

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

This policy sets forth the definition of program income, the proper use, accounting and reporting of program income at the University of Rochester. While the University's policy is based upon the federal definition and treatment of program income, all sponsored funding is subject to the following procedures.

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

OMB Circular A-110, *The Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations*, 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 award.”*

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.
- 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.
- Third-party patient reimbursement for hospital and other medical services, such as insurance payments for patients where such reimbursement occurs because of the grant supported activity.
- Pharmaceutical company or industry reimbursement of drug costs where such reimbursement occurs because of the grant supported activity.

As indicated above, 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**

OMB Circular A-110 specifies three methods for use of program income from federal funds earned during the grant period. Program income earned during the project period is retained by the recipient and can be used in the following ways:

1. Additive Method: Added to the funds committed to the project by the federal awarding agency and recipient and used to further eligible project or grant objectives.
2. Matching Method: Used to finance the non-federal share of the project or program (i.e.; used to fulfill matching or cost sharing requirements).
3. Deduction Alternative: Deducted from the total project or program allowable cost in determining the net allowable costs on which the federal share of costs is based.

Normally, the first use or “additional costs alternative” shall automatically apply to all research awards and the third use shall apply to all other federally-supported projects or programs. Unless the federal award specifies otherwise, the University has no obligation to the Federal Government regarding program income earned after the project period.

**CAUTION:** Federal and non-federal sponsors do differ in their treatment of program income. Examples of various federal agency implementation of program income requirements of OMB Circular A-110 are noted below. Principal Investigators and Department Administrators should be aware of which use applies to a specific award. If you have any questions, please contact ORPA.

### 3) Examples of Agency Regulations

#### a) National Science Foundation (NSF)

NSF typically adheres to the standard treatment of program income as noted in OMB Circular A-110:

- Standard Treatment: Unless otherwise specified in the grant, program income received or accruing to the grantee during the period of the grant is to be retained by the grantee, added to the funds committed to the project by NSF, and thus used to further project objectives. The grantee has no obligation to NSF with respect to: 1) license fees and royalties for copyrighted material, patents, patent applications, trademarks and inventions; or 2) program income received beyond the period of the grant.
- Special Treatment: In exceptional circumstances, the NSF Grants Officer, in collaboration with Program Officers and other appropriate NSF offices, may approve use of a special grant provision to restrict or eliminate a grantee's control of income earned through NSF-supported activities if it determines that this would best serve the purposes of a particular program or grant. The special provisions may require the federal share of program income be kept in a separate account, reported on and/or remitted for such periods as may be reasonable under the circumstances.

#### b) National Institutes of Health (NIH)

NIH requirements for program income vary depending on the type of award and must be reported. Program income, other than income earned as a result of copyrights, patents, or inventions or as a result of the sale of real property, equipment, or supplies, earned during the period of the grant support, may be retained by the grantee and may be used in one or a combination of alternatives as prescribed by OMB Circular A-110. NIH adds an additional alternative (combination alternative) that stipulates that grantees may use income up to (and including) \$25,000 as specified for the additive alternative and any amount of program income exceeding \$25,000 under the deductive alternative.

- The additive alternative will normally apply to program income earned under NIH awards subject to expanded authorities.
- For all other awards, the combination alternative will apply unless the terms and conditions of the award indicate otherwise.
- The circumstances under which NIH may require use of a different alternative include when the grantee has deficient systems or where the PI has a history of frequent, large annual unobligated balances on previous grants or has requested multiple extensions of the budget/project period.

**c) NASA, Department of Energy (DOE) and Department of Education (DoEd)**

NASA, DOE and DoEd typically adhere to the standard treatment of program income as noted in OMB Circular A-110.

**d) Department of Defense (DOD)**

Treatment of program income by DOD agencies varies. Specific DOD agencies are listed below:

Army (Army Research Office)

All program income earned during the project period (except proceeds from the sale of real and personal property and license fees and royalties received as a result of copyrights or patents produced under the grant) shall be deducted from the total project's allowable costs in determining the net allowable costs on which the Federal share of costs will be based.

Navy (Office of Naval Research)

ONR typically adheres to the standard treatment of program income as noted in OMB Circular A-110.

