

AWARDS FROM FOUNDATIONS AND INDUSTRIAL SOURCES: Treatment as Gifts or Sponsored Agreements

Awards from foundation and industrial sources frequently raise the following questions: 1) Is the award a gift or is it a sponsored contractual agreement? 2) If the award supports a research activity, should it be included in the organized research base (research WBS) or should it be established in an Internal Order?

This document describes the Institute's principles with regard to treatment of such awards as gifts or sponsored agreements and provides some guidance in the application of these principles. Authoritative sources for the principles governing the first question include the Federal Tax Code and the Financial Accounting Standards Board (FASB). The authoritative source for the principles governing the second question is OMB Circular A-21, "Cost Principles for Educational Institutions."

In June of 1993, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 116, "Accounting for Contributions Received and Contributions Made." This accounting pronouncement established standards which determine whether an award is a contribution or an exchange for external financial reporting purposes. For purposes of this document, the word "contribution" can be used synonymously with "gift" and the word "exchange" can be used synonymously with "sponsored contractual agreement."

BASIC PRINCIPLES

Gift or Sponsored Agreement

A gift is made with a primarily donative intent--the gift is transferred to and accepted by the recipient. No goods or services of commensurate value to the contribution are received by a donor from the recipient of a gift. Benefits to the donor are also available to the general public. The transfer from the donor is not motivated by economic gain. Under these circumstances the transfer may be deducted as a charitable contribution by the donor.

In contrast to this "disinterested generosity," when the transferor does expect to receive more than incidental benefit from the transfer, the situation does not qualify as a charitable gift. When the benefit received by the transferor is greater than the benefit to the general public, the value of the quid pro quo generally reduces or eliminates the transfer as a charitable gift.

The FASB identified three characteristics that help distinguish contributions from other transactions -- contributions are: (a) non-reciprocal transfers; (b) to or from non-owners; (c) and made or received voluntarily. Characteristics (b) and (c) have little meaning to MIT since no other entity "owns" or is "owned" by MIT and since foundations and industrial sponsors presumably do not provide resources to MIT

involuntarily. As the first characteristic can be interpreted in different ways, the FASB has also provided a list of factors indicative of a contribution/gift versus factors indicative of a sponsored contractual agreement/exchange.

Fund or Research Cost Object

Federal cost principles relating to allowability of costs and the calculation of indirect costs require that all research support which is "separately budgeted and accounted for must be included in the organized research base." In these cases a research WBS cost object is established. However, occasionally awards are received which do not require accountability in the same manner as sponsored research projects. Most frequently these awards are in the form of a brief letter from an industrial organization. In these cases an Internal Order may be established.

Following is a description of the principles applied to decision-making in these two areas.

APPLICATION OF PRINCIPLES

Foundation Awards

Foundation grants to MIT, including those made for a specific individual as a post-doctoral fellowship or faculty career development award, are gifts. Grants to MIT for student scholarships or graduate student fellowships are gifts if MIT participates in the selection of the recipients. The principle governing the acknowledgment of foundation awards as gifts is that charitable foundations are established for philanthropic purposes and there is no economic gain or substantial benefit to the foundation as a result of its awards. Though reporting is normally required, the foundation looks for no greater benefit from these deliverables than it expects the general public will receive. An appropriate cost object or combination of cost objects will be established based on the purpose of the award: research activities will be handled in research WBS and non-research activities will be managed through fund WBS.

Rarely, a contract or purchase order is received from a foundation which requires that services of benefit to the Foundation be provided. In those cases the receipt is not treated as a gift and an appropriate cost object is established based on the nature of the activity.

Corporate Awards

The terms of the corporate award are central to a decision as to whether the award qualifies as a gift or sponsored research agreement. At one end of the spectrum are awards for research where the terms of the award require separate financial accounting and reporting. In such cases, funds received do not qualify as gifts and must be established in research WBS. At the other end of the spectrum are awards which provide support for a department's general research programs or for the general support of a particular scientist's area of research. In these cases, funds received normally qualify as gifts and are appropriately credited to Internal Orders.

Between these extremes are numerous other situations, including:

- Awards which are used as reportable cost sharing on a federal research award (may qualify as gifts, but must be established in research WBS);
- Research awards which require only an annual technical progress report and/or ongoing communication with a donor (may qualify as gifts and may be established in Internal Orders); and
- Research support which require that MIT permit a resident visitor to our facilities (generally not treated as gifts and established in research WBS).

In cases where there is a question, gift status is determined by the Recording Secretary and cost object decisions are made by the Office of Sponsored Programs, with consultation as appropriate.