



HARVARD UNIVERSITY FINANCIAL GUIDANCE

Responsible Office: Office for Sponsored Programs
Effective Date: October 24, 2017

Guidance on Program Income

Reason for Guidance

Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Section 2 CFR 200.307 (“Uniform Guidance”) defines program income as **“gross income earned by a recipient that is directly generated by a sponsored activity or earned as a result of the award”**. Program income must be identified, appropriately documented, and the resulting revenue and expenses properly recorded and accounted for. Additionally, non-federal sponsored awards generally require similar diligence to identify, document, and account for program income. As a result, program income on federal and non-federal sponsored awards is subject to this guidance. However, if a non-federal sponsor, or a firm-fixed price sponsored award, is silent on the issue of program income, the income is not reportable and therefore not considered program income.

Examples of program income include the following when the source of funding is a sponsored award or the revenue is directly generated by a sponsored activity (note that royalties from patents, copyrights, etc. are generally not reportable as program income):

- fees earned from services performed under the project, such as laboratory tests
- income generated from sales of commodities and research materials, such as tissue cultures, cell lines, and research animals
- registration fees from participants attending conference or workshop
- income from sales of educational materials
- sale, rental, or usage fees, such as fees charged for the use of computing or laboratory equipment
- income generated from the sale of software, digital media, or publications

Principal Investigators (PIs) and department/local level managing units must identify program income on both federal and non-federal sponsored awards in order for the income to be administered by the University. This guidance is intended to ensure compliance with federal regulations and sponsored award terms and conditions. As a non-profit institution, the University’s mission is not to seek profit from its research activities; therefore, not properly accounting for program income on sponsored awards may potentially affect the University’s tax-exempt status.

Applicability



This guidance is applicable to all Principal Investigators (PIs) and administrators at Harvard University within all schools, units, divisions, University-wide initiatives, labs, and centers who are involved with the administration and conduct of sponsored awards.

Program Income Accounting Methods

Program income revenue may be accounted for in one of the following four ways depending on sponsored award terms and conditions. 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 sponsored award. (Note: For Institutions of Higher Education (IHEs) and nonprofit research institutions, the **additive method** is the most commonly used method by federal sponsors for utilizing the program income generated from federal grants.)

Additive Method

Program income funds are added to the sponsored award commitment and used to further eligible project or program objectives. Funds may be retained and used to further eligible project or program objectives during the term of the award. Generally, if the award is silent on the treatment of program income, the additive method is the default approach used for applying program income to sponsored awards.

Example: The sponsored award amount was \$100,000. \$10,000 of program income is generated. The total allowed project costs are now \$110,000 (\$100,000 expensed on the original award amount and \$10,000 expensed on the program income earned).

Deductive Method

Program income funds are deducted, or off-set, from the total award's allowable costs to determine the net allowable costs on which the sponsor's share of costs is based.

Example: The sponsored award amount was \$100,000. \$10,000 of program income is earned. The program income must be used to off-set the award amount from the sponsor and reduces the total award amount to \$90,000. Total available funds for the project remain at \$100,000 (\$90,000 from the sponsored award and \$10,000 from the program income earned).

Matching Method

With prior approval of the sponsor, program income funds are used towards fulfillment of a committed cost sharing requirement for the sponsored award.

Example: The sponsored award amount was \$100,000 with a cost sharing commitment of \$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 cost sharing commitment.

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.

Example: The sponsored award amount was \$100,000. \$35,000 of program income is generated, and the sponsor allows the first \$25,000 to be added to the award, bringing the award to \$125,000. The remaining \$10,000 is deducted from the new award amount. Therefore, the revised award amount is $\$100,000 + \$35,000 - \$10,000 = \$125,000$ (\$90,000 sponsored award amount plus \$35,000 program income)¹.

Roles and Responsibilities

Responsibilities for management of program income on sponsored awards are shared among the following:

PI & Department/Local Level Managing Unit

- Identify sources of potential program income at the proposal stage and during the award
- Submit a request to the Office for Sponsored Programs (OSP) or Sponsored Programs Administration (SPA) to establish a program income account in GMAS upon receipt of award or during the award when program income is identified
- Deposit the program income to the designated program income account using the appropriate object code (see Appendix A for recommended object codes for booking sponsored program income)
- Post the appropriate expenses related to the generation of the program to the designated program income account
- Ensure program income-related expenses comply with the allowability of costs in accordance with the sponsored award and federal regulations
- Understand and comply with sponsor-approved program income accounting method
- Verify and confirm the total program income earned and the amount expended to be included in the financial report prepared by the OSP Research Finance Team

Office for Sponsored Programs (OSP) and Sponsored Programs Administration (SPA)

- Review proposal for potential program income and determine whether it is appropriate to include or exclude program income in the proposal submission

¹ When the National Institutes of Health Notice of Grant Award utilizes the add/deduct method, the regulations specify that the first \$25,000 be added and any excess over \$25,000 be deducted from total project costs.

