# Chapter 12

# Program Income

## INTRODUCTION

This chapter defines program income; distinguishes between what program income is and is not; and provides guidance on the proper methods of calculating, using, and applying program income. It contains the following sections:

- Definition
- Program Income Inclusions
- Program Income Exclusions
- Accounting for Revenue and Cost of Generating Program Income
- Accounting for the Expenditure of Program Income
- Uses of Program Income.

### What the Regulations Require

The requirements governing the use of program income are found at 29 CFR 95.24(non-government grantees) and 29 CFR 97.25 (governmental grantees).

Part 97 defines program income and encourages earning program income as a method of defraying program costs. The WtW regulations at 645.230(a)(5) require the addition method to be used for program income, as does Part 95. Although this section also states that the cost of generating program income is deducted from gross income to determine the net amount available for use, the final regulations will be modified to allow both the gross income and net income methods of calculating available program income.

Both Part 95.24 and Part 97.25 specify that there are no requirements regarding program income realized after the grant period has ended.

## DEFINITION

Program income is defined in 29 CFR 97.24(b) as "the gross income received by the grantee or subgrantee directly generated by a grant supported activity, or earned only as a result of the grant agreement during the grant period."

## PROGRAM INCOME INCLUSIONS

A list of the types of income that are considered program income for purposes of WtW grants is included in 29 CFR 97.25(a). While Part 95 does not specify what is to be included, the following list, drawn from the requirements of Part 97, addresses the differing types of program income that might be generated under the grants.

- **Fee for Services**. Income from fees charged for services.

**<u>Example.</u>** The WtW entity provides pre-employment services for a number of private businesses. They charge a per-head fee for these services. The fees are considered program income.

- **User or Rental Fees**. Income from the use or rental of personal property acquired with grant funds.

**<u>Example.</u>** The WtW entity has purchased a fax machine with WtW funds and allows non-WtW usage. A per-page fee is charged for such use. The fees are considered program income.

- **Sale of Products.** Income from the sale of goods constructed under a grant agreement.

**<u>Example.</u>** As part of an course on small business development, materials are bought and used to manufacture small items. The proceeds from the sale of these items is considered program income.

## PROGRAM INCOME EXCLUSIONS

Part 29 CFR 97.25(a) lists the types of revenues that are not included as program income. These same revenues would also be excluded under 29 CFR Part 95. Each is listed below, followed by an example to illustrate application of the rule.

- **Applicable Credits**. Reductions to grant costs as a result of refunds, rebates, credits, discounts, or the interest earned on them.

**<u>Example.</u>** The WtW entity receives a year-end rebate based on volume purchasing of software. The rebate is not considered program income; however, the proper accounting for the rebate is a reduction to the line item costs for software.

- **Sale of Property**. Proceeds from the sale of personal property. The requirements for handling the revenues from the sale of property for which the grantee is accountable are covered at 29 CFR 97.32 and 29 CFR 95.30 through 95.37.

**Example.** The WtW entity disposes of a copier with a fair market value of $8,000, following the requirements of Part 95. The revenues realized from the sale of the property are not considered to be program income. However, the proceeds of the sale must be treated in accordance with the disposition instructions received from the awarding agency.

- **Royalties**. Income from royalties and license fees for copyrighted material, patents, and inventions developed by a grantee or subgrantee. This income is considered to be program income only if specifically identified as such in the grant agreement. [97.25(e)] Part 95 specifically excludes this income, unless DOL regulations or the grant agreement specify otherwise.

**Example.** The WtW entity writes a software application to computerize its case management system. The program is copyrighted and sold to other WtW and/or job training programs. The resulting revenues are not considered program income, since the costs of producing the developed product could not be charged to the grant.

Additional exclusions from program income are listed below.

- **Income Earned After the Grant Period Has Ended**. The grantee is 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**. Donations and contributions are voluntarily given to the WtW program. As they are not generated by the use of grant funds, such 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 WtW grants (see Chapter 13, *Procurement*).

- **Interest**. Unless specified in the grant agreement or regulations, interest earned on WtW funds is excluded from program income. The requirements governing interest are contained in Chapter 10, *Cash Management*.

