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Office of Sponsored Programs

Procedure 30001 Program Income Associated with Sponsored Awards

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1. Introduction

Responsible Official: Senior Director of Sponsored Programs - Post Award

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IMPORTANT: For federal awards/subawards issued to Virginia Tech with a start date prior to December 26, 2014, 2 CFR Part 215 (OMB Circular A-110) and 2 CFR, Part 220 (OMB Circular A-21) apply. For all new funds (new awards and new monies, such as continuation awards, supplements, etc. received for existing awards) with a start date on or after December 26, 2014, these new funds are subject to 2 CFR Part 200 (commonly referred to as Uniform Guidance—Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards) but hereinafter referred to as "2 CFR Part 200").

Due to the change in federal regulations the language in this procedure specific to the new regulations, 2 CFR Part 200, is highlighted in red font below.

2. Scope

This procedure sets forth requirements for identifying, treating, recording, and reporting program income associated with sponsored awards. The procedure applies to all university departments and offices that are involved in the administration or use of sponsored award funds.

3. Procedure Statement

Virginia Tech is responsible for the programmatic and financial monitoring of program income. The terms governing program income are generally documented in the awarding document.

4. Reason for the Procedure

The purpose of this procedure is to inform the community of the requirements associated with program income in order to ensure the university's compliance with the terms and conditions of a sponsored award. Program income must be properly documented and accounted for in accordance with the terms and conditions of the award, this income must be administered through a program income fund established and administered by the Office of Sponsored Programs (OSP).

5. Definitions

Program Income: The gross income earned by a recipient/grantee that is directly generated by a supported activity or earned as a result of the award during the period of performance. For purposes of this procedure, income earned as a result of a sponsored award is considered program income whether a award is funded by federal or non-federal sponsors, or both. Program Income is the property of the sponsor. Guaranteed cost sharing should be avoided on awards that have program income. See also 2 CFR Part 200.1 and 2 CFR Part 200.307 for Uniform Guidance definitions and Program Income specific guidelines.

Personal Property: Property of any kind except real property. Personal property may be tangible, having physical existence, or intangible, having no physical existence, such as copyrights, patents, or securities.

Real Property: Land, including land improvements, structures and appurtenances thereto, but excludes movable machinery and equipment.

Recipient/Grantee: An entity that receives a grant, contract, or cooperative agreement directly from a sponsor.

6. Overview

Program income includes but is not limited to:

- fees from participants attending program funded conferences or symposia;
- ticket sales from a program funded performance or production;
- sales of products with an accompanying material transfer agreement;
- money generated from the use or rental of real or personal property purchased with award funds;
- proceeds from the sale of commodities or items fabricated with program funds;
- income from consulting and/or sales of educational materials generated by a program;
- proceeds from the sale of software, tapes, or publications resulting from a program;
- fees earned from services performed under the award, such as laboratory tests
- funds generated from sales of commodities and research materials, such as tissue cultures, cell lines and research animals;
- income from the sale of research materials such as animal models;
- industrial membership fees associated with Industry/University Cooperative Research Centers (I/UCRC), source NSF Program Solicitation;
- sale, rental, or usage fees, such as fees charged for the use of computing or laboratory equipment purchased with program funds; and
- principal and interest on loans made with federal award funds.

This is not an exhaustive list, but is representative of the major portion of program income. Contact your Sponsored Program Associate in OSP with questions about whether specific sources of income qualify as program income.

Program income does not include:

- patient care credits;
- interest earned on advances of federal funds;
- rebates, receipt of principal on loans, credits, discounts, etc. or interest earned on them;
- taxes, special assessments, levies, and fines raised by government recipients; or
- license fees and royalties on research funded by a federal award.

Unless the sponsor/awarding agency regulations or the terms and conditions of the award document provide otherwise, program income earned from license fees and royalties for copyrighted material, patents, patent applications, trademarks and inventions is exempt from reporting requirements.

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7. Treatment of Sponsored Awards Program Income

The treatment of program income on federal grants is stipulated by the administrative requirements of the awarding agency. Similarly, non-federal sponsors may have terms and conditions that govern the treatment of program income.

Treatment of program income earned under contracts is handled on a case by case basis under the terms and conditions of a particular contract.

