



The University of North Carolina

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Appalachian State
University

East Carolina
University

Elizabeth City
State University

Fayetteville State
University

North Carolina
Agricultural and
Technical State
University

North Carolina
Central University

North Carolina
School of
the Arts

North Carolina
State University
at Raleigh

University of
North Carolina
at Asheville

University of
North Carolina
at Chapel Hill

University of
North Carolina
at Charlotte

University of
North Carolina
at Greensboro

University of
North Carolina
at Pembroke

University of
North Carolina
at Wilmington

Western Carolina
University

Winston-Salem
State University

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February 26, 2007

MEMORANDUM

TO: Joint Legislative Education Oversight Committee
Senator A. B. Swindell, Chairman
Representative Doug Yongue, Chairman

FROM: Erskine Bowles *EBB*

SUBJECT: Report on Overhead Receipts [Facilities and Administrative Receipts]

Legislation enacted by the 2001 General Assembly (S.L. 2001-424) directs the Board of Governors to report annually by March 1 of each year to the Joint Legislative Education Oversight Committee on the amount and uses of facilities and administrative receipts. Receipts and expenditures at each campus have been summarized into the attached report.

I am pleased to provide this information to you.

Enclosure

cc: Mr. Richard Bostic
Fiscal Research Division

Ms. Dee Atkinson
Research Division

Report on Facilities and Administrative (F&A) Receipts



**The University of North Carolina
Board of Governors**

February 2007

The University of North Carolina
Report on Overhead Receipts
[Facilities and Administrative (F&A) Receipts]
2005-06

Legislation enacted by the 2001 General Assembly (S.L. 2001-424) included the following special provision directing the Board of Governors to report annually on the amount and uses of facilities and administrative receipts:

UNC BOARD OF GOVERNORS REPORT ON OVERHEAD RECEIPTS

SECTION 31.14. The Board of Governors of The University of North Carolina shall report to the Joint Legislative Education Oversight Committee by March 1, 2002, and annually thereafter, on the amount of overhead receipts for The University System and the use of those receipts.

In response to that legislation, this report covers the fiscal year ending June 30, 2006.

Background

The University of North Carolina serves the state's interests through a three-part mission of teaching, research, and public service. UNC's reputation as one of the nation's top public university systems has been built, in part, on the volume and quality of research and sponsored programs conducted by its faculty. With limited direct state appropriations for research, the University has depended heavily on obtaining competitive grants and contracts to support its research efforts.

In recent decades, the federal government has increased efforts to promote scientific research at United States universities, as well as research conducted by federal, nonprofit, and commercial laboratories. Recognizing that research carries necessary administrative, facilities, and other expenses above and beyond the direct costs of the project, federal agencies have included in research grants and contracts a portion of funds to help offset these related costs – commonly called "indirect costs," "overhead receipts," or "facilities and administrative (F&A) receipts." In keeping with current federal reporting practices, the term “facilities and administrative (F&A) receipts” is used for the remainder of this report.

Under federal OMB Circulars, facilities and administrative receipts generally reimburse for costs associated with supporting grants and contracts activities of the institution in a manner consistent with the formulae under which the funds were recovered. Internal university controls pertaining to the compliance requirements for sponsored project expenditures under OMB Circular A-133 are designed to provide reasonable assurance regarding the achievement of the following objectives:

1. Transactions are properly recorded and accounted for in order to permit preparation of reliable financial statements and reports and maintain accountability over assets.
2. Transactions are executed in compliance with laws, regulations and provisions of federal and state laws and in accordance with sponsored agreement terms.
3. Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Research and other sponsored program awards to the 16 UNC campuses totaled approximately \$1 billion for FY 2005-06 with about two-thirds of that amount from federal sources. State and local governments provided just over ten percent. Grants and contracts support thousands of individual projects that improve human health, understanding of the natural world, education, national defense, and other areas critical to the nation and state. Not only do grants and contracts support leading-edge science and public service, but these funds are also used to support the state's workforce. Grants and contracts support salaries for faculty, post-doctoral fellows, staff, graduate assistants, and undergraduate researchers, all of whom keep UNC campuses in the forefront of regional economic development and training.

In 2005-06, UNC institutions received a total of \$171.6 million in facilities and administrative receipts (Attachment A). F&A receipts were expended by each campus to support costs associated with maintaining an environment conducive to conducting research and scholarly advancement and ensuring competitiveness for attracting additional research funds. The associated expenditures of F&A receipts in 2005-06 are shown on Attachment B. It is important to note that F&A receipts do not revert at the end of the fiscal year, therefore expenditures and receipts for a given year are often not the same.

