

Western Michigan University

Guidelines on Types of External Funding

Purpose

To distinguish between externally funded support; sponsored projects, gifts, and departmental activities that are governed by specific terms and conditions. The support can be for research, public service, or training.

Definitions

Sponsored Projects

The term "sponsored project" refers to a financial award (grant, contract, or cooperative agreement) from a sponsor to conduct a specified research, training, or service project. Sponsors can be state or federal agencies, foundations, nonprofit groups, or private enterprises such as business and industry. Sponsored projects may have any one of the following characteristics:

- Any of the following terms are mentioned: contract, cost sharing, line item budget restrictions, overhead negotiations, prior approval required on spending, return of unused funds to sponsor, intellectual property, or period of performance.
- The sponsor is entitled to receive some consideration, such as detailed technical reports, test results, or merchandise.
- Limitations exist on the use of project data, or details relating to patents, or copyrights are involved.
- There is a binding agreement between the University and another entity to provide economic benefit for compensation paid.

The type of agreement usually reflects the relationship between the sponsor and the recipient. The following descriptions point to distinctions between each type of sponsored project. **Note: these definitions are used by federal agencies. Nonfederal sponsors often use these terms more loosely.**

Contracts

A contract is an agreement for procurement of a particular service (e.g., evaluating the effectiveness of a project) or product (e.g., a report at the end of a research project), in which an institution is paid primarily to benefit the sponsor or to help the sponsor reach a particular goal. Normally, a contract will have various terms and conditions to which both the sponsor and institution must agree before work can begin. For an award to be considered a contract, it generally must specify:

- detailed financial and legal requirements;
 - work to be performed;
 - deliverables and reports to be submitted to the sponsor;
 - separate accounting procedures;
 - legally binding contract clauses; and
 - benefits that accrue to the sponsor, the institution, and the nation.
- **Cost Reimbursable** – Contract for which one party pays the other party for the full costs incurred in the conduct of the work, up to the committed budget amount. This type of contract is the most commonly used, requiring an approved budget and scope of work. Once the committed budget amount is fully spent, the University can stop work, or negotiate for additional funds to complete the project. The sponsor normally requires

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interim and final progress reports, and payments are usually based on submission of monthly or quarterly invoices detailing expenditures for the period. Should the project be completed for less than the total amount agreed to, the remaining funds revert to the sponsor. Cost Reimbursable contracts are normally billed on a monthly or quarterly time frame. Since it is inherently difficult to estimate the cost of a research project, most sponsored projects are "cost reimbursable."

- ***Fixed-Price*** – Contract for which one party pays the other party a pre-determined price for services rendered, regardless of actual costs. This type of contract carries some risk for the institution, since the work or work product must be accomplished for the agreed upon-price. Costs and payments are based on milestones or tasks completed or products delivered. The institution may retain any unexpended balance that remains after the contracted work is complete. Fixed-price agreements are normally billed upon completion of agreed upon deliverables/outcomes.
- ***Fixed-Fee*** – Contract for which one party pays the other party a set dollar amount per patient, per hour, or other unit. These projects are often clinical trials or surveys. The total award amount is based on an estimated number of units and is subject to downward adjustment based on the actual number of units completed. Sponsor approval is required to exceed the estimated number of units. The fee per unit remains constant, even if the actual cost per unit is above or below that amount. Any over expenditures are the responsibility of the department, and earned unspent revenue does not revert to the sponsor. If the deliverables are not completed within the award period, the contract must be extended.

Grants

Grants are awards that are made to the University for the performance of certain services and research activities; the creation of particular organized research units, facilities, or products; or the development of professional training in accordance with the wishes of the granting agency. Once a grant has been awarded, the funding agency is usually less involved in the project activities than in the case of either a contract or a cooperative agreement. In the majority of cases, grants are made for the performance of specific research or creative activities which have been suggested by a principal investigator. The results of such research or creative activity are usually in the public domain, except for the professional proprietary right of authorship. Grants may be awarded by either government or non-government sources. A grant is used to help support a project, often not reimbursing the University for all of the project costs and with the grant award often being a result of an unsolicited proposal from the principal investigator. Grants generally have:

- a requirement for specific certifications and representations;
- an award document;
- a restriction on usage to a specific scope of work in the public interest;
- a requirement for reports of a technical nature or other deliverables;
- an obligation to separately account for expenditures;
- a commitment of University facilities, personnel, or other resources;
- a specific performance period or completion date;
- instructions for disposition of unexpended funds; and/or
- requirements for record retention and audit.

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Cooperative Agreements

A cooperative agreement is an agreement where the sponsor has substantial involvement in the project. The sponsor and grantee work together to achieve a specific objective. Cooperative agreements allow for ongoing consultations, collaborative development and execution of project activities, and public dissemination of project materials, products, or results. The cooperative agreement is used by federal agencies only whenever there is a true collaboration between the University's principal investigator and the federal funding agency's personnel such that the agency is actively involved in the direction of the research project.

