

# **Joint Appropriations Subcommittee on Education**

## **Information Requested by Committee Members**

**Education Sector:** UNC System

**Committee Question:** How much in unspent Facilities and Administrative Receipts (“Overhead Receipts”) did UNC carryover into the current year?

**Answer:**

S.L. 2001-424, Sec. 31.14, requires UNC to report annually to the General Assembly on the amount and uses of facilities and administrative receipts. UNC submitted its most recent report this month (March 2011), covering the 2009-10 fiscal year. The report is attached.

In 2009-10, universities earned \$207.9 million in overhead receipts and spent \$164.2 million, leaving at least \$43.7 million to carry forward into FY 2010-11. This balance does not include any funds carried over from years before FY 2009-10; therefore, the total balance carried into FY 2010-11 may exceed \$43.7 million.

UNC General Administration states that campuses had obligations against most of the unspent funds at fiscal year’s end. Specifically, the campuses reported that the unobligated cash balance at June 30, 2010, totaled approximately \$5 million.

# **Report on Facilities and Administrative (F&A) Receipts**



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

**March 2011**

**UNC Report on Overhead Receipts**  
**[Facilities and Administrative (F&A) Receipts]**  
**2009-10**

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 state fiscal year ending June 30, 2010.

**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 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 and the North Carolina School of Science and Mathematics totaled more than \$1.4 billion for FY 2009-10, of which \$0.2 billion was related to the American Recovery and Reinvestment Act (ARRA or "stimulus"). Generally, about two-thirds of research and sponsored program awards come from federal sources while State and local governments provide less than one tenth. Every \$1 million dollars of research directly creates sixteen jobs and supports a total of thirty-seven jobs. That does not take into account the economic impact of inventions, patents, or spin-off companies started by University researchers.

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 2009-10, UNC institutions earned a total of \$207.9 million in facilities and administrative receipts (Attachment A). It is important to note that during 2009-10, ARRA related research activity resulted in \$12.8 million of F&A receipts which will not continue after the completion of ARRA. 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 2009-10 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 2009-10 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 \$207.9 million was earned in facilities and administrative receipts (see Attachment A) during the 2009-10 fiscal year. Consistent with their research missions, the two major research universities, North Carolina State University (16.0%) and UNC-Chapel Hill (70.6 %), accounted for 86.6 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 88.3% from 2000-01 to 2009-10, receipts at those seven campuses increased by 129.7%.

### **Uses of Facilities and Administrative Receipts**

Facilities and Administrative receipts are expended in a manner consistent with the earning rates negotiated with the federal government to recover a part of the actual costs of conducting federally sponsored research that are otherwise not reimbursable from grants and contracts. Each institution provided a programmatic summary of priorities and an object of expenditure summary of facilities and administrative receipts disbursements made during the 2009-10 fiscal year, which totaled \$164.2 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. Examples include support for campus units such as (finance offices, contract

and grant functions, controller's offices, and facilities services), public safety positions to guarantee laboratory security, and 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.

In addition to the programmatic summary, each institution also provided an accounting of how F&A receipts were spent in FY 2009-10. Across the system, expenditures and percentages of each were categorized as follows:

<b><u>Expenditures</u></b>	<b><u>Amount</u></b>	<b><u>Percent of Total</u></b>
Personnel services	\$ 67,295,496	41.0%
Supplies, utilities, fixed charges & other current services	52,019,039	31.7%
Renovation and capital improvements projects	35,567,553	21.7%
Educational, computing, and other equipment	3,771,589	2.3%
Educational awards	3,038,070	1.8%
Library materials	620,381	0.4%
Other expenditures	1,848,005	1.1%
<b>TOTAL</b>	<b>164,160,133</b>	<b>100.0%</b>

Expenditures by UNC-Chapel Hill and North Carolina State University account for most of the total and are described below. Similar expenditures were made by the other campuses and can be found on Attachment C.

At UNC-CH, expenditures on various capital improvement projects, renovations, and debt service payments accounted for 26% of total F&A receipt expenditures in 2009-10. Projects receiving support included the Dental Sciences Building, Bell Tower Genomics Building, Bioinformatics Building, Genetic Medicine Building, Science Complex Phase I, Science Complex Phase II, Medical Biomolecular Building, Neurosciences Building, Public Health Teaching and Research Center, and School of Nursing Addition.