In order to provide the requested information regarding the amount and uses of facilities and administrative receipts, each campus was asked to provide a report for the 2005-06 fiscal year. The institutional responses are summarized in the following sections of this report, and individual campus examples are detailed in Attachment C.

Amount of Facilities and Administrative Receipts – 2005-06 Fiscal Year

University-wide, a total of \$171.6 million was recovered in facilities and administrative receipts (see Attachment A) for the 2005-06 fiscal year. Consistent with their research missions, the two major research universities, North Carolina State University (18.6%) and UNC-Chapel Hill (69.2 %), accounted for 87.8 percent of the University-wide total. As shown on Attachment A, five institutions – East Carolina University, North Carolina A & T State University, UNC Charlotte, UNC Greensboro, and UNC Wilmington – accounted for most of the remaining F&A receipts.

Uses of Facilities and Administrative Receipts – 2005-06 Fiscal Year

Each institution provided a programmatic summary of priorities and an object of expenditure summary of facilities and administrative receipts disbursements made during the 2005-06 fiscal year, which totaled \$139.8 million (Attachment B).

The principal priorities for programmatic expenditures were designed to:

- maintain and expand research infrastructure;
- provide matching funds/cost-sharing for external grants;
- support research-related administrative functions;
- encourage new research activity;
- foster research/creative activity in the classroom;
- provide for research support and assistantships;
- promote grantsmanship education;
- fund faculty "start-up" packages (support staff, laboratory facilities, equipment, and operating expenses);
- sustain academic programs, including the libraries;
- provide for capital improvements and debt service; and
- support strategic initiatives.

Each of the campuses also reported on its expenditure priorities for the year. The most frequently cited use of F&A receipts was to support the administrative functions related to the grants themselves. This ranged from support for campus administrative units (finance offices, contract and grant functions, controller's offices, and facilities services) to public safety positions to guarantee laboratory security to costs for clean up and disposal of unique or hazardous materials. Campuses also used F&A receipts to sponsor grant workshops for students and faculty, support academic programs, and to provide laboratory space and equipment for research. Since the expenditures by UNC-Chapel Hill and North Carolina State University account for most of the total, the following illustrative examples are drawn from their reports. Similar expenditures were made by the other campuses, but in relatively smaller amounts. Attachment C provides examples of the uses of F&A receipts as reported by the other institutions.

Expenditures on various capital improvement projects, renovations, and debt service payments on additional projects accounted for 21.3% of total F&A receipt expenditures in 2005-06 for UNC Chapel Hill. Projects receiving support included the Science Complex Phases I and II, Genetic Medicine Building, Glaxo Molecular Biology Renovation, Medical Biomolecular Science project, Bioinformatics, and Neurosciences.

UNC-Chapel Hill committed to match the 2000 bond funds with an equal amount of non-state campus receipts during the capital improvements plan approved by the Board of Governors and the General Assembly that formed the basis for the bond program. F&A receipts comprise a significant portion of the campus match, either through direct expenditure or through the issuance of special obligation bonds to be retired from F&A receipts.

As a condition of funding, many sponsors require the university to contribute some of the total cost of a project, called "cost sharing." Depending on the sponsor and the type of project,

required cost sharing may range from one percent to fifty percent. During fiscal year 2005-06, UNC-Chapel Hill contributed cost sharing funds to hundreds of projects, including efforts in Environmental Science and Engineering, Physics, Astronomy, Chemistry, and Urban and Regional Studies.

At UNC-Chapel Hill, a portion of the F&A cost reimbursements each year goes to strengthen funding for the libraries. In fiscal year 2005-06, \$426,076 was allocated for the purchase of library materials and other operating expenses. This is recognition of the fact that the university must provide access to the latest research materials in order for its faculty and students to conduct the research needed to receive grant awards.

UNC-Chapel Hill had more than \$593 million of extramurally funded research and other sponsored programs in fiscal year 2005-06. Operating a program of that magnitude requires the expenditure of funds for central research services in direct support of the grants and contracts received. UNC-Chapel Hill spent more than \$8 million of its F&A receipts last year on central research services through the Office of the Vice Chancellor for Research and Economic Development. These expenditures fell primarily into four categories:

- 1) assisting faculty members and students in the development, preparation, and submission of proposals;
- 2) administering and accounting for the grant and contract funds expended in accordance with the terms and conditions of each individual award;
- 3) maintaining compliance with federal and state laws and regulations regarding the protection of human subjects, humane care and use of laboratory animals, use and disposal of hazardous substances, laboratory safety, and conflicts of interest; and
- 4) applying the results of research for the benefit of the state and nation through the effective stewardship of intellectual property, the promotion of economic development, and efforts to make the results of research available to the public.