- Discuss with PI and department/local level managing units potential shortfall of funding if the program income is identified in the proposal as a source of cost sharing commitment for the project
- Negotiate program income terms in sponsored awards and understand the sponsor-approved program income accounting method
- Establish a program income account when setting up the award in GMAS or when program income is identified during the award by the PI and department/local level managing units

Office for Sponsored Programs (OSP) Research Finance Team

- Review and determine the program income sponsor reporting requirements
- Coordinate with the PI and department/local level managing units to confirm the allowable program income amount to be reported to the sponsor
- Reconcile program income account for award closeout
- Return unspent program income balance to the sponsor according to the sponsored award terms and conditions

Procedures

The following procedures outline the process for managing program income on sponsored awards.

Proposal Process

The PI and department/local level managing units should review the proposal to identify sources of actual or potential program income from the project. If program income is identified, select “Yes” to the program income question on the “Edit approval attribute” screen in GMAS.

If there is program income that will fund a portion of the project as committed cost sharing, consult with OSP or SPA offices to determine an alternative funding source to cover any potential shortfall in program income revenue.

Award Initiation

Upon award acceptance, the PI and department/local level managing unit should submit a request to OSP/SPA to establish a GMAS program income account (part-of account) for tracking the program income generated during the project period if program income was included in the proposal budget/narrative. If program income is identified after the award is initiated, a request for setting up a program income account should be submitted to OSP/SPA as soon as the actual or potential program income revenue is identified.

The following information should be included in the request:

- Description of the activity and relationship to the sponsored award
- Approximate annual level of income for each award budget period
- A proposed fee schedule for the services to be performed, or cost of commodities to be sold, together with a breakdown of the major fee or cost components

- Assurance that the service or commodity is not being provided to non-Harvard customers at a price that is less than outside vendors charge for the same goods or services
- Budget estimate for utilizing the program income
- Proposed beginning and end dates of the program income account, which must fall within the sponsored award period of performance

Upon receipt and approval of the request, OSP/SPA will establish a program income account under the award segment (using the same fund value and activity value as the main account), and set up the account as follows:

- Enter “program income” in the part of account description field
- Enter a zero obligated amount in the account’s funds allocated field
- Enter a zero % overhead rate for the part-of account

Generally, a single program income account will be used over the entire period of the award when task logic is utilized. When year logic account is utilized for a multi-year award, a program income account is required for individual account groups to coincide with individual budget reporting periods. In general, if the award has automatic carryover authority, the unspent program income balance at the end of the budget year should be moved to the next budget year program income account without requiring sponsor prior approval.

Program Income and Associated Expenses Coding/Recording

The department/local level managing units are responsible for depositing and posting award-generated revenue to the designated income account using the appropriate income object codes (see Appendix A for recommended object codes for sponsored program income). Program income should only be posted to the designated income account and should not be posted as an expense credit.

In addition, the department/local level managing units are responsible for posting any expenses associated with the generation of the gross program income to the designated program income account using appropriate expenses object codes as used for other expenses on the project. Examples of expenses include supplies and travel expenses for hosting a conference or labor and materials costs for the distribution of the goods or services being sold. Program income expenses do not take overhead.

Use of Program Income

Program income funds should be utilized to cover project expenditures according to the program income treatment required by the award. If a portion of the income is the result of activities that are not directly related to the sponsored award, it is necessary to prorate the program income to identify the proportion attributed to the sponsored award. The program income funds should be expended prior to sponsor funds during the sponsored award period of performance.

Additionally, PIs and departments/local level managing units should coordinate with OSP/SPA in order to understand and comply with the sponsored award terms and conditions regarding allowability of costs and the required sponsor-approved program income accounting method.

Sponsor Reporting

As required in the sponsored award, program income is reported to the sponsor annually and/or at the end of the award via a standard financial report (e.g., federal financial report) or a separate program income report (e.g., NSF annual consolidated program income report). Prior to the financial reporting due date, the OSP Research Finance Team will coordinate with the department/local level managing unit to verify the total program income amount to be reported according to the sponsor-required program income accounting method.

Federal regulations define program income as “**gross income**” and must be reported in the financial reports. Some federal agencies, (e.g., NIH, NASA, U.S. Department of Education) may allow costs associated with the generation of the gross amount of program income **that is not charged to the grant** to be deducted from the gross income earned. Reporting of “net amount of program income” may be appropriate in some circumstances when the sponsor requires using the deductive accounting method for program income, where the costs of generating program income have not been charged to the federal award.

