Interest Income Paid on Non-Federal Sponsored Funds

Overview

- Non-federal Exchange (NE) and Grant (NG) funds will earn 0.05% annual simple interest income on credit balances in FY 2014.

- NE and NG funds' interest income will be posted monthly by an automated transaction process.

- Interest income must be used according to sponsor terms and conditions.

- If permitted, tub officers may transfer interest income to non-sponsored funds for any use

Non-federal Sponsored Funds Interest Income Policies and Procedures

Enactment of interest income policies
The Internal Interest Policies group (comprised of Harvard's central FAD and tub staff) met in 2002 to develop equitable policies for paying interest income on many fund types including NE/NG. Beginning July 1, 2002, interest income will be paid automatically on NE/NG fund credit balances, eliminating the need for the tubs to submit requests to receive interest on individual funds.

Amendments to interest income policies and procedures
Periodically, the process and methods affecting interest paid on non-federal fund credit balances will be evaluated by the Vice President for Finance, tub financial officers and OSP staff. Any proposed changes to policies or processes affecting sponsored funds will be presented to the Sponsored Administrative Leadership Committee (SALC) for advice and comment prior to their implementation. The interest rates used will be reassessed annually by OFS and the Internal Interest Policies group.

Non-federal funds eligible to earn interest income
NE/NG funds having a credit balance in the prior month will generate interest income that will be paid in the current month.

Federal grants interest income
It is against Federal regulations for grant recipients to retain any interest on Federal funds. The vast
majority of our Federal funding is received through a letter of credit reimbursement system, leaving no credit balance in the fund. There are, however, some Federal agencies that pay in advance. These funds are deposited into interest bearing accounts and the interest earned is remitted to our cognizant agency, the Department of Health and Human Services, on an annual basis.

**Application funds and ranges**

- FG funds are in the 100000-199999 range
- NE funds are in the 200000-249999 range
- NG funds are in the 250000-299999 range

**Calculation of credit balances**

A credit balance is determined by the sum of a funds' asset, income and expense accounts, excluding interest income, in the prior closed month as posted in the general ledger. Balances in object codes: 0120, 4000-4529, 4531-9509 are summed to derive funds' credit balances. Interest income (object code 4530) is excluded because interest paid is simple interest, not compounded interest.

**Interest payments on NE/NG fund credit balances**

The NE/NG funds will have their interest income calculated and paid by an automatic process executed monthly by GMAS and OFS, respectively. OSP will not affect the processing of Non Federal funds' interest.

**Inactive projects whose funds carry a credit balance**

If a NE/NG fund has a credit balance in the prior month and the main account of the maximum account group is not disabled, yet its project has ended, interest will continue to be paid until it is disabled.

If a fund had a credit balance in the prior month and has a zero balance in the current month, no interest will be paid. GMAS compares prior/current balances and will assume that the project is no longer functional if it has a zero balance in the current month.

**Timing on monthly entries**

Interest to be paid is calculated on a funds' prior closed month's credit balance, net of YTD interest income. The interest income credit transaction is booked in the current month after the prior month has closed. For example, January's balances will earn interest to be booked in February; February's balances will earn interest in March, etc.

**Interest rate**

Annual simple interest of 0.07% is paid monthly on the prior month's credit balance, excluding year-to-date interest income. Each month, 1/12 of 0.07% of a NE/NG fund's prior month's credit balance (0.00583%), net of year-to-date interest income, will be paid back to the fund's non-disabled main account.
Use of interest income
The use of a fund's interest income must follow its terms and conditions as agreed to by the grantee and the sponsor, and any other accounting policies or rules established by Harvard University. If there are no sponsor restrictions over the use of interest income received from University sources, tubs may use it at their discretion for project-related or other purposes. Before interest income may be used for other purposes, it must be transferred to a non-sponsored fund. Transferring residual income will also facilitate the account's closing, to zero-out a remaining balance.

Tub financial officers may independently use income transfer object code 4531 to transfer interest income to another fund when appropriate. Neither OSP nor OFS will make transfer transactions after the income is credited to a fund; income transfers are tub responsibilities.

Interest income remaining after project expiration
If the sponsor has no restrictions on the use of interest income paid from University sources, and all project expenses have been incurred, the remaining interest income should be transferred to a non-sponsored fund for any use and to zero-out the fund's balance to facilitate account closing.

Viewing or reporting of interest income
Interest income for NE/NG funds may be viewed or reported by using either a Detail Listing report or a Summary Actuals report in CREW. Select your tub(s), funds in the 200001-299999 range, and object code 4530 for the period of choice. The PER now displays each interest income object code separately.

Source of interest income paid to NE/NG funds
Interest paid to NE/NG funds comes from Harvard University's "central bank" of funds whose assets are managed to generate income. That income will be credited to the NE/NG funds that earn it.

Administrative offices making the transactions
The FAD OFS General Accounting Office makes the monthly income transactions for funds in the NG range, using object code 4530, "Interest Income." The OFS accounting office has to make these transactions because object code 4530 is restricted for their use only. GMAS automatically performs the income transactions for funds in the NE range.