Program income earned during an award period shall be retained by the university and is usually treated using one of four methods, depending on policy, sponsor type, and/or terms and conditions of the award:

- **Additive:** Program income funds are added to committed funds of the award by the awarding agency and recipient, thus increasing the amount available to accomplish program objectives (increase in available budget).

  EXAMPLE: the initial award budget was $100,000. $10,000 of program income is generated. The total award costs may now be $110,000. ($100,000 expensed on the parent budget and $10,000 expensed on the program income sub-budget.)

- **Deductive:** Total funds available to the award remain the same and the funds generated through program income are deducted from the financial commitment of the sponsor (offset to sponsor's funding).

  EXAMPLE: The initial award budget was $100,000. $10,000 of program income is earned. The adjusted award budget amount from the sponsor is reduced to $90,000 after gross program income is taken into account. Total award costs remain at $100,000. ($90,000 on the parent budget and $10,000 on the program income sub-budget.)

- **Matching:** Program income is used to finance the non-federal share of the award (used to satisfy mandatory or committed costs sharing requirements of the program or as matching funds). Program income is used for costs during the award period unless the sponsor authorizes deferral to a later period.

EXAMPLE: The initial award budget was $100,000 with cost sharing committed at $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 committed cost sharing.

- **Combination (Additive/Deductive):** Program income up to, and including, a specified amount are treated as specified under the additive alternative and any amount of program income exceeding the specified amount are treated under the deductive alternative.

  EXAMPLE: The initial award was $100,000. $35,000 of program income is earned and the sponsor allows the first $25,000 to be added to the award bringing the award to $125,000. The amount in excess of $25,000 [$10,000] is deducted from the new award amount. Thus, the award amount is: $100,000 + $35,000 - $10,000 = $125,000 ($90,000 agency funds plus $35,000 program income).

Federal research awards: generally the additive method is applied, unless otherwise stated in the terms and conditions of the award or sponsor regulations. If a research award is silent on the treatment of program income, the Additive method generally applies to research awards and is the default method for applying program income. Funds may be retained and used to further eligible project or program objectives during the term of the award.

Federal Non-research awards: generally the deductive method is applied to program income unless otherwise stated in the terms and conditions of the award. The Deductive method generally applies to non-research awards that are silent on the treatment of program income and is the default method. An amount equal to the program income is deducted from the award amount.

Although these default treatments usually apply, Virginia Tech may request permission from the sponsor to treat program income by applying an alternative. It is recommended that the intended treatment be clarified with the sponsor prior to the award and documented in writing.

Non-federal awards: generated income is handled according to specific sponsor rules as referenced in the award document. If the sponsor is silent on this issue of program income, the income is not reportable and therefore not considered program income.

Fixed Price Contracts: generated income is handled according to specific sponsor rules as referenced in the contract agreement or other sponsor terms and conditions. If the sponsor is silent on this issue, the income is not reportable and therefore not considered program income.

Regardless of the accounting method used, program income may be used only for allowable costs in accordance with the applicable cost principles and the terms and conditions of the award.

Examples of how the National Institutes of Health (NIH) and National Science Foundation (NSF) specifically treat program income are outlined below:

Sponsor	Standard Treatment
NIH	The Additive alternative applies to all grantees unless there is a concern with the recipient or activity, and NIH uses special terms and conditions, or the program requires a different program alternative.

Sponsor	Standard Treatment
NSF	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 award by NSF, and thus used to further award 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. 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 treatment of the program income via use of the deductive method, the federal share of program income be kept in a separate fund, reported on and/or remitted for such periods as may be reasonable under the circumstances.

8. Program Income and Proposal Preparation

Consider whether any program income will be generated during the award period and complete the proposal based on funding agency guidelines.

The principal investigator (PI) is responsible for informing OSP as early as possible (preferably during development of the proposal budget) that a sponsored program or proposed program is expected to generate program income. Unless specified otherwise in the award, federal regulations (2 CFR Part 200.305(b)(5)) require the university to expend program income funds before spending sponsor funds. Funds remaining in the award income account after the award has terminated will be returned to the sponsor. If the PI wishes to use these funds to further award objectives, a budget extension of the award should be requested. The PI should contact their Post Award Associate in OSP to request an extension. OSP will forward the request to the sponsor for approval (if applicable) prior to the program termination date.