Like UNC-Chapel Hill, North Carolina State University also obligated a portion of its facilities and administrative receipts toward the required campus match in the 2000 Higher Education Bond program. In 2005-06, NCSU committed 18.3% of its F&A receipts

expenditures to renovations and capital projects including Burlington Lab, Riddick Lab, and Schaub Hall.

At North Carolina State University, approximately one-third of the facilities and administrative revenues were used to provide salary support for those offices supporting the research infrastructure of the campus, such as purchasing, payroll, accounting, budget, administrative computing, facilities operations, legal services, and personnel. In addition, F&A receipts at NCSU were allocated to provide start-up packages and equipment for new faculty, matching/cost sharing for research initiatives, and facility upfits and renovations.

In 2005-06, F&A receipts at NCSU supported a project that converts wood chips to ethanol fuel. A provisional patent was filed on the process that would allow the large quantity of waste wood chips in North Carolina to be efficiently converted to ethanol fuel for transportation. F&A receipts were also used by NCSU to upgrade the Dearstyne Avian Research Center to allow research on the Avian Flu.

In addition to the programmatic summary, each institution also provided an accounting by object of expenditure as to how F&A receipts were spent in FY 2005-06. Across the system, expenditures and percentages of each were categorized as follows:

<u>Expenditures</u>	<u>Amount</u>	<u>Percent of Total</u>
Personnel services	\$ 52,422,399	37.486%
Supplies, utilities, fixed charges & other current services	48,144,464	34.427%
Renovation and capital improvements projects	28,398,454	20.307%
Educational, computing, and other equipment	5,733,984	4.100%
Educational awards	2,591,677	1.853%
Library materials	941,592	0.673%
Other expenditures	<u>1,614,406</u>	<u>1.154%</u>
TOTAL	139,846,976	100.00%

University Research Facilities and Administrative Receipts Reporting Policy

Recognizing the need for uniform policies and procedures for reporting University research facilities and administrative receipts, the Board of Governors at its meeting on March 6, 2002, adopted a policy statement. A copy of the policy may be found in Attachment D.

The requirements of the policy are:

1. UNC institutions determine expenditure of F&A receipts. The chancellor of each constituent institution shall expend F&A funds only to support scholarly development of its faculty, staff and students or to ensure that the campus infrastructure is supported to enhance such scholarly activities.
2. In a format to be provided by the Office of the President, each campus will report by December 1, the amount of F&A funds received, amount expended by purpose, and uncommitted balance.
3. Chancellors shall formulate and submit a copy of an administrative procedure for the use and reporting of F&A funds to the President, consistent with Board of Governors' guidelines for the expenditure of F&A funds.

**University of North Carolina
Facilities and Administrative Receipts, 2005-06**

Institution	2005-06 Receipts	% of TOTAL
Appalachian State University	\$ 600,846	0.4%
East Carolina University	4,301,799	2.5%
Elizabeth City State University	159,070	0.1%
Fayetteville State University	436,052	0.3%
North Carolina A&T State University	3,207,854	1.9%
North Carolina Central University	1,276,049	0.7%
North Carolina School of the Arts	0	0.0%
North Carolina State University	31,933,618	18.6%
UNC Asheville	170,511	0.1%
UNC-Chapel Hill	118,774,997	69.2%
UNC Charlotte	3,746,213	2.2%
UNC Greensboro	3,420,313	2.0%
UNC Pembroke	239,628	0.1%
UNC Wilmington	2,195,305	1.3%
Western Carolina University	343,307	0.2%
Winston-Salem State University	398,945	0.2%
UNC-General Administration	370,879	0.2%
TOTAL	\$171,575,386	100%

Note: F&A receipts do not revert at the end of the fiscal year; therefore expenditures and receipts for a given year are often not the same.

