

PLANT ACCOUNTING: COMMERCIAL PAPER

Table of Contents

	Page
I. Introduction	2
II. Background	2
III. Retirement of Bank Loans	2
IV. Fund Transfers	3
A. Capital Projects	3
B. Medical Centers - Gap Loan	4
C. Medical Centers - Disproportionate Share Programs	5
D. Medical Centers - Working Capital	5
V. Interest Expense	6
A. Tax-Exempt Note Program--Capital Projects	6
B. Taxable Note Program	7
VI. Short-Term Investment Pool	9
VII. Investments	10
A. Tax-Exempt Note Program	10
B. Taxable Note Program	11
VIII. Cost of Issuance	11
IX. Permanent Financing and Principal Payments	11
A. Medical Centers - Gap Loans	12
B. Medical Centers - Disproportionate Share Programs	12
C. Medical Centers - Working Capital	12
X. Monthly and Fiscal Closing Reporting	13
A. Capital Projects	13
B. Medical Centers - Cash Advances	13
XI. Responsibilities	14
XII. References	14

PLANT ACCOUNTING: COMMERCIAL PAPER

Remember that time is money.

-- Benjamin Franklin

I. INTRODUCTION

This chapter sets forth University policy and outlines specific accounting procedures for capital projects and medical center cash advances financed by the sale of commercial paper (Paper).

II. BACKGROUND

On October 31, 1996, the University of California entered the Paper market to provide funds for interim and long-term financing of capital projects and cash advances for the University's medical centers. The majority of the medical center cash advances are used to provide funding for the Gap loans (an internal loan made by The Regents), for transfers to the Department of Health Services for participation by eligible University medical centers in the Medi-Cal Disproportionate Share Programs (mandated by SB 855 and SB 1255), and for working capital advances.

Paper is issued either as a tax-exempt or a taxable instrument, according to the circumstances. Separate fund numbers are assigned by the Office of the President, Business and Finance Office (OP B&F) for both the tax-exempt and taxable programs.

The proceeds from the Paper are recorded in the State Street Bank Treasurer's Report. Cash, discounts, liability accounts, and fund balances are recorded in the OP B&F Retirement of Indebtedness general ledger. Short Term Investment Pool (STIP) income is calculated based on average dollar-day balances.

III. RETIREMENT OF BANK LOANS

The Treasurer's Office repays outstanding bank loans when Paper is issued. The campus is charged by OP B&F when repayment is made. The campus should respond by debiting the various campus construction project fund balances using the transaction codes for borrowed funds, 1550 and/or 3200. Transaction code 3200 is used to record the amount of construction-in-progress carried forward from the previous

fiscal year and transaction code 1550 is used to reflect the current fiscal year's borrowings. The ending fund balances for the retired bank loans should be zero.

The entry should be made as follows:

Dr. Various fund balances	X-101XXX-01XXX-XXX0
Cr. OP Financial Control	X-119500

Any difference between the above entry and the amount transferred to the campus should equal the amount of borrowed funds expensed or capitalized in prior years. This amount should be recorded in the Note Program fund using transaction code 3200. The entry should be made as follows:

Dr. Note Program Fund	X-1014XX-014XX-3200
Cr. OP Financial Control	X-119500

The campus must then make a journal entry in the Retirement of Indebtedness fund using transaction codes 3200 and 21XX (principal payment) to offset the 3200 transaction code in the Note Program Fund. The entry should be made as follows:

Dr. Bank loan payment	X-1017XX-017XX-21XX
Cr. Bank loan payment	X-1017XX-017XX-3200

IV. FUND TRANSFERS

A. CAPITAL PROJECTS

For capital projects, the Treasurer's Office transfers funding to the campus for the bank loan payoff and the first month's reimbursement request. The campus plant accountant must contact the Treasurer's Office with subsequent reimbursement requests. The Treasurer's Office will then provide each plant accountant with a schedule to indicate when the campus reimbursement request is required. The funds will be transferred to the campuses by the end of the month.

