



<b>SUBJECT:</b> Program Income	<b>Effective Date:</b> 01/25/2013	<b>Policy Number</b> 10.5.13
	<b>Supersedes:</b> 08//2008	<b>Page</b> <b>Of</b> 1                7
	<b>Responsible Authority:</b> Division of Research Director, Research Accounting	

**I. Introduction:**

These policies and procedures have been written to:

- A. Inform Florida Atlantic University’s research community of the Program Income Policy.
- B. Educate Principal Investigators, Department Budget Coordinators, and Division of Research staff on how to administer Program Income.
- C. Ensure compliance with OMB Circular A-110, Subpart C, Section 24.

**II. Definitions:**

- A. Office of Management and Budget (OMB): the federal agency that establishes grants management policies and guidelines through circulars and common rules.
- B. OMB Circular A-21: “Cost Principles for Educational Institutions” provides guidelines on the allowability of costs for federal awards received by universities. Section J. of this document lists 50 cost items and states whether they are allowable or unallowable costs on federal awards. This document also includes the Cost Accounting Standards that are applicable to educational institutions. A complete copy of this document can be obtained at <http://www.whitehouse.gov/OMB/circulars/a021/a021.html>.
- C. OMB Circular A-110: “Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations” sets forth standards for obtaining consistency and uniformity among Federal agencies in the administration of grants to and agreements with institutions of higher education, hospitals, and other non-profit organizations. A complete copy of this document is available at <http://www.whitehouse.gov/OMB/circulars/a110/a110.html>. Subpart C of this document discusses Post Award Requirements, such as the following:
  - 1. Standards for Financial Management Systems

2. Payment Methods
3. Cost Sharing or Matching
4. Program Income
5. Revision of Budget and Program Plans

D. OMB Circular A-133: “Audits of States, Local Governments, and Non-Profit Organizations” sets forth standards for obtaining consistency and uniformity among Federal agencies for the audit of States, local governments, and non-profit organizations expending Federal awards. A copy of this document is available at <http://www.whitehouse.gov/omb/circulars/a133/a133.html>. Part 3, Section J. of the A-133 Compliance Supplement discusses the Compliance Requirements for Program Income.

E. Program Income: Incidental income generated as a result of a sponsored program or project. See Article IV. for examples of Program Income.

OMB Circular A-110 defines Program Income as follows:

Program income means gross income earned by the recipient that is directly generated by a supported activity or earned as a result of the award (see exclusions in paragraphs 24 (e) and (h)). Program income includes, but is not limited to, income from fees for services performed, the use or rental of real or personal property acquired under federally-funded projects, the sale of commodities or items fabricated under an award, license fees and royalties on patents and copyrights, and interest on loans made with award funds. Interest earned on advances of Federal funds is not program income. Except as otherwise provided in Federal awarding agency regulations or the terms and conditions of the award, program income does not include the receipt of principal on loans, rebates, credits, discounts, etc., or interest earned on any of them.

F. Program Income Fund: a separate Banner Fund that is set up to account for the Program Income generated (received) and spent for a particular sponsored program or project.

### **III. Background:**

The University receives funding from various sponsors for many projects and programs conducted on and off campus. Depending on the nature of the scope of work, there may be Program Income associated with the project. Examples of Program Income are listed in Section IV. below.

Awards from federal sponsors are subject to OMB Circulars A-21 and A-110. The administration of Program Income for federally funded projects must comply with OMB Circular A-110, Section 24 (See Exhibit A). In addition, Program Income on federal and federal flow through awards is reviewed by the State Auditors as required by OMB Circular A-133.

### **IV. Examples of Program Income:**

Program Income includes (but is not limited to) the following revenue generated as a result of a sponsored program or project:

1. Income from fees for services performed, such as those resulting from laboratory testing.
2. Sale of commodities or items fabricated or generated
3. Third party reimbursement for hospital or medical services
4. Sale of educational materials, including curricula and software
5. Registration fees charged to participants for a workshop or conference
6. Proceeds from the sale of software or publications

Unless otherwise specified in the awarding agency guidelines or in the award terms and conditions, Program Income does NOT include the following:

1. Interest earned on advances of Federal funds
2. Receipt of rebates, credits, and discounts on expenditures
3. Income earned after the end of the project period

#### **V. Policy Statement:**

A. Separate Banner Fund: It is the policy of Florida Atlantic University to account for Program Income in a separate Banner Fund.

B. Proper Approach: FAU will spend and report the Program Income as required by the terms and conditions of the award using one of the three approaches described in Article VI. below.

