

PROCEDURE NUMBER: FINA 3.00 Procedure

SECTION: Administration and Finance

SUBJECT: Sponsored Awards – Program Income

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REVISION:

Procedure for: All Campuses

Authorized by: Mandy Kibler

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Procedure Statement

The University Administration and Finance Division, Controller’s Office, will ensure compliance with University Policy FINA 3.00. This procedure is applicable to campuses, units, departments, centers, Principal Investigators (PIs), and administrators at the University who are involved with the initiation, administration, and conduct of sponsored awards. The purpose of this procedure is to supplement the associated policy by providing additional detail and guidance on program income.

A. Program Income Overview

As defined by 2 CFR 200.307, program income refers to approved gross income earned by the recipient or subrecipient that is directly generated by a supported activity or earned as a result of the sponsored award during the period of performance. This income is subject to strict tracking and reporting requirements and must be managed and used in compliance with sponsor terms and conditions. Non-compliance with these regulations can result in significant consequences, including but not limited to the withholding of future awards.

Program income should be used to cover project expenses in alignment with the program income treatment specified in the sponsored award. The following apply to the accounting treatment of program income:

- If the income is partially related to non-sponsored activities, it should be prorated to reflect the portion tied to the sponsored award.
- Program income funds should be expended before sponsor funds during the project’s performance period.

- Depending on the sponsor's guidelines, income may either be deducted from project costs, added to the award, or used for cost sharing.

B. Examples of Program Income

Program income can come from various sources, including but not limited to:

- Fees for services performed (e.g., laboratory tests, consultations).
- Conference/workshop registration fees.
- Rental of real or personal property acquired through sponsored awards (e.g., lab or computing equipment).
- Sale of commodities or materials fabricated under the award (e.g., educational materials, software, research animals).
- License fees or royalties on patents and copyrights.
- Principal and interest on loans made with sponsored award funds.

Exclusions from program income include:

- Taxes, special assessments, levies, fines, and similar revenues the recipient or subrecipient raised.
- Proceeds from the sale of real property, equipment, or supplies
- License fees and royalties for copyrighted material, patents, patent applications, trademarks, and inventions made under the sponsored award,
- Other revenues, unless specifically approved by the sponsor as program income.

C. Treatment of Program Income

Program income must be handled in accordance with federal regulations and sponsor requirements. The sponsor should specify what program income method(s) will be used in the terms and conditions of the sponsored award. The Office of Sponsored Awards Management (SAM) should coordinate with Grants and Funds Management (GFM) to determine the correct treatment for program income, which falls under one of the following methods:

1. Deduction Method

- Program income must be used for current project costs unless the sponsor explicitly allows otherwise.
- Unexpected program income should be used to reduce the sponsored award and University contributions, not to increase project funds.
- Example: The sponsored award amount was \$100,000. \$10,000 of program income is earned. The program income must be used to off-set the award amount from the sponsor and reduces the total award amount to \$90,000. Total available

funds for the project remain at \$100,000 (\$90,000 from the sponsored award and \$10,000 from the program income earned).

- Setup: If the deduction method is the approved method, no separate project number should be set up for program income. Instead, the department should code the deposit to the project earning the program income with account code 64100 (Program Income).

2. Additive Method

- Program income may be added to the award and used for project-related purposes under the same conditions as the original award.
- Example: The sponsored award amount was \$100,000. \$10,000 of program income is generated. The total allowed project costs are now \$110,000 (\$100,000 is expensed on the original award and \$10,000 is expensed on the program income).
- Setup: If the additive method is the approved method, a separate subaccount should be created with a new project number linked to the parent contract number. The title should reference program income and the parent project number – e.g., “Program Income – 12345678”. The budget should be set to \$1. As program income is earned, the budget should increase to the amount equal to program income. Expenditures posted to the account should never exceed the amount of program income earned.

