

NC State Guideline - Usage of Equipment in Service Centers

NC State has recently established the Office of Cost Analysis (OCA), and by doing so brought together within one unit both the review of all service center use rates and the creation of new project ids for upper ledger 3 trust funds (Auxiliary Sales & Services). As a result of this action, additional analysis is being done in both instances and it has brought to light the need for further clarification on service centers possible use of equipment purchased with federal, state or student fee funds.

Equipment purchased with federal funding:

Applicable guidance for use of equipment purchased from federal funds (generally grant activity) is in OMB Circular A-110, primarily Section 34 (See Attachment 1). NC State has followed a methodology that ensures the following about federally- purchased equipment in service centers: 1) before allowing usage in the service center, the original grant for which the equipment was included has termed (ended) and A-110 disposition guidelines have been followed and 2) if the equipment is utilized (after grant is termed and disposition followed), then the federal government must receive the lowest rate.

Equipment purchased with state funding:

The State of North Carolina's statutes on university trust funds, G.S. 116-36.1 (See Attachment 2) begin the context for consideration of this issue. Based on that legislation, as a part of evaluating proposed or existing upper ledger 3 service center activities, the Office of Cost Analysis must work with the unit to determine whether the service or activity meets the definition of a "self-supporting auxiliary enterprise" as defined in section 6 of G.S. 116-36.1. This review includes the equipment in use in the proposed or existing upper ledger 3 project.

In general, equipment purchased with state appropriated funds may not be used in a trust organization. However, if equipment is already in use in the trust organization and the equipment is fully depreciated (see definition below) and state funds will not be used to replace or maintain that equipment, the continued use may be allowed. This is not a blanket statement, but is subject to review by the Office of Cost Analysis and the University Budget Office. If there is an instance when a piece of state equipment that is not fully depreciated or where the unit intends to use state funds to maintain or replace the equipment, the University Budget Office may grant limited exceptions to the rule. The exception would be approved and issued only when it is clearly in the best interest of all parties, including the state appropriated side. For an exception to be considered, the use of the equipment would have to be incidental to the primary purpose and, in no way interfere with the appropriated use of the equipment. If fees for use are charged by the unit or service center, then a portion of the proceeds must be set aside to help cover the future maintenance and/or replacement of the equipment.

(Fully Depreciated = Piece of equipment which, for accounting purposes, is worth only its salvage value. Whenever an asset is capitalized, its cost is depreciated over several years according to a depreciation

NC State Guideline - Usage of Equipment in Service Centers

schedule. This spreads the cost of the asset over its useful life. The bookvalue of the asset at any point is the cost less any applicable salvage value less the amount of depreciation recognized thus far.)

The process for evaluating these existing service centers or new requests for service centers usage of state or federal equipment is as follows:

1. The Office of Cost Analysis will request (either through the request to establish a new service center or through the review of rates for an existing service center) a list of equipment being used in the service center.
 - a. OCA will research the equipment (PS Asset Management) to determine funding source and if the equipment is fully depreciated or not.
2. Was any of the equipment purchased with federal funds?
 - a. If yes, then the original grant must have termed and the disposition process prescribed under A-110 must have been completed before the equipment can be used in a service center.
3. Was any of the equipment purchased with state appropriated or state appropriated receipts funds (projects 201000-249999, 301000-349999, 4XXX5X, or 4XXX7X, and potentially 8XXXXXX)? Then:
 - a. If yes, is the equipment fully depreciated? If fully depreciated, it may be used for service center activities, but no state funds may be used to maintain or replace the equipment.
 - b. If yes, is use of the equipment “incidental to the primary purpose and, in no way interferes with the state appropriated use of the equipment”
 - i. Yes – exception may be given, at the discretion of the University Budget Office, to use the equipment in the service center operated as a trust as long as the use remains “incidental to the primary purpose and, in no way interfere with the appropriated use of the equipment”. Incidental to the primary purpose would be less than 5% of the cost
 1. If an exception is granted, the service center use rate must exclude any of the usage for which the space or equipment is not being used for service center activities (i.e. instruction). Those activities should not be charged if the usage of the equipment is not related to the service center activity.
 - ii. No – usage is not incidental to the primary purpose and may interfere with the state appropriated use of the equipment. In other words, the activity, due to its reliance on state funded equipment, is not self-supporting. In this case, the service center may still be allowed, but it would need to operate in an appropriated receipt project (lower ledger 3). In this case, the unit must be certain that it has an identifiable way to support the

NC State Guideline - Usage of Equipment in Service Centers

activities of the service center that are not self-supporting (including equipment maintenance and repair).