C. Rules for Allowability: The Program Income funds must follow the same rules for Allowability as the funding from the sponsor. In other words, if the expense cannot be charged to the Grant Fund, it cannot be charged to the Program Income Fund. For more information concerning Allowability, see the "Allowability of Costs on Federal Awards" on the Research Accounting website at <http://www.fau.edu/research/docs/forms/research-accounting/allowability.doc>.

#### **VI. Three Approaches for Administering and Spending Program Income:**

OMB Circular A-110, Section 24 states that Program Income will be used (spent) in one of the following ways:

- (1) Added to funds committed to the project by the Federal awarding agency and recipient and used to further eligible project or program objectives.
- (2) Used to finance the non-Federal share of the project or program.
- (3) Deducted from the total project or program allowable cost in determining the net allowable costs on which the Federal share of costs is based.

FAU interprets OMB Circular A-110 to mean that the Program Income will be spent and administered by applying one of the following approaches:

1. The Additive Approach: Program Income is added to the project budget to further project or program objectives. The amount of Program Income increases the amount available for the PI to accomplish the scope of work of the project.

For example, if the amount awarded by the sponsor is \$100,000 and the project generates Program Income from conference registration fees in the amount of \$5,000, the amount available for the project is \$105,000. The Program Income generated will be accounted for in a separate Banner Fund and the funding from the sponsor will be accounted for in a separate Banner Fund.

2. The Cost Share / Matching Approach: Program Income earned is used to finance the Non-Federal share of the project or program.

For example, FAU receives an award from a Federal sponsor in the amount of \$50,000. The sponsor requires a matching amount from FAU of \$10,000. The sponsor allows Program Income to be used to meet the matching requirement. In the example, the project generates Program Income in the amount of \$10,000. This \$10,000 in Program Income is accounted for in a separate Banner Fund. The \$50,000 from the sponsor is accounted for in a separate Banner Fund. The entire \$10,000 in Program Income is spent on the project. FAU has met the Cost Share / Matching obligation for this project.

3. The Deductive Approach: Program Income is deducted from the amount awarded by the sponsor to determine the net allowable federal share of costs. In other words, the total funds available to the project remain the same as the amount awarded by the sponsor. The funds generated by the Program Income reduce the amount that can be requested from the sponsor.

For example, the sponsor has awarded FAU an amount of \$75,000. The award terms and conditions state that any Program Income earned and spent on the project will reduce the amount that FAU can request from the sponsor. During the project period, there is Program Income generated and spent in the amount of \$3,000. The \$3,000 in Program Income is accounted for in a separate Banner Fund. FAU must report the Program Income earned and spent on the project to the sponsor. FAU accounts for the funds from the sponsor in a separate Banner Fund. FAU can request reimbursement from the sponsor for an amount up to \$72,000 (\$75,000 less \$3,000).

If the award document is not clear as to which approach FAU is to apply in spending and reporting Program Income, the Research Accounting Coordinator will contact the sponsor for guidance and communicate the approach to the PI and Department Budget Coordinator.

## **VII. Procedures:**

### **A. Proposal Stage:**

1. Preparing the Proposal Budget: If Program Income is included in the proposal and scope of work of the project, the projected amount should be stated in the proposal budget and budget justification. The estimated amount of Program Income should be broken down by budget line item. Since the budget is a restatement of the project in terms of dollars, the line item budget should be consistent with the scope of work described in the project narrative.

