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U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
Administration on Developmental Disabilities

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INFORMATION MEMORANDUM

TO : Directors, State Administering Agencies
Chairpersons, State Planning Councils
Directors, Protection and Advocacy Agencies
Executive Directors, State Planning Councils

SUBJECT : Program Income - Administration on Developmental
Disabilities (ADD) State Basic Support Program and
Protection and Advocacy

LEGAL AND
RELATED

REFERENCES : Developmental Disabilities Assistance and
Bill of Rights Act of 1984, Public Law 98-527
45 CFR Part 1386, Developmental Disabilities
Program, Final Rule
45 CFR Part 74, Administration of Grants

BACKGROUND : The HHS regulations (45 CFR Part 74 Subpart F)
covering the subject of the use and reporting of
program income explain the meaning and categories
of grant-related income and set forth the
alternatives for its use. The purpose of this
Information Memorandum is to explain the
application of the program income regulations to
the ADD Formula Grant Programs in order to achieve
uniform understandings in the States.

INFORMATION: 45 CFR 74.41(a) describes program income as the
gross income earned by a recipient during the
period of grant support. For ADD, this means
income realized during the Federal fiscal year
which is to be used in the overall program,
including projects, other subgrants, and
contracts. The income also must be earned from
activities, part or all of the cost of which is
borne as a direct cost by either ADD Formula
Grant, or counted as a direct

cost towards meeting a cost sharing or matching requirement of an ADD Basic Support Grant. Income meeting this broad definition must be considered and reported as program income. There are several categories of program income and other grant-related income. Each of the categories is listed below with the applicable regulatory citation:

- General Program Income - 45 CFR 74.42
- Program Income proceeds from sale of real property and from sale of equipment and supplies acquired for use - 45 CFR 74.43
- Program Income - royalties and other income earned from copyrighted work - 45 CFR 74.44
- Program Income - royalties or equivalent income earned from patents or from inventions - 45 CFR 74.45
- Program Income after grant or subgrant support not otherwise treated - 45 CFR 74.46
- Interest earned on advances of grant funds - 45 CFR 74.47

Sections 74.43 through 74.47 can be considered special cases of grant-related and program income. Those sections provide specific guidance concerning the treatment of such income. The most common type of program income is general program income (45 CFR 74.42) which is simply all program income meeting the broad definition except for the special categories in sections 74.43 through 74.45.

Three options are authorized for the use of general program income. States should identify, in their State Plans, the option or options which will be used for reporting program income. The three options are:

- Deduction alternative (45 CFR 74.42(c))
- Matching alternative (not applicable for the Protection and Advocacy Program since there is no matching requirement) 45 CFR 74.42(d)
- Additional Costs alternative. 45 CFR 74.42(e)

Under the deduction alternative the income must be used for allowable costs of the program. Income is deducted from the total allowable program costs and third party in-kind contributions for the purpose of determining the amount to which the maximum Federal share percentage will be applied. The State must use the income to reduce the amount of Federal and non-Federal funds needed. Income must be used for current costs before Federal grant funds are used. However, the Commissioner, ADD, may authorize carry-over of income received to the next fiscal year. If such authorization is granted, the State shall use the income carried over before it uses Federal grant funds in that fiscal year. Requests to carry over general program income to the next fiscal year should be addressed to the Commissioner, ADD, and the reasons for the request should be clearly stated.

The matching alternative is only applicable to the Basic Support Program, since there is no matching requirement for the Protection and Advocacy Grant. Under the matching alternative, income must be used for costs that count toward satisfying a matching requirement. The income must be used for allowable costs of the program and must be used for current costs before Federal grant funds are used. Again, the Commissioner, ADD, may authorize carry-over of income received to the next fiscal year. If such authorization is granted, the State shall use the income carried over before it uses Federal grant funds in that fiscal year. Requests to carry over general program income to the next fiscal year should be addressed to the Commissioner, ADD, and the reasons for the request should be clearly stated.

The additional costs alternative may be used by the State under both ADD Formula Grants. The additional costs alternative permits the State to use income for costs that further the broad objectives of the ADD statute. Such costs,

however, do not necessarily have to be allowable. General program income used under this alternative is not required to be used before Federal grant funds, since it will generally be used to expand the program or to support other projects or programs that further the ADD statute's objectives. Also, there are no requirements for States to request carry over of general program income used under this alternative.

As a reminder, States are not accountable for interest earned on advances of ADD Formula Grant funds. However, interest is considered as grant-related income, and States should be aware of their responsibilities in limiting such income by minimizing the time between the transfer of advances and their disbursement.


Instructions for reporting program income on the Financial Status Reports (SF-269's) are included in ADD-PI-84-2.

EFFECTIVE
DATE:

October 1, 1984

INQUIRIES
TO:

HDS Regional Administrators



Jean K. Elder, Ph. D.
Commissioner, Administration
on Developmental
Disabilities

CC: HDS Regional Administrators
HDS Regions III, VI, VII, and IX
ADD Regional Program Directors
HDS Regions III, VI, VII, and IX
HDS Directors, Office of Fiscal Operations
HDS Regions III, VI, VII, and IX