



COUNTY OF LOS ANGELES  
WORKFORCE DEVELOPMENT, AGING AND  
COMMUNITY SERVICES



CONTRACT COMPLIANCE DIRECTIVE

DATE: January 4, 2021

NUMBER: WDACS-CCD-21-01

## Program Income

### EXECUTIVE SUMMARY

The purpose of this directive is to provide Workforce Development, Aging and Community Services (WDACS) subrecipients with the policy and procedural guidance for income generated with the use of funds awarded through programs funded by WDACS.

This Directive supersedes CD-15-4, dated March 8, 2016, "Program Income" and is effective on the date of release.

### APPLICATION

This directive applies to all WDACS subrecipients.

### REFERENCES

- 2 CFR Chapter I and Chapter II, Parts, 200, 215, 220,225, and 230-Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards; Final Rule

### BACKGROUND

On December 26, 2013, the Office of Management and Budget revised the Uniform Administrative Requirements for Federal grants, combining those requirements with those of the audit requirements and cost principles. These regulations are codified at 2 CRF Chapter I and Chapter II, Parts 200, 215, 220, 225, and 230, became effective December 26, 2014, and are referred to as the Uniform Guidance. These rules contain the requirements for the income generated with the use of subgrant funds.

### DEFINITIONS

Period of performance means the time during which the non-Federal entity may incur new obligations to carry out the work authorized under the Federal award. The Federal awarding agency or pass-through entity must include start and end dates of the period performance in the Federal award. (2CFR 200.77)

Program income means gross income earned by the non-Federal entity that is directly generated by a supported activity or earned as a result of the Federal award during the period of performance. Program income includes but is not limited to income from fees for services performed, the use or rental of real or personal property acquired under Federal awards, the sale of commodities or items fabricated under a Federal award, license fees or royalties on patents and copyrights, and principal and interest on loans made with income. Except as otherwise provided in Federal statutes, regulations, or the terms and conditions of the Federal award, program income does not include rebates, credits, discounts, and interest earned on any of them. (2CFR 200.80)

Subaward means an award provided by a pass-through entity to a subrecipient for the subrecipient to carry out part of a Federal award received by the pass-through entity. It does not include payments to a contractor or payments to an individual that is a beneficiary of a Federal program. A subaward may be provided through any form of legal agreement, including an agreement that the pass-through entity considers a contract. (2 CFR 200.92)

Subrecipient means a non-Federal entity that receives a subaward from a pass-through entity to carry out part of a Federal program; but does not include an individual that is a beneficiary of such program. A subrecipient may also be a recipient of other federal award directly from a Federal awarding agency. (2 CFR 200.93)

## **POLICY AND PROCEDURES**

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Subrecipients will account for program income earned in accordance with the policies and procedures described below:

### **POLICY:**

Subrecipients are required to identify and document program income generated from programs funded by WDACS. The nature of this income must be appropriately documented and the resulting revenue and expenses properly recorded and accounted for. The guidelines and procedures that follow are intended to ensure compliance with federal regulations and subaward terms and conditions.

Examples of program income include, but are not limited to:

- Fees earned from services performed under the subaward
- The difference between the fixed fee and the actual cost of any delivered service
- Funds generated from sales of commodities such as the sale of meals
- Conference fees charged when the subaward funds the conference
- Income from registration fees
- Sale, rental, or usage fees, such as fees charged for the use of space already paid for with subaward funds
- Funds generated from the sale of software, tapes, or publications

Program income does not include the following:

- Interest earned on advances of subaward funds
- Rebates, credits, discounts, and any interest earned on them
- Proceeds from the sale of real property, equipment, or supplies
- Taxes, special assessments, levies, fines, and other such revenues raised by a subrecipient
- Donations and contributions that are voluntarily given to a subaward program
- Profits earned by commercial for-profit organizations
- Funds provided to satisfy the matching requirement of a subaward WIOA-funded program
- Income earned after the period of subaward performance

(Uniform Guidance Sections 200.80 and 200.307, and WIOA Section 194[7] and [13])

#### **METHODS OF CALCULATION:**

Different fund sources use different methods of calculating program income. WIOA subrecipients must use the addition method. Subrecipients funded with AAA or Department of Justice funds must use the deduction method unless prior approval is given for the addition method. Please refer to your subaward and applicable regulations to ensure the proper methodology is applied.

#### **Addition Method**

Program income funds are added to the subaward and are used to provide the same services as provided under the original subaward agreement.

