

ACCOUNT CLASSIFICATION

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ACCOUNT CLASSIFICATION

"All things have their place, knew
we how to place them."

--George Herbert

Part I--General Classification of Accounts

The University records transactions on its books in accordance with the general principles of accounting for educational institutions set forth in "College and University Business Administration." These principles, established by a special committee of the American Council on Education, are followed by most universities in the country. The University's accounts are classified by the four methods described below:

I. LOCATION CLASSIFICATION

Because of the multicampus structure of the University, accounts are classified by campus location. At each location there is a further division into two types of accounts: those recording campus activities, and those recording activities under the Office of the President. The General Ledger of each campus is produced and maintained at the campus concerned.

II. FUND CLASSIFICATION

Accounts are classified into the following major fund groups:

- Current Funds Group
- Endowment and Similar Funds Group
- Plant Funds Group
- Loan Funds Group
- University of California Retirement System Funds Group

Most of these groups are further divided into subgroups, which will be explained in Part 2 of this chapter.

A fund is defined by "College and University Business Administration" as "...an accounting entity involving assets, liabilities, revenues and expenditures, receipts and disbursements, and a balance. A fund is established to carry on specific activities or attain certain objectives in the operation of an institution, either at the discretion of the governing board or in accordance with regulations, restrictions, or limitations imposed by sources outside the institution." Thus, the characteristic that distinguishes one fund from another is what it can be used for and not its source of income.

III. SPECIFIC ACCOUNT CLASSIFICATION

The accounts are classified into specific accounts representing balance sheet items (assets, liabilities, fund balances), revenues, and expenditures.

Balance sheet accounts exist in all fund groups. True expenditure accounts exist only in the Current Funds Group. In the Plant Funds Group, there is also a series of expenditure accounts, which is used to accumulate costs of construction in progress. Revenue accounts are used only in the Current Funds Group. Revenue of the other fund groups is credited directly to the fund balances accounts.

To the extent possible, assets and liabilities should be recorded by individual fund. Otherwise, assets and liabilities must be pooled within each major fund group and the books will balance only by group and not by individual fund. However, revenue, expenditure, and fund balances accounts are always identified by individual fund in the General Ledger.

IV. SUB-BUDGET CLASSIFICATION

The expenditure accounts of Current Funds and Plant Funds are broken down on the ledger by "sub-budget" (or "subaccount"), which represents the general object of the expenditures within a specific account. The sub-budget classification permits closer budgetary control and facilitates the preparation of budgetary and financial reports.

A. SUB-BUDGET CLASSIFICATION OF CURRENT FUNDS

Academic Salaries: Academic salaries consist of the salaries of those academic personnel not subject to positive time reporting. Within each expenditure account, both the dollar amounts of the salaries and the number of full-time equivalent (FTE) faculty and teaching assistants are budgeted and controlled.

Nonacademic Salaries: Nonacademic salaries consist of the salaries of nonacademic personnel not subject to positive time reporting. The number of FTE employees is not budgeted and controlled.

General Assistance: Salaries classified under General Assistance are the salaries of all academic and nonacademic personnel who are subject to positive time reporting. The number of FTE employees is not budgeted and controlled.

IV. SUB-BUDGET CLASSIFICATION (Cont.)A. SUB-BUDGET CLASSIFICATION OF CURRENT FUNDS (Cont.)

Supplies and Expense: The supplies and expense classification consists of the general operating expenditures of an account, with the exception of expenditures for salaries, equipment, and special items.

Equipment and Facilities: The equipment and facilities classification consists of expenditures for inventorial equipment and for minor alterations or remodeling of space occupied.

Staff Benefits: Staff benefits consist of employee benefits directly related to salary compensation.

Special Items: Special items are the expenses of a special program or activity, such as a departmental publications program. This subaccount is used to separate such expenses from other expenditures in the same account.

Unallocated: The classification unallocated is used for budgetary entries only. Temporary appropriations may be made to this sub-budget when final determination has not been made as to where certain restricted funds are to be used.

Recharges: Recharges consist of expenses charged to other departments--usually by service departments making recharges on a regular basis. The recharge subaccount receives financial credits; corresponding debits are posted to other subaccounts within the specific account being charged.