Equipment purchased with revenues from student fees:

Student fees are generally approved for a very specific purpose and are inconsistent with the use of equipment in a service center. Equipment purchased from student fee revenues may only be used in a service center once the equipment has been fully depreciated.

Applicable guidance for use of equipment purchased from federal funds (generally grant activity) is in OMB Circular A-110, Section 34 which includes the following:

“(b) The recipient shall not use equipment acquired with Federal funds to provide services to non-Federal outside organizations for a fee that is less than private companies charge for equivalent services, unless specifically authorized by Federal statute, for as long as the Federal Government retains an interest in the equipment.

(c) The recipient shall use the equipment in the project or program for which it was acquired as long as needed, whether or not the project or program continues to be supported by Federal funds and shall not encumber the property without approval of the Federal awarding agency. When no longer needed for the original project or program, the recipient shall use the equipment in connection with its other federally-sponsored activities, in the following order of priority: (i) Activities sponsored by the Federal awarding agency which funded the original project, then (ii) activities sponsored by other Federal awarding agencies.

(d) During the time that equipment is used on the project or program for which it was acquired, the recipient shall make it available for use on other projects or programs if such other use will not interfere with the work on the project or program for which the equipment was originally acquired. First preference for such other use shall be given to other projects or programs sponsored by the Federal awarding agency that financed the equipment; second preference shall be given to projects or programs sponsored by other Federal awarding agencies. If the equipment is owned by the Federal Government, use on other activities not sponsored by the Federal Government shall be permissible if authorized by the Federal awarding agency. User charges shall be treated as program income.

(g) When the recipient no longer needs the equipment, the equipment may be used for other activities in accordance with the following standards. For equipment with a current per unit fair market value of \$5000 or more, the recipient may retain the equipment for other uses provided that compensation is made to the original Federal awarding agency or its successor. The amount of compensation shall be computed by applying the percentage of Federal participation in the cost of the original project or program to the current fair market value of the equipment. If the recipient has no need for the equipment, the recipient shall request disposition instructions from the Federal awarding agency. The Federal awarding agency shall determine whether the equipment can be used to meet the agency's requirements. If no requirement exists within that agency, the availability of the equipment shall be reported to the General Services Administration by the Federal awarding agency to determine whether a requirement for the equipment exists in other Federal agencies. The Federal awarding agency shall issue instructions to the recipient no later than 120 calendar days after the recipient's request and the following procedures shall govern.

(1) If so instructed or if disposition instructions are not issued within 120 calendar days after the recipient's request, the recipient shall sell the equipment and reimburse the Federal awarding agency an amount computed by applying to the sales proceeds the percentage of Federal participation in the cost of the original project or program. However, the recipient shall be permitted to deduct and retain from the Federal share \$500 or ten percent of the proceeds, whichever is less, for the recipient's selling and handling expenses.

(2) If the recipient is instructed to ship the equipment elsewhere, the recipient shall be reimbursed by the Federal Government by an amount which is computed by applying the

percentage of the recipient's participation in the cost of the original project or program to the current fair market value of the equipment, plus any reasonable shipping or interim storage costs incurred.

(3) If the recipient is instructed to otherwise dispose of the equipment, the recipient shall be reimbursed by the Federal awarding agency for such costs incurred in its disposition.

(4) The Federal awarding agency may reserve the right to transfer the title to the Federal Government or to a third party named by the Federal Government when such third party is otherwise eligible under existing statutes. Such transfer shall be subject to the following standards.

(i) The equipment shall be appropriately identified in the award or otherwise made known to the recipient in writing.

(ii) The Federal awarding agency shall issue disposition instructions within 120 calendar days after receipt of a final inventory. The final inventory shall list all equipment acquired with grant funds and federally-owned equipment. If the Federal awarding agency fails to issue disposition instructions within the 120 calendar day period, the recipient shall apply the standards of this section, as appropriate.

(iii) When the Federal awarding agency exercises its right to take title, the equipment shall be subject to the provisions for federally-owned equipment.”

