

<b>RURAL DEVELOPMENT PROJECT POLICIES AND PROCEDURES</b>	<b>Issued by:</b> RDP Statewide Program Officer- Maile Lu'uwai	<b>Policy No.:</b> <b>FIN 005</b>
		<b>Effective Date:</b> 03/15/2006
Subject: <b><i>Program Income</i></b>	<b>Approved by:</b>  RDP Statewide Program Coordinator-John Dunicliffe	<b>Revision No.:</b> N/A
		<b>Supersedes Policy:</b> 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 that earn program income record, report, and utilize program income in accordance with this policy.

III. **DEFINITIONS**

A. **Program Income** is 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 funding during the grant period.

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. 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 in specified in the grant agreement.

IV. **SUBRECIPIENTS AND SUBCONTRACTORS**

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. 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 will be established and 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 final report to RDP.

## V. PROGRAM INCOME

Examples of program income include:

- Use and Rental Fees. Income from rental or usage fees, such as those charged for use of computers purchased with RDP funds.
- Sale of Products. Proceeds from the sale of commodities or items fabricated with RDP funds such as CDs, publications, videotapes, or software.
- Fee for Services. Income from fees for services performed. This includes income from registration or admission fees for conferences or workshops.

## VI. PROGRAM INCOME EXCLUSIONS

Program Income does not include:

- Applicable Credits. Rebates, credits, discounts, refunds, etc., or interest earned on any of them.
- Royalties. Income from royalties and license fees for copyrighted material, patents, trademarks, and inventions developed by a RDP, a subrecipient or subcontractor, unless the revenues are specifically identified in the grant agreement or Federal agency regulations as program income.
- Income Earned after the Grant Period has Ended. RDP does not have any obligations for program income earned after the end of the award period.
- Donations. Contributions and donations are voluntarily given to programs, not generated by the use of RDP funds. Therefore, these revenues do not constitute program income.

## VII. 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:** 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 \$2,000 in sales using the audio studio equipment. The costs of buying blank CDs and cases are charged as supplies to the RDP program. \$2,000 will be placed in a separate program income account and the expenditures deducted from that account and used to offset project costs. The gross program income must be used to support program objectives and must be expended *prior* to using RDP funds in the main account. Since the costs cannot be deducted, the gross program income is \$2,000.

## VIII. MONITORING PROGRAM INCOME

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

**A. 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 to these accounts and ensure that program income is identified and recorded properly as revenue in the correct account and expenses are properly recorded.

**B. 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 and reported against both grants.

**C. Program Income Must Be Expended First.** RDP staff must monitor expenses in the program income account to ensure that it is spent to support the project or program **before** RDP funds are expended.

**D. 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 and objectives.

## IX. SF 269

Program income must be reported to the Department of Labor on the SF 269 Financial Status Report. Since income earned after the end of the grant period is not considered program income, RDP does not have to report such income on its Financial Status Report.

## X. 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.

**X. REFERENCES**

OMB Circular A-110; 29 CFR 95.24.