

APPENDIX A

**Report to the
2001 North Carolina General Assembly
Joint Legislative Education Oversight Committee**

**The University of North Carolina
Report on Overhead Receipts
[Facilities and Administrative (F&A) Receipts]
2000-01**

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

March 6, 2002

**The University of North Carolina
Report on Overhead Receipts
[Facilities and Administrative (F&A) Receipts]
2000-01**

Legislation enacted by the 2001 General Assembly (S.L. 2001-424) includes the following special provision directing the Board of Governors to report 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 this legislation, this report covers the fiscal year ending June 30, 2001.

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 appropriations for research, UNC has depended heavily on obtaining competitive grants and contracts to support its research efforts.

In recent decades, the federal government has stepped up efforts to promote scientific research at U.S. 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 their 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." For the remainder of this report, the preferable term "facilities and administrative receipts" is used.

Under federal OMB Circular A-21, 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 \$767.8 million for FY 2000-01 with about two-thirds of these dollars coming from federal sources. State and local governments provided less than 15%. Among public university systems, in the latest national survey, UNC ranks third in science and technology research expenditures, behind only the University of California and the University of Texas systems. Grants and contracts support thousands of individual projects that improve human health, our understanding of the natural world, education, national defense, and other areas critical to the nation and our state. Not only do grants and contracts support leading-edge science and public service, but their funds are also used to support our state's workforce. Grants and contracts support salaries for faculty, post-doctoral fellows, graduate assistantships, and undergraduates, all who keep our universities in the forefront of regional economic development and training.

In 2000-2001, the constituent UNC institutions in total received \$110.4 million in facilities and administration receipts. These receipts were expended by each

campus to support costs associated with maintaining an environment conducive for conducting research and scholarly advancement and ensuring competitiveness for attracting new research funds. However, facilities and administration receipts are also significantly under-reimbursed by the federal government. In a recent report (Rand Corp., 2000) the federal government was criticized for not providing up to 25% of the facilities and administrative costs earned by US campuses.

In order to provide the information regarding the amount and uses of facilities and administrative receipts, each campus was asked to provide a report for the 2000-01 fiscal year. The institutional responses are summarized in the following sections of this report. (Copies of the institutional responses are available upon request.)

Amount of Facilities and Administrative Receipts – 2000-01 Fiscal Year

University-wide, a total of \$110.4 million was recovered in facilities and administrative receipts (see Attachment A) for the 2000-01 fiscal year. Consistent with their research missions, the two major research universities, North Carolina State University (20.5%) and UNC-Chapel Hill (68%), accounted for almost 90% of the University-wide total. As noted 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 10% of these total receipts.

Uses of Facilities and Administrative Receipts – 2000-01 Fiscal Year

Each institution provided a programmatic summary of priorities and an object of expenditure summary of facilities and administrative receipts disbursements during the 2000-01 fiscal year, which totaled \$96.1 million. The principal priorities for programmatic expenditures were designed to:

- encourage new research activity in a competitive research environment;
- provide faculty "start-up" packages (support staff, laboratory facilities, and operating expenses), especially for newly-recruited faculty;

- support research-related administrative functions;
- maintain and expand research infrastructure, including capital improvements and debt service;
- support academic programs, including the libraries;
- provide general administrative support; and
- support strategic initiatives

Each of the campuses reported on its expenditure priorities for the year. Since the expenditures by the two major research universities account for most of the total, the illustrative examples are drawn from their reports. Similar kinds of expenditures were made by the other campuses, but in relatively smaller amounts.

UNC-Chapel Hill is planning to obligate \$147.6 million of the facilities and administrative receipts toward the construction of several major building projects or renovation projects over the next five years including the following: Medical Biomolecular Building, Public Health Building, Nursing Building, Science Complex, Neurosciences Building, Bioinformatics Building, and Community Health Building. UNC-Chapel Hill committed to match the 2000 bond funds with an equal amount of campus receipts in the capital improvements plan that was approved by the Board of Governors and the General Assembly and became the basis for the bond program. Facilities and administrative 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 future F&A receipts. During 2001, the University issued its first series of these special obligation bonds committing these receipts as one of the sources of debt repayment.