University of North Carolina
Expenditures of Facilities and Administrative Receipts, 2005-06

Institution	2005-06 Expenditures	% of TOTAL
Appalachian State University	\$ 495,062	0.4%
East Carolina University	2,674,499	1.9%
Elizabeth City State University	359,176	0.3%
Fayetteville State University	443,926	0.3%
North Carolina A&T State University	845,628	0.6%
North Carolina Central University	1,158,458	0.8%
North Carolina School of the Arts	0	0.0%
North Carolina State University	30,845,444	22.1%
UNC Asheville	184,863	0.1%
UNC-Chapel Hill	92,456,677	66.1%
UNC Charlotte	4,119,110	2.9%
UNC Greensboro	3,705,334	2.6%
UNC Pembroke	195,687	0.1%
UNC Wilmington	1,788,853	1.3%
Western Carolina University	227,373	0.2%
Winston-Salem State University	37,553	0.0%
UNC-General Administration	309,333	0.2%
TOTAL	139,846,976	100.0%

Note: F&A receipts do not revert at the end of the fiscal year; therefore expenditures and receipts for a given year are often not the same.

**University of North Carolina
Facilities and Administrative (F&A) Receipts
Examples of Usage By Campus
FY 2005-06**

Appalachian State University

- ◆ F&A funds supported faculty start-ups and the purchase of significant pieces of scientific research equipment.
- ◆ Funds were used to provide partial salaries of individuals involved in significant research initiatives.

East Carolina University

- ◆ As an incentive to encourage the entrepreneurial pursuit of additional research grants and contracts, 30% of F&A receipts were returned to the academic divisions that originated the projects.
- ◆ F&A funds were used to support direct costs of the research-related administrative functions, including operations such as the Office of Sponsored Programs, the Office of Contracts and Grants, and the Office of Technology Transfer. Because of the significant dependence of the research function on core administrative services such as accounting, purchasing, information technology, and human resources, a pro rata portion of this administrative infrastructure was also supported by F&A funds.
- ◆ F&A funds of \$41,188 were used to purchase a marine side scanning sonar system for sub-bottom profiling.
- ◆ F&A receipts in the amount of \$156,544 were used to support technology transfer initiatives to include funding patent fees, purchasing specialized software package for tracking licenses/patents & inventors, and subscribing to patent research database.

Elizabeth City State University

- ◆ ECSU used F&A receipts to support a Contracts and Grants Accountant position.
- ◆ On-campus seminars and training workshops were provided for ECSU faculty and staff to enhance proposal writing and grants management skills.
- ◆ ECSU also used F&A funds to provide required matching funds for external grants and to fund audit expenses related to F&A receipts.

Fayetteville State University

- ◆ F&A receipts at FSU were used to monitor and review all grant applications for the University. The receipts also supported services to promote and encourage faculty and staff to apply for new grants.

North Carolina Agricultural and Technical State University

- ◆ F&A receipts at NCA&T were used to strengthen technology transfer by continued funding for intellectual property disclosures, patent submissions, faculty and staff development, and seed funding for new innovations. This has resulted in a more competitive technology portfolio, increased exposure to the intellectual assets of the university, and greater capability to engage in industry collaborations and community outreach for economic development.
- ◆ In 2005-06, F&A funds continued to support the development of emerging interdisciplinary research initiatives. The support included funding for shared research support staff that assist in the preparation of research proposals and the preparation and management of project funds.

North Carolina Central University

- ◆ NCCU's F&A receipts provided funding to support the research and grant writing process such as the purchase of specialized equipment and software.
- ◆ NCCU's Sponsored Research unit continued to use F&A funds to provide "seed grants" in order to promote grant writing opportunities for the university.
- ◆ F&A funds at NCCU were used to fund expenses related to the annual audit of federal grants and programs.

North Carolina School of the Arts

NCSA had no F&A receipts or expenditures in 2005-06.

North Carolina State University

(See pages 6-7 of the report)

University of North Carolina at Asheville

- ◆ UNCA used F&A funds to support post-award project accounting/reporting, compliance reviews, and liaison services with funding agencies.
- ◆ F&A receipts in 2005-06 supported 2.5 office staff positions that support F&A activities.

University of North Carolina at Chapel Hill

(See pages 5-6 of the report)

University of North Carolina at Charlotte

- ◆ UNC Charlotte used F&A receipts to upgrade and enhance bond funded buildings. Additional scientific equipment was purchased, which will facilitate the research and instructional functions that are housed within these newly constructed facilities. Projects at UNCC that used F&A receipts to upgrade facilities and purchase equipment were: Graduate Engineering and Research Building – construction, College of Education Building – furniture and equipment, Science and Technology Building – furniture and equipment, Applied Optics Building – construction, and the construction of the Physical Plant/Public Safety Building.
- ◆ UNCC academic departments also continued to fund faculty start-up packages with F&A receipts.