To transfer the funds to a campus the following entries are made:

Financial Journal/Pink, Type Entry 53

Dr. Note Program Fund	J-1014XX-014XX-5000
Cr. Note Program Fund	J-1014XX-014XX-3200

IV. FUND TRANSFERS (Cont.)

A. CAPITAL PROJECTS (Cont.)

Treasurer's Financial Journal/Green, Type Entry 56

Dr. Note Program Fund	J-1017XX-0017XX-3200
Cr. Campus Financial Control	J-1195X0-0900X0

The campus must respond to these fund transfers at the time of the request by making the following journal entry:

Cr. Note Program Fund	X-1014XX-014XX-5000
Dr. OP Financial Control	X-119500

By the end of the following month, OP B&F must reconcile to actual expenditures the campus reimbursement request for the previous month. A copy of this reconciliation is sent to the Treasurer's Office. Based on this reconciliation, the Treasurer's Office may transfer unspent or surplus funds to other campuses. To account for the such transfers, the original transfers to the campus are reversed. Campuses with deficit fund balances will be charged at the current STIP rate.

B. MEDICAL CENTERS - GAP LOAN

Since the Gap loan program was funded internally from STIP, no loan payoff is required. Gap loans were recorded in the OP B&F interfund receivable account J-112893 and the current fund liability account J-115664 at the time of the refunding; thus, only an offsetting debit in a separate Retirement of Indebtedness liability account J-101691 was required to record the sale of the Paper.

At the time of the sale of the Paper, the following entry was made to reflect the liability in Current funds:

Treasurer's Financial Journal/Green, Type Entry 56

Dr. Cur Fds Commer Paper Lia	J-101691-001729
Cr. Berkeley Fin Control	J-119518-090010

Financial Journal/Pink, Type Entry 53

Dr. Berkeley Fin Control	1-119517
Cr. Taxable Commer Paper Lia	J-115664

C. MEDICAL CENTERS - DISPROPORTIONATE SHARE PROGRAMS

Transfers of funds to the Department of Health Services for participation in the Medi-Cal Disproportionate Share Programs are funded from Paper. When such transfers are made, the following accounting entry is made by OP B&F:

Financial Journal/Pink, Type Entry 53

Dr. Acct Receivable SB855/1255	J-112090
Cr. Treasurer's General Cash	J-1100XX

OP B&F makes the following entry at month end to record the liability in Current funds:

Treasurer's Financial Journal/Green, Type Entry 56

Dr. Cur Fds Commer Paper Lia	J-101691-0017XX
Cr. Berkeley Fin Control	J-119518-090010

Financial Journal/Pink, Type Entry 53

Dr. Berkeley Fin Control	1-119517
Cr. Taxable Commer Paper Lia	J-115664

D. MEDICAL CENTERS - WORKING CAPITAL

Working capital advances are funded from Paper. The amount of working capital needed is determined based on a medical center's balance sheet, which is submitted monthly to the OP Office of Hospital Budget and Finance (OHBF). If there is a negative cash balance for the month, the medical center must make the following accrual entry to zero out the cash and record an interfund liability:

Dr. OP Financial Control	X-119500
Cr. Taxable Paper Interfund Lia	X-115894

OHBF informs the Treasurer's Office and makes the following entry to reflect this fund transfer:

Treasurer's Financial Journal/Green, Type Entry 56

Dr. Cur Fds Commer Paper Lia	J-101691-0017XX
Cr. Campus Finan Control	J-1195X0-0900X0

Financial Journal/Pink, Type Entry 53

Dr. Interfund receivable account	J-112894
Cr. Taxable Commer Paper Lia	J-115664

V. INTEREST EXPENSE

The Paper rate varies according to the market; there are several maturities during the month. A single interest rate is calculated monthly by the Treasurer's Office, based on the average Paper rate for the current month.

A. TAX-EXEMPT NOTE PROGRAM -- CAPITAL PROJECTS

Interest expense is paid by the Treasurer's Office as the Paper matures. When the payment is made, the Treasurer's Office will make the following entry:

Dr. Tax-exempt Note Program	J-1017XX-0017XX-2273
Cr. Retirement of Indebt Cash	J-10160X-0017XX

OP B&F charges the users interest expense at month end, as stipulated above, on the amount of project funds drawn and outstanding. Campuses are charged interest expense for projects under construction or completed. University of California Housing System (UCHS) funds are charged interest expense on completed UCHS projects.