Award Closeout

Unless specified otherwise in the award, federal regulations require the University to expend program income funds before spending award funds. For federal awards, funds remaining in the project or program income account after the project has terminated will be returned to the sponsor. For non-federal awards without terms and conditions regarding the treatment of unspent program income after the project has terminated, the program income balance may be transferred to a departmental account. If the funds are needed to further project or program objectives after the expiration of the award, a no-cost extension should be requested to the sponsor.

Program Income Account Reconciliation and Closeout

When an award is expired, as the final financial report is being prepared, the OSP Research Finance Team will reconcile the program income account and allocate the program income balance to the main account and other accounts to cover project expenses depending on the required accounting method (see Appendix B for more detailed guidance on OSP’s journal processes and object code usages for reconciliation of the sponsored program income accounts)

Example of additive and/or deductive accounting method

A program income account was set up for a conference on a federal award and during the award, there is a total of \$15,000 income generated from the registration fees, and total of \$3,500 conference-related costs posted to the program income account. The OSP Research Finance Team will reconcile the program income account as follows:

- To utilize the program income to cover allowable project expenses, OSP will process a journal to move the gross amount of the \$15,000 income from the program income account to the project main account to off-set the project expenses.
- If the “gross program income amount” is to be reported on the financial report, OSP will process a journal to reallocate conference related expenses of \$3,500 from the program

income account to the project main account, then close the program income account in GMAS.

- If the “net program income amount” is to be reported on the financial report, OSP will process a journal to reallocate the net amount of program income of \$11,500 to the main account and move the remaining income balance of \$3,500 and conference-related expenses of \$3,500 to a non-sponsored department account.

Example of matching accounting method:

This method requires that the program income be used to fund the non-sponsored share of the project as cost sharing. For example, an award requires 1:1 matching funds, and the proposed budget included \$100K of cost sharing commitment with a portion of cost sharing to be funded by utilizing the program income (estimated at a total income of \$24,000 to be generated from the conference registration fees). And a total of \$4,300 conference related expenses were posted to the program income account during the award. At the end of the award, the OSP Research Finance Team will complete the following steps:

- To utilize the program income to meet cost sharing/matching commitment, OSP will process a journal to reallocate the gross amount of the program income from the program income account to the cost sharing companion account to cover the project cost shared expenses.
- Process a journal to reallocate total of \$4,300 conference related expenses from the program income account to the project main account, then close the program income account in GMAS.
- If the total program income amount generated is less than the \$24,000 that was originally budgeted as one of the sources for the total \$100K committed cost sharing, the PI and department/local level managing units must provide an alternative funding source to meet the total cost sharing obligations.

Program Income Generated After Award Expiration

Program income generated **within 60 days after the end of the sponsored award period** is still considered program income and treated in accordance with the program income guidelines above. Otherwise, unless sponsored award terms and conditions specify funds to be returned, there is no further obligation to the sponsor for program income earned after the end of the award period.

Related Policies and Documents

[Sponsored Financial Reporting and Closeout Policy](http://osp.finance.harvard.edu/sponsored-financial-reporting-and-closeout-policy)

<http://osp.finance.harvard.edu/sponsored-financial-reporting-and-closeout-policy>

Sponsored Expenditure Guidelines

<http://osp.finance.harvard.edu/sponsored-expenditures-guidelines>

[Internal Billing Transactions Policy](#)

Cost Sharing Policy

<https://osp.finance.harvard.edu/cost-sharing-policy>

Definitions

Sponsored award – Funding arrangement in which the University is providing a return benefit to, or agrees to provide a defined deliverable or complete a set of activities for, the sponsor in exchange for the funds, regardless of whether the funding instrument is designated a contract, cooperative agreement, grant, consortium agreement, or otherwise.

Harvard Customers - Academic users who pay for goods or services using Harvard's general ledger 33-digit account coding.

Non-Harvard Customers – An entity or person that is legally separate from Harvard that typically purchases goods or services for reasons of convenience, quality, or uniqueness of goods or services offered. Examples include PIs at affiliated hospitals, commercial research labs, collaborators at other institutions, and non-consolidating tubs.

Period of performance - The time period during which the proposed work will be completed and the funds awarded are available for expenditure by the recipient.

Revision History

October 24, 2017 – Released as University guideline document

APPENDIX A

Recommended Object Codes for Depositing Program Income in General Ledger

For accurate tracking and accounting of the program income that were generated from the sponsored awards, the department/local level managing units should use the appropriate **income object codes** below when depositing/recording sponsored program income (checks and wire payments) in the General Ledger.

