMMISSION

FIELD GUIDANCE MEMORANDUM #05-06

TO: LOCAL WORKFORCE INVESTMENT BOARDS

FROM: WIA DIVISION

SUBJECT: PROGRAM INCOME

DATE: May 5, 2005

The requirements for Program Income under the Workforce Investment Act (WIA) are set forth at 20 CFR 667.200 (a)(5) through 667.200 (a)(8), 67.300(c)(2) and 667.300 (c)(3). The provisions under the OMB Regulations are set forth at 29 CFR 95.24 and 29 CFR 97.26. Recipients and program operators are allowed to retain program income only if it is added to the funds committed to the particular WIA grant or subgrant and title under which it was earned, and such income is used for that title's purposes, under the terms and conditions applicable to the use of the grant funds. Program income must be used in accordance with Federal regulations or remitted to the U.S. Department of Labor.

Program income means gross income earned by the recipient that is directly generated by a supported activity or earned as a result of the award. Program income includes, but is not limited to, income from fees for services performed, the use or rental of personal property acquired under federally funded projects, the sale of commodities or items fabricated under an award, and license fees and royalties on patents and copyrights. Except as otherwise provided in federal awarding agency regulations or the terms and conditions of the award, program income does not include the receipt of rebates, credits, discounts, etc., or interest earned on any of them.

Program income generated during the life of a specific allocation must be expended before the end of the availability of the funds. Any unexpended funds must be returned. Program income generated from WIA equipment, or other WIA assets, after the funding period of the funds that paid for the equipment, is reported on an open year and must be spent prior to the end of the availability of those funds. Program income earned after the end of the WIA program may be retained by the entity that earned the income.

DEFINITIONS:

1. *Program Income Inclusions*:

Program income means gross income received by the grantee or sub grantee directly generated by a grant-supported activity, or earned only as a result of the grant agreement during the grant period. During the grant period is the time between the effective date of the award and the ending date of the award reflected in the final financial report.

- **Fee for Service.** Income from fees for services performed. This includes income from conferences
- **User or Rental Income.** Income from the use or rental of real or personal property acquired with grant or subgrant funds
- **Sale of Products.** Income from the sale of commodities or items fabricated under a grant agreement

- **Revenues in Excess of Expenditures** Revenues earned by a governmental or private non-profit service provider under either a fixed price or reimbursable award that are in excess of the actual costs incurred in providing the services

2. *Interest Income:*

Income earned from the interest paid on grant funds is treated differently for WIA Title I programs from most other Federal grant programs and ETA-funded required partner programs such as Wagner-Peyser. The Act and the Regulations both specify that interest earnings are to be treated as program income and are subject to the rules applicable to program income referenced at 20 CFR 97.25 and 95.24 (20 CFR 676.200(a)(7)). These rules apply to all programs funded under WIA Title I, including Adult, Youth and Dislocated Worker Programs, as well as Job Corps, Native American, Farmworker and Veterans' Programs. However, they do not apply to non-WIA Title I programs such as Wagner-Peyser, UI, WtW, Older Americans, Trade and NAFTA. Organizations receiving funds under both Title I programs and non-Title I programs must identify the proportionate share of any interest earning applicable to each type of program.

3. *Program Income Exclusions:*

Program Income does not include:

- **Applicable Credits.** Rebates, credits, discounts, refunds, etc., or interest earned on any of them. These amounts must be credited as a reduction of costs or returned to the Commonwealth.
- **Royalties.** Income from royalties and license fees for copyrighted material, patents, trademarks, and inventions developed by a recipient or subrecipient, unless the revenues are specifically identified in the grant agreement or Federal agency regulations as program income.
- **Sale of Property.** Proceeds from the sale of real property or equipment will be handled in accordance with the requirements of 29 CFR 97.31 through 97.32 and 95.30 through 95.37.
- **Income Earned after the Grant Period has ended.** Grantees are not accountable for income earned after the end of the award period. However, the grantee must report program income expended after the grant period if the income was earned during the grant period.
- **Donations.** Contributions and donations are voluntarily given to programs, not generated by the use of grant funds. Therefore, these revenues do not constitute program income.
- **Profits of Commercial Organizations.** Profits earned by commercial for-profit organizations are not considered program income. Care should be taken to minimize the amount of profit generated by grants.
- **Matching Funds.** Those funds provided to satisfy the matching requirements of ETA grants are not considered program income. Program income generated through ETA funded grants may NOT be used to satisfy any match requirements.