Applicable State of North Carolina statute:

§ 116-36.1. Regulation of institutional trust funds.

(a) The Board is responsible for the custody and management of the trust funds of the University of North Carolina and of each institution. The Board shall adopt uniform policies and procedures applicable to the deposit, investment, and administration of these funds which shall assure that the receipt and expenditure of such funds is properly authorized and that the funds are appropriately accounted for. The Board may delegate authority, through the president, to the respective chancellors of the institutions when such delegation is necessary or prudent to enable the institution to function in a proper and expeditious manner.

(b) Trust funds and investment earnings thereon, are available for expenditure by each institution without further authorization from the General Assembly.

(c) Repealed by Session Laws 2011-145, s. 9.6E(a), effective July 1, 2011.

(d) Trust funds are subject to the oversight of the State Auditor pursuant to Article 5A of Chapter 147 of the General Statutes but are not subject to the provisions of the State Budget Act except for capital improvements projects which shall be authorized and executed in accordance with G.S. 143C-8-8 and G.S. 143C-8-9.

(e) Each institution shall submit such reports or other information concerning its trust fund accounts as may be required by the Board.

(f) Trust funds or the investment income therefrom shall not take the place of State appropriations or any part thereof, but any portion of these funds available for general institutional purposes is appropriated and shall be used to supplement State appropriations to the end that the institution may improve and increase its functions, may enlarge its areas of service, and may become more useful to a greater number of people.

(g) As used in this section, "trust funds" means:

- (1) Monies, or the proceeds of other forms of property, received by an institution as gifts or devises that are neither presumed nor designated to be gifts or devises to the endowment fund of the institution;
- (2) Moneys received by an institution pursuant to grants from, or contracts with, the United States government or any agency or instrumentality thereof;
- (3) Moneys received by an institution pursuant to grants from, or contracts with, any State agencies, any political subdivisions of the State, any other states or nations or political subdivisions thereof, or any private entities whereby the institution undertakes, subject to terms and conditions specified by the entity providing the moneys, to conduct research, training or public service programs, or to provide financial aid to students;
- (4) Moneys collected by an institution to support extracurricular activities of students of the institution;
- (5) Moneys received from or for the operation by an institution of activities established for the benefit of scholarship funds or student activity programs;
- (6) Moneys received from or for the operation by an institution of any of its self-supporting auxiliary enterprises, including institutional student auxiliary enterprise funds for the operation of housing, food, health, and laundry services;

- (7) Moneys received by an institution in respect to fees and other payments for services rendered by medical, dental or other health care professionals under an organized practice plan approved by the institution or under a contractual agreement between the institution and a hospital or other health care provider;
- (8) The net proceeds from the disposition effected pursuant to Chapter 146, Article 7, of any interest in real property owned by or under the supervision and control of an institution if the interest in real property had first been acquired by gift or devise or through expenditure of monies defined in this subsection (g) as "trust funds," except the net proceeds from the disposition of an interest in real property first acquired by the institution through expenditure of monies received as a grant from a State agency;
- (9) Moneys received from the operation and maintenance of institutional forests and forest farmlands, provided, that such moneys shall be used, when used, by the institution for support of forest-related research, teaching, and public service programs;
- (10) Moneys received from an activity authorized by G.S. 66-58(b)(8)m., n., and o.;
- (11) Moneys deposited to the State Education Assistance Authority Fund pursuant to G.S. 116-209.3;
- (12) Any other moneys collected by an institution as student fees previously approved by the Board of Governors.

(h) The Board may authorize, through the President, that the chancellors may deposit or invest each institution's available trust fund cash balances in interest-bearing accounts and other investments as may be authorized by the Board in the exercise of its sound discretion, without regard to any statute or rule of law relating to the investment of funds by fiduciaries.

(i) The cash balances on hand as of June 30, 1978, and all future receipts accruing thereafter, of funds identified in this section are hereby appropriated to the use of the University of North Carolina and its constituent institutions. (1977, 2nd Sess., c. 1136, s. 30; 1981, c. 529; 1983, c. 913, s. 19; 1989 (Reg. Sess., 1990), c. 936, s. 1(c); 2005-397, s. 3; 2006-203, s. 45; 2011-145, s. 9.6E(a); 2011-284, s. 84; 2012-142, s. 9.9.)