B. SUB-BUDGET CLASSIFICATION OF PLANT FUNDS

Definitions of the classifications used with Plant Funds are presented in chapter [P-415-8](#), Plant Accounting: Unexpended Plant Funds.

Part 2--Major Fund Groups

A knowledge of the University's five major fund groups is basic to an understanding of the whole accounting system. The remainder of this chapter is devoted to these fund groups.

V. CURRENT FUNDS GROUP

These are the funds used for the current operation of the University. The group is divided into Unrestricted Funds and Restricted Funds, which are further divided into the subgroups listed in paragraphs A and B, below.

A. CURRENT UNRESTRICTED FUNDS

Current Unrestricted Funds can be used for any institutional purpose designated by The Regents. Following are the funds under this subgroup:

1. General Funds

Most General Funds are provided by the State and are spent within the overall constraints of the approved State budget. Additional sources of General Funds are student fees, such as admissions fees and nonresident tuition, and other miscellaneous revenues.

2. Student Fees

Student fees represent funds which are used to provide services (student health services, counseling, etc.) to regularly enrolled students, or, in the case of University Extension and Summer Sessions, to support the entire instructional program.

3. Sales and Services of Educational Activities

These funds are used to operate organized activities, i.e., income-producing activities operated by departments in connection with the training of students. Examples of such activities are the operations of medical and dental school clinics.

These funds are also used for the activities of educational departments.

** Sales and Services of Educational Activities funds are derived from either academic support unit recharges, or sales of products or services to multiple individuals or organizations outside the University. When sales are made to non-University

V. CURRENT FUNDS GROUP (Cont.)
A. CURRENT UNRESTRICTED FUNDS (Cont.)

** customers, the University must not assume any obligation beyond delivery of a standardized product or service at pre-established, per unit, uniform prices (such as rates approved by the campus recharge committee, fee schedules approved for use by hospitals and clinics, etc.).

** Generally, sales to a non-University customer should be considered a grant or contract, unless the sale is based on established unit prices, and like services or products are sold to other non-University customers or University departments based on the same unit prices (allowing for the indirect cost differential charged to non-University customers).

4. Sales and Services of Auxiliary Enterprises

These funds are used in the operation of auxiliary enterprises, and are explained more fully below in the section on classification of expenditures. Income is derived from charges to users.

5. Sales and Services of Teaching Hospitals

These funds are used to operate teaching hospitals related to the medical schools.

6. Other Sources

Other Sources include income sources which do not fall naturally into any of the other classifications. Examples of Other Sources are royalties on patents, some sales of surplus equipment, dental work performed at student health centers, and sales of University Press publications. The funds are used for purposes related to the income source.

7. Reserves

Reserves represent fund balances set aside for future use. They are appropriated to expenditure accounts or transferred to other funds as they are needed. One example is the self-insurance reserve which is derived from insurance charges to departments. Other examples are the numerous reserves for maintenance and replacement of equipment derived from the earnings of auxiliary and service enterprises, organized activities, and other income-producing activities.

B. CURRENT RESTRICTED FUNDS

Current Restricted Funds are subject to special restrictions established by various outside sources in accordance with the purpose established by the source of the given fund. Following are the funds under this subgroup:

1. State of California

State of California funds are funds appropriated by the Legislature for special research projects or received under contracts with State agencies. State funds for general operating purposes are classified under Current Unrestricted Funds.

2. United States of America

United States of America funds are funds to be used in Federal projects and programs. A major portion of these funds is used for research under contracts and grants. Also, a large amount is used for Federal student aid programs.

3. Local Governments

Local Governments funds are funds to be used under contract with local governments or tax districts (cities, counties, school districts, etc.).

4. Endowment Income

In a private university, Endowment Income normally provides a substantial portion of general operating expenses. However, for the University of California, a public institution, the State provides the basic operating support. Use of Endowment Income is restricted to the enrichment of educational and research programs beyond the level that the State is able to provide. NOTE: Some of these funds are classified as Unrestricted Funds, according to donor designation.

5. Private Gifts, Grants, and Contracts

This subgroup, like Endowment Income, is also used for the enrichment of University programs. However, income consists of current gifts, grants, and contracts, rather than return on the investment of principal. NOTE: Some gift funds are classified as Unrestricted Funds, according to donor designation.