At UNC Chapel Hill, facilities and administrative receipts contributed significantly to new computer systems implementation initiatives such as the Carolina Computing Initiative which requires undergraduates to have laptop computers and supports their integration into the curriculum. F&A receipts were used to purchase laptops for use by faculty as a part of the Computing Initiative

allowing for the enhancement of instruction through technology improvements. Funds were also used to continue "within building" campus network wiring and to provide additional campus core academic computing services.

In addition, during 2000-01, funds were used at UNC Chapel Hill for new faculty start-ups, i.e., the facilities and administrative receipts were used to pay for equipment, supplies, furniture, computers, travel, space renovation, relocation, and recruitment expenses for 79 faculty members campus-wide. Another major use of facilities and administrative receipts was to provide funding for the Office of Research and Graduate Studies which provides support for research activities of faculty, staff, and students. The specific goals of this office include: (1) enhancing research funding on campus; (2) providing matching funds for external research applications; (3) expanding technology development and economic development activities; (4) providing expanded coordinated training programs; (5) providing support and coordination of multidisciplinary research proposals; and (6) disseminating benefits of research.

UNC-Chapel Hill also allocated a part of the facilities and administration receipts to the divisions generating these costs. For example, during 2000-01 fiscal year, the College of Arts and Sciences performed facilities upgrades to renovate rooms and laboratories, provided new technology and equipment to refurbish laboratories and staff offices; equipped faculty research laboratories, supported salaries for research assistants and post-doctoral students, provided "seed" money for new faculty research starts to help them compete for grants; and provided faculty office set-up and research start-up funds for new and replacement faculty.

One important part of UNC-Chapel Hill's use of facilities and administrative receipts is to establish a reserve to meet its budget obligations. Contract and grant revenues including both direct and facilities and administrative costs are collected throughout the year as the research project progresses. Research grants and agreements overlap fiscal years, often causing fluctuation in the amounts collected

and expended in a given year. The reserve protects against these fluctuations and is used when a shortfall occurs. In years where there is no shortfall, it may be used as one-time start-up funding for new operations in support of the research programs.

It is further important to note that the facilities and administrative expenses provided the resources to fund the Contracts and Grants Division on the UNC-Chapel Hill campus, the division that performs accounting relative to contracts and grants and assures compliance with requirements of grantor agencies.

At North Carolina State University, approximately half of the facilities and administration 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 and personnel. Approximately one-third of the receipts was allocated to the colleges based on their contribution to the earning of these receipts. The colleges invest this funding in facilities, equipment repairs and maintenance, equipment, facility refurbishment and renovations, and for administration of their research endeavors.

About 15% of the receipts were administered as allocations for the Vice Chancellor for Research and Graduate Studies to provide start-up packages and equipment for new faculty, matching costs for special research initiatives, interinstitutional programs, and faculty upfits and renovations. The library also receives an allocation based on its contribution of the library to the reimbursement rate in order to maintain research-related collections and services and provide archival storage.

Allocations were made to research administration to cover the costs of personnel and other operating costs of the Office of Sponsored Programs and the Contracts and Grants accounting office. Funds were also allocated to support the continuing development of the Centennial Campus through retro-fitting and

constructing new research buildings, and providing support for the Centennial Campus Development Office.

In addition to the programmatic summary provided by each institution, an accounting by object of expenditure was also provided (see Attachment B). In summary, the categories of expenditures follow:

Object of Expenditure	Amount	% of Total
Personnel Services	\$ 38,498,224	40.1%
Supplies, Utilities, Fixed Charges & Other Current Services	37,191,456	38.7%
Educational, computing and other equipment	10,062,572	10.5%
Debt Service	4,843,052	5.0%
Renovation and capital improvements projects	4,228,466	4.4%
Educational awards	839,991	0.9%
Other expenditures	391,745	0.4%
TOTAL	96,055,506	100.0%

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 new policy statement. A copy of the draft policy is attached (Attachment C).

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. 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.