Guaranteed cost sharing should be avoided on awards that are expected to generate program income. Guaranteed cost sharing could result in program income funds being required to be returned to the sponsor when unexpected by either the sponsor or the university. Internal commitments to cover shortages or a part thereof would be a more appropriate method of securing internal support for such awards with program income involved.

At the time of submitting a proposal with anticipated program income, and to be updated and revised at the time of award, the PI should provide the following to OSP:

- description of the activity and relationship to the grant or contract;
- approximate annual (or other appropriate period) level of income;
- a proposed fee schedule for the services to be performed, or cost of commodities to be sold;

- assurance that the service or commodity is not being provided to external customers at a price that is less than external vendors charge for the same goods or services;
- purpose or proposed use of the income; and
- the proposed beginning and end dates of the program income account.

OSP will review proposals/awards to determine if the activity is generating "program income." If the activity is considered program income and the activity meets the definition of a Service Center per university Policy 3250 Service Centers, OSP will contact the University Controllers Office to coordinate a review of the proposed rates. Generally speaking, the Service Center model and policy should be used if 50% or more of revenue is anticipated from internal university customers. If more than 50% of customers are expected to be external (non-university departments/units), rates for selling services and commodities are to be based upon the actual costs, in accordance with federal guidelines (2 CFR Part 200.462(b)(2)). Rates for external customers should be set so as to not create an unfair price advantage over private enterprise.

9. Program Income Budgeting Procedures

The program income budget will be established as a sub-fund under the parent program and associated by common grant number within the Banner Finance System. The budget period for the program income fund should coincide with the budget period of the parent program. The budget amount will the amount anticipated by the final program budget approved by the sponsor. However, departments and PIs are *strongly* cautioned not to spend against the budgets at a more rapid pace than the revenue is realized, as they will be responsible to cover expenditures in excess of revenues at the end of the award period. Typically, a single program income budget will be used over the entire period of the program, including those programs that are reported on new fund numbers for each renewal period. Upon receipt of a competing renewal, or other form of formal extension of the parent program by the sponsor, the PI or department should contact their OSP Post Award Associate and request that the end date on the program income fund be extended and the budget increased, if appropriate.

OSP will analyze the program income fund upon each billing cycle or no less frequently than monthly when the program is funded via a letter of credit. If expenditures exceed revenues, the department should be contacted to modify their spending pattern and/or transfer costs off of the program income fund. The accounting method and amount of program income to date shall be considered in determining the amount to request for reimbursement from the sponsor. If revenues are far in excess of expenditures, it may be necessary to request that the department transfer expenditures to the program income fund from the related sponsored fund.

Facilities and Administration (F&A) costs and fringe benefits will be charged on expenses related to program income at the same rate and basis as the prime sponsored award.

10. Customer Billing and Invoicing Procedures

See university policies and associated OSP procedures for information on accounts receivable invoicing (university policy 3605 Accounts Receivable and OSP procedure 30002 Accounts Receivable Associated with Sponsored Awards) and deposit procedures (university policy 3600 Funds Handling and Deposit of State and Local Funds and OSP procedure on Funds Handling and Deposit of State and Local Funds).

Charges to other university departmental budgets require authorization from the departments being charged. Retain the authorization on file in accordance with the university policy and OSP procedure on records retention (university policy 2000 Management of University Records and OSP procedure 10014 Records Retention)

Sales tax is normally collected on all sales to non-university entities. Appropriate sales tax should be computed and added as a separate amount on all sales of goods and services. The University Controllers Office will determine the applicability of sales tax when a determination is needed. The PI should be contacted in advance of such sales tax determination for input into the determination process and subsequent sales tax collection.

Upon collection, revenue should be recorded in an appropriate account code like Sales and Services, in the sub-fund established in the parent program. See ¶9 above.

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11. Expenditures Charged to Program Income Funds:

In general, program income funds should be expended prior to expensing sponsor funds.