V. _____ (Cont.)

B.

5. Private Gifts, Grants, and Contracts

_____ sed
for the enrichment of University programs.

and contracts, rather than return on the investment of principal. _____: Some gift funds are classified as Unrestricted Funds, according to

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Gifts are funds donated irrevocably for

individuals or organizations. Gift do not involve contractual consideration--such as tangible

specified services--provided to the donors by the University. [For a discussion of the distinction

Presidential Guidelines on Review of Gifts/Grants for Research, July 8, 1980.]

Grants and Contracts are written agreements with external sponsors (generally not individuals) in

training, public service, or *nonstandardized* testing/other services. An agreement which contains one or more of the following provisions is generally a contract or grant: (1) a research protocol or other statement of work, (2) a designated period of performance, (3) a budget, (4) an obligation to account for costs incurred and to return unspent funds, and (5) disposition of intellectual property rights. The following are examples of grants and contracts which should not be classified as sales and services:

agreements to test a company's drug or device; agricultural marketing board orders; sales of survey services (data collection and/or analysis); and service to industry agreements.

C. CURRENT FUNDS--UNEXPENDED BALANCES CLASSIFICATION

The following classifications are used for the unexpended balance accounts of Current Funds:

- 1) Reserves
- 2) Principal Appropriated (funds functioning as endowment)
- 3) Gifts and Private Grants
- 4) Endowment Income

- 5) Specific Purpose Funds:
 - Student Fees
 - State of California
 - United States of America
 - Local Governments
 - Sales and Services of Educational Activities
 - Sales and Services of Teaching Hospitals
 - Other Sources
 - Sales and Services of Auxiliary Enterprises
- 6) General Funds

D. BALANCE SHEET ACCOUNTS OF THE CURRENT FUNDS GROUP

The balance sheet accounts of the Current Funds Group are similar to those found in any fund accounting system. To the extent possible, balance sheet accounts should be identified on the ledger with a specific fund; otherwise, the assets and liabilities of various funds are pooled within the group. The major exception to this is the series of fund balances accounts. For a detailed listing of the various types of balance sheet accounts, refer to chapter [A-115-2](#), Accounting Codes: General Ledger.

E. REVENUE ACCOUNTS OF THE CURRENT FUNDS GROUP

The revenue accounts of Current Funds are divided into groups which correspond to the fund subgroups described in sections A and B, above. Within several revenue account groups, the specific accounts may be associated with an unrestricted fund, such as the General Fund, an unrestricted-other fund, or a restricted fund; in other groups, the accounts correspond only to restricted funds. Revenue accounts are not used with two of the fund subgroups, in which case income is recorded in unexpended balances accounts. The table on the following page shows these various relationships.

Relationship of Revenue Account Groups to
Fund Subgroups--Current Funds

<u>Revenue Account Group*</u>	<u>Related Fund Subgroup</u>	
	<u>Unrestricted</u>	<u>Restricted</u>
None**	Prin. Appropriated (of Endowments & Similar Funds)	Prin. Appropriated** (of Endowments & Similar Funds)
Student Tuition & Fees	General Funds & Student Fees	---
State of California	General Funds	State of California
United States of America	---	United States of America
Local Governments	---	Local Governments
Endowment Income**	Endowment Income	Endowment Income
Private Gifts, Grants, & Contracts**	Private Gifts & Grants	Private Gifts, Grants, & Contracts
Sales & Services of Educational Activities	General Funds & Sales --- & Services--Educational Activities	
Sales & Services of Teaching Hospitals	General Funds & Sales & Services-- Teaching Hospitals	---
Other Sources	General Funds & Other Sources	---
Sales & Services of Auxiliary Enterprises	Sales & Services --Auxiliary Enterprises	---
None	Reserves (derived from charges to other funds --no revenue accounts)	---

A more detailed breakdown of revenue accounts is shown in chapter [A-115-2](#), Accounting Codes: General Ledger.

* Principal Appropriated is the classification used in the General Ledger; however, these funds are reported as Endowment Income in the annual financial report.

