

## University of Toronto

### Valuation of Fair Market Value for Items with CFI In-kind Contributions

#### Introduction

The University has a responsibility to ensure that the fair market value reported to the CFI for eligible items involving in-kind contributions is reasonable. This document sets out the process for internally administering the assessments of reasonability.

#### Definitions

1. The **eligible in-kind contribution for CFI purposes** (CFI in-kind) is any discount beyond the FMV (i.e. any discount beyond normal and educational/academic discounts).
2. The **Fair Market Value (FMV)** of an item is the price that would normally be charged to the institution for the item or service after normal and educational/academic discounts but prior to any discount offered as a contribution toward the CFI-funded project.
3. A **FMV Reasonability Assessment** (FMV RA) is a formal spreadsheet comparator that will include any of the elements required to justify the reasonability of Fair Market Value of an acquisition. The FMV RA is more detailed than a market comparison, and includes reasons why a particular bid has been deemed to have a reasonable FMV. For higher value in-kind contributions, the FMV RA may also include evaluation scores for competitive bids and relevant technical or financial comments.
4. A **Market Comparison** (MC) is a basic spreadsheet format showing quote or competitive bid amounts in a manner that summarizes selling prices, discounts, FMV's and net selling prices across all bids. It is used when the lowest FMV of the quotes is selected for award, or used as FMV.

For greater clarity, refer to CFI Policy and Program Guide, 2017, Section 6.5 (Items involving in-kind contributions).

### **Background**

To help establish the Fair Market Value (FMV) of an item involving an in-kind contribution provided by a supplier, the institution should obtain from the supplier a confirmation of the price that would have normally been charged to the institution for the item or service.

This confirmation can be provided in the form of a quotation, competitive bid document, invoice or letter. In addition, depending on the FMV of the item, the contracting process and the value of the related in-kind contribution, the following readily available information should also be considered:

- i. Other bids that have been received as part of a competitive bid process and that provide useful market comparisons;
- ii. The cash consideration (i.e. purchase price) paid in a previous purchase of the same (or similar) infrastructure item where the purchase was not related to a CFI-funded project and did not involve an in-kind contribution; and
- iii. Previous experience with a supplier's discount structure.

Appropriate documentation must be retained to support the fair market value for seven years after the transaction date.

## Valuation of Fair Market Value for different in-kind thresholds:

### 1. Acquisition Criteria:

#### a. In-kind is less than \$1,000 under any scenario

The FMV can be taken as the price after normal and educational discounts. The discount beyond the FMV shown on the properly formatted quote or similar document may be used as the eligible in-kind contribution for CFI purposes.

### 2. Acquisition Criteria:

#### a. In-kind is \$1,001 or more, but less than \$100,000

#### b. Minimum of three competitive quotes are obtained

#### c. Preferred option is the quote with the lowest FMV

If a minimum of three quotes have been received and the preferred option has the lowest FMV, then this can be justified as the true FMV. Any discount beyond this FMV can be reasonably used as the CFI in-kind. A market comparison of FMV across all 3+ bids will be prepared.

### 3. Acquisition Criteria:

#### a. In-kind is \$1,001 or more, but less than \$100,000

#### b. Minimum of three competitive quotes are obtained

#### c. Preferred option is NOT the quote with the lowest FMV

In this situation the in-kind value is not materially significant and it is unlikely that there is a significant difference between the in-kind being offered on any of the quotes. Under these conditions it may be appropriate to use a conservative evaluation of the in-kind contribution that avoids a significant amount of additional analysis being required. This would be achieved by using the FMV of the lowest technically acceptable bid as the FMV for the purchase for the purposes of evaluating the in-kind. The difference between the lowest FMV and the actual cost of the preferred option can be used as the eligible in-kind for CFI purposes. This may result in a lower in-kind amount being used for matching, but it is unlikely to be significantly less and it is easily justified. A market comparison of FMV across all 3+ bids will be prepared.

### 4. Acquisition Criteria:

#### a. In-kind is \$1,001 or more, but less than \$100,000

#### b. Sole or Single Source (no competitive bids)

For single source bids, where there is no other price comparison available, additional analysis and/or information must be included to support the validity of the FMV, e.g.

##### i. Comparison with similar purchases

In the event that the same (or a similar) infrastructure item has been purchased in the past by the institution or by another institution for which comparable pricing conditions exist and confirmation of the price paid can be obtained, the FMV may be assessed using the cash consideration (purchase price) paid for that purchase. This is possible only if the previous purchase was: completed during the same time period and was not related to a CFI-funded project and did not involve an in-kind contribution.

