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Managing Program Income

Program income is defined as gross revenue received by Iowa State University that's directly generated by a sponsor-supported activity or earned as a result of the award.

Examples of program income could include:

- Fees earned from services performed under a project, such as laboratory tests[1]
- Conference registration fees charged when an award helps fund the conference
- Income from consulting and sales of educational materials
- Funds generated from the sale of software, tapes, or publications

Items that are **not** considered program income include, but are not limited to: royalty income, income from patents and copyrights, reimbursement of travel expenses, rebates, discounts, or credits.

Program income revenue may be accounted for in one of four ways depending on sponsor policies:

1) **Additive Method:** Program income funds are added to the funds committed to the project by the sponsoring agency and used to further eligible project or program objectives.
2) **Deductive Method:** Program income funds are deducted from the total project or program allowable costs to determine the net allowable costs on which the sponsor's share of costs are based.
3) **Matching Method:** Program income funds are used to finance the non-sponsor share of the project or program. This is mandatory or committed cost share.
4) **Add/Deduct Method:** A portion of program income is added to the funds committed to the project as specified by the awarding agency. Any remaining program income funds are deducted from the total funds available for the project.[2]

Example: If a sponsor awards $100,000 for a project and the project generates an income of $30,000:

1) 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.
2) Addition: The total allowable costs would be $130,000.
3) Deduction: The sponsor will now only fund $70,000 of the project's costs.

If the award is silent regarding the treatment of program income on research awards, *the additive method will generally apply*. Unless specified otherwise in the award, federal regulations require the University to expend program income funds before spending sponsor funds. 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.

Unless agency regulations or award terms and conditions specify otherwise, there is no obligation to the sponsor for program income *earned* after the end of the award period.

1 Please contact your Sponsored Programs Accountant and the Fee-for-Service contact in Financial Accounting and Reporting to determine the proper method to handle such situations.
2 When an NIH Notice of Grant Award specifies the Add/Deduct method, their regulations specify the first $25,000 to be added and any excess over $25,000 deducted from the total project costs.

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The principal investigator (PI) / department administrator is responsible for:

1) Disclosing in the proposal whether program income may result from the project and detail how the program income will be used.
2) Reviewing the terms and conditions of the award and complying with the guidelines established by the sponsor regarding the tracking and use of program income.
3) If the additive method is utilized the program income will be processed on the corresponding 4XX account with an object code of 0817. This transaction will post to the 4XX account as a negative expenditure, thereby increasing the funds available for the project by reducing the cumulative expenditures on the project. This will allow spending of the program income prior to award funds since Sponsored Programs Accounting (SPA) will not draw funds until all program income received to date is spent. All other methods please discuss with the Sponsored Programs Accountant/SPA Manager/ Assistant Manager on how to proceed.
4) Contacting Sponsored Programs Accounting with any questions regarding the activity that will generate program income and its relationship to the grant or contract.
5) Ensuring that all expenditures charged to the award are allowable, appropriate, and allocable. Examples of unallowable expenditures are alcohol, entertainment, administrative costs from conference services, etc.
6) For Conference Grants: Adequate tracking of income received and expenditures incurred specifically related to the conference.
7) If the award terms require funds remaining in the project or program income to be returned to the sponsor after the project has terminated, they are responsible for discussing the situation with their Sponsored Programs Accountant/OSPA representative to determine how to proceed prior to the end of the project[3].

SPA Accountant Responsibilities:

1) If the accountant notices there is program income during the new award set up process, they will send out an email template for awards that have program income. The sample email includes helpful information for the administration of such types of projects.
2) Review the terms and conditions of the award to determine:
    a. Method applied to program income
    b. Unallowable Costs specifically addressed
3) Report program income in the appropriate method outlined in the award.
4) Ensure that program income funds are expended prior to additional drawdowns or invoicing for amounts due.
5) Discuss with the department GC/PI how to handle unused program income at the end of the award and return excess funds to the sponsor at the end of the award if required.

3 If the PI wishes to use these funds to further project or program objectives, a budget extension of the award should be requested. This is required of DOJ for Program Income generated from their projects.