**Classification is dependent upon specific restriction by donor.

F. EXPENDITURE ACCOUNTS OF THE CURRENT FUNDS GROUP

Expenditure accounts are classified according to program, which corresponds to the purpose for which costs are incurred. Within each program, the accounts are further broken down by academic department or other organizational unit, as follows:

<u>Programs</u>	<u>Functions</u>
Educational Programs	Instruction Research
Public Services	
General Support Programs	Academic Support Maintenance and Operation of Plant Student Services Institutional Support Student Aid
Other Programs	Teaching Hospitals Auxiliary Enterprises
Programs for budgetary control and other purposes (no expenditures reported in financial statements)	Nonreportable Expense and Budgetary Balances

Detailed descriptions of these functions follow:

1. Instruction

All current expenditures of instructional departments, including expenditures for research done as a part of regular instructional programs are included under this function. Expenditures for Summer Sessions and University Extension programs are also under this function. These expenditures may be for salaries, staff benefits, office expenses and equipment, laboratory expenses and equipment, or other departmental expenses. Museums may be included if they are intended primarily for instruction.

2. Research

This function records the expenditures of all separately organized research units, including research institutes, centers, bureaus, laboratories, and stations. Museums are included when their collections are primarily employed by those engaged in research.

V. CURRENT FUNDS GROUP (Cont.)F. EXPENDITURE ACCOUNTS OF THE CURRENT FUNDS GROUP (Cont.)

Research also includes expenditures for specially budgeted research such as investigations performed under contracts and grants, even in cases in which the research is administered by an instructional department. Expenditures for the operation of the major research facilities under special contract with the Department of Energy are not recorded as Research, but as a special line item in the Financial Report.

3. Public Service

This category is used for expenditures for activities intended to serve the general public. Examples of Public Service activities include holding campus cultural events, operating museums intended primarily for the public, and providing Cooperative Extension.

4. Academic Support

This function records the gross expenditures of all activities which are organized and operated in connection with educational departments and which are conducted primarily as necessary components of professional training programs. These activities include running optometry and dental clinics, home economics cafeterias and nurseries, demonstration schools, and inter-collegiate athletics programs (when such programs are operated as part of the physical education department). Income-producing activities not related to instructional programs are classified under other functions, as appropriate. The Academic Support function also includes the total expenditures of all central and branch libraries administered by the campus general libraries. Such expenditures include salaries and wages, other operating expenses, books, and binding costs. Expenditures of libraries administered by instructional departments or organized research units are charged to the appropriate departmental budgets.

5. Maintenance and Operation of Plant

This heading includes all expenditures for salaries and wages, supplies and expense, and equipment required to maintain and operate the physical plant used by the University, including janitorial service, grounds maintenance, utilities, and major repairs. Many expenditures

are recharged and reported under other functions, such as expenditures for services performed for auxiliary enterprises and for special repairs and maintenance work ordered by specific departments.

6. Student Services

This function includes expenditures for services to the student body as a whole. Examples are expenditures for student health services, counseling programs, placement centers, and graduation ceremonies, and expenditures of the offices of the registrar, dean of students, and director of admissions.

7. Institutional Support

This function includes expenditures of the general administrative offices serving the University as a whole, including all costs of the offices of The Regents, President, vice-presidents, chancellors, business officers, accounting officers, personnel managers, etc.

This category also includes various current expenditures of the University as a whole that are of a general character and not related to any specific division, exclusive of the libraries and plant operations.

Examples of departments whose expenditures are included in this function are the alumni office, public information office, and University Press. The expenses of service departments are also in this function; these expenses are partly or fully recharged to accounts in other functions. Examples of service departments are the central garage, storehouse, publications office, mail and messenger service, and telephone and telegraph service.

8. Student Aid

Under this function are all expenditures for scholarships, fellowships, and prizes. Salaries paid to students under special aid programs requiring service from the student, such as the Work-Study Program, are reported not under Student Aid but under the function where services were performed. Scholarship payments of tuition and fees are recorded as Student Aid expenditures and Student Tuition and Fees income.

V. CURRENT FUNDS GROUP (Cont.)F. EXPENDITURE ACCOUNTS OF THE CURRENT FUNDS GROUP (Cont.)9. Teaching Hospitals

Expenditures for Teaching Hospitals are recorded under this classification.