For completed projects, OP B&F prepares the following journal entry at month end to charge the campus financial control account and UCHS funds:

Financial Journal/Pink, Type Entry 53

Dr. UCHS fund balance	J-101712-01712-2295
Cr. Berkeley Financial Control	1-119517

Treasurer's Financial Journal/Green, Type Entry 56

Dr. Campus Financial Control	J-1195XX-0900X0
Cr. Tax-exempt Note Program	J-1017XX-0017XX-2295

The campus must respond by charging Retirement of Indebtedness funds as follows:

Dr. Retirement of Indebt Funds	X-1017XX-017XX-2295
Cr. OP Financial Control	X-119500

For projects under construction, OP B&F prepares the following journal entry at month end to charge the campus financial control account:

Treasurer's Financial Journal/Green, Type Entry 56

Dr. Campus Financial Control	J-1195X0-0900X0
Cr. Tax-exempt Note Program	J-1017XX-0017XX-2271

Unless otherwise stipulated by the campus, this capitalizable interest cost will be funded from Paper proceeds. OP B&F transfers the funds to the campus with the other fund transfers as follows:

Financial Journal/Pink, Type Entry 53

Dr. Tax-exempt Note Program Fund	J-1014XX-014XX-5000
Cr. Tax-exempt Note Program Fund	J-1014XX-014XX-3200

Treasurer Financial Journal/Green, Type Entry 56

Dr. Tax-exempt Note Program	J-1017XX-0017XX-3200
Cr. Campus Financial Control	J-1195X0-0900X0

The campus must respond by charging the project expenditure for the capitalized interest and crediting the fund for the fund transfer as follows:

Dr. Plant expenditures	X-9XXXXXX-014XX
Cr. Tax-exempt Note Prog Fund	X-1014XX-014XX-5000

Interest expense related to funds not spent on projects is funded from investment income.

B. TAXABLE NOTE PROGRAM

As the Paper matures, the discount or interest expense is calculated and allocated based on the amount of the outstanding liability. The discount amount at the time the investment matures is the interest expense.

1. Capital Projects

When an investment matures, the Treasurer's Office records the payment as follows:

Treasurer's Financial Journal/Green, Type Entry 56

Dr. Taxable Note Prog Liab	J-10169X-0017XX
Cr. Taxable Note Prog Cash	J-10160X-0017XX

OP B&F then reclassifies the discount on the matured investment to interest expense. The entry is made as follows:

Treasurer's Financial Journal/Green, Type Entry 56

Dr. Taxable Note Program	J-1017XX-0017XX-2274
Cr. Taxable Discounts	J-10160X-0017XX

V. INTEREST EXPENSE (Cont.)
 B. TAXABLE NOTE PROGRAM (Cont.)
 1. Capital Projects (Cont.)

At month end, OP B&F charges each user interest expense based on its allocation of a project's outstanding liability. Campuses are charged interest expense for projects completed or under construction.

For **completed projects**, the campus financial control is charged as follows:

Treasurer's Financial Journal/Green, Type Entry 56

Dr. Campus Financial Control	J-1195X0-0900X0
Cr. Taxable Note Program	J-1017XX-0017XX-2295

The campus must respond by charging its Retirement of Indebtedness funds as follows:

Dr. Retirement of Indebt Fds	X-1017XX-017XX-2295
Cr. OP Financial Control	X-119500

For **projects under construction**, OP B&F prepares the following journal entry at month end to charge the campus financial control account:

Treasurer's Financial Journal/Green, Type Entry 56

Dr. Campus Financial Control	J-1195X0-0900X0
Cr. Taxable Note Program	J-1017XX-0017XX-2271

Unless otherwise stipulated by the campus, this capitalizable interest cost is funded from Paper proceeds. OP B&F transfers the funds to the campus with the other funds transfers as follows:

Financial Journal/Pink, Type Entry 53

Dr. Taxable Note Prog Fund	J-1014XX-014XX-5000
Cr. Taxable Note Prog Fund	J-1014XX-014XX-3200

Treasurer's Financial Journal/Green, Type Entry 56

Dr. Taxable Note Program	J-1017XX-0017XX-3200
Cr. Campus Finan Control	J-1195X0-0900X0

The campus must respond by charging the project expenditure for the capitalized interest and crediting the fund for the fund transfer as follows:

Dr. Plant Expenditures	X-9XXXXX-014XX
Cr. Tax Note Prog Fund	X-1014XX-014XX-5000

2. Medical Centers Cash Advances

On a monthly basis, OHBF calculates the interest expense for the working capital, Gap, and Disproportionate Share Program loans.

The interest expense for working capital loans is based on the balance of the Taxable Paper Interfund liability account. Because the need for working capital is not estimated but is determined the following month, the interest calculation for working capital loans will always be one month in arrears.