Federal regulations define program income as **gross income**. (2 CFR Part 200.1) The NIH, NASA, US Department of Education, and other federal agency general terms and conditions allow costs incident to the generation of program income to be offset against gross income to arrive at "program income". Such costs may include supplies, materials, services and labor related to the production, marketing and distribution of the goods or services being sold.

PIs and departments should carefully review the sponsor terms and conditions to determine the allowability of these costs. Expenses charged to the program income budget must meet the same requirements of allowability as expenses charged to the parent sponsored budget.

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12. Continuation, Closeout and Remaining Budget

When the program's parent budget expires, the OSP Post Award Associate will review the status of all budgets associated with the parent budget. If the parent budget has a continuation budget, the program income sub-budget will become the program income sub-budget of the new parent fund. If authorized by awarding agency regulations or the terms and conditions of the award, costs incident to the generation of program income may be deducted from gross income to determine program income, provided these costs have not been charged to the award. Thus, based on the availability of funds, over expenditures on the parent budget may be transferred to the program income budget and vice-versa.

When required and upon termination of the parent budget, OSP will report program income earned and expended to the sponsoring agency on the appropriate sponsor's financial status report and/or the federal cash transaction report.

At the end of the award, OSP will return the remaining unexpended balance on the program income budget to the sponsor by requiring the department to transfer expenditures from the parent budget to the program income budget to bring the program income budget to a zero balance. The result may be an unexpended balance in the parent budget that will be returned to the sponsor. OSP will then close the program income budget.

Expenditures posted against program income must be in compliance with terms and conditions of the designated sponsored award.

13. References

2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)
Policy 2000, Management of University Records
Policy 3605, Accounts Receivable
Policy 3600, Funds Handling and Deposit of State and Local Funds
Policy 3250, Service Centers
OSP Procedure 10014, Records Retention
OSP Procedure 30002, Accounts Receivable Associated with Sponsored Awards

14. Contacts

- **Senior Director of Sponsored Programs - Post Award**
  Office of Sponsored Programs
  North End Center, Suite 4200
  300 Turner Street NW
  Blacksburg, VA 24061
  540.231.9372
- **Associate -Vice President for Research and Innovation, Sponsored Programs**
  540.231.5281

15. Roles and Responsibilities

- **Principal Investigators:**
  - Identify sources of actual and potential program income at the proposal stage;
  - complete required program income sections in the sponsored proposal, as necessary;
  - develop plan for using program income;
  - discuss anticipated program income with the department administrator or business support center; and
  - address account balance issues at final award termination.
- **Department Administrator/Business Support Center:**
  - assist Principal Investigator (PI) in calculating prices according to this policy;
  - bill properly for products or services which produce program income;
  - reconcile revenue invoiced or submitted against financial reports;
  - monitor levels of program income in account and any limits that are set by the sponsor;
  - if applicable, properly deposit income received in accordance with university's deposit policy (university policy 3600 Funds Handling and Deposit of State and Local Funds) and area procedure on Funds Handling and Deposit of State and Local Funds; and
  - verify program income receipt on financial report.
- **Office of Sponsored Programs**
  - review proposal for anticipated program income;
  - contact sponsor to discuss anticipated program income, if necessary;
  - determine use of reportable program income;
  - notify PI and department of possible program income;

- verify that program income is recorded correctly;
- work with department to make decisions about how to handle situations when total program income offset is greater than total expenditures;
- determine whether program income is reportable or non-reportable;
- report program income to sponsor in financial reports;
- advise PIs, department administrators and business support centers on the proper pricing, accounting and tracking of program income;
- if applicable, properly deposit income received in accordance with university's deposit policy (university policy 3600 Funds Handling and Deposit of State and Local Funds) and OSP procedure on Funds Handling and Deposit of State and Local Funds; and
- if necessary, assist departmental personnel in the collections of outstanding program income receivables.

16. Dissemination

This procedure may be posted on a Virginia Tech internet accessible site. Open public dissemination of this procedure is allowable.

17. Approval and Revisions

This Procedure was approved on July 01, 2015 by the Assistant Vice President for Sponsored Programs.

Revision approved by Associate Vice President for Research and Innovation, Sponsored Programs on 2/17/21. This update is for Uniform Guidance sections numbers.