10. Auxiliary Enterprises

This function, intended to be self-supporting, records the gross expenditures of enterprises which are operated primarily for service to students and staff, such as residences and dining halls; student unions, when not operated independently by the students; and intercollegiate athletics, when not operated as a part of the physical education program.

11. Nonreportable Expenditures and Budgetary Balances

There are two uses of this function: One is the temporary recording of certain nonreportable charges when it is convenient to use an expenditure account; the other is the recording of budgetary balances subject to allocation to another function.

a. Nonreportable Expenditures

The expenditures in this category are nonreportable because they are fund balance adjustments rather than expenses or because they are agency funds which do not belong to the University, or because they are cleared to other accounts by June 30.

- (1) Fund balance adjustments. Examples of these adjustments are charges to Federal, State and private contracts and grants for indirect cost recovery, and payments to beneficiaries of annuity and living trust funds. Financial entries remain in these accounts at June 30 but, for reporting purposes, are converted to adjustments of unexpended balances.
- (2) Receipts and expenditures of agency funds. These are recorded in this function during the year for convenience, and at year-end the net balance is closed to a Current Funds liability account.

- (3) Clearing accounts. Some expenditures are charged to several minor clearing accounts in this function. Examples include the balancing entry account and the intercampus payroll clearing account. These accounts are cleared currently. A similar clearing account exists for budgetary entries which are out of balance.

b. Budgetary Balances

- (1) Unallocated funds. Appropriations of unallocated funds not assigned to a specific function or department are credited to this function; when the funds are allocated for use, the appropriation is transferred to another function and account for expenditure. Examples are provisions for salary increases, unallocated endowment income, and unallocated scholarship funds.
- (2) Budgetary savings. The budgetary savings target allocations are recorded in this function. These are debt entries offsetting anticipated budgetary savings to be realized in other functions, mostly from salaries.

*VI. ENDOWMENT AND SIMILAR FUNDS GROUP

This group is composed of those funds that are nonexpendable and are being retained intact to produce investment income. The nonexpendability may be permanent, as in the case of True Endowment Funds, or temporary, as in the case of Funds Functioning as Endowment.

A. SUBGROUPS OF ENDOWMENT AND SIMILAR FUNDS

Endowment and Similar Funds group is divided into the following subgroups, according to the source of the principal or restrictions on use:

1. True Endowment Funds

True Endowment Funds are funds derived from gifts or bequests the terms of which stipulate that principal must remain inviolate and that only the income may be expended. The use of income from endowment funds is either restricted by the donor or determined by The Regents.

VI. ENDOWMENT AND SIMILAR FUNDS GROUP (Cont.)A. SUBGROUPS OF ENDOWMENT AND SIMILAR FUNDS (Cont.)2. Funds Functioning as Endowment

Funds in this subgroup are created by a gift or bequest where a donor does not explicitly instruct that it be used as either a current gift or an endowment. At its own discretion, the University may create a fund functioning as endowment. These funds are invested as if they were a true endowment; however, unlike a true endowment, the institution may authorize the expenditure of principal.

The main source of funds functioning as endowment is private gifts and bequests. Other examples of such funds include indirect cost recovery on Federal and private agency contracts. These funds are invested as endowments; subsequent allocations for current use are made from principal.

3. Funds Held in Trust by Others

Funds held in trust by others are derived from private gifts and bequests held in trust for investment by outside trustees. The terms of the trusts that established such funds vary; the University may be designated as income beneficiary, principal beneficiary, or both.

These funds are recorded in the general ledger. As income is disbursed to the University by the trustee, it is accounted for and used in the same manner as income from endowment funds.

4. Deferred Gifts

Living trust funds, annuity trusts, unitrusts, pooled income, and gift annuity funds are derived from gifts and bequests, the terms of which stipulate that income must be paid to a designated beneficiary for a specified period, which in most cases is the duration of the beneficiary's life.¹

¹ Living trust funds established prior to 1969 required payment only of income earned by the assets of the fund, rather than payment of a set amount. The Tax Reform Act of 1969 limited the types of charitable funds that could be accepted by institutions, and sanctioned only the establishment of annuity trusts, unitrusts, and pooled income funds.