4. *Revenue And Costs Of Generating Program Income:*

There are two methods used in accounting for revenue and costs of generating program income, the net income method and the gross income method. If authorized by Federal regulations or the grant agreement, costs incident to the generation of program income may be deducted from gross income to determine program income. For WIA, the addition method, described at 29 CFR 95.24 or 29 CFR 97.25, as appropriate, must be used for all program income earned. When the cost of generating program income has been charged to the program, the gross amount earned must be added to the WIA program. However, the cost of generating program income must be subtracted from the amount earned to establish the net amount of program income available for use under the grants when these costs have not been charged to the WIA program.

- **Net Income Method**

Costs incidental to the generation of program income are netted against or deducted from gross program income to determine the amount of net program income. The expenditures and revenues associated with performing the activity that generates program income are tracked separately in the accounting records. Periodically, revenues and expenses are netted to determine the amount of net program income. Net program income is then recorded in the appropriate program income account. Part 95 requires that the costs incidental to generation NOT be charged to the grants.

- **<u>Gross Income Method</u>**

All gross revenues derived from program income activities are accounted for as program income when using this method. The grantee's share of the allocable costs associated with generating the revenue are charged to the appropriate program activities and/or cost categories. In the accounting records, the entire amount of gross revenues would be recorded in the program income account for the funding period. The same funding period is assigned to the expenditures of program income as the funding period to which the program income is assigned. Expenditures incurred in generating the program income are charged to the appropriate cost categories and/or program activity.

5. Expenditure Of Program Income

Once the amount of program income has been determined and the funding period identified, two alternative approaches may be used to account for the expenditure of program income. The additional services may be separately accounted for in the program income account, **or** already recorded expenditures may be transferred to the program income account.

- **Separate Accounting**

Program income is treated as additional funds committed to the grant agreement for which separately identifiable services are performed, and the expenditure of program income is accounted for separately from the original agreement. For accounting purposes, the program income is treated as if it were a separate grant or cost objective.

- **Transfer of Expenditures**

Expenditures are initially recorded in the accounts of the original agreement and are subsequently transferred to the program income account to offset the amount of program income earned. The result is that the program income is accounted for as fully expended, while expenditures charged under the grant are reduced by the amount of expenditures that have not been applied to program income. WIA Regulations require that the net program income MUST be added to the total funds available for the program. Thus, the transfer of expenditures is only applicable if the entity should fully expend both the grant and the program income.

6. *Uses Of Program Income*

The following requirements for using ETA-funded grant funds also apply to the use of program income, with the exception of the administrative cost limitation.

- Allowable costs
- Cost Classification
- Inclusion of program income earnings and expenditures in the audit
- Rules on procurement and selection of service providers
- Participant records and other record-keeping requirements
- Sanctions for misuse

The WIA Regulations and 29 CFR 95.24 (a) specify that program income must be added to the grant award and used to provide the same services as the original grant agreement. Neither Part 95 nor Part 97 specifies any requirements for earned program income that is not expended within the grant period. However, both Parts 95 and 97 require program income to be expended within the terms and conditions of the grant, including provisions related to the period of performance or fund availability. ETA requires program income to be wholly expended within the three-year period of availability for WIA formula grants or the period of performance specified in individual grant agreements. Any program income funds remaining must be used to reduce the reported grant expenditures when the grant closeout is submitted.