



The University of North Carolina

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Constituent Universities
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

Constituent High School
North Carolina
School of Science
and Mathematics

An Equal Opportunity/
Affirmative Action Employer

February 27, 2009

MEMORANDUM

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

Attachment

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 2009

UNC Report on Overhead Receipts
[Facilities and Administrative (F&A) Receipts]
2007-08

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, 2008.

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 \$1.1 billion for FY 2007-08 with about two-thirds of that amount from federal sources. State and local governments provided less than nine 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 2007-08, UNC institutions received a total of \$174.1 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 2007-08 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 2007-08 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

University-wide, a total of \$174.1 million was recovered in facilities and administrative receipts (see Attachment A) for the 2007-08 fiscal year. This is an increase of 57.7% since 2000-01. Consistent with their research missions, the two major research universities, North Carolina State University (16.9%) and UNC-Chapel Hill (69.8 %), accounted for 86.7 percent of the University-wide total. Receipts for seven institutions – Appalachian State University, East Carolina University, North Carolina A & T State University, North Carolina Central University, UNC Charlotte, UNC Greensboro, and UNC Wilmington accounted for most of the remaining F&A receipts. Research has increased rapidly at these seven campuses, which has translated into increased facilities and administrative receipts. While total F&A receipts increased by 57.7% from 2000-01 to 2007-08, receipts at these seven campuses increased by 90% and totaled \$21 million.

Uses of Facilities and Administrative Receipts

Each institution provided a programmatic summary of priorities and an object of expenditure summary of facilities and administrative receipts disbursements made during the 2007-08 fiscal year, which totaled \$171.3 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. Attachment C provides examples of the uses of F&A receipts as reported by the other institutions.

At UNC-CH, expenditures on various capital improvement projects, renovations, and debt service payments accounted for 29% of total F&A receipt expenditures in 2007-08. Projects receiving support included the Science Complex Phase I, Science Complex Phase II, Genetic Medicine Building, Medical Biomolecular Building, Neurosciences Building, Public Health Teaching and Research Center, and School of Nursing Addition.

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 extramural grant funding has become more competitive, UNC-Chapel Hill has invested a portion of its F&A receipts into a program of bridge funding. This program is designed specifically to provide temporary funding to investigators whose grants have not been renewed, but who have submitted revised applications that are judged to have an excellent chance of success. Bridge funding allows a faculty member to keep a laboratory in operation and staff members and students employed and working until new extramural funding is received. In fiscal year 2007-08, the university invested \$188,891 in a total of ten bridge awards.

At UNC-Chapel Hill, a portion of the F&A cost reimbursements each year goes to strengthen funding for the libraries. In fiscal year 2007-08, \$493,848 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 \$678 million of extramurally funded research and other sponsored programs in fiscal year 2007-08. 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 \$11 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 2007-08, NCSU used 10.9% of its F&A receipts expenditures to debt service on facilities and infrastructure projects on Centennial Campus and construction of a greenhouse facility associated with the Partners Building on Centennial Campus.

At North Carolina State University, almost 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, information technology services, 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 2007-08, F&A receipts at NCSU were used to support several important tools for research. Receipts were used to support a Nuclear Magnetic Resonance Facility (NMR) that provides resources to assist research for the university community. F&A receipts were also used by NCSU to support the NANO @ NC State initiative to foster interdisciplinary research and infrastructure to address the fundamental understanding of nanomaterials and nanoscale processing.

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 2007-08. 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	\$ 62,200,027	36.30%
Supplies, utilities, fixed charges & other current services	59,561,100	34.76%
Renovation and capital improvements projects	39,874,824	23.27%
Educational, computing, and other equipment	5,092,598	2.97%
Educational awards	2,657,134	1.55%
Library materials	494,477	0.29%
Other expenditures	<u>1,466,501</u>	<u>0.86%</u>
TOTAL	171,346,661	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, 2007-08**

Institution	2007-08 Receipts	% of TOTAL
Appalachian State University	\$ 820,546	0.5%
East Carolina University	4,554,725	2.6%
Elizabeth City State University	529,985	0.3%
Fayetteville State University	70,200	0.0%
North Carolina A&T State University	3,631,551	2.1%
North Carolina Central University	897,684	0.5%
North Carolina State University	29,449,620	16.9%
UNC Asheville	231,345	0.1%
UNC-Chapel Hill	121,584,029	69.8%
UNC Charlotte	4,271,074	2.5%
UNC Greensboro	4,692,228	2.7%
UNC Pembroke	182,851	0.1%
UNC Wilmington	2,104,074	1.2%
UNC School of the Arts	0	0.0%
Western Carolina University	312,016	0.2%
Winston-Salem State University	482,780	0.3%
UNC-General Administration	306,342	0.2%
TOTAL	\$174,121,050	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
Expenditures of Facilities and Administrative Receipts, 2007-08

Institution	2007-08 Expenditures	% of TOTAL
Appalachian State University	559,723	0.3%
East Carolina University	2,864,101	1.7%
Elizabeth City State University	302,848	0.2%
Fayetteville State University	491,304	0.3%
North Carolina A&T State University	4,451,700	2.6%
North Carolina Central University	1,251,393	0.7%
North Carolina State University	27,683,902	16.2%
UNC Asheville	210,560	0.1%
UNC-Chapel Hill	124,760,694	72.8%
UNC Charlotte	1,169,011	0.7%
UNC Greensboro	3,548,010	2.1%
UNC Pembroke	258,866	0.2%
UNC Wilmington	2,952,662	1.7%
UNC School of the Arts	0	0.0%
Western Carolina University	232,226	0.1%
Winston-Salem State University	250,694	0.1%
UNC-General Administration	358,967	0.2%
TOTAL	171,346,661	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 2007-08**

Appalachian State University

- ◆ F&A funds supported faculty start-ups and the purchase of significant pieces of scientific research equipment. This support is tied to an expectation of significant scholarly productivity and proposal preparation.
- ◆ Funds were set aside to provide for the required institutional match for grants with that requirement.
- ◆ Funds were used to provide partial salaries of individuals involved in significant research initiatives.
- ◆ Funds were made available to the University Research Council Competitive Grants Program and Research Develop Grant Program. Both programs are designed to stimulate research and successful grant proposal preparation.