UNC-Chapel Hill committed to match funds from the 2000 Higher Education Bond Program with an equal amount of non-state campus receipts for 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.

UNC-Chapel Hill uses a portion of its F&A cost reimbursements each year to stimulate new projects related to the research mission of the university and provide cost sharing on extramurally funded awards. Research units across the entire university received F&A funding to support new initiatives and programs designed to attract extramural funding, seed funding and cost sharing. Seed funding helps faculty members undertake new projects, learn new techniques, collect pilot data, or conduct preliminary work designed to make the project more competitive for extramural funding. Cost sharing dollars respond to the rules of many sponsors that require the University to invest in the research as a condition of receiving extramural funding.

At UNC-Chapel Hill, a portion of the F&A cost reimbursements each year goes to strengthen funding for the libraries. In fiscal year 2009-10, more than \$600,000 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 \$803 million of extramurally funded research and other sponsored programs in fiscal year 2009-10. 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 nearly \$16 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 2009-10, NCSU used 25.3% of its F&A receipts expenditures for debt service and construction of facilities and infrastructure projects on Centennial Campus.

At North Carolina State University, over 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 2009-10, F&A receipts at NCSU were used to support several important tools for research. Receipts were used to support shared scientific laboratory equipment and expansion of the Virtual and High Performance computing capacity to support increasing data and computing needs. F&A receipts were also used by NCSU to support new research activity including providing seed funding to help faculty start new projects, collect preliminary data and

other work necessary to improve the likelihood of winning competitive awards and bring funding to North Carolina.

### **Conclusion**

Facilities and Administrative receipts are expended to support costs associated with maintaining an environment conducive to research and scholarly advancement and ensuring competitiveness for attracting additional research funds. Specifically, these funds support the staff and operating costs for research functions, audit and compliance related to grants and contracts, facilities and equipment repairs and maintenance, debt service for facilities that provide research space, maintenance and operation of the physical plant and offices that provide support to the universities' research endeavors, and investment in the libraries to maintain current research related collections and services. F&A funds are increasingly important as University research is a critical and growing economic driver for the State of North Carolina.

**University of North Carolina  
Facilities and Administrative Receipts, 2009-10**

<b>Institution</b>	<b>2009-10 Receipts</b>	<b>2009-10 Receipts (ARRA Related) <sup>1</sup></b>	<b>2009-10 Total Receipts</b>	<b>% of TOTAL</b>
Appalachian State University	\$ 978,159	\$ 41,152	\$ 1,019,311	0.49%
East Carolina University	5,035,677	230,405	5,266,082	2.53%
Elizabeth City State University	505,049	58,646	563,695	0.27%
Fayetteville State University	352,502	0	352,502	0.17%
North Carolina A&T State University	3,800,645	0	3,800,645	1.83%
North Carolina Central University	1,788,605	0	1,788,605	0.86%
NC School of Science and Mathematics	51,388	0	51,388	0.02%
North Carolina State University	32,295,119	1,043,393	33,338,512	16.03%
UNC Asheville	166,147	17,409	183,556	0.09%
UNC-Chapel Hill	136,048,028	10,815,761	146,863,789	70.63%
UNC Charlotte	5,272,123	410,359	5,682,482	2.73%
UNC Greensboro	5,206,640	99,848	5,306,488	2.55%
UNC Pembroke	158,548	8,428	166,976	0.08%
UNC Wilmington	2,394,185	87,676	2,481,861	1.19%
UNC School of the Arts	0	0	0	0.00%
Western Carolina University	322,471	0	322,471	0.16%
Winston-Salem State University	455,537	5,766	461,303	0.22%
UNC-General Administration	292,516	0	292,516	0.14%
<b>TOTAL</b>	<b>\$195,123,339</b>	<b>\$12,818,843</b>	<b>\$207,942,182</b>	<b>100.0%</b>

*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.*

<sup>1</sup> *These receipts are related to American Recovery & Reinvestment Act (ARRA) research activity, which will not continue after completion of ARRA.*