University of North Carolina at Greensboro

- ◆ In 2005-06, UNCG F&A receipts were made available to faculty as seed funding for research. Approximately 46% of these funds were awarded to newly hired faculty. These funds allow the faculty members to be more competitive in seeking external support.
- ◆ F&A receipts were used to support 60 undergraduate student researchers in 2005-06.
- ◆ F&A receipts were used to fund research-related administrative functions.

University of North Carolina at Pembroke

- ◆ UNCP's F&A receipts were used to support one full-time position and one part-time position to assist faculty and staff in funding searches, proposal development, budget development, negotiations with funding agencies and compliance issues.
- ◆ In 2005-06, F&A receipts continued to support activities of the Controller's Office, including costs associated with the university audit.

University of North Carolina at Wilmington

- ◆ Salaries and benefits for UNCW's Office of Sponsored Programs were supported by F&A receipts.
- ◆ The Division of Academic Affairs used F&A funds to directly or indirectly support university research programs through funds for administrative personnel in the Office of Sponsored Programs, other research/grant administrative support, equipment/facility start-up costs for new scientific faculty, equipment matches for grant proposals, equipment maintenance/insurance for research facilities, construction and renovation expenditures directly related to research, and software licenses for research-related applications.
- ◆ In 2005-06, UNCW used F&A receipts for the purchase, maintenance, and warranties on scientific equipment for the Center for Marine Science, to maintain and operate scientific buildings, and to purchase equipment for new faculty members.

Western Carolina University

- ◆ F&A receipts at WCU continued to be used to pay the salary of the director and other operating expenses of the Office of Grants Management and Research.

Winston-Salem State University

- ◆ F&A receipts at WSSU supported professional development, funded temporary staff, and the purchase of research software.

University of North Carolina General Administration

- ◆ F&A receipts at UNC General Administration were used to fund related administrative infrastructure costs, including
 - research associate and accounting tech positions to administer A-102 and A-110 compliance and training.
 - the establishment and maintenance of the negotiated F&A rate proposal and the UNC Cost Allocation Plan
 - staff development for OMB Circular A-87, A-110, and A-133 compliance training
- ◆ F&A receipts were also used to provide funding for the UNC Research website and to provide for cost-sharing requirements of grant proposals, as appropriate.



POLICIES

The University of North Carolina *Board of Governors*

Number 500.5
Adopted: 3/6/02

University Research Facilities and Administration Receipts Reporting Policy

Purpose

The University of North Carolina receives reimbursement of Facilities and Administration (F&A) costs related to grants and contracts and is expected to allocate these funds within the appropriate state and federal guidelines. Pursuant to the provisions of Senate Bill 1005, Section 31.14 (2001), the UNC Board of Governors is required to report to the Joint Legislative Education Oversight Committee by March 1, each year, the amount of overhead receipts for the University System and the use of those receipts.

Background

F&A costs (sometimes called indirect or overhead receipts) are calculated for such items as facilities maintenance and renewal, libraries, salaries of technical, compliance and administrative personnel, equipment, scholarly development, and facilities support. F&A rates are set by negotiation between the federal government and each university. Lower rates are often established statutorily or by policy by certain programs and sponsors.

Under federal OMB Circular A-21 indirect costs generally reimburse for costs of the grants and contracts operations of the institution and other overhead expenses of the university in a manner consistent with the formulae under which the funds were recovered. Internal university controls pertaining to the compliance requirements for sponsored project expenditures under OMB Circular A-133 are designed to provide reasonable assurance regarding the achievement of the following objectives:

1. Transactions are properly recorded and accounted for in order to permit preparation of reliable financial statements and reports and maintain accountability over assets.
2. Transactions are executed in compliance with laws, regulations and provisions of federal and state laws and in accordance with sponsored agreement terms.
3. Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Requirements

1. UNC institutions determine expenditure of F&A receipts. The chancellor of each constituent institution shall expend F&A funds only to support scholarly development of its faculty, staff and students or to ensure that the campus infrastructure is supported to enhance such scholarly activities.
2. In a format to be provided by the Office of the President, each campus will report by December 1, the amount of F & A funds received, amount expended by purpose, and uncommitted balance. A report will be made to the Board of Governors at the February board meeting.
3. Chancellors shall formulate and submit a copy of an administrative procedure for the use and reporting of F&A funds to the President, consistent with Board of Governors' guidelines for the expenditure of F&A funds.