East Carolina University

- ◆ The largest portion of the institution's F&A expenditures (\$1.9 M) represented cost of labor directly related to research activities and indirect labor costs associated with administrative functions which support the research enterprise.
- ◆ Funds were provided for new faculty research support and start-up (\$100 k).
- ◆ F&A receipts were used to support technology transfer initiatives including purchasing specialized software package (\$231 k).

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 for the Faculty Mentors' Program that helps junior faculty develop grant writing skills.

Fayetteville State University

- ◆ F&A receipts were used to provide services associated with administering grants.
- ◆ Receipts-supported grant writing workshops and seminars to promote and encourage faculty and staff to apply for new grants.

North Carolina Agricultural and Technical State University

- ◆ F&A receipts supported the Office of Outreach & Technology Transfer by providing funding for research support and seed funding for innovations.
- ◆ In 2007-08, F&A receipts supported a technical grant writer who assisted faculty in the preparation of proposals and two budget analysts responsible for preparation and management of project budgets.

North Carolina Central University

- ◆ NCCU's F&A receipts provided support to the Offices of Sponsored Research and Contracts and Grants.
- ◆ F&A receipts supported workshops, supplies, and materials related to grants.
- ◆ 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 2007-08.

North Carolina State University

(See page 6 of the report)

University of North Carolina at Asheville

- ◆ UNCA used F&A funds to support 2.5 pre- and post-award staff that support faculty and staff activities for the procurement and administration of externally funded projects.
- ◆ F&A receipts in 2006-07 provided training and support sessions for faculty and staff to enhance and encourage externally funded activities and provide information on compliance requirements and activities.
- ◆ Receipts were used to fund audit fees associated with reporting requirements.

University of North Carolina at Chapel Hill

(See pages 4-5 of the report)

University of North Carolina at Charlotte

- ◆ UNC Charlotte used F&A receipts to support the Technology Transfer Office and provided funding for a Deputy Security position for research buildings and infrastructure support.
- ◆ Funds supported the planning and site development project for the Ben Craig Center Business Incubator, which is part of the Charlotte Research Institute at UNC Charlotte.

University of North Carolina at Greensboro

- ◆ In 2007-08, UNCG F&A receipts were made available to faculty as seed funding for research. These funds allowed the faculty members to be more competitive as they seek external support for their research.
- ◆ F&A receipts were used to provide professional development workshops to faculty, staff and students. In 2007-08 well over 100 programs on issues related to research, including developing grant-writing skills, finding funding sources, and understanding research compliance, were conducted centrally.
- ◆ F&A receipts were used to fund research-related administrative functions. In particular, academic deans were given \$210,000 for decentralized infrastructure support. This support has contributed to a 24% increase in external funding over the past five years.
- ◆ In 2007-08, UNCG used F&A receipts to host the 3rd Annual State of North Carolina Undergraduate Research and Creativity Symposium (SNCURCS). Thirty universities participated, 234 student presentations were given and nearly 500 students, mentors, administrators, recruiters, high school teachers and students and parents attended.

University of North Carolina at Pembroke

- ◆ UNCP's F&A receipts were used to support two full-time staff positions in the Office of Sponsored Programs to assist faculty and staff in proposal development, preparation, and submission.
- ◆ In 2007-08, receipts provided seed money to faculty to conduct pilot stage research.
- ◆ F&A receipts were used to fund an external evaluator for the evaluation design of an institutional grant application to the U.S. Department of Education.

University of North Carolina at Wilmington

- ◆ F&A receipts were used for faculty research awards and new faculty start up costs including the purchase of equipment.
- ◆ In 2007-08, UNCW used F&A receipts for the purchase, maintenance, and warranties on scientific equipment for the Center for Marine Science and to maintain and operate scientific buildings.

Western Carolina University

- ◆ F&A receipts at WCU continued to be used to pay salaries and other operating expenses of the Office of Grants Management and Research.
- ◆ F&A receipts were used to support research-related professional development for faculty.

Winston-Salem State University

- ◆ F&A receipts at WSSU supported professional development and the purchase of research software and supplies.

University of North Carolina General Administration

- ◆ F&A receipts at UNC General Administration were used to fund related administrative infrastructure costs, including a research associate and an accounting tech position to administer A-87, A-102 and A-133 compliance standards and to manage pre-award and post-award operations, 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-102, and A-133 compliance training, and administrative overhead cost for central administrative cost pools.
- ◆ F&A receipts were used to address nominal F & A cost for sponsored programs not funded in the grant proposals, e.g., information technology support and supplies.
- ◆ F&A receipts were also used to provide funding for research activities including a portion of the Vice President for Research salary to promote the UNC research enterprise, sponsored program professional development, and the UNC System Sponsored Programs database and reporting tool.



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.