Classification as Gift or Grant

POLICY STATEMENT

Both gifts and grants received by the University are voluntary support from external sources, and their characteristics often make them very difficult to distinguish from one another. In addition, sponsoring entities, private foundations or donors may use the terms interchangeably in both conversation and in the donative instruments, contributing to the complexity. Proper classification of gifts and grants in the accounting records is crucial to ensure the University’s external financial statements are presented accurately. This policy is established to help differentiate gifts from grants and to create consistency in the treatment of these funds.

Various financial governing bodies have attempted to bring clarification to this issue. Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Subtopic 958-605, Not-for-Profit Entities – Revenue Recognition aids in the differentiation of grants (exchange transactions) from gifts. Exchange transactions are defined as “reciprocal transfers in which each party receives and sacrifices approximately commensurate value.” (ASC Section 958-605-15 definition of “Contribution”). The Financial Accounting and Reporting Manual for Higher Education (“FARM”), published by the National Association of College and University Business Officers (“NACUBO”), refers to certain indicators when distinguishing between a contribution and exchange transaction. Two of these indicators are: intent of the institution and intent of the resource provider. (FARM ¶403.3).

If the basic concept of gift or grant in the previous paragraph has been reviewed and questions still persist as to proper classification the following should be considered to determine if funds received from external sources should be treated as a grant or a gift. No single indicator is, by itself, determinative. The intentions of the grantor/donor must be taken into consideration. A donor’s stated intention should be the primary criteria used in the decision making process as to its proper classification. Regulatory compliance requirements are often an indicator of a sponsored program, but PIs, faculty or department chairs must ensure all compliance requirements are followed regardless of classification.

In general, funding from governmental units should be recorded as a grant. Corporations, Foundations and other not-for-profit organizations may provide support through either method.

1. Grant – an externally funded activity where there is an agreement representing the transfer of money or property from a sponsor in exchange for specific goods or services, often including rights to and products derived from the services and other obligations such as, formal financial and/or technical reporting. The agreement is legally binding on both parties and performance must be completed within the stated terms with support being revocable for cause. All grants are processed through the ND Research Administration. Other characteristics of a grant include but are not limited to:
a. Sponsor is a U.S. or foreign governmental agency or is awarding governmental flow-through funds.
b. Use of funds is restricted by the sponsor, prior sponsor approval required for budget revisions or other changes and disallowance of specific types of expenditures.
c. Sponsor retains the right to revoke award based on stated circumstances.
d. Sponsor defines how unexpended funds are to be handled.
e. Money or property is provided to achieve a specified scope of work or provide a specific product, service or other expected result within a specified period of performance.
f. Money or property is awarded for a grant proposal submitted by the University in response to a request for proposal, published guidelines or through a competitive application process.
g. Sponsor has material transfer agreement (MTA) in place with institution where materials or intellectual property (IP) will be used in performance of the activity or project.
h. Activity involves testing or analysis of the sponsor’s proprietary information, materials or products.
i. The sponsor requires external audits, detail financial reports, invoices and/or technical status reports as a condition of the award.
j. The sponsor stipulates a variety of other terms and conditions, such as publication restrictions, rights to tangible and intangible assets, compliance with federal and state regulations, allowable and unallowable costs, subcontracting, insurance, warranty, indemnification and hold harmless clauses, protection of proprietary or confidential information, right to IP, modifications, penalties, remedies, termination, specific deliverables or use of deliverables, applicable laws, etc.

2. Gift – a voluntary and irrevocable transfer of money, services or property from an external donor for either unrestricted or restricted use in promoting the University’s goals. No commitment of resources or services is required other than the stated donor restrictions. All gifts are processed through the University Development office. Other characteristics include but are not limited to:
   a. Donor refers to award as a gift, donation, or contribution and intends the award to be a charitable gift as reflected by the absence of any quid pro quo.
   b. Donor makes the award to the University without expectation of direct economic or other tangible benefit commensurate with the value of the award. Indirect benefits such as tax advantages, business or personal goodwill or benefits derived from donor club status are of an immaterial nature and not sufficient to negate the gift intent.
   c. Award is given with few terms beyond specifying general intent. Any conditions or stipulations placed on the use of the award are reasonable and serve only to direct the award to support the desired area of interest to the donor.
   d. Award is irrevocable with the donor relinquishing rights to reclaim any portion of the award.
e. Award is from a non-governmental source and is given for such activities as endowments, capital projects, general student financial assistance or other general operations of the University.

f. No technical or progress reports are required. General stewardship reports or periodic reports of accomplishment should occur on a regular basis or upon request from the donor.

The attached chart may guide you in determining whether an award is a gift or a grant. However, if you need clarification on any item within the chart, please contact Research and Sponsored Programs Accounting. ND Research Administration can provide assistance with prospective analysis in order to assess the impact of this classification on future research projects. Final determination regarding the classification of an award will be made through consultation between the Controller’s Group, ND Research and the Department of Development.

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Gift</th>
<th>Grant/Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope of work is defined (i.e., result of proposal, directed to specific PI or purpose)</td>
<td>Acceptable</td>
<td>Standard</td>
</tr>
<tr>
<td>Revocability</td>
<td>No</td>
<td>Standard</td>
</tr>
<tr>
<td>Award terms concerning publication, IP, royalty sharing, or specific restrictions on use</td>
<td>No</td>
<td>Standard</td>
</tr>
<tr>
<td>Cost and budget information in proposal</td>
<td>Acceptable</td>
<td>Standard</td>
</tr>
<tr>
<td>Detailed reporting</td>
<td>Acceptable</td>
<td>Standard</td>
</tr>
<tr>
<td>Period of performance</td>
<td>Allowed</td>
<td>Standard</td>
</tr>
<tr>
<td>Return of unexpended funds</td>
<td>No</td>
<td>Standard</td>
</tr>
</tbody>
</table>