Accounting for Program Income

This job aid defines **program income**, explains reporting requirements for program income on sponsored projects, and outlines how to account for program income using the accounting method required by the award. For further details, refer to the underlying UCSF policy 400-18 – Program Income for Extramural Funds.

Definition

Program income is gross income earned by the University that is directly generated by a supported activity or earned as a result of a federal award, **in whole or in part**, during the period of performance.

The period of performance is typically the award period but may be defined as alternative dates in the award document.

Examples of Program Income	Not Program Income
• Fees for services performed • Rent for the use of buildings or equipment acquired under federal awards • The sale of items fabricated under a federal award • Principal and interest on loans made using federal award funds is considered program income, however, if the principal/interest was earned from advance payments on a federal award, it is **not** considered program income	• Interest earned on advances of federal funds (separate regulations apply) • Proceeds from the sale of real property or equipment (separate regulations apply) • License fees and royalties on research funded by a federal award (exempted per Bayh-Dole Act) The following items are not program income, *except as otherwise provided in federal statutes, regulations, or the terms and conditions of the federal award*: • Rebates, credits, discounts, and interest earned on any of them • Taxes, special assessments, levies, and fines

Treatment of Program Income

As described in UCSF Policy 400-18, federal regulations provide for three[1] methods of recording and using program income:

- **Additive**: Program income realized is added to (i.e., supplements) the funds committed to the project by the federal or other awarding agency. The program income funds shall be used to support related project or program objectives.
- **Deductive**: Program income realized is deducted from the total project allowable costs in determining the net allowable costs on which the federal or other sponsor share of costs is based. Under the deductive method, the total amount available to support the project remains unchanged from the original federal or other sponsor award.
- **Matching**: Program income realized is used to finance the non-federal share of the project (i.e., meet cost sharing commitments). The amount of the federal award remains the same.

The appropriate recognition method is dictated by the federal awarding agency regulations or the terms and conditions of the award. If the awarding agency is silent, then the *additive process* applies to the University.

Only if explicitly authorized by the award (either directly in the award agreement/notice or indirectly through its underlying regulations) may the costs incidental to the generation of program income be deducted from gross income to determine program income. If authorized, only costs that have ***not already been charged*** to the federal award may be deducted. Costs incident to generation of program income shall be interpreted as expenses incurred within, and in conjunction with, the program income activity (service). Since these costs should be subtracted from the gross income (e.g., recharge revenue) they could ultimately result in zero program income.

Recharge Subsidies:

UCSF should ***not*** use sponsored projects to directly subsidize a recharge operation. However, sponsored projects can provide a billing subsidy for eligible participants to receive recharge services. The billing subsidy process results in *no program income* to the federal award, only direct costs. To facilitate this process, the full costs of operating the recharge are included in the recharge project and an appropriate rate(s) is developed and approved for customer(s). Then, when services are provided to a customer, who is an eligible participant of a sponsored project, the sponsored project may pay a portion of the established recharge rate. The sponsored project needs to ensure that they are paying a consistent rate for all eligible participants.

[1] Under federal regulation, the fourth method referenced in UCSF Policy 400-18 expired on December 26, 2014.

Accounting for Program Income

Accounting for Program Income

Program income is deposited directly into the sponsored project, either into the award primary Project or into a secondary Project dedicated to the tracking of the program income activity. The latter is ***preferred*** when the program income is generated from a major sales activity. The latter is ***required*** when the program income:

- Will be treated as match under the sponsored project
- Includes any activity that incurs costs to generate the income[2]

The dedicated secondary Project should be established with the program income flag selected. This will prevent expenses from being drawn by the LOC or incorporated into the sponsor invoicing while still keeping all program income intact. All program income should be recorded to revenue Account 41105-Program Income. Based on the prescribed program income treatment, the budget is then adjusted by the income generated by the activity.

The following illustrate the proposed accounting treatment for an award that was budgeted for $6,500 under each reporting method.

Additive Method

AXXXXXX – represents the complete chartstring of the primary award

AXXXXXP – represents the complete chartstring of the dedicated secondary Project created for program income activities

No revenue budget entries were posted to reflect the program income amount. Since the program income credit to Account 51106 *reduced total costs*, the department was able to continue spending up to the original budgeted amount (in addition to the costs covered by program income).

