ACF Administration for Children and Families	U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
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PROGRAM INSTRUCTION

TO: All Head Start Grantee and Delegate Agencies

SUBJECT: Non-Federal Share Issues

INSTRUCTION:

The Head Start Act mandates that the Federal share of the total costs of the Head Start program will not exceed 80 percent of the total grantee budget unless a waiver has been granted (Head Start Act Section 640(b)). If the grantee agency fails to obtain and adequately document the required 20 percent non-Federal share (or other approved match) a disallowance of Federal funds may be taken. Non-Federal share must meet the same criteria for allowability as other costs incurred and paid with Federal funds.

We understand that grantees are operating in challenging economic times. Historic sources of non-Federal share may limit or eliminate their donations and contributions. For example, donated or reduced-cost space and facilities may be less available, State pre-K and other early childhood funding may be reduced, and sources of donations may be diminishing. However, grantees should be aware that failure to meet non-Federal share requirements can result in serious financial consequences. An example of the impact of a disallowance of non-Federal share follows:

Funded		**Actual**	
Federal share:	$ 800,000	Federal share expended:	$ 800,000
Required non-Federal share:	200,000	Allowable non-Federal share:	180,000
Total grant award:	$ 1,000,000	Actual grant amount:	$ 980,000

Recalculated maximum Federal share: $980,000 x 80% = $784,000 (80% of Actual grant amount)

Amount of disallowance: $800,000 - $784,000 = **$16,000**

Given the potential impact of a disallowance, it is important that grantees carefully review the adequacy of their systems for documentation of contributions of non-Federal share. Federal source funds are not allowable as non-Federal share without specific statutory language allowing this use of Federal funds (45 CFR §74.23(a)(5) and §92.24(b)(1)). Grantees should re-examine the source of historic State funding to ensure that State funds have not been replaced with Federal source funds. Grantees must ensure that claims for donated and reduced-cost space in facilities involve an unrelated party and reflect the fair market rental value of the property at the time of donation as established by an independent appraiser and certified by a responsible official of the grantee (45 CFR §74.23(h) and §92.24(d)). Grantees must ensure that claims of non-Federal share for use of facilities owned by a related party are limited to depreciation or use allowance (45 CFR §74.23(g)). Grantees are reminded to carefully consider all elements of non-Federal share to ensure that they are adequately documented and meet the same standards of reasonable, allocable, and necessary for the accomplishment of the project objectives which apply to direct program expenditures.

The Office of Head Start enforces grantee matching requirements for each budget period. The annual SF-424 submitted by the grantee reflects the non-Federal share match proposed by the grantee. The amount of proposed match cannot be less than 20 percent unless a written waiver is received by the grantee from the Secretary of the Department of Health and Human Services or his/her designee.

Grantees actively seeking non-Federal share but facing community circumstances that create a concern that the 20 percent match requirement cannot be met should consider submitting a written request for waiver with their annual refunding application. If match requirements cannot be met due to circumstances arising during the budget period, grantees are encouraged to immediately submit a request for waiver to their Regional Office. Grantees are cautioned that waivers apply only to one budget period and, if needed, the grantee must apply for a new waiver for any subsequent budget period.

The following circumstances are taken into account in determining whether a waiver will be granted. Grantees requesting waivers should provide sufficient detailed information in their waiver requests to allow careful consideration of the relevant circumstances:

> (1) the lack of resources available in the community that may prevent the Head Start agency from providing all or a portion of the non-Federal contribution that may be required;
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> (2) the impact of the cost the Head Start agency may incur in initial years it carries out such program;
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> (3) the impact of an unanticipated increase in the cost the Head Start agency may incur to carry out such program;
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> (4) whether the Head Start agency is located in a community adversely affected by a major disaster; and
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> (5) the impact on the community that would result if the Head Start agency ceased to carry out such program.

Head Start Act Section 640(b).

CITATIONS: 2 CFR 220, 2 CFR 225, 2 CFR 230, 45 CFR Part 74, 45 CFR Part 92, 45 CFR 1301.20, 45 CFR 1301.21

Please direct any questions on this Program Instruction to your Office of Head Start Regional Office.

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