### **B. Post Award Stage:**

1. Preparing the Pre Award Routing Sheet: After the award has been received from the sponsor, a Pre Award Routing Sheet will need to be prepared and submitted by the Principal Investigator to set up the separate Program Income Fund. The budget on the Pre Award Routing Sheet should mirror the budget approved by the sponsor for the Program Income. For questions concerning the completion of the Pre Award Routing Sheet, please contact your Sponsored Programs representative.
2. Preparing the Post Award Worksheet: Once the award document is received from the sponsor, Sponsored Programs will prepare a Post Award Worksheet for the funding awarded by the sponsor. Sponsored Programs will send this document, along with a copy of the Pre Award Routing Sheet, the award document, and the approved budget to Research Accounting. The amount of Program Income should be noted on the Post Award Worksheet for the funding awarded by the sponsor.
3. A separate Post Award Worksheet will be prepared by Sponsored Programs for the Program Income. Sponsored Programs will send this document along with the Pre Award Routing Sheet for the Program Income to Research Accounting.
4. Assigning the Program Income Fund Number: Research Accounting will assign a unique Banner Fund for the Program Income. This Banner Fund will be used to account for the Program Income generated and spent on the project. At the same time, Research Accounting will notify the Department Budget Coordinator of the Program Income Fund Number for this project with the New Program Income Fund Memo (See Exhibit B).
5. Determining the Proper Approach to Apply to Administer and Spend the Program Income: If the award document is not clear as to which method (from Article VI.) is appropriate for the project, the Research Accounting Coordinator will contact the sponsor for guidance and communicate the approach to the PI and Department Budget Coordinator.
6. Processing the Budget Transfer: In order to set up the budget in the Program Income Fund, the Department Budget Coordinator initiates a one-sided budget transfer to add budget to the Program Income Fund in the amounts included on the budget approved by the sponsor. The on-line Budget Transfer is used for processing the Budget Transfer. For questions about the on-line Budget Transfers, please call the University Budget Office.
7. Posting Revenue to the Program Income Fund: All revenue generated as Program Income related to the project must be deposited into the Program Income Fund. The revenue should not be commingled with other funds. For the types of revenue that qualify as Program Income, see Article IV.
8. Posting Expenses to the Program Income Fund: All of the direct costs to be funded by the Program Income Fund for the project, such as salary, fringe benefits, travel, and supplies, must post as expenditures on the Program Income Fund. These Costs will be reported as expenditures on the Organization Detail Activity Reports available on Eprint.

9. Reporting Program Income: Research Accounting will report Program Income to the sponsor as required by the award terms and conditions.
10. Closing Out the Project: Research Accounting will work with the PI and/or Department Budget Coordinator to determine the actual amount of Program Income generated and expended, so that this amount can be reported to the sponsor, as required. The Program Income Fund will be closed along with the FAU Grant Fund, following the standard close-out procedures.

## **VIII. Responsibilities:**

### **A. Principal Investigator:**

1. Provide Sponsored Programs with a copy of the Solicitation, Program Announcement, or RFP in advance or at the time of submitting the proposal so that they can review the program guidelines, including those concerning the administration and use of Program Income.
2. Include Program Income in the proposal budget and budget justification, not buried or implied in the narrative.
3. Review the Departmental Ledgers on a monthly basis to ensure that the costs charged to the Program Income Funds are allowable, allocable, and reasonable.

### **B. Sponsored Programs:**

1. Review proposal budgets for Program Income mentioned in the proposal narrative.
2. When the award is funded, complete the Post Award Worksheet for the funding awarded by the sponsor and indicate whether the project includes Program Income.
3. Also, prepare a Post Award Worksheet for the Program Income, so that a separate Banner Fund can be set up for these funds.

### **C. Department Budget Coordinator**

1. Prepare and submit the budget transfer to increase the budget in the Program Income Fund.
2. Deposit income earned (that qualifies as Program Income) in the Program Income Fund, not commingled with other funds.
3. Initiate the appropriate paperwork to charge allowable, allocable and reasonable costs to the Program Income Fund.
4. Review the Organization Detail Activity Reports on a monthly basis to ensure that the costs charged to the Program Income are allowable, allocable, and reasonable.

5. When necessary, process Labor Redistribution Forms and Expenditure Transfer Forms (ETFs) to move appropriate expenses to the Program Income Fund.
6. Contact Research Accounting at the end of the project period to inform them when all appropriate expenditures have posted and all encumbrances have cleared on the Program Income Fund. Research Accounting can then report the correct amount of Program Income generated (received) and spent to the sponsor, as well as close the Program Income Fund.

D. Research Accounting:

1. Notify the Departmental Budget Coordinator of the Program Income Fund using the New Program Income Fund Memo. (See Exhibit B)
2. If the award document is not clear as to which approach to apply when administering and spending the Program Income, contact the sponsor for guidance and communicate the answer to the Principal Investigator and Department Budget Coordinator. Report Program Income to the sponsor as required by the award terms and conditions.
3. Close out the Program Income Fund along with the FAU Grant Fund, using the standard close out procedures.

**IX. Summary:**

Although Program Income is relatively rare at the University, some projects/programs do involve Program Income. It is critical that the PI notify the Division of Research when Program Income is being generated from a sponsored project/program. FAU is required to spend and report Program Income in accordance with OMB Circular A-110, Section 24.

If you have questions concerning Program Income at the proposal stage, please contact your Sponsored Programs representative. If you have any questions concerning Program Income at the post award stage, please contact your Research Accounting representative.

**X. Annual Review of Procedures:**

The Program Income Policy will be reviewed annually.

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**POLICY APPROVAL**

*Initiating Authority*

Signature: Barry T. Rosson

Date: 1/25/2013

