TEXAS TECH UNIVERSITY

Operating Policy and Procedure

OP 65.03: **Program Income**

DATE: February 27, 2017

PURPOSE: The purpose of this Operating Policy/Procedure (OP) is to set forth the institutional requirements for identifying, accounting for, monitoring, and reporting program income generated from sponsored project activities.

REVIEW: This OP will be reviewed in July of even-numbered years by the Managing Director of Accounting Services (AS) with substantive revisions forwarded to the Managing Director of the Office of Research Services (ORS), Assistant Vice President and Controller, and the Vice President for Administration and Finance and Chief Financial Officer.

POLICY/PROCEDURE

1. **Policy Statement**

   Texas Tech University will separately account for, monitor, and report program income in accordance with federal regulations and the terms and conditions of the award. To be consistent, the university extends federal requirements to all sponsored projects.

2. **Definitions**

   a. Program Income

      Program income is the gross income earned during the project period that is directly generated by a sponsored project or earned as a result of the sponsored project. Examples of program income include fees for services performed such as laboratory tests, registration fees for workshops or conferences, and proceeds from the use or rental of any property purchased or fabricated with project funds. Program income also includes license fees and royalties on patents and copyrights.

      Program income does not include the interest earned on advances of project funds or the receipt of rebates, credits, discounts, etc.

   b. Sponsored Project

      A sponsored project is funded by a grant, contract, or cooperative agreement under which the university agrees to perform a certain scope of work, according to specified terms and conditions, for a specific budgeted monetary compensation.

3. **Treatment of Program Income**

   a. For federal and federal pass-through funds, program income earned during the sponsored project period can generally be retained by the university and shall be used following one of the three proscribed methods below:

      (1) Additive: Program income is added to the funds obligated by the sponsor, increasing the budget available to accomplish program objectives. Unless otherwise specified in the agency or award terms and conditions, the additive method will be applied.

      (2) Deductive: Program income is deducted from the financial commitment of the sponsor, while total funds available to the project remain the same.

      (3) Matching: Program income is used to finance the non-federal share of the project (i.e., committed cost share) with prior approval from the sponsor.

   b. For non-federal funds, program income earned during the sponsored project period can generally be retained by the university. Unless the sponsored agreement states otherwise, program income may be used to cover increased costs of the project and/or to further the project program/objectives, fulfill a cost-sharing commitment, or support other sponsored projects. However, state-funded projects subject to the Uniform Grant Management Standards must follow the deductive method and requires sponsor approval to fulfill a match commitment unless specific award terms state otherwise.

   c. Generally, program income is defined as gross income. However, some sponsors may allow costs incident to the generation of program income to be offset against gross income to arrive at program income, provided the costs were not also charged to the sponsored project. If allowed, expenditures must be allowable, allocable, and reasonable in relation to the activity supported by the sponsor and must be in accordance with federal cost principles and the terms and conditions of the sponsored project.

   d. If there are no limitations on the disposition of remaining program income, the disposition of the income will follow OP 65.11, Fixed Price Agreements.

   e. Unless stipulated in the award terms and conditions, recipients do not have an obligation to account for and report program income to the sponsor earned after the end of the project period. However, if income is expected to be generated after the project has ended, institutional policies governing the sales of external and/or internal goods and services will apply. See OP 62.15 and OP 62.23 for guidance.

4. **Procedures**

   a. Principal Investigators/Project Directors

      When developing a proposal, the principal investigator (PI) will consider whether any program income will be generated and work with the Office of Research Services (ORS) to ensure the income is appropriately included in the proposed budget. If program income is anticipated, the PI will also complete the relevant section of the proposal routing and submission sheet, as well as the *Sponsored Project Program Income Certification* (see attachment).

Program income should be collected, deposited, and reconciled by the department in accordance with OP 62.05 and OP 62.07. Program income should be credited to 5E0xxx for internal customers and 5E1xxx for external customers. The sale of goods and services to outside entities may be subject to sales tax. Departments should contact Accounting Services in advance to ensure that invoices comply with sales tax provisions. Any sales tax collected should be credited to 2A0304.

b. Accounting Services

Accounting Services will establish the sponsored project budget in accordance with the terms and conditions of the award and the accounting method selected/required. A separate FOP will be established for each sponsored project that will generate program income. Funds are established in the 28P fund class with the same organization code and program code as the sponsored project and linked with the appropriate grant ID. Program income FOPs will be closed in conjunction with the final award closeout, including the transfer of remaining program income (if allowed) to department, service center, or education-related business activity FOP as appropriate.

Attachment A: *Sponsored Project Program Income Certification*