The interest expense for Gap and Disproportionate Share Program loans is calculated by the end of each month, based on each medical center's outstanding loan balance. The journal entry to charge the interest expense to a medical center is as follows:

Treasurer's Financial Journal/Green, Type Entry 56	
Dr. Campus Fin Control	J-1195X0-0900X0
Cr. Taxable Note Prog	J-1017XX-0017XX-2272

The medical centers and OP B&F respond by charging their expenditure accounts using transaction code 7200. (Since this interest cost does not relate to capital assets, the medical centers should not reclassify this expenditure with other interest expenses at fiscal year end.) The entry is made as follows:

Dr. Med Cent Clear Account	X-XXXXXX-XXXXX-7200
Cr. OP Financial Control	X-119500

Interest expense related to the funds not spent on projects or advances will be funded from investment income.

VI. SHORT-TERM INVESTMENT POOL

Campuses with deficit fund balances are charged interest at the STIP rate. STIP expense on tax-exempt funding cannot be funded from Paper proceeds. STIP income on campus fund balances 014XX is transferred to OP B&F fund balance 014XX. Account J-1017XX-0017XX, Tax-exempt Note Program, earns its own STIP income.

VI. SHORT-TERM INVESTMENT POOL (Cont.)

STIP income/expense in the OP B&F accounts is credited/charged to the Taxable Note Program, J-1017XX-0017XX-1306.

Medical centers continue to earn STIP income for each month they are in a positive working capital position. The STIP income, however, is distributed on a quarterly basis by OHBF.

VII. INVESTMENTS

OP B&F reconciles the investment, discount, and liability accounts to reports generated by the Treasurer's Office.

A. TAX-EXEMPT NOTE PROGRAM

To record Paper proceeds in the State Street Bank Treasurer's Report cash account and the liability account, the following entry is made:

Dr. Retirement of Indebt Cash	J-10160X-0017XX
Cr. Tax-exempt Note Prog Liab	J-10169X-0017XX

To account for the purchase of tax-exempt securities the following entry is made:

Dr. Tax-exempt Separate Invest	J-1016XX-0017XX
Cr. Retirement of Indebt Cash	J-10160X-0017XX

The Treasurer sells investments and deposits the proceeds in the Treasurer's general cash account. Investment income and the gain or loss on the sale of the investment is recorded using transaction codes 1305 and 1455 respectively. The two entries to record this investment activity at OP B&F are made as follows:

Dr. Retirement of Indebt Cash	J-10160X-0017XX
Cr. Tax-exempt Note Prog Fund	J-1017XX-0017XX-1XX5
Cr. Tax-exempt Separate Invest	J-1016XX-0017XX

Dr. Treasurer's General Cash	J-1100XX
Cr. Retirement of Indebt Cash	J-10160X-0017XX

To record the Paper principal payments, the following entry is made:

Dr. Tax-exempt Note Program Liab	J-10169X-0017XX
Cr. Retirement of Indebt Cash	J-10160X-0017XX

B. TAXABLE NOTE PROGRAM

With the exception of the entries to record the discount, the reconciliation of investments for the Taxable Note Program is similar to that of the Tax-exempt Note Program.

To record Paper proceeds in the State Street Bank Treasurer's Report cash, discount, and liability accounts, the following entry is made:

Dr. Taxable Note Program Cash	J-10160X-0017XX
Dr. Taxable Discounts	J-10160X-0017XX
Cr. Taxable Note Program Liab	J-10169X-0017XX

To record the Paper principal payments, the following entry is made:

Dr. Taxable Note Prog Liab	J-10169X-0017XX
Cr. Taxable Note Prog Cash	J-10160X-0017XX
Dr. Taxable Note Prog Fund	J-1017XX-0017XX-2174
Cr. Taxable Discounts	J-10160X-0017XX

VIII. COST OF ISSUANCE

The cost of issuance and other fees are recorded in the Note Program Prepayment account, J-100188-014XX.

Periodically, the Treasurer's Office, in conjunction with OP B&F, funds the cost of issuance from either taxable or tax-exempt Paper income. The following journal entry is required to transfer funds from Taxable Paper fund 017XX, or Tax-exempt Paper fund 017XX, to Taxable Note Program fund 014XX.

Treasurer's Financial Journal/Green, Type Entry 56

Dr. Taxable Note Prog Fund	J-1017XX-0017XX-3200
Cr. Berkeley Fin Control	J-119518-090010

Financial Journal/Pink, Type Entry 53

Dr. Berkeley Fin Control	1-119517
Cr. Taxable Note Prog Fund	J-1014XX-014XX-3200

IX. PERMANENT FINANCING AND PRINCIPAL PAYMENTS

For capital projects, the Paper debt is financed permanently with bond proceeds. Medical center Paper debt is paid from current revenue.