Requesting corrections to an improper income entry
There may be occasions when interest income will be inadvertently credited to a fund that has been recently disabled or should not be earning income for other reasons, e.g. fund mistakenly in the NE/NG range. In these events, tub/fund administrators should contact OSP's Sponsored Programs Office and Cash Manager, 617-495-3925, or the team manager assigned to your school or tub. The OSP staff will submit a correcting journal, using object code 4530, to OFS to reverse the errant income credit.

FAQ's: Non-Federal Interest on Credit Balances
FAQ: Non-Federal Exchange (NE) and Non-Federal Grant (NG) Funds to Earn Interest on Credit Balances

(1) Q: Why are my NE and NG funds now earning interest?
A: The Internal Interest Policies group (comprising central FAD and tub staff) met this year to develop equitable policies for paying interest income on many fund types including NE/NG. Beginning July 1, 2002, interest income will be paid automatically on NE/NG fund credit balances, eliminating the need for tubs to submit requests to receive interest on individual funds.

(2) Q: How may I use the interest income?
A: The use of interest income must first follow the sponsor's terms and conditions. If there are no terms affecting the use of interest income received from University sources, tubs may use it at their discretion for project-related or other purposes. Before interest income may be used for other purposes, it must be transferred to a non-sponsored fund. Transferring residual income will also facilitate the account's closing. Tub financial officers may independently use income transfer object code 4531 within their own tub to transfer interest income to another fund when appropriate.

(3) Q: Do FG (federal grants and contracts) funds earn interest?
A: It is against Federal regulations for grant recipients to retain any interest on Federal funds. The vast majority of our Federal funding is received through a letter of credit reimbursement system, leaving no credit balance in the fund. There are, however, some Federal agencies that pay in advance. These funds are deposited into interest bearing accounts and the interest earned is remitted to our cognizant agency, the Department of Health and Human Services, on an annual basis.

(4) Q: How do I identify the different funds?
A:
- FG funds are in the 100000-199999 range
- NE funds are in the 200000-249999 range
- NG funds are in the 250000-299999 range

(5) Q: Which of my NE/NG funds will generate interest income?
A: NE/NG funds having a credit balance in the prior month will generate interest income that will be paid in the current month.

(6) Q: How is a credit balance determined?
A: A credit balance is determined by the sum of a fund's asset, income and expense amounts, excluding interest income, in the prior closed month as posted in the general ledger.
(7) Q: Which object codes are used to determine credit balances?
A: Balances in object codes: 0120, 4000-4529, 4531-9509 are summed to derive fund balances. Interest income (object 4530) is excluded because interest paid is simple interest, not compound interest. That is, we won't pay interest on interest.

(8) Q: How much interest do I earn?
A: Annual simple interest of 0.07% is paid monthly on the prior month's credit balance, excluding year-to-date interest income. Each month, 1/12 of 0.07% or 0.00583% of a NE/NG fund's prior month's credit balance, net of year-to-date interest income, will be paid back to the fund's non-disabled main account.

(9) Q: How is the interest paid on NE/NG fund credit balances?
A: The NE/NG funds will have their interest income calculated and paid by an automatic process executed monthly by GMAS and OFS, respectively. OSP will not affect the processing of Non Federal funds' interest.

(10) Q: When does this entry occur for each month?
A: Because interest is calculated on a prior month's credit balance, net of YTD interest income, the transaction is booked after the prior month has closed. For example, June's balances will earn interest to be booked in July; July's balances will earn interest in August, etc.

(11) Q: How may I view or report the interest income booked to my accounts?
A: Use a Detail Listing report or Summary Actuals report in CREW. Select your tub(s), funds in the 200001-299999 range, and object code 4530 for the period of choice. The PER differentiates interest income from other types of income.

(12) Q: How may I request a correction to an improper income entry?
A: Contact your OSP financial analyst, or the team manager assigned to your school or tub. If approved, OSP will submit a correcting journal entry to OFS using object code 4530.

(13) Q: What about inactive projects whose funds carry a credit balance?
A: If a NE/NG fund has a credit balance in the prior month and is not disabled, yet its project has ended, interest will continue to be paid until it is disabled.

(14) Q: What about a project that had a credit balance last month but is zeroed out this month, e.g. the credit balance was returned to the sponsor?
A: If a fund had a credit balance in the prior month and has a balance of zero this month, no interest will be paid. OSP compares prior/current balances and will assume that the project is no longer functional if it has a zero balance in the current month.

(15) Q: What about interest income remaining after a project has expired?
A: If the sponsor has no restrictions on the use of interest income paid from University sources, and all project expenses have been incurred, the remaining interest income should be transferred to a non-sponsored fund for any use and to zero-out the fund's balance to facilitate account closing.
(16) Q: Who is paying me the interest income and where does it come from?
A: Interest is paid from the University's "central bank" of funds whose assets are managed to generate income. That income will now be credited to the NE/NG funds that earn it.

(17) Q: How may these policies and procedures be amended?
A: Periodically, the process and methods affecting interest paid on non-federal fund credit balances will be evaluated by the Vice President for Finance, tub financial officers and OSP staff. Any proposed changes to policies or processes affecting sponsored funds will be presented to SALC members for advice and comment prior to their implementation. The interest rates are reassessed annually by Financial Administration.

**Revision History**

7/26/13 – Added to OSP website in PDF format