

## **University of Rochester Program Income Policy**

This policy sets forth the definition of program income and the proper use, accounting, and reporting of program income at the University of Rochester. The University's policy is based upon the federal definition and treatment of program income.

### **1) Definition and Examples of Program Income**

2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, defines program income as:

*“Gross income earned by the recipient that is directly generated by a supported activity or earned as a result of the Federal award during the period of performance.”*

Examples of program income include:

- Fees earned from services performed under the award, such as those resulting from laboratory drug testing
- Rental or usage fees, such as those earned from fees charged for use of computer or laboratory equipment purchased with grant funds (note that rental of computer or laboratory equipment by outside parties requires approval by the relevant Dean's office or Office of Counsel)
- Funds generated by the sale of commodities and research materials, such as tissue cultures, cell lines, or research animals
- Proceeds from the sale of software, tapes or publications
- Admission fees
- Registration fees charged to participants for a workshop or conference sponsored by a grant award

Examples of situations that are not normally treated as program income include:

- Proceeds from the sale of property or equipment purchased from federal funds
- Interest earned on advances of Federal funds
- Rebates, credits, discounts to federal awards, and interest earned on any of these

Program income is normally received by the University from a third party and not from the sponsoring agency. The federal definition of program income also includes license fees and royalties on patents and copyrights. However, unless restricted otherwise by the award terms and conditions, the University has no obligation to the federal government with respect to income derived from license fees and royalties.

## 2) Use of Program Income

2 CFR Part 200.307 specifies three methods for use of program income from federal projects (i.e., awards, contracts or co-operative agreements) earned during the project period. Program income earned during the project period is retained by the recipient and can be used in the following ways, with the prior approval of the federal awarding agency:

1. Deductive: Deducted from the total amount to be reimbursed from the sponsor, subtracted from the authorized amount reimburseable by the sponsor, and must be used to cover current costs of the project.
2. Additive: Added to the funds committed to the project by the sponsor, the recipient must use the funds for the purposes and under the conditions of the project.
3. Cost Sharing or Matching: Used to meet the cost sharing or matching requirements of the federal project.

Normally, the “Additive Method” shall automatically apply to all awards made to the University of Rochester.. In exceptional circumstances, the sponsor may require an alternate method for the use of program income that will be specifically identified in the terms and conditions of the project. Unless a federal project specifies otherwise, the University has no obligation to the sponsor regarding program income earned after the project period.

## 3) Proposal Preparation

It is the responsibility of the PI to identify sources of actual or potential program income at the proposal stage. This should be incorporated into the narrative of the proposal itself and program income should be indicated on the University Proposal Sign-Off Form.

## 4) Accounting for Program Income

The University will account for program income in the primary Award Line of the UR Financials Award of a given sponsored project.

The checks received for program income need to be sent to Office of Research Accounting and Costing Standards (ORACS), at which time an “ad hoc bank transaction” will be made to record the payment. ORACS will make the deposit to the University’s bank account.

Program income can be tracked for UR Financials Awards either as additive (the Additive Method of Section 2 above) or dilutive (the Deductive Method of Section 2 above).

When the sponsor allows for awarded amounts and program income to be consumed in the performance of the project, the program income is additive. Spend Category Program Income – Additive (SC69150) will be used to record the deposit on the ad hoc bank transaction, therefore recognizing revenue to offset expenses recorded against the primary Award Line.

When the sponsor reduces the authorized amount by the program income realized and recorded, that program income is dilutive. An adjustment to the authorized amount will be required via an amendment created by ORACS. Spend Category Program Income – Deductive (SC69200) will be used

to record the posting on the ad hoc bank transaction. ORACS will manage the amount “authorized to bill the sponsor” by reducing the “billing limit” of the related UR Financials Award.

## 5) **Reporting Program Income**

The sponsored project terms or agency specific regulations, in most cases, determine the program income reporting requirements.

- ORACS, with assistance from the department, will ensure that all program income is identified and recorded.
- ORACS is responsible for reporting program income to the sponsor. Some agencies (such as NSF) have annual reporting requirements, even if no program income was earned.
- Reporting and disposition of remaining program income funds will be in accordance with the requirements of the individual sponsor.
- Normally unexpended program income will need to be remitted to the awarding agency. Efforts should be made to avoid having unexpended program income at award expiration. However, if funds remain and there are no restrictions to remaining program income funds, the department may request a transfer to an unrestricted UR Financials FAO.

## 6) **Specific Responsibilities Associated with Program Income**

Principal Investigator/Department:

- Understand and comply with the University’s program income policy
- Identify program income on the University Proposal Sign-Off Form at the proposal stage, or notify ORPA if unanticipated program income is identified during the project period
- Charge only allowable and recoverable expenses to the UR Financials Award Line
- Follow guidelines for disposition of program income
- Submit closeout information for program income with closeout of the project.

Office of Research & Project Administration (ORPA):

- Advise Principal Investigator regarding proper use of program income
- Negotiate terms with respect to program income
- Provide notifications to the department and ORACS of changes in terms of a sponsored project
- Determine the program income reporting requirements of a sponsored project

Office of Research Accounting and Costing Standards (ORACS):

- Record program income transactions in UR Financials Award Lines (see Section 4)
- Report program income to the sponsor (see Section 5)

## 7) **Retention of Program Income Records**

Retention of program income records is identical to retention of records of sponsored program activities. Source documentation must be retained by the department for a period of three (3) years following final payment by the sponsor, unless the award indicates a longer retention period or there is an audit/litigation in progress.

## 8) **Examples**

The following fictitious examples represent situations where sponsor-approved program income is realized and the procedure that should be followed:

1. Professor Jones is conducting a study on glacial deposits funded by NSF. He purchases a mass spectrometer with his grant funding. During the project period, Professor Jones provides measurements via the use of the spectrometer to a small local company after he obtains permission from the University and a service agreement is signed by the company. \$10,000 is generated by providing these services to the company. Because the data request by the company was unforeseen at the time of the proposal, Professor Jones notifies ORPA of the situation as soon as it is identified. ORPA requests ORACS to affect the Award Line of the UR Financials Award for the project. When the \$10,000 is received, ORACS will record an "ad hoc bank transaction" to record the payment and will make the deposit to the University's bank account.
2. Professor Wind is funded by two agencies, ONR and AFOSR, for the purpose of conducting a conference on night vision. It was anticipated at the time of proposal submission that federal funding would not be sufficient to cover conference costs and, therefore, a registration fee would be requested from conference attendees. Since program income was identified early in the process, the University Proposal Sign-Off Form indicated that program income would be generated. Because there are two awards supporting the conference, program income will be reported against both the ONR and AFOSR projects in equal amounts.
3. Dr. George is funded by NIH to conduct research in novel systems for gene therapy. During the course of the research, Dr. George develops a cell line that would be helpful as a research tool for other NIH-funded institutions. Because the cell line is a research tool, Dr. George must follow NIH's guidelines for the dissemination of research tools and licensing the cell line is not an appropriate means by which to distribute the materials. Dr. George is, however, able to charge the recipient organizations a fee for effort, materials and delivery of the materials. Because there are many institutions requesting the material, the income for these fees is significant and ORPA generates an amendment for ORACS to affect the Award Line of the UR Financials Award for the sponsored project.