THE UNIVERSITY OF NORTH CAROLINA
Facilities and Administrative Receipts
2000-01 Fiscal Year

Institution	Total Amount	% of Total
Appalachian State University	\$ 392,512	0.4%
East Carolina University	2,477,843	2.2%
Elizabeth City State University	345,276	0.3%
Fayetteville State University	332,221	0.3%
North Carolina A & T State University	2,396,717	2.2%
North Carolina Central University	496,834	0.5%
North Carolina State University	22,679,538	20.5%
UNC Asheville	84,413	0.1%
UNC-Chapel Hill	75,139,845	68.0%
UNC Charlotte	1,198,585	1.1%
UNC Greensboro	2,922,063	2.6%
UNC Pembroke	169,680	0.2%
UNC Wilmington	1,151,955	1.0%
Western Carolina University	282,788	0.3%
Winston-Salem State University	333,513	0.3%
UNC General Administration	35,612	0.0%
TOTAL	110,439,395	100.0%

The University of North Carolina
Summary of Facilities and Administrative Receipts
Expenditures by Campus
For the Fiscal Year 2001-02

	Personnel Compensation	Contracted Services	Supplies	Utilities	Other Current Services	Fixed Charges	Equipment				Total Equipment	Renovation and Capital Projects				Total
							Office	EDP	Educational Vehicles	Motor Vehicles		Educational Awards	Capital Projects	Debt Service	Other	
ASU	54,000		99,000		150,900	15,000					31,100	31,100				350,000
ECU	995,632	168,066	84,042		142,759	28,908	43,134	14,588	1,030,022		616	1,088,360	150,325		41,545	2,720,340
ECSU	154,886	19,710	12,514		55,085	3,100	1,108				25,483	26,591				282,886
FSU	26,975	12,853	14,486		29,661	686	17,339	20,718	978		235	39,270	1,100			125,031
NCA&T	1,541,108	79,964	28,837		415,708	37,510	12,359	4,395	12,549		33,785	63,088	209,721		66,013	2,441,949
NCCU	137,228	750	18,970		85,653	7,342	16,226	17,062	857		2,751	36,896	500			287,339
NCSU	7,469,810	2,423,396	1,874,788	226,651	2,234,163	2,254,832	23,939	328,669	1,286,489	119,697	25,229	1,784,023	855,893	3,121,402		22,315,269
UNCA	78,675	9,268	383		(1,113)	1,708	108	2,665	35,572			38,345			27	127,293
JNCCH	22,452,004	1,033,637	10,740,270	72,995	11,108,580	6,398,218		1,603,842	4,428,121	(1,089)	631,589	6,662,463	2,090,823	1,721,650		62,621,949
JNCC	10,571	150	5,052		9,330	854	6,358	1,690	1,598		205	9,841	1,101,845			1,137,643
JNCG	1,009,458	87,614	247,617	2,355	332,501	93,571	4,001	77,029	46,413	30,335	7,945	165,723			106,929	2,141,268
												60,500			35,000	Inst Health Science, other Faculty Research Awards
JNCP	112,875	10,649	5,606		10,996	2,225	1,208	540			1,748	3,000	29,580			176,679
JNCW	176,412	9,380	7,968		64,900	78,312		19,639	455	20,000	15,875	55,969			18,147	563,784
												104,508			48,188	Fincl Aid Loan, other Faculty Research Awards
VCU	19,876	29,562	15,739		95,890	16,943	534	47,104	7,275		244	55,157	12,000			245,167
VSSU	190,266	176,449	12,644		42,623	3,000		3,998				6,339			75,896	511,215
JNC GA		7,000			694										Chancellor Search	7,694
JNC	34,429,776	4,068,448	13,167,916	302,001	14,779,330	8,342,209	126,314	2,141,929	6,850,329	168,943	775,057	10,062,572	4,228,466	4,843,052	391,745	96,055,506

Draft
Draft



POLICIES

The University of North Carolina *Board of Governors*

University Research Facilities and Administration Receipts Reporting Policy Rev. 1/23/02

Number 500.5

Date:

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.