- **Matching Funds**. Funds provided to satisfy the matching requirements of the WtW grants are not considered to be program income. Conversely, program income generated through the WtW grants may not be used to satisfy WtW match requirements. [20 CFR 645.300(C)(5)]

## ACCOUNTING FOR REVENUE AND COST OF GENERATING PROGRAM INCOME

There are two methods used in accounting for revenue and cost associated with generating program income–the gross income method and the net income method. The regulations at 20 CFR 645.230(a)(5) currently require use of the net income method. The final WtW regulations will be modified to allow either method. Accordingly, both methods are discussed below.

### Net Income Method

With the net income method approach, the 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 WtW program income account. Part 95 requires that the costs incident to generation are not charged to the grant.

> **Example.** A nonprofit WtW service provider operates several training programs using fixed-unit price, performance-based contracts. The expenditures incurred and revenues earned under each contract are accounted for separately. For each contract, expenditures and revenues are netted, and the net income resulting from each contract is then recorded as program income to WtW.

In some cases, the most efficient approach to account for program income is to net revenues against only part of the costs in order to determine net program income.

> **Example.** The local area grantee uses its own staff to conduct a conference on case management that is attended by other local area grantees and WtW service providers. Staff costs are charged to the appropriate WtW expense accounts. The local area grantee's additional costs for conducting the conference are accounted for separately and total $5,000. Registration fees and other revenues are also accounted for separately and total $6,000. The conference produces net program income of $1,000, which is recorded in the WtW grant account.

### Gross Income Method

With this method, all gross revenues derived from program income activities are accounted for as program income. In turn, WtW's share of the allocable costs associated with generating that revenue are charged to the appropriate WtW 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 funding period to which the program income is assigned is the same funding period to which the corresponding expenditures are charged. Expenditures incurred in generating the program income are charged to the appropriate cost categories and/or program activity.

**Example.** The grantee funds a small business development course for WtW participants on a cost reimbursement basis. The participants prepare business plans and engage in the manufacture or production of items for sale to the general public. WtW is billed for the cost of training, tools that will be retained by the participants, and parts that are used in production. The subrecipient charges all these costs to the appropriate cost categories/program activity based on the subgrant requirements. All the revenue collected from the sales is WtW program income to the subrecipient, is recorded as program income in the books of account, and is to be used to provide additional WtW services under the subrecipient agreement.

## ACCOUNTING FOR THE 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 the 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

When using this approach, program income is treated as additional funds committed to the (sub)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 (sub)grant or cost objective.

**Example.** A nonprofit organization earned $5,000 in program income, which was the amount by which revenues exceeded costs under a fixed-unit-price agreement funded by WtW. The organization used the program income to provide additional training and placement services consistent with the terms of the original agreement and established separate WtW accounts by cost category to record the expenditures incurred in providing the additional services.

### Transfer of Expenditures

When using this approach, 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 (sub)grant agreement are reduced by the amount of expenditures that have now been applied to program income.

**Example.** During the grant period, the service provider has recorded $1,000 in program income. To expend the program income within the grant period, the service provider transfers $1,000 in expenditures already incurred under the subgrant from the appropriate cost categories to the program income account, and reduces subgrant expenditures in the corresponding cost categories by that same amount, which frees up the $1,000 to be used for additional expenditures under the subgrant. When submitting its expenditure report, the service provider reports the amount of program income earned, the amount expended by cost category, and final net expenditures charged to the subgrant.

Again, the WtW regulations require that the net program income be added to the total funds available for the program. Thus, the transfer of expenditures is only applicable should the entity fully expend both the grant and the program income.

## USES OF PROGRAM INCOME

The requirements for using WtW funds also apply to the use of program income with the exception of the administrative cost limitation. These requirements include:

- Allowable cost guidelines
- Cost classification guidelines
- 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.

WtW regulations and 29 CFR 95.24(a) specify that program income be added to the total grant award and used to provide the same services as the original grant agreement. Neither Part 95 nor Part 97 specify any requirements for earned program income that is not expended within the grant period.