University of Missouri System
Accounting Policies and Procedures

Policy Number: APM-60.60

Policy Name: <u>Program Income</u>

General Policy and Procedure Overview:

The University of Missouri receives income from entities other than the sponsor on certain awards resulting from work performed on that sponsored award. This income constitutes program income. This policy provides guidance concerning recording and processing program income.

DEFINITION OF KEY TERMS:

Award – Funds provided by a sponsor to pay expenses of a specific project.

ChartFields – The accounting fields used to classify accounting information in the University's financial system.

Fund, Department ID, Class, Program, Project – ChartFields that comprise the ChartField string for tracking award costs.

Program Income –Gross income earned by the recipient that is directly generated by a support activity or earned because of an award. It includes but is not limited to, income from fees for services performed, the use or rental of real or personal property acquired under federally funded projects, the sale of commodities or items fabricated under an award, license fees and royalties on patents and copyrights, and interest on loans made with award funds. Interest earned on advances of federal funds is not program income. Except as otherwise provided in Federal awarding agency regulations or the terms and conditions of the award, program income does not include the receipt of principal on loans, rebates, credits, discounts, etc., or interest earned on them.

SPO – Sponsored Programs Office—Each campus has an administrative office established to manage administrative duties and monitor compliance for externally sponsored program activity. The administrative name used on each campus is different, while the functions remain the same; SPO is a term used to refer to all four campus offices.

Detailed Policy:

Accounting for Program Income: Accounting for Program income may use one of three methods depending on the guidelines pertaining to the award.

- *Additive:* Program Income funds are added to available funds, thus increasing the amount available to accomplish program objectives.

- *Deductive:* Total funds available to the project remain the same and the funds generated through Program Income are deducted from the financial commitment of the sponsor.
- *Cost Sharing:* Program Income is used to defray the non-federal share of the project.

Unless otherwise specified by the awarding agency, the "additive" method is automatic unless the program is for non-research which prescribes the "deductive" method.

If there is excess program income over a stipulated limit, the overage will be treated using the Deductive alternative method.

Unless specifically outlined in the contract or grant, the awardee shall have no obligation to sponsoring agencies for program income received beyond the life of the award. The SPO has the responsibility to report and, when applicable, remit any program income earned.

Program Income Setup:

Information on the type of program income and the proposed treatment of the income is submitted to the campus SPO along with the proposal. The request for the program income fund and project should be processed along with the request to establish the award. Please refer to Accounting Policy and Procedure manual APM 60.35 – Establishing an Award. The review, approval and documentation authorize the program income and its treatment.   In those instances where the need for a program income ChartField string is identified after the project has begun, the SPO Post-Award Manager may create the program income ChartField string.

If program income is anticipated, a separate ChartField string and budget for program income should be requested. The department provides the project, DeptID, estimated budget items and accounts needed. Program income budgets should always be set up by the SPO using Fund 2199 with the associated project in the ChartField string.

The SPO accountant should review the award documents and ensure that all required documentation for the program income has been received and entered into the system correctly. The review is a control to ensure the accuracy and completeness of income recognition. The review should ensure the following:
- Program income is connected to an active project,
- Same ChartField string as the project, however, fund 2199 is used instead of the original fund,
- F&A recovery is recorded on program income expenses based on sponsor guidelines,
- Original award dollars reflect sponsor funding only,
- Budget includes sponsor dollars and program income estimate for fund 2199,
- At the end of the Project, depending on terms and conditions, either; (1) spend all the program income and refund the sponsor or reduce the final invoice/report/draw, or (2) transfer balance to an unrestricted ChartField string if allowed,
- Treatment of program income is documented in Milestones,
- Program income accounting requirements generally end with the end of the project that produced the program income, but may continue beyond that date if so specified by the award.

Recording Revenue for Program Income:

Program income may be received by one of two methods. The accounting system will record revenue after entering an invoice into the accounting system to bill the sponsor/customer for revenue earned, or

the sponsor/customer may pay without receiving a formal invoice. If an invoice has been entered in the accounting system the deposit of cash received will be recorded by using PS-Accounts Receivable Report (ARR) on the [Web Application system](). To record the receipt of cash when an invoice has not been entered, use the PS-Cash Receipts Report (CRR) on the [Web Application system]().

SPO accountants will evaluate budget compared to actual receipts and make adjustments as appropriate. The Controller's office will perform a quarterly review of the 2199 fund to ensure that expenditures of Program income are reasonably within budget. This budget versus actual review is a managerial control ensuring the accuracy and completeness of the income recognition.

Expending and Monitoring Program income:

Principal investigators will monitor budget, revenue and expense for program income on financial reports as part of their project oversight.

Per OMB Circular A-110, paragraph 22(g), program income should be spent before the sponsor's award is used unless superseded by the terms of the award. Department administrators/fiscal officers must monitor expenses in the program income project to ensure that it is spent before drawing or invoicing additional funds from the sponsor. The SPO accountant must monitor draws and invoices to ensure that draws and invoices are reduced to reflect any available excess program income revenue.

Expenses charged to the program income ChartField string must be allowable, allocable, and reasonable in relation to the activity supported by the sponsor. Unless otherwise specified in the award document, restrictions on expenditure of program income are identical to restrictions on expenditures for the related project.

The PI responsible for the sponsored project that produced the program income is responsible for ensuring that program income funds are used for appropriate project-related costs. Departmental personnel will process and record charges to program income ChartField strings per sponsor terms and conditions along with University policy and procedures.

The SPO accountant will monitor the program income ChartField string during the life of the award to ensure that program income is being spent appropriately.

Reporting

The amount and disposition of the program income must be reported on the Financial Status Report of the parent award for each applicable budget period. During Award setup the SPO must document the treatment of any program income and disposition at the end of the Award. Final disposition of unexpended program income will be made upon termination of the sponsored project. When the related sponsored project ends, the SPO accountant closes the program income ChartField string along with the parent Project ChartField string according to OMB A-110 regulations, unless the sponsor or the terms and conditions of the Award state otherwise.

Financial Status Reports are prepared quarterly by the SPO accountants and reviewed and approved by the SPO Post-Award Manager. This review is evidenced by the SPO Post-Award Manager's signature on the report. The manager's signature also attests to of OMB compliance and the accuracy of the accounting treatments.

Responsibilities

Principal Investigator:
- Identifies sources of actual and potential program income.
- Ensures that all payments received for program income are deposited into the appropriate sponsored program ChartField string.
- Spends program income in accordance with sponsor requirements and the terms and conditions of the Award not exceeding the income received.
- Monitor expenditure levels in project to ensure that program income is spent first.

Department Administrator/Fiscal Officer:

- Reconcile revenue invoiced or submitted against financial reports.
- Monitor levels of program income in the project and any limits that are set by the sponsor.
- Monitor expenditure levels in project to ensure that program income is spent first.
- Ensure that cash receipts are deposited in accordance with the Cash Receipts Manual.

SPO:
- Review proposal for anticipated program income.
- Report program income to sponsor in financial reports.
- During award setup, document the treatment of program income to be made at award closing.
- Address program income balance issues at final project termination.
- Monitor program income balances during the life of the Award to ensure the program income is being spent.
- Perform a managerial review of the 2199 fund balance and transactions quarterly.

Controller's Office
- Perform a quarterly review of fund 2199 to ensure budgets are adjusted appropriately.

Effective Date: December 31, 2007
Revised Date: December 10, 2007

Questions and Comments?
Questions regarding interpretation and implementation of the Accounting Policy should be directed to the Campus Accounting Office. Suggested edits or revisions to the policy should be directed to the Office of the Controller.