Air Force (Air Force Office of Scientific Research)

All program income earned during the project period shall be added to funds committed to the project by the Government and Grantee organization and be used to further eligible program objectives.

**e) National Endowment for the Humanities (NEH)**

- The federal share of program income is determined by the percentage of total project costs that are supported by NEH. In general, the federal share of program income earned during the grant period shall be retained by the grantee and, unless the grant award specifies how such income will be used, the grantee must use it in one or more of the alternatives described in OMB Circular A-110.
- NEH also reserves the right to make a claim to or restrict the use of the federal share of income earned during the seven years following the grant period.

**4) 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 in to the narrative of the proposal itself and program income should be indicated on the University Proposal Sign-Off Form.

## 5) **Requesting An Account for Program Income**

An account number for program income will be requested by ORPA when program income is identified. If program income is identified in the proposal, the account will be requested along with the project account when the award has been received. Alternatively, program income may be identified well into the project. In this situation, it is the Department's responsibility to identify program income, notify ORPA and request that an account number be established.

## 6) **Accounting for Program Income**

The University accounts for program income in a separate ledger 5 account, and will establish a program income account (ledger 5) for each project that will generate program income. The program income account will be setup as a sub-account to the sponsored project with the same account attributes.

- The Department is responsible for invoicing/receiving the program income. Program income checks should be sent to ORPA indicating the appropriate account number. ORPA will generate a NOA and forward the check to ORACS for deposit.
- When program income is received, the income will be deposited into the general ledger account (0-xxxxx-1360) and a budget entry will be done to the subsidiary ledger (ledger 5) to reflect the income.
- Expenses related to the generation of program income will be charged to the program income ledger 5 account. Expenses that are non-recoverable (i.e., unallowable) on the main account are not recoverable on the program income account.
- F&A (indirect) costs will be charged on expenses related to program income at the same rate, with appropriate exclusions, as the main account. Exceptions to this policy are made only with the approval of the appropriate Dean's Office.

## 7) **Reporting Program Income**

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

- ORACS will, with assistance from the Department, ensure that all program income is identified and recorded properly as revenue in the correct account.
- ORACS will verify that only recoverable costs are charged to the program income account. ORACS is responsible for reporting program income to the sponsor at the same time reporting of the main account is required.
- Reporting and disposition of remaining funds will be in accordance with the requirements of the individual sponsor.
- If there are no restrictions to remaining program income funds, the department may request a transfer to an unrestricted account.

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

Principal Investigator/Department

- Understand and abide by the University's program income policy.
- Identify program income on the Sign-Off Form at the proposal stage, or notify ORPA if unanticipated program income is identified during the project.
- Charge only allowable and recoverable expenses.
- Follow guidelines for disposition of program income.

- Submit closeout information for program income with closeout of main account.

#### Office of Research & Project Administration (ORPA)

- Advise Principal Investigator if proposing use of program income in proposal or if program income is identified during the project.
- Negotiate terms with respect to program income.
- Provide notifications to the department and ORACS for changes in terms of sponsored projects.

#### Office of Research Accounting and Costing Standards (ORACS)

- Establish the program income account upon request.
- Determine the program income reporting requirements and report program income to the sponsor.
- Confirm program income amounts with the department.
- Assist department in transferring program income balances.

### 9) 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 Departments for a period of three (3) years following final payment by the award sponsor, unless the award indicates a longer retention period or there is an audit/litigation still in progress.

### 10) Examples

The following (fabricated) examples represent situations where program income is generated 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 grant period, Professor Jones leases the use of the spectrometer to a small local company after he obtains permission from the University and a user agreement is signed by the company. \$10,000 is generated by the use of the equipment. Because the company's use of the equipment was unforeseen at the time of the proposal, Professor Jones notifies ORPA of the situation at the time the user agreement is signed. ORPA requests an account number for the program income and the \$10,000 is deposited in the program income account when it is received for the purposes of the grant.
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 sign-off form indicated that program income would be generated. At the time that the first award is made, an account number is requested by ORPA for the program income. This account will be used for the registration income and utilized to pay for conference expenses. Because there are two awards supporting the conference, program income will be reported against both the ONR and AFOSR grant at the same amount.
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, this income for these fees is significant and an account number is requested from ORPA for program income purposes.

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