

Commentary

ONE ASPECT OF FINANCING THE ARCTIC INSTITUTE*

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LAST DECEMBER in Washington, in my report to the Board of Governors, some aspects of Institute financing were described, especially some of the major sources of support. Today I want to discuss with the Board a segment of Institute financing that, I believe, is little understood but with the essence of which each Governor, I think, should be familiar. I want to outline what the Institute does with the unrestricted funds that it obtains. Only by understanding the use of unrestricted funds can each of you expect to be effective in assisting your organization to acquire the unrestricted funds it needs to advance toward its objectives.

The basic aim of the Arctic Institute is to encourage and support the acquisition of knowledge about the polar regions and to disseminate that knowledge. Anything that the Institute does should be toward that aim.

In the financial year that ended on June 30, 1963 the Institute acquired a total of \$118,000 that was free for use in any way the Institute desired. The money came from such items as contributions from governments, corporations, foundations, and individuals; interest and dividends; and gain on the sale of securities. It does not include \$12,000 from membership dues and sales of publications because the auditors apply that income to reduce the cost of administration of Institute operations.

The report of the auditors for the same year lists research grants-in-aid with Institute unrestricted funds of about \$8,500. At first glance this seems a miserable record indeed and seems to place the Institute in an untenable position in explaining the use of funds to those who have contributed unrestricted amounts or in attempting to persuade the skeptical potential donor that the Institute is a worthy organization to support. Fortunately the fact is that that item in the auditor's report, although specifically correct, does not reflect in any sense the use of unrestricted funds by the Institute.

Well — what are the facts?

During the year the Institute attracted \$968,500 for use as the direct cost of specified projects. These funds came in the form of government

* Extract from the report of the Executive Director to the Board of Governors for the meeting on May 9, 1964.

contracts, government grants, and grants from organizations and individuals. They were for specified purposes — they were not unrestricted.

The funds received for specified purposes are divisible into three categories:

1. Those to which a negotiable overhead rate can be applied;
2. Those with a fixed overhead rate;
3. Those that specifically exclude the assessment of any overhead.

The Institute by its own choice contributes unspecified funds to the direct cost of selected projects — Icefield Ranges and Devon Island, for example. In 1963 the total amount contributed was \$34,500.

At the close of a financial year the Institute auditors determine the cost of general and administrative activities. They also determine the direct cost of all projects. The ratio of administrative cost to direct cost expressed as a percentage is the basis for the determination of the overhead rate. In the year I am describing the overall general and administrative cost of operating the Institute was \$297,000. This included, among other items, salaries of administrative staff, travel, publications, office expenses, library, premises, and communications. The staff operated the library, published *Arctic* and other Institute publications, planned new projects, managed existing projects, carried on development and extension activities, answered enquiries, assisted universities in polar research matters, conducted lecture tours, and performed a variety of other functions. The net cost of administration is \$297,000 less the \$12,000 from membership and sales of publications, or \$285,000.

The full administrative cost generally is not recoverable from the sources of direct project funds. Even for project funds with a negotiable overhead rate (category 1) some cost items are not allowable — interest and investment management, for example.

From category 2 projects, even less is recoverable, in some projects only 15 per cent, and, of course, nothing is recoverable from projects in category 3.

The Institute recovered from specified projects a total of \$234,000 as overhead, which was 82 per cent of the net cost of Institute administration. Thus the cost of administration of the Institute by its unrestricted funds was only \$51,000.

It follows that to the extent the Institute participates in such specified projects, it must make up the difference between the amounts recoverable and the actual cost of administration. Remember, however, that all those projects directly advance the acquisition or dissemination of polar knowledge. The Institute pays a small price indeed from its own resources for such projects.

Now only one other figure is needed before we have the data to demonstrate what is done with unrestricted funds. That is the \$24,000 that the Institute allocated to necessary working capital and required capital assets.

Thus each dollar of unrestricted Institute money, for the year discussed, was used in effect as follows.

Total Unrestricted Funds	\$118,000	
1. For Institute grants-in-aid	8,500	7.2%
2. For direct grants to Institute projects as follows:		
(a) Devon Island	\$28,200	
(b) Icefield Ranges Research Project	6,300	
	<u>34,500</u>	29.2%
3. For payment of the administrative cost of projects not fully recoverable from project funds. In effect, participation in those projects that include about 30 grants and projects. This includes also overhead we charge ourselves on our own projects	51,000	43.2%
4. Working capital and capital assets	24,000	20.3%
	<u>Total</u>	<u>99.9%</u>
	\$118,000	

It is apparent, I think, that the Institute has stimulated a substantial amount of polar research with a relatively small outlay of its unrestricted funds. In other words, those who contributed unrestricted funds actually accomplished a great deal with their money. More specifically, with only \$118,000 of unrestricted funds it operated a research program aggregating \$1,332,500.