

RURAL DEVELOPMENT PROJECT POLICIES AND PROCEDURES	Issued by: RDP Statewide Program Officer, Maile Lu'uwai	Policy No.: FIN 005
	Evaluator/Compliance Officer, Laura Maudsley	Effective Date: 10/15/2009
Subject: <i>Program Income</i>	Approved by: RDP Statewide Program Coordinator-Dan Regan	Revision No.: 1 9/18/2009
		Supersedes Policy: N/A

I. PURPOSE: To provide guidelines for RDP staff to ensure that program income is properly used, accounted for and reported in accordance with grant requirements and federal rules and regulations.

II. APPLICABILITY

Project Directors and Statewide staff responsible for program oversight will ensure that all programs, subrecipients, and subcontractors who earn program income will record, report and utilize program income in accordance with this policy.

III. DEFINITIONS

A. Program Income means gross income earned by an RDP program, a subrecipient, or a subcontractor that is *directly generated* by an RDP supported activity or *earned only as a result* of RDP **grant** funding *during* the grant period.

Program income includes, but is not limited to:

- i. Income from fees for services performed;
- ii. The use or rental of real or personal property acquired under federally-funded projects;
- iii. The sale of commodities or items fabricated under an award; and
- iv. License fees and royalties on patents and copyrights;
- v. 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 any of them.

B. Net Program Income is the amount of income earned after costs incident to the generation of program income are deducted from the gross income. Only expenses that have not been charged to RDP can be deducted from gross income. This includes expenses that have been cost shared or contributed by a

program partner. The cost sharing ratio or partner contribution would be deducted from gross income, and the funds remaining would be net program income. Expenses charged to RDP cannot be deducted from gross income.

- C. **Grant Period** is the time between the effective date of an RDP award and the ending date of the award reflected as specified in the grant agreement.

IV. POLICY

- A. The subrecipient or subcontractor must immediately notify the RDP Statewide office if Program Income will be generated by its activities under the contract.
- B. Except as provided in paragraph "H" of this section, program income earned during the project period shall be retained by the recipient and added to funds committed to the project by DOL and the recipient, and used to further eligible project or program objectives.
- C. Program Income must be expended **before** federal funds are used to pay for additional program costs.
- D. Program Income expenditures must meet the criteria of "reasonable, necessary, and allowable" to advance the goals and objectives of the program.
- E. Recipients shall have no obligation to the Federal Government regarding program income earned after the end of the grant award period.
- F. Costs incident to the generation of program income may be deducted from gross income to determine program income, provided these costs have not been charged to the award.
- G. Proceeds from the sale of property are not program income and shall be handled in accordance with the requirements of the DOL Property Standards (ref. 29 C.F.R.§§ 95.30-95.37)
- H. Unless DOL's regulations or the terms and condition of the award provide otherwise, recipients shall have no obligation to the Federal Government with respect to program income earned from license fees and royalties for copyrighted material, patents, patent applications, trademarks and inventions produced under an award. However, Patent and Trademark Amendments (under U.S.C. 18) apply to inventions made under and experimental, developmental or research award.

An additional exclusion to program income would be contributions and donations, which are freely given to programs, not generated by the use of RDP funds.

V. SUBRECIPIENTS AND SUBCONTRACTORS

If the RDP enters into a subcontract or subrecipient fixed-price agreement or award with a governmental or nonprofit agency that results in their earning revenues in excess of their actual costs incurred, the excess revenues are considered to be program income [20 CFR (a)(6)]. Any such fixed-price agreements should reference this requirement and provide for a mechanism to report the use of the program income.

Project Directors and statewide staff are required to notify subrecipients and subcontractors of this policy and its requirements. RDP staff are responsible for monitoring program income generated by subrecipients and subcontractors.

RDP will include the following provision in subcontracts and agreements:

Program Income: The Subcontractor shall immediately notify RDP if program income will be generated by the Subcontractor's activities under this agreement. Program income is gross income earned by the Subcontractor that is directly generated by an RDP-supported activity or earned as a result of RDP funding.

- A separate account for program income must be established for the Program Income. Contact your campus Financial Officer (FO) to start the process for creating the account in the UH system.
- The Subcontractor will be required to properly monitor revenue and expenditures in compliance with RDP policies and Federal rules and regulations.
- To ensure that program income is used to advance program goals, the subcontractor is required to obtain RDP approval *prior* to expending program income.
- Program income must be expended *before* RDP funds from the main account are used. The Subcontractor must include program income information in its quarterly reports and the final report to RDP.

VI. PROCEDURE

A. CALCULATING PROGRAM INCOME: ADDITION METHOD

The "addition" method will be used calculate program income. Costs incidental to the generation of program income will be deducted from *gross program income* to determine the **net program income** provided that the costs were not charged to the RDP program. If costs were charged to RDP, the costs cannot be deducted.

Program income must be determined *regardless* of the method for charging costs of generating income. *Program income must be added to the funds committed to the project or program to advance eligible program or grant objectives.*

Example: Program income calculation

- RDP provides \$50,000 in funding for an RDP program that purchases audio studio equipment to provide audio engineering training to students.
- The students produce and sell CDs generating \$2000 in sales using the audio studio equipment. The costs of buying blank CDs and cases are charged as supplies to the RDP project account.
- The \$2000 in program income is placed in a separate program income account. This gross program income must be used to support program objectives and must be expended *prior* to using RDP funds in the grant fund account.
- Since the costs cannot be deducted, the gross program income is \$2000.

B. MONITORING PROGRAM INCOME

RDP staff is required to maintain records sufficient to determine the amount of program income received and how it was expended.

- i. Establish Separate Accounts. A separate account will be established for program income. Expenditures incidental to the generation of program income that were initially recorded in the original program account will be subsequently transferred to the program income account to offset the amount of program income earned. RDP staff must monitor these accounts and ensure that program income is identified and recorded properly as revenue in the correct account and that expenses are properly recorded.
- ii. Multiple Grants. If program income is generated by multiple grants, the income and expenses must be prorated among the accounts based on the awards.

Example: A training program is funded by two RDP grants. Participants pay a registration fee for the conference. The costs for the conference are charged to the training program. The program income account is established for the registration income and utilized to pay for conference expenses. Because two grants are supporting the conference, program income will be prorated (in terms of the amount of funding provided by each grant) and reported against both grants.

- iii. Program income must be expended first. RDP staff must monitor expenses in the program income account to ensure that the program income is spent to support the project or program *before* RDP grant funds are expended.
- iv. Expenditure approval. Subrecipients and subcontractors must obtain approval from RDP *prior* to expending program income. This is to ensure that program income is used to support project or program goals, objectives and activities.

VII. QUARTERLY FINANCIAL STATUS REPORT (SF 269)

Program income must be reported to the Department of Labor (DOL) on the quarterly Financial Status Report.

Income earned after the end of the grant period is not considered program income and RDP does not have to report such income on its SF 269.

VIII. RETENTION OF PROGRAM INCOME RECORDS

Retention of program income records is identical to the records retention requirements in RDP Policy MAN 002 Records Retention & Management.

IX. REFERENCES

OMB Circular A-110; 29 CFR 95.2 (bb); 29 CFR 95.24; 20 CFR 667.200(a)(6);