THE UNIVERSITY OF TENNESSEE

System-wide Policy: FI0235 - Sponsored Projects - Program Income	
Version: 1	Effective Date: 10/01/2017

FI0235 – Sponsored Projects – Program Income

Topics:

Objective:

To ensure compliance with sponsor program income requirements, including identifying program income in proposals and in the accounting system, using the program income appropriately, and reporting it to the sponsor, if required.

Policy:

Definition

1. Program Income is gross income earned by the recipient that is directly generated by a supported activity or earned as a result of the award during the period of performance. Uniform Guidance (CFR) Title 2, Part 200.80 and Part 200. 307 establishes the rules for program income on federal projects.
2. 2 CFR 200. 307. E. states that program income earned during the project period of a federal project shall be retained by the recipient and, in accordance with

federal awarding agency regulations or the terms and conditions of the award, shall be used in one or more of the following ways:

a. Added to funds committed to the project by the federal awarding agency and recipient and used for the purposes and under the conditions of the federal award.
b. Used to meet cost-sharing or matching requirements of the federal award.
c. Deducted from the total allowable cost to determine the net allowable costs.

3. The proper ways to use program income are discussed more fully in the section "How program income can be used."

Examples of Program Income

4. Examples of program income include:
   - income from fees for services performed (such as laboratory tests);
   - money generated from the use, or rental of real or personal property acquired under awards (including supplies and equipment);
   - proceeds from the sale of commodities or items fabricated under an award;
   - income from the sale of research materials such as animal models;
   - principal and interest on loans made with award funds;
   - fees from participants at conferences or symposia;
   - proceeds from the sale of publications or software; and
   - license fees and royalties on patents and copyrights related to research projects funded by a federal award (see special situations and exclusions).
5. Program income does not include:
   - Rebates, credits, discounts, and interest;
   - patient care credits;
   - interest earned on advances of federal funds;

- taxes, special assessments, levies, and fines raised by government recipients, unless the revenues are specifically identified in the award or awarding agency regulations as program income (200.307).

6. All program income must be identified and recorded in the accounting system. Reporting of program income will be handled in accordance with sponsor requirements.

Exclusions

7. Unless federal awarding agency regulations or the terms and conditions of the award provide otherwise, recipients shall have no obligation to the federal government regarding income earned after the end of the project period. However, a general area of work may be supported over several years by a federal sponsor. The sponsor may consider that a current award to the institution is for the same general area of work and may want to be notified of income produced. If this is a possibility, then the sponsor should be notified and asked to determine if the income should be reported.
8. This policy does not include revenue generated through programs funded by sources other than sponsored projects, for example performing arts programs funded by private gifts.

Special Situations

9. **Honoraria.** Honoraria and fees earned from speaking engagements related to the sponsored program are not considered as program income if they are paid directly to the investigator. If the honorarium is paid to the university, then the sponsor might consider it to be program income. Check with your campus pre award or post award office.
10. **Royalty Income.** Royalties from copyrights, while defined as program income, are not reportable unless the terms and conditions of the award indicate otherwise. Royalties resulting from patents are program income, but the university has no obligation to report on them.

If the university receives income from the sale of a non-patented, but potentially patentable invention, then the campus business office, campus research office, and UT Research Foundation should be notified. It may be advisable to notify the sponsor of the income to determine if it should be reported as program income.

General Procedures

Proposal

11. The principal investigator should identify anticipated program income in the proposal if required by the sponsor guidelines. The campus preaward office should identify potential program income while reviewing the proposal and ensure that it is properly identified and budgeted according to sponsor regulations. See the section below regarding how program income can be used.
12. The university should apply the program income sponsor requirements to subrecipients.

Post Award Accounting

13. The departmental business manager should deposit program income receipts into the sponsored restricted WBS element using cost element 700900. The Controller's Office or campus post-award office should determine whether or not program income is reportable to the sponsor and report as required.

How Program Income Can Be Used

14. The campus preaward or postaward office reviews sponsor policies to determine their requirements. It is important for principal investigators to know how program income will be used because additional award funds could result in workscope changes. Reportable program income revenue can be handled in one of four ways, depending on the sponsor's policies:
    a. Matching - income is used to finance the nonsponsor or nonfederal share of the project.

b. Addition - income is added to the amount allowable for project costs.
c. Deduction - income is deducted from the amount reimbursed by the sponsor.

15. In general, program income revenue should be used before expenses are reimbursed by the sponsor. Program income must be spent in accordance with the terms and conditions of the award. Expenses charged to the program income account must be allowable, allocable, and reasonable in relation to the activity supported by the sponsor, in accordance with the Uniform Guidance. Expenses that are unallowable on the sponsored project may also be unallowable on the program income account. Exceptions may be costs incurred that are incidental to the generation of program income.
16. Example: A sponsor awards $100,000 for a project. The project generates an income of $30,000.
    a. Matching: if the university were required to supply matching funds, e.g., $50,000, the university would use the $30,000 as part of the match and would have to provide $20,000 for the remainder of the match.
    b. Addition: the total allowable costs would be $130,000.
    c. Deduction: the sponsor will now only fund $70,000 of the project's costs.
17. Generally, if funds are remaining at the end of a project, these funds are considered to be the sponsor's funds, not program income.

Which Handling Method is Used for a Particular Project?

18. **All Sponsors.** The sponsor may address anticipated program income revenue as part of the award. For example, conference fee revenue might be included as part of the awarded budget. Even if the sponsor does not label this revenue "program income," it is program income according to university and federal definitions of the term.
19. **Federal Sponsors.** Individual agency policies determine how the income will be handled. Typically, the additive method is used unless the regulations and guidelines specify otherwise.

20. **Nonfederal Sponsors.** In many cases, the sponsor does not have an established program income policy. If the sponsor is silent on this issue, the income is not reportable in either invoices or financial reports and will be handled according to the addition method.
21. **Sales Tax.** If program income is generated from the sale of taxable goods or services, then sales tax should be charged. Contact the campus business office regarding procedures for collecting and remitting sales tax.

Closeout and Records Retention

22. **Disposition of residual funds.** Disposition of residual program income funds will be handled in accordance with UT's project closeout procedures (see campus links below).
23. **Records Retention**. Retention of program income records is identical to the retention requirements of award records which are specified in the terms and conditions of the award.

PROCEDURES:

To view links to campus policies and procedures, click here:

https://policy.tennessee.edu/campus-policies-procedures/

FOR MORE INFORMATION:

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Related Policies: FI0205 - Sponsored Projects, FI0210 - Sponsored Projects - Cost Sharing, FI0215 - Sponsored Projects - Effort Certification, FI0220 - Sponsored Projects - Cost Transfers, FI0230 - Sponsored Projects - Subaward Origination and Subrecipient Monitoring, FI0420 - Contracts