The University currently accepts the following types of deferred gifts:

- a) **Annuity trusts** - A fixed dollar amount payment is established at the time a gift is received, based on the market value of the assets.
- b) **Unitrusts** - A fixed rate of payment (e.g., five percent of the net fair market value of the trust assets) is established and a valuation must be made at least once a year.
- c) **Pooled income funds** - A share of the funds' net income is established, based on the number of units assigned when property is transferred to the fund. The Regents currently have two Pooled Income Funds, the Long Term Income Fund (LTIP) and the General Endowment Pool Balanced Growth Fund (GEPBG).
- d) **Gift Annuity Funds (GAF)** - A guaranteed lifetime annuity is established, at a rate based on the beneficiary's life expectancy, in return for an irrevocable gift.²

At the end of a specified payment period, income from these deferred gift funds reverts to the University. The principal of such funds may then be transferred to the True Endowment, Funds Functioning as Endowment, or Current Funds group, depending on the terms stipulated by the donor and on the amount of principal available.

5. Agency Funds

Agency funds are funds invested by the University, in its capacity as the custodian or fiscal agent, for organizations that are not financially accountable to the University, such as certain campus foundations and UCSF Stanford Health Care. Such entities enter into a contractual arrangement with the Treasurer's Office, which stipulates the terms of withdrawal.

² California GAF's are regulated by the California Department of Insurance. GAF's require that an institution set aside prudent reserves in a trust account equivalent to the amount required to cover future obligations on each contract.

VI. ENDOWMENT AND SIMILAR FUNDS GROUP (Cont.)

B. ACCOUNTS OF THE ENDOWMENT AND SIMILAR FUNDS GROUP

Although the principal of some funds may be appropriated for expenditure, such funds automatically become members of another group when the appropriation is made, so there is no need for expenditure accounts in this group.

VII. PLANT FUNDS GROUP

A. SUBGROUPS OF PLANT FUNDS

Plant funds fall into four main subgroups, which are as follows:

1. Unexpended Plant Funds

These are funds to be expended for plant construction or acquisition. Among the possible sources are State funds, Federal funds, donations, proceeds from the sale of bonds, other borrowings, and transfers from other funds groups for expenditure on plant and equipment.

2. Retirement of Indebtedness

This subgroup consists of funds set aside for the retirement of bonds or the repayment of other long term borrowings made for plant acquisition.

3. Investment in Plant

The University's investment in plant and equipment is recorded under this heading. The assets of this group are valued at cost or appraised value at the time of acquisition. No allowance for depreciation is entered on the books. Assets include land and improvements, buildings, equipment, libraries and collections, and construction in progress. Borrowed money invested in plant is recorded as a liability of this subgroup, while borrowed funds not yet expended are recorded under the Unexpended Plant Funds subgroup.

4. Reserves for Renewals and Replacement

This subgroup consists of funds that are set aside for the renewal and replacement of plant assets. These funds are accounted for in the Current Funds Group during the year and classified as a separate Plant Fund Groups at year-end.

B. ACCOUNTS OF THE PLANT FUNDS GROUP

Balance sheet accounts contain the assets and liabilities associated with plant and equipment. Refer to chapter [A-115-2](#), Accounting Codes: General Ledger, for a complete listing.

There are no revenue accounts in this fund group, income being credited directly to the fund balance. A special group of expenditure accounts is used to record construction in progress; this group provides the basis for valuing completed projects on the balance sheet. This fund group is also used for recording purchases of land, buildings and equipment. The purchase of equipment associated with a new building is recorded in the Plant Funds accounts. However, equipment purchased for previously constructed and capitalized facilities is recorded as an expenditure of Current Funds, the total amount of such expenditures being added to Plant Funds balances annually at June 30.

VIII. LOAN FUNDS GROUP

This group consists of loan funds for students, for faculty for housing, and for emergency loans to students, faculty members and nonacademic employees.

This group contains funds from Federal and University sources for student loans. A large proportion of the money currently loaned out by the University has been provided by the Federal government under various Federal student loan programs. University loan funds are provided from internal sources. Gifts or bequests designated to be used for student loans are classified as loan funds and not as endowment funds.

Funds used for faculty housing are provided from bond issues. Emergency loans are provided from University sources.

The accounts of this group consist only of balance sheet accounts. Assets consist of notes receivable and cash (or temporary investments) not loaned out.

