



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

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2. Issuance Date: 3/8/85

3. Originating Office: Administration on Developmental Disabilities

4. Key Word: Obligation/
Liquidation

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INFORMATION MEMORANDUM

TO

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

SUBJECT

: Definition of Obligation Versus Liquidation
of Federal Grant Funds Received Under the
Developmental Disabilities Formula Grant
Program -- BASIC SUPPORT AND PROTECTION AND
ADVOCACY

**LEGAL AND RELATED
REFERENCES**

: Developmental Disabilities Act of 1984,
Public Law 98-527
45 CFR Part 1386, Developmental Disabilities
Program, Final Rules
45 CFR Part 74, Administration of Grants

INFORMATION

: The Administration on Developmental
Disabilities (ADD) Regulations, published in the
Federal Register on March 27, 1984, clarify the
States' responsibilities for the obligation and
liquidation of Federal funds (45 CFR 1386.2 and
1386.3). 45 CFR 74.71 defines terms related to
the obligation and liquidation of Federal grant
funds received by the State as follows:

- o "Obligations" are amounts of orders placed,
contracts and subgrants awarded, services
received, and similar transactions during a
given period, which will require payment
during the same or a future period.
- o "Outlays" are charges made to the
grant, project, or program. Outlays may be
reported on a cash or accrual basis.

- o "Unobligated balance" is the portion of the Federal funds authorized which has not been obligated by the grantee and is determined by deducting the grantee's cumulative obligations from the cumulative Federal funds authorized.
- o "Unliquidated obligations", for reports prepared on a cash basis, are the amount of obligations incurred by the grantee that has not been paid. For reports prepared on an accrued expenditure basis, they are the amount of obligations incurred by the grantee for which an outlay has not been recorded.

Using a cash accounting basis, liquidations generally are considered to be incurred on the date on which the State Agency makes payment. Using an accrual accounting basis, liquidations generally are considered to be incurred on the date on which the State Agency records an outlay (including outlays for amounts becoming owed). States may operate on either a cash or accrual accounting basis; however, all costs must be treated and reported on a consistent basis and in accordance with applicable State laws and procedures and acceptable accounting principles.

For further information, please see the SF-269 instructions for more information, particularly for lines 10(b) and 10(h).

The following points are most important in regard to specific time limits for the ADD formula grant program:

- o Obligation/Deobligation -- Funds for each Federal fiscal year must be obligated by the end of the Federal fiscal year (September 30). Federal funds which are not reported as obligated by the end of a fiscal year, will be deobligated by the issuance of a negative grant award for the amount reported as UNOBLIGATED on the fourth quarter Financial Status Report (SF-269) and returned to the Federal Treasury. (Reference: Information Memorandum -- ADD-IM-84-3)

- o Liquidation -- All obligations for a Federal fiscal year must be liquidated within two (2) years of the close of that Federal fiscal year. (Reference: 45 CFR 1386.3(a)) Quarterly SF-269's must be submitted until all expenditures for a given Federal fiscal year have been liquidated.

The current ADD Regulations provide an opportunity for States to request a waiver of the two (2) year liquidation time requirement if (a) the State law impeded implementation of the requirement, or (b) the amount of obligated funds to be liquidated is in dispute. (Reference 45 CFR 1386.3(b)). In accordance with good business management practices, the liquidation of funds should be completed as soon as possible after the receipt of all invoices or billings. However, if unusual circumstances arise which prevent a State from meeting the two (2) year liquidation time requirement, and a waiver request is deemed appropriate, the State should submit a request for waiver to the appropriate ADD Regional Program Director. The ADD Regional Program Director will review the State's request and forward a recommendation to the Commissioner, Administration on Developmental Disabilities for final decision. All such waiver requests should be submitted at least 90 days prior to the date by which such funds must be liquidated and should clearly and concisely state the reasons and basis for the request.

EFFECTIVE DATE : Date of Issuance
INQUIRIES TO : Regional Administrators, HDS

EASTERN REGION

States : Connecticut, Delaware, District of
Columbia, Maine, Maryland, Massachusetts,
New Hampshire, New Jersey, New York,
Pennsylvania, Puerto Rico, Rhode Island,
Vermont, Virgin Island, Virginia, West
Virginia

Contact : Eileen Bradley
Regional Administrator, OHDS
Post Office Box 13716
3535 Market Street
Philadelphia, Pennsylvania 19101
Commercial (215) 596-6818
FTS (8) 596-0351

SOUTHERN REGION

States : Alabama, Arkansas, Florida, Georgia,
Kentucky, Louisiana, Mississippi, New
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Contact : William Acosta
Regional Administrator, OHDS
1200 Main Tower Building
Dallas, Texas 75202
Commercial (214) 767-4540
FTS (8) 729-4540

MIDWESTERN REGION


States : Colorado, Illinois, Indiana, Iowa, Kansas,
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Contact : Linda Carson
Regional Administrator, OHDS
601 East 12th Street
Room 384
Kansas City, Missouri 64106
Commercial (816) 374-3981
FTS (8) 758-3981

WESTERN REGION

States : Alaska, Arizona, California, Guam, Hawaii,
Idaho, Nevada, Northern Marianna Islands,
Oregon, American Samoa, Trust Territory of
Pacific Islands, Washington

Contact : Lucy Ellison
Regional Administrator, OHDS
50 United Nations Plaza
San Francisco, California 94102
Commercial (415) 556-4027
FTS (8) 556-4027



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

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