**EXAMPLE:** The subrecipient's award is \$100,000. The subrecipient generates \$10,000 of program income through an allowable activity listed above. This increases available funds under the subaward to \$110,000. (\$100,000 in the initial subaward plus \$10,000 generated through program activities).

#### **Deduction Method**

Program income funds are deducted from the total program allowable costs to determine the next allowable costs attributable to the subaward.

**EXAMPLE:** The subrecipient's award is \$100,000. The subrecipient generates \$10,000 of program income through an allowable activity listed above. The funds generated through program income are retained by the subrecipient and expended for program activity. The initial grant is reduced by \$10,000. Total subaward funding remains at \$100,000. (\$90,000 expensed from the subaward plus \$10,000 expensed from the funds generated through program activities equals a total of \$100,000).

**Any program income not applied to the subaward prior to its expiration shall revert to WDACS.**

### **Income after the Period of Performance**

There are no Federal or State requirements governing the disposition of income that is paid to a subrecipient after a subaward expires and a closeout is submitted.

### **ACCOUNTING, REPORTING AND DOCUMENTATION:**

Subrecipients can calculate earned program income using either the net income or gross income method.

Under the net income method, the cost of generating the program income is deducted from gross program income receipts. The revenues and expenditures are tracked separately in accounting records, netted, and then recorded in the appropriate program income account.

Under the gross income method, all gross revenues derived from program income activities are accounted for as program income, and the costs associated with generating the revenue are charged to the subaward. In the accounting records, the entire amount of gross revenues and corresponding expenditures are recorded in the program income account for the funding period.

The following example illustrates how a subrecipient would calculate program income using either the net income or gross income method:

A subrecipient provides a training program such as culinary arts which includes the preparation and sale of food in a café setting. The subrecipient pays \$6000 for the purchase of food supplies for the food preparation. \$10,000 is generated from the sale of the prepared food.

- Using the net income method, the subrecipient would report \$4,000 (the amount of revenue that remained after subtracting the cost of food supply purchases) as program income. The subaward is not charged for costs associated with the \$4000 program income.
- Using the gross income method, the subrecipient would report \$10,000 (the entire amount of revenues earned from the sale of prepared food) as program income and charge the subaward \$6,000 for costs associated with the training program.

Once the amount of program income has been determined, subrecipients may account for the expenditure of program income using either the separate accounting or transfer of expenditures method, as illustrated below:

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

Using the separate accounting method, the subrecipient used the program income to provide additional training services and purchase additional food supplies for the training program and established a separate WIOA funded account by cost category to record the expenditures incurred in expensing these additional funds.

Under the transfer of expenditures method, the subrecipient initially records the expenditures associated with the program income in the accounts of the original subaward agreement and subsequently transfers the expenditures to the program income account in order to offset the amount of program income earned. The result is the program income is accounted for as fully expended while expenditures charged under the subaward are reduced by the amount of expenditures that have now been applied to program income.

Regardless, of the accounting method used, program income may be used only for allowable costs in accordance with the applicable cost principles and the terms and conditions of conditions of the subaward.

### **Program Income Expenditure Requirements**

Program income must be expended on allowable subaward activities. These requirements include the following:

- 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.

For WIOA, it is subject to all WIOA requirements, with the exception of the administrative cost limitation.

Although program income can be accounted for as available until the income is actually used, any cash-on-hand from program income must be liquidated before the subrecipient may request additional subaward cash for any purpose.

## **Reporting Requirements**

Net program income will be reported separately to WDACS by the 10<sup>th</sup> day of each month for workforce investment programs and by the 10<sup>th</sup> day each month for AAA and all other programs.

Additionally, subrecipients must record and classify program income revenues and expenditures so they can be traced from reports to the source documentation supporting the revenue and expenditures. They must maintain proper documentation to show the amount of program income received and the purposes for which it was expended.

## **Records Retention**

Program income transaction records are retained from the end of the subrecipient's fiscal year in which the income is earned. Subrecipients must retain program income records for a period of three years from the date of the last expenditure report submitted WDACS. If any litigation, claim, or audit is started before the expiration of the three-year period, the records must be retained until all findings have been resolved and final action taken (Uniform Guidance Section 200.333).

## **ACTION**

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WDACS subrecipients must ensure that the requirements described herein are communicated throughout the operations, management and governance structure of their respective organization and that this Directive is adhered to until further notice.

## **INQUIRIES**

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Inquiries regarding this directive and the policies and procedures described herein should be directed to [smaxberry@wdacs.lacounty.gov](mailto:smaxberry@wdacs.lacounty.gov) or [lmcknight@wdacs.lacounty.gov](mailto:lmcknight@wdacs.lacounty.gov).



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