3. Cost Sharing or Matching

- Program income may be used to meet cost-sharing or matching requirements, keeping the total federal award unchanged.
- Example: The sponsored award amount was \$100,000 with a cost-sharing commitment of \$20,000. \$10,000 of program income is generated. The expenditure of the program income may be used to account for \$10,000 of the cost sharing commitment.
- Setup: If the cost sharing method is the approved method, the department should coordinate with GFM to request the setup of a separate USCIP project with fund N3000 (Program Income) from Chartfield Maintenance. GFM will coordinate with SAM to ensure the proper account changes, including the addition of a subaccount, are completed.

Program income expenditures are not subject to indirect cost.

C. Proposal Process

The Principal Investigator (PI) and department must review the proposal to identify potential or actual sources of program income and include that program income in the proposed budget.

If it is determined after award initiation that program income will be earned, PIs and departments should promptly coordinate with SAM and GFM to ensure proper tracking of the program income.

D. Sponsor Reporting

Program income must be reported to the sponsor based on the approved method (e.g., deductive, additive, cost sharing). Typically, a financial report (e.g., Federal Financial Report or National Science Foundation Annual Consolidated Program Income Report) is required to be submitted annually or at the end of the award period. GFM completes and submits all sponsor financial reporting.

E. Program Income after the Period of Performance

There are no requirements governing the disposition of program income earned after the end of the period of performance of the sponsored award unless stipulated in the sponsor regulations or the terms and conditions of the sponsored award. The sponsor may negotiate agreements with recipients regarding appropriate uses of income earned after the end of the period of performance as part of the closeout process. GFM will adhere to the following guidelines for program income earned after the end of the period of performance:

- Program income earned within 60 days after the award expires is still considered program income and must be handled according to the guidelines.
- Beyond 60 days, unless specifically directed by the sponsor, there is no further obligation to report or return program income earned after the award period ends.

F. Program Income Account Reconciliation and Closeout

As the sponsored award nears expiration, GFM will reconcile the program income account, ensuring any remaining balances are appropriately allocated to the main account or other relevant accounts, depending on the sponsor's approved accounting method.

- **Scenario 1 (Deductive / Additive):** A conference generates \$15,000 in program income, with \$3,500 in expenditures.
 - Deductive Method: The \$15,000 should be deposited in Account 64100 (Program Income) for the project that earned the income. Departments are responsible for completing any correcting entries.
 - Additive Method: As program income is earned, budget increases should occur for the separate subaccount to equal the program income received. Program income should be spent prior to spending sponsor funds. If there is an excess of expenditure on the subaccount the expenditures will need to move to the parent

account. If there is an excess of program income on the subaccount, allocable expenditures should be moved from the parent account. Departments are responsible for completing any correcting entries.

- **Scenario 2 (Cost Sharing):** Program income of \$24,000 is used to meet a 1:1 cost-sharing requirement for the project.
 - The cost share will be reconciled to the USCIP project with fund N3000 (Program Income). The amount of program income deposited in the account should equal the amount of expenses. Departments are responsible for completing any correcting entries. Any related expenses will be reallocated to the main project and the program income account will be closed.

G. Roles and Responsibilities

The management of program income involves several key players at different stages of the award:

Principal Investigator (PI)

- Identify potential program income sources at the proposal stage and develop a plan for how program income will be used.
- If it is determined after award initiation that program income will be earned, promptly coordinate with SAM and GFM to ensure proper track of the program income.
- Address any issues related to program income at project closeout.

Department

- Assist the PI in promptly billing for program income (e.g., products or services generating fees).
- Record program income in the financial system and ensure proper reconciliation of income versus financial reports.
- Monitor compliance with sponsor-imposed limits on program income.
- Ensure that program income is deposited in accordance with University policy (e.g., FINA 2.60, FINA 4.10).

Grants and Funds Management (GFM)

- Advise on the accounting and tracking of program income.
- Set up appropriate tracking mechanisms in PeopleSoft Finance.
- Determine whether program income is reportable or non-reportable.
- Ensure program income is reported to sponsors in the necessary financial reports.

Office of Sponsored Awards Management

- Review proposals to assess anticipated program income.

- Coordinate with sponsors to clarify the requirements or restrictions on program income.
- Aid in identifying the program income type and treatment for proper set up.

G. Resources and Forms

Resources, trainings, and guides can be found on the Controller's Office website under the Grants and Funds Management and Resources and Training Toolbox sections.