##### ii. Experience with the supplier's discount structure

Discounts offered on non-CFI (no in-kind) acquisitions from the same supplier may be used to verify typical discount structure.

With sufficiently documented justification, the discount beyond the FMV for a sole or single source bid is eligible in-kind for CFI purposes. Where the University has no previous history with a supplier, nor similar purchases for comparison, a request for a third party appraisal by CFI may be made. Otherwise, a FMV RA will be prepared.

**5. Acquisition Criteria:**

- a. In-kind is \$100,000 or more, but less than \$500,000**
- b. Minimum of three competitive quotes are obtained**
- c. Preferred option is the quote with the lowest FMV**

If a minimum of three quotes have been received and the preferred option has the lowest FMV, then this can be justified as the true FMV. Any discount beyond this FMV can be reasonably used as the CFI in-kind. A market comparison of FMV across all 3+ bids will be prepared. A FMV RA will only be prepared upon request.

The MC/FMV RA must be sent to Research Oversight & Compliance for review prior to issuing the Purchase Order.

**6. Acquisition Criteria:**

- a. In-kind is \$100,000 or more, but less than \$500,000**
- b. Minimum of three competitive bids are obtained**
- c. Preferred option is NOT the quote with the lowest FMV**

In this situation it is more likely that there is a significant difference between the in-kind being offered between the quotes which may materially impact the project funding. Thus it is important that if the preferred option does not have the lowest FMV that additional analysis and/or information is included to support the validity of the FMV, e.g.

- a. Comparison of the technical specification of the preferred option to determine how this justifies a higher FMV;
- b. Comparison of the non-cash purchase price (ongoing cost of ownership) elements (i.e. – quality of warranty; value-added features; service cost/response, etc.) of the preferred option to determine how this justifies a higher FMV;

With sufficiently documented justification, the discount beyond the FMV for the preferred option is eligible in-kind for CFI purposes. A formal FMV RA will be prepared as justification, including the evaluation scores across the competitive bids with those comments.

If additional information is either not available or not sufficient to support the FMV RA, then depending on the value of the in-kind under consideration and/or how critical it is to meet the matching requirements of the project either

- i. The FMV of the lowest technically acceptable bid can be used as the FMV for the purchase, and thus the difference between that FMV and the actual cost of the preferred option is the eligible in-kind for CFI purposes; OR
- ii. The Office of Research can notify CFI who will determine whether an appraisal is required.

The FMV RA must be sent to Research Oversight & Compliance Office for review prior to issuing the Purchase Order.

**7. Acquisition Criteria:**

- a. In-kind is \$100,000 or more, but less than \$500,000**
- b. Sole or Single Source (no competitive bids)**

For single source bids, where there is no other price comparison available, additional analysis and/or information must be included to support the validity of the FMV, e.g.

- i. Comparison with similar purchases

In the event that the same (or a similar) infrastructure item has been purchased in the past by the institution or by another institution for which comparable pricing conditions exist and confirmation of the price paid can be obtained, the FMV may be assessed using the cash consideration (purchase price) paid for that purchase. This is possible only if the previous purchase was: completed during the same time period and was not related to a CFI-funded project and did not involve an in-kind contribution.

- ii. Experience with the supplier's discount structure

Discounts offered on non-CFI (no in-kind) acquisitions from the same supplier may be used to verify typical discount structure.

With sufficiently documented justification, the discount beyond the FMV for a sole or single source bid is eligible in-kind for CFI purposes. Where the University has no previous history with a supplier, nor similar purchases for comparison, a request for a third party appraisal by CFI may be made. Otherwise, a FMV RA will be prepared. The FMV RA must be sent to Research Oversight & Compliance Office for review prior to issuing the Purchase Order.

**8. Acquisition Criteria:**

- a. Any Purchase Price**
- b. In-Kind of \$500,000 or more**

In these situations, the highest level of due diligence is required – a formal advertised process (RFP or ACAN) must take place, and extensive analysis is required as outlined below.

- i. The FMV of the item must be formally assessed which may involve
  - Comparison of competitive bids, if available
  - Performing a thorough and defensible market comparison
  - Comparison with previous purchases at uToronto or at other institutions
- ii. Performing an appraisal. If a third party appraisal is required the Office of Research will contact the CFI who will coordinate and pay for the appraisal if no alternative valuation method is available.

At award finalization stage a description of the valuation method used or expected to be used must be provided to the CFI.

Before the Purchase Order is issued,

- a. Fair market value must be assessed and this assessment reviewed and approved by the Principal Investigator and Representative from VPRI
- b. The approved FMV assessment must then be forwarded to the CFI who will perform a high level review.