IX. PERMANENT FINANCING AND PRINCIPAL PAYMENTS (Cont.)

A. MEDICAL CENTERS - GAP LOANS

At the end of each month, the medical centers and OP B&F are charged for their share of the Gap loan principal. The entry is made as follows:

Treasurer's Financial Journal/Green, Type Entry 56

Dr. Campus Fin Control	J-1195X0-0900X0
Cr. Cur Fds Commer Paper Lia	J-10169X-0017XX

Financial Journal/Pink, Type Entry 53

Dr. Taxable Commer Paper Lia	J-115664
Cr. Interfund Receivable Account	J-112893-67916

Dr. Interfund Payable Acct	J-115893-63000
Cr. Berkeley Fin Control	1-119500
Dr. Unexp Bal Ed Fund	J-119750-05397-0799
Cr. Unexp Bal Hospital	J-119850-63000-0799

B. MEDICAL CENTERS - DISPROPORTIONATE SHARE PROGRAMS

Medical centers must inform OHBF when they receive payments from the Department of Health Services for the Disproportionate Share Programs. This information is forwarded to the Treasurer's Office. The medical center must code the payment to OP Financial Control X-119500. OP B&F responds to the payment by making the following entries:

Treasurer's Financial Journal/Green, Type Entry 56

Dr. Campus Fin Control	J-1195X0-0900X0
Cr. Cur Fds Commer Paper Lia	J-10169X-0017XX

Financial Journal/Pink, Type Entry 53

Dr. Taxable Commer Paper Lia	J-115664
Cr. Accts Receivable SB855/1255	J-112090

C. MEDICAL CENTERS - WORKING CAPITAL

If a medical center's outstanding working capital advance decreases from the prior month, the following journal entry must be prepared each month to reflect the decrease in working capital debt:

Dr. Taxable Paper Interfund Lia	X-115894
Cr. OP Financial Control	X-119500

OHBF makes the following entry to reflect the decrease in the working capital advance:

Treasurer's Financial Journal/Green, Type Entry 56

Dr. Campus Fin Control	J-1195X0-0900X0
Cr. Cur Fds Commer Paper Lia	J-10169X-0017XX

Financial Journal/Pink, Type Entry 53

Dr. Taxable Commer Paper Lia	J-115664
Cr. Interfund receivable acct	J-112894

X. MONTHLY AND FISCAL CLOSING REPORTING

A. CAPITAL PROJECTS

At fiscal year end, OP B&F reclassifies the investment, cash, liability and fund balances in Retirement of Indebtedness Funds to Unexpended Plant funds. The fund balance transfers are reclassified to transaction code 1550. The liability for completed and construction in progress projects is recorded in Investment in Plant Funds. The full amount of the liability is recorded in Investment in Plant liability account J-101964. The liability amount for Unexpended Plant is offset by a debit to liability account J-101988.

B. MEDICAL CENTERS - CASH ADVANCES

The medical centers must reflect the Gap and the working capital loans in their monthly financial statements and their year-end audited statement. This debt must be reported on the balance sheet as a current liability on separate lines entitled "Working Capital Advance from Commercial Paper Program" and/or "Internal Loan Payable from Commercial Paper Program."

For the audited financial statements, the medical center must record the liability as both current and long-term debt. The current portion reflects payments for the Gap loan and all other cash advances due within the next twelve months. The long-term portion equals the medical center's share of the Gap loan, less the amount reported as current.

The liability for the Medi-Cal Disproportionate Share Programs is reported on the consolidated University Annual Report only.

XI. RESPONSIBILITIES

The campus accounting officers and the hospital finance directors are responsible for ensuring that the procedures detailed in this chapter are followed.

XII. REFERENCES

Ken Strangfeld, Memorandum to Plant Accountants on Tax-exempt Commercial Paper, February 12, 1997

Ken Strangfeld, Memorandum to Medical Center Directors of Finance and Plant Accountants on Taxable Commercial Paper, February 12, 1997.

Accounting Manual Chapters:

P-415-12 Plant Accounting: Borrowed Funds--Local

P-415-14 Plant Accounting: Bond Financing

Historical note: Original Accounting Manual chapter first published 3/31/97; analyst Ken Strangfeld.