Examples of program income generated from sponsored awards	Object Codes	Object Description
Registration fees from participants attending conference, workshop, seminar and other events	5360	Event + Program Svcs, External, GENERAL
Fees earned from services performed under the project, such as laboratory tests	5400	Lab Svcs, External, GENERAL
	5490	Other Svcs, External, GENERAL
Income generated from sales of commodities and research materials, such as tissue cultures, cell lines, and research animals	5100	Merchandise+Materials Sales, External, GENERAL
	5040	Animal Sales, External, GENERAL
Income from sales of educational materials that is directly generated by a sponsored activity	5100	Merchandise+Materials Sales, External, GENERAL
	5050	Copying, Network Printing Sales, External, GENERAL
Rental or usage fees charged for computing or laboratory equipment. <i>NOTE: Please contact your tub equipment manager or tub central finance office for guidance on booking the sale of equipment and other capital assets including the posting of the sales revenue.</i>	4690	Eqpt + Other Property Rentals, Nonstudent, External, GENERAL
	5720	Fees + Fines, Other, Nonstudent External, GENERAL
Income generated from the sale of software, digital media, or publications	4660	Publications, External Sales, GENERAL
	5120	Tech Sales, External, GENERAL

APPENDIX B

Journal Object Codes for Sponsored Program Income Reconciliation

The OSP Research Finance Team is responsible for processing the journals to reconcile and reallocate the program income and associated expenses to the appropriate sponsored and non-sponsored accounts according to the sponsored required accounting method during the award closeout. The examples of the journals and object codes provided here should only be used by the OSP Research Finance.

Example of additive and/or deductive accounting method

A program income account was set up for a conference on a federal award and has a total of \$15,000 income generated from the registration fees (posted to income object code 5360 in GL) and a total of \$3,500 conference-related costs (post to expense object codes 6640 and 6660 in GL). At the end of the award, the OSP Research Finance Team will reconcile the program income account and process the journals as follows:

- Process a journal in the amount of \$15,000 to debit the program income account and credit the project main account utilizing the program income to cover allowable project expenses, as shown in the following example:

Credit: 265.21767.5910.108842.255280.0001 (\$15,000)

Debit: 265.21767.5910.108842.255280.0002 \$ 15,000

- Process a journal to reallocate conference related expenses of \$3,500 from the program income account to the project main account (and enter “0” as the final figure in GMAS to close the program income account) as shown in the following example:

Credit: 265.21767.8880.108842.255280.0002 (\$3,500)

Debit: 265.21767.8880.108842.255280.0001 \$3,500

- If the “net program income amount” is to be reported on the financial report, process a journal to reallocate the net amount of \$11,500 program income to the main account and move the remaining income balance of \$3,500 and conference-related expenses of \$3,500 to a department account as shown in the following sample Journals A and B:

Journal A for moving net program income amount to cover project expenses:

Credit: 265.21767.5910.108842.255280.0001 (\$11,500)

Debit: 265.21767.5910.108842.255280.0002 \$11,500

Journal B for moving remaining income balance of \$3,500 and expenses of \$3,500 to a non-sponsored account provided by the department. (*Note: Use the original income and expense object codes when journal the income and expense amount from a sponsored fund to a non-sponsored fund*).

Credit: 265.21767.**5360**.000001.000000.0001 (\$3,500)
Debit: 265.21767.**5360**.108842.255280.0002 \$3,500

Credit: 265.21767.**6640/6660**.108842.255280.0002 (\$3,500)
Debit: 265.21767.**6640/6660**.000001.000000.0001 \$3,500

Example of matching accounting method

An award requires 1:1 matching funds, and the proposed budget included \$100K of cost sharing commitment with a portion of cost sharing to be funded by utilizing the program income (estimated at a total income of \$24,000 to be generated from the conference registration fees). A total of \$4,300 conference related expenses were posted to the program income account during the award. At the end of the award, the OSP Research Finance Team will reconcile the program income and process journals as follows.

- Process a journal in the amount of \$24,000 to debit the program income account and credit the cost sharing companion account (using the original income object code in GL) utilizing the program income to meet cost sharing/matching commitment as shown in the following example:

Credit: 265.21767.**5360**.000001.255280.0001 (\$24,000)
Debit: 265.21767.**5360**.108842.255280.0002 \$24,000

- Process a journal to reallocate expenses on the program income account to the project main account and enter "0" as the final figure in GMAS to close the program income account as shown in the following example:

Credit: 265.21767.**8880**.108842.255280.0002 (\$4,300)
Debit: 265.21767.**8880**.108842.255280.0001 \$4,300