Gifts

Gifts are awards from foundations, corporations, and individuals that are donative in nature. The conditions attached to gifts, if any, normally specify the way in which the funds are to be used. Most gifts to the University are intended to support such things as student scholarships and fellowships, faculty enrichment, and academic programs. Gifts are also made for the purpose of supporting new facilities, such as laboratories, and for the purchase of equipment. Some gifts are unrestricted, made with no conditions attached, and are intended for the University's use simply within the constraints of reason and good judgment. In-kind gifts such as equipment, consulting services, or space may be awarded in place of monetary bestowals. It is normally a special interest of the donor that determines the use of gift awards. Some characteristics of gifts are:

- the intention is to make a charitable contribution;
- the donor does not impose contractual requirements; and
- funds are awarded irrevocably.

Departmental Activities

A department or unit may receive support for providing services outside the University community. These activities are usually an exchange by the University of tangible or intangible property or service for monetary consideration with external customers. Some common examples include, but are not limited to, conferences/seminars, publications, class fees, testing services, and study abroad programs. Some characteristics of departmental activities are:

- the activity is self-supporting without relying on support from other university funds;
- the services are not performed with the intent of making a profit;
- the activity is for a specific purpose, not restricted by donor or other supporting agencies.

Characteristics of Sponsored Projects, Gifts, and Departmental Activities

The following provides additional guidelines in distinguishing between a sponsored project, gift, and departmental activity. In many situations all of the characteristics will not be present, and judgment must be exercised in order to classify the type of external funding. No single criterion below defines the transaction under the sponsored project, gift, or departmental activity category. When there is no clear distinction, the award will be reviewed by the Research and Sponsored Programs Office and the Development Office.

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Sponsored Projects

- Awards are for performance of certain services and research; creation of organized research or products
- Funding source requires specific deliverables; for example, technical report or evaluation
- Funding source requires return of unexpended funds
- Award contains provisions for intellectual property rights
- Award includes “boilerplate” terms and conditions imposed by the project funding source
- Award requires protection of funding source and confidential information
- Faculty or student activities whose outcomes are considered proprietary in nature or for which faculty or students are retained to provide specific services
- Funding sources can be governmental agencies
- Funding source requires that a tangible product (e.g., technical report, evaluation, data, service) be delivered
- Funding source will derive primary or direct economic benefit from the product resulting from the award
- Funding source requires detailed expenditure reporting on a regular basis
- Award purpose is to fund research activities directed to satisfying funding source requirements (e.g., terms and conditions stating a precise scope of work)
- Funding source pays facilities and administrative costs based upon federally negotiated rate
- A principal investigator is in charge of the funded project
- Award contains an itemized budget, which requires approval by the funding source to modify
- Funding source requires record retention or specifies audits by or on behalf of funding source
- Conditions exist such as regulatory compliance (e.g., human subjects, animal care, recombinant DNA, use of radionuclides or radiation-producing machines), start and end dates, insurance coverage cost sharing, funding source title to equipment, protecting confidential information
- Award fulfills a cost sharing commitment on another sponsored project or requires a matching, cost sharing, or other financial commitment from the University
- Payment is for the normal cost of the goods or services

Gifts

- Payments are from an individual, a corporation, a foundation, or a nonprofit organization
- Donor may specify the purposes for which funds may be used
- Donor's payment is irrevocable
- Donor does not impose contractual requirements
- Donor uses the payment as an IRS deduction or as a way to be in compliance with its tax-exempt status
- Donation may be in-kind
- Donor determines the amount of the payment
- Donor may call the payment a gift, contribution, donation, support or grant
- Award contains only minimum requirements, generally related to required donor pledge payments and the University's commitment to effectuate the donor's intent
- The University is not penalized for nonperformance. Any unspent unrestricted resources may be retained. Restricted resources are retained for disbursement in future fiscal periods.
- The University delivers the assets to individuals or organizations other than the donor
- The fair value of the resources received by the University is disproportionately greater than the goods or services provided

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Departmental Activities

- An activity with a specific purpose, not restricted by donors or other supporting agencies
- The activity is usually associated with sales or services provided by educational departments
- The activity results in revenue that is incidental to the conduct of instruction, research, and public service
- Revenue can also result from activities that exist to provide instructional and laboratory experience for students and that incidentally create goods and services that may be sold to students, faculty, staff and the general public
- The activity should be self-supporting without relying on support from the general fund (11) or the expendable restricted grant funds (25-30)
- Fund 43 (Auxiliary) exists for reporting sales of goods and services with the intent of producing a profit. Conversely, departmental revenue recorded in the designated fund (23) should be enough to meet the goals and complete the tasks associated with the activity
- Some common examples include, but are not limited to, conferences/seminars, publications, class fees, testing services, and study abroad programs
- Such revenue should be recorded in the period in which the services are performed or the transactions completed