This treatment is 'additive' since spending against program income is over and above the original budget. The department records the $1,000 in program income using Account 51107 (Program inc dir cost-BUD ONLY) and the F&A indirect cost recovery in Account 51401 creating an expense budget entry. This helps properly account for program spending between direct and indirect costs arising from the program income.

The result of these entries is:

- $7,500 total costs charged to the award
- $1,000 costs absorbed by program income
- $6,500 LOC drawn for award (i.e., paid by sponsor)

To record expenses incurred to generate program income, which does not attract F&A, in the secondary, dedicated award Project:

Dr.	Direct Expenses	AXXXXXP	$500	
Cr.	Cash	AXXXXXP		$500

To record program income to sponsored award, in the secondary, dedicated award project:

Dr.	Cash	AXXXXXP	$1,500	
Cr.	41105	AXXXXXP		$1,500

Establishes additional expense budget to spend the program income on project program activities in the primary award project:

Dr.	51106 Budget	AXXXXXX	$1,000	
Cr.	51107 Budget	AXXXXXX		$631
Cr.	51401 Budget	AXXXXXX		$369

To record various program expenses to award, which attracts F&A at 58.5% rate:

Dr.	Direct Expenses	AXXXXXX	$4,732	
Cr.	Cash	AXXXXXX		$4,732
Dr.	F&A	AXXXXXX	$2,768	
Cr.	F&A Recovery	AXXXXXX		$2,768

[2] The rate for such program income activity is required to be approved in accordance with University policy on Operating Budget and Recharge Review.

Accounting for Program Income

Deductive Method

AXXXXXX – represents the complete chartstring of the primary award

AXXXXXP – represents the complete chartstring of the dedicated secondary Project created for program income activities

Budget entries were posted to reflect the program income amount. Since the program income *reduced total award budget*, the department was not able to continue spending up to the original budgeted amount.

This treatment is 'deductive' since spending against program income reduces the original budget.

The result of the above entries is as follows:

- $6,500 total costs charged to the award
- $1,000 costs absorbed by program income
- $5,500 LOC drawn for award (i.e., paid by sponsor)

To record expenses incurred to generate program income, which does not attract F&A, in the secondary, dedicated award Project:				
Dr.	Direct Expenses	AXXXXXP	$500	
Cr.	Cash	AXXXXXP		$500

To record program income to sponsored award, in the secondary, dedicated award Project:				
Dr.	Cash	AXXXXXP	$1,000	
Cr.	41105	AXXXXXP		$1,000

To record reduction in budget to sponsored project (reflecting deductive impact of program income) in the primary award Project. An equivalent reduction in the billing limit will be recorded in RAS by CGA:				
Dr.	41xxx Revenue Budget	AXXXXXX	$1,000	
Cr.	58350 Expense Budget	AXXXXXX		$1,000

To record various program expenses to award, which attracts F&A at 58.5% rate:				
Dr.	Direct Expenses	AXXXXXX	$4,732	
Cr.	Cash	AXXXXXX		$4,732
Dr.	F&A	AXXXXXX	$2,768	
Cr.	F&A Recovery	AXXXXXX		$2,768

Matching Method:

The dedicated secondary Project for the award will be provided as the source for the match as required for Cost Sharing. Program income will be accounted for using the additive treatment in the dedicated secondary Project for the award, followed by the cost sharing process.

The department submits the cost share commitment and provides the secondary Project as the source of funding. No budget entries are posted to reflect the program income amount. Program income is credited to Account 51106 *reducing total cost*, and the department is able to continue spending up to the original budgeted amount in the primary award. The department is also able to spend according to cost share procedures using cost sharing Fund 4900, and have these expenses covered by the program income in a dedicated secondary Project. Monthly, the CGA compliance group creates an entry to “sweep” the cost sharing costs to the “source”, in this case, the secondary Project. In the end, the department spends the entire original award budget and demonstrates their cost sharing match, which was funded by the program income.

The result is as follows:

- $6,500 total costs charged to the award directly
- $1,000 total costs charged to the award cost sharing
- $1,000 cost sharing costs absorbed by program income