**University of North Carolina**  
**Expenditures of Facilities and Administrative Receipts, 2009-10**

<b>Institution</b>	<b>2009-10 Expenditures</b>	<b>% of TOTAL</b>
Appalachian State University	\$ 551,815	0.34%
East Carolina University	3,693,685	2.25%
Elizabeth City State University	286,369	0.17%
Fayetteville State University	412,041	0.25%
North Carolina A&T State University	6,386,550	3.89%
North Carolina Central University	940,418	0.57%
North Carolina School of Science and Mathematics	0	0.00%
North Carolina State University	24,470,941	14.91%
UNC Asheville	125,295	0.08%
UNC-Chapel Hill	117,556,138	71.61%
UNC Charlotte	2,493,788	1.52%
UNC Greensboro	4,004,181	2.44%
UNC Pembroke	253,201	0.15%
UNC Wilmington	1,963,691	1.20%
UNC School of the Arts	0	0.00%
Western Carolina University	333,018	0.20%
Winston-Salem State University	372,428	0.23%
UNC-General Administration	316,574	0.19%
<b>TOTAL</b>	<b>\$164,160,133</b>	<b>100.0%</b>

*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 2009-10**

**Appalachian State University**

- ◆ F&A funds supported faculty start-ups and the purchase and maintenance of major scientific research equipment.
- ◆ Funds were used to support 5.5 FTE pre- and post-award staff who work with faculty on externally funded projects and funds were used to support Research Development Officers who function as grant-writing consultants in the colleges.
- ◆ F&A receipts supported faculty development activities including grant writing workshops.

**East Carolina University**

- ◆ The largest portion of the institution's F&A expenditures 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.
- ◆ F&A receipts were used to support technology transfer initiatives including purchasing specialized software package for tracking licenses/patents and inventors, funding patent fees, and subscription to patent research database.

**Elizabeth City State University**

- ◆ ECSU used F&A receipts to support a Contracts and Grants Accountant position.
- ◆ 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 support the implementation of a grant proposal database.

**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 research services for workshops and training classes for faculty and graduate students on grant writing, budget preparation and management, research opportunities and research compliance.
- ◆ F&A receipts supported compliance and ethics including increased focus on Animal Care and Use, Bio-Safety, and Radiation Safety.

**North Carolina Central University**

- ◆ NCCU's F&A receipts provided support for 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.

**University of North Carolina School of the Arts**

UNCSA had no F&A receipts or expenditures in 2009-10.

**North Carolina School of Science and Mathematics**

- ◆ Funds were used to upgrade campus information technology systems.

**North Carolina State University**

*(See pages 7-8 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.
- ◆ Receipts were used to fund audit fees associated with reporting requirements.
- ◆ F&A receipts in 2009-10 provided training and support sessions for faculty and staff to enhance and encourage externally funded activities and provide information on compliance requirements and activities.

**University of North Carolina at Chapel Hill**

*(See pages 5-7 of the report)*

**University of North Carolina at Charlotte**

- ◆ UNC Charlotte used F&A receipts to support work on patents for new inventions and intellectual property.
- ◆ Funds are supporting a comprehensive reorganization of grant and contract post-award support and re-engineering of University processes that impact grants management.

**University of North Carolina at Greensboro**

- ◆ In 2009-10, UNCG F&A receipts were made available to faculty as seed funding for research. These funds were used to increase faculty applications for external research funding.
- ◆ F&A receipts were used to provide professional development workshops to faculty, staff and students. In 2009-10, well over 100 programs were conducted on issues related to research, including developing grant-writing skills, finding funding sources, protecting intellectual property and understanding research compliance.
- ◆ F&A funds were used to improve infrastructure on campus to support research-related activities including continuing the implementation of an Electronic Research Administration Program.

**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 Research to assist faculty and staff in proposal development, preparation, and submission.
- ◆ In 2009-10, receipts also supported grants databases and search tools.

**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 2009-10, UNCW used F&A receipts to maintain and repair scientific equipment.

**Western Carolina University**

- ◆ F&A receipts at WCU continued to be used to pay salaries and other operating expenses associated with research activities.
- ◆ F&A receipts were used to support research-related professional development for faculty.

**Winston-Salem State University**

- ◆ F&A receipts at WSSU supported a program to initiate faculty research.
- ◆ Funds were used for professional development, research databases, and research-related memberships and subscriptions.

**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 technician 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.