VIII. LOAN FUNDS GROUP (Cont.)

Funds written off as uncollectible are treated as a reduction to funds balances. In the case of University loan funds, the write-off may be charged, at the campus' option, to the Loan Fund Pool Reserve.

IX. UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM FUNDS GROUP

Contributions, income from investments, and benefit payments of the University's retirement system are recorded in this funds group. This group consists of a defined benefit plan (the Retirement Plan), a defined benefit plan for University employees who elected to take early retirement under the PERS Voluntary Early Retirement Incentive Program (PERS-VERIP), and two defined contribution plans (a 401(a) plan and a 403(b) plan).

Contributions to these funds by the University, the employees, and from investment income are recorded as additions to fund balances, while administrative expenses and benefits paid are recorded as reductions. There are no revenue or expenditure accounts. Administrative expenses are paid from an Other Sources fund in the Current Funds Group and recharged to the Retirement System Funds Group.

X. REFERENCES

American Counsel on Education, College and University Business Administration, April 1992.

Accounting Manual Chapters:

A-115-2 Accounting Codes: General Ledger

P-415-8 Plant Accounting: Unexpended Plant Funds

President Jack W. Peltason, Letter to the Chancellors announcing a revised formula for distributing private overhead recovery, March 16, 1993.

Associate Vice President Lawrence C. Hershman and University Controller Joseph A. Pastrone, Joint memorandum to Accounting and Budget Officers providing guidance on the identification and accounting treatment of private grants and contracts, July 28, 1993.

Historical note: Accounting Manual chapter first published 12/2/68. Revisions 12/1/86, 12/30/93, 6/30/95, and 9/30/99; analyst--B. Lester.

EXHIBIT A: REVIEW OF GIFTS/GRANTS FOR RESEARCH

Office of the President

July 8, 1980

CHANCELLORS
VICE PRESIDENT KENDRICK
~~*EXECUTIVE ASSISTANT WILSON~~

Subject: Review of Gifts/Grants for Research

In a review of the University's gifts/private grants for research, the State Auditor General concluded that in many cases monies awarded to the University which should have been classified and processed as grants were classified and processed as gifts.

To clarify this situation and to insure greater consistency among campuses, the following guidelines shall be observed:

In general, classify funds as gifts when the following characteristics exist:

- * donor does not impose contractual requirements;
- * funds are awarded irrevocably.

In general, classify funds as grants when the following characteristics exist:

- * provision for audits by or on behalf of the grantor;
- * the grantor is entitled to receive some consideration such as a detailed technical report of research results or a report of expenditures;
- * testing or evaluating of proprietary products is involved;
- * the research is directed to satisfying specific grantor requirements (e.g., terms and conditions stating a precise scope of work to be done rather than a general area of research);
- * a specified period of performance is prescribed or termination is at the discretion of the grantor;

*Delegated also to the individual responsible for Internal Administrative Services, Systemwide Administration.

EXHIBIT A: (Cont.)

Chancellors, Kendrick, Wilson
July 8, 1980

- * funds unexpended at end of period shall be returned to the grantor;
- * patent rights requested by grantor.

Since in many situations all of the above characteristics will not be present, judgment must be exercised in order to classify the gift/grant in accordance with the intent of this policy. The decision as to whether a particular award should be considered a gift cannot be made based upon the presence or absence of a single characteristic or criterion. Rather, one must look at the award in toto in order to make a judgment as to its proper classification.

Regardless of the designation of an award for research as a gift or grant, it will be subject to the research review process as well as to the administrative rules and procedures which apply to all University Funds. The processing of gifts will not include the application of indirect costs. Processing of grants will include the application of indirect costs in accordance with university policy.

The above guidelines are not intended to indicate whether processing of gifts/grants occurs in the Contract and Grants Office or the Development Office. Report governmental grants to Systemwide Administration for inclusion in the contracts and grants EDP system and report all other gifts/grants to Systemwide Administration according to stated Gift and Development reporting needs. However, organization of the processing/ acceptance/administration of gift/grant funds is a local matter.

/s/ D. S. Saxon

David S. Saxon
President

cc: Principal Officers of The Regents
Laboratory Directors
Members, President's Administrative Council