

## PLANT ACCOUNTING: UNEXPENDED PLANT FUNDS

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PLANT ACCOUNTING: UNEXPENDED PLANT FUNDS

"The whole difference between construction and creation is exactly this: that a thing constructed can only be loved after it is constructed; but a thing created is loved before it exists."

--Preface to Dicken's Pickwick Papers

I. INTRODUCTION

This chapter sets forth guidelines for Unexpended Plant Funds. Unexpended Plant is one of four major categories in the Plant Funds Group. The other major categories are discussed in separate Accounting Manual chapters: P-415-5, \* Plant Accounting: Retirement of Indebtedness; P-415-66, Plant Accounting: Renewals and Replacements; and P-415-3, and Plant Accounting: Investment in Plant. For information on hospital accounting procedures, see Accounting Manual chapter H-576-62, Hospitals: Plant Asset Accounting.

II. GENERAL

Unexpended Plant Funds are used for the improvement or expansion of the physical facilities of the University. Expenditures may be for land and building acquisition; construction of new facilities; major rehabilitation, renovation, remodeling, and alteration of existing facilities; original equipment for new buildings and for expanded, remodeled, or altered parts of existing buildings; or general planning studies and surveys connected with the physical planning of the campus.

Assets of the Unexpended Plant Funds group may consist of cash, investments, accounts receivable, and amounts due from other fund groups. Liabilities may consist of bonds, notes, mortgages, leasehold payables, and amounts due to other fund groups. The fund balances represent amounts unexpended as of the reporting date.

III. SOURCES OF FUNDS

The University receives funds for its capital improvement programs from the State of California, various Federal agencies, donations, University funds, and borrowings from University and outside sources.

## A. GIFTS AND PRIVATE GRANTS

1. Account Numbers

Gifts and private grants (donations) funds received for construction are recorded within the plant fund balance sheet accounts blocking 100300 - 100699. Fund numbers for these accounts are assigned by the campus accounting offices. Fund numbers 00300 - 00599 are used for restricted donations and fund numbers 00600 - 00699 are used for unrestricted donations.

2. Appropriations

\* Donation funds are to be appropriated only when cash is actually received or realized after the Project Planning Guide has been approved by the Associate Vice President and Director of the Budget (AVP--DB). Pledges are not usually considered as being available for expenditure and should not be appropriated until they are honored, unless the Chancellor commits unrestricted funds to the project prior to receipt of the donors' funds.

The AVP--DB may approve the commencement of work prior to the receipt of funds for projects to be financed by large, reliable donors such as private foundations. Such approval may be given if the terms of the grant require that it be paid in installments as work progresses. In such cases, expenditures made prior to reimbursement from the donor can be financed either by other fund sources participating in the project or, if there are no other fund sources involved, by a temporary loan from The Regents, an outside lending organization, or from funds available to the Chancellor.

Construction projects to be financed by donations generated from major campus fund-raising campaigns occasionally begin before the actual receipt the donation (or even before the donation is pledged); these projects must be financed temporarily by loans from Regents' funds or from approved funds available to the Chancellor. When a donor's contribution is made in periodic payments, based on the level of expenditure of the project, every

III. SOURCES OF FUNDS (Cont.)

A. GIFTS AND PRIVATE GRANTS (Cont.)

effort should be made by the campus to obtain from the donor, on a timely basis, sums adequate for funding actual expenditures as they occur.

3. Expenditure Restrictions

Because donations with unusual expenditure restrictions are frequently received, care must be taken to comply with the terms of each donation. Ordinarily, no problem exists where donation money has been made available for all phases of general construction. However, funds are occasionally given to the University for a specific room in a structure or for equipment in a specific room; such cases require careful segregation of costs. (When a question arises as to the actual cost of a particular area in a building, it may be necessary to obtain additional data from the campus facilities management office concerning the assignable costs.)

4. Interest Earned

Interest earned on donated funds is added quarterly to the fund balance. Such interest may be considered to be in excess of the needs of the project, as the project was originally proposed to the AVP--DB. In general, however, donation funds (including interest earned on the funds) may not be expended for a project other than the one originally proposed. For major capital projects, the campus facilities management office must propose to the AVP--DB a use for interest earned on donation funds. The proposal is to be supported by a revised budget for the project concerned. When the proposal is approved, the AVP--DB will advise the appropriate accounting officer to allocate to the project account the interest earned. For minor projects, the Chancellor has the authority to allocate the interest earned.

5. Donations for a Specific Project

When money is donated for a specific project, the donation money must be fully expended prior to the

capitalization of the project to avoid an unexpended donation balance, which cannot be used for another project without securing the donor's permission for a change in purpose.

#### 6. Multi-funded Projects

For multi-funded projects with a combination of donation, State appropriation, and University monies, on which no specific restrictions were placed, it is usually preferable to apply expenditures first against donation money, next against State money, and finally against University money. However, it may be preferable in some instances to spend State money first in order to increase the amount of interest earned through the investment of the donation money. In the absence of specific instructions, the decision is made at the discretion of the accounting officer.

#### B. FEDERAL GRANTS

Funds received from Federal agencies for construction are recorded within the plant fund balance sheet accounts blocking 100700 - 100799. Fund numbers for these grants are assigned by the campus accounting offices.

All Federal construction grant applications will be processed by the appropriate campus office and forwarded to the Office of the President (OP) for the President's signature or the signature of his or her designee. Upon approval of a grant award to the University, the award may formally accept for the University by the Chancellor. In cases where the University must provide funds to match the Federal grant, expenditure authorization for the matching and grant funds will be made by the AVP--DB.

Preparation of requests for grant payments is the responsibility of the campus accounting office. These requests should be timely and in accordance with the terms of the grant to ensure that University funds will not have to be used to cover grant expenditures. For additional information, refer to the Facilities Manual section on Federal Construction Grants Procedures.

III. SOURCES OF FUNDS (Cont.)

C. STATE APPROPRIATIONS

State appropriations allocated for construction are recorded within accounts blocking 100800 - 100999, which are assigned by the Corporate Accounting Office (CAO). A complete discussion on state appropriations can be found in Accounting Manual chapter P-415-71, Plant Accounting: State Capital Projects.

D. UNIVERSITY FUNDS

University funds allocated for construction are recorded within accounts blocking 101000 - 101480. Funds in these accounts are transferred from current fund balances, endowment funds, retirement of indebtedness funds, other fund groups, or outside sources. However, under present policy, General Funds (19900) cannot be transferred to the Plant Funds Group. (Under State requirements, State General Funds can only to be used for current operations, not for capital outlays.) The campus accounting office assigns the fund numbers for funds transferred from campus sources. Funds transferred from OP are assigned fund numbers by the CAO. The following list of University fund numbers has been developed by the CAO. Numbers available for assignment by the local accounting offices are identified by an asterisk.

	Available for local use	101000-01000 - 101039-01039
	Capital Outlay--University	
	Opportunity Fund Appropriation	101040-01040
**	Capital Outlay--Agriculture and Natural Science	101041-01041
	Capital Outlay--UCHS Spec Reserve	101045-01045
	Capital Outlay--Educational Fund	101047-01047
	Capital Outlay--Other Regents' Funds	101048-01048
	Capital Outlay--Nuclear Science Fund Appropriation	101050-01050
	Operation of Auxiliary and Service Enterprises--to be assigned by campus	101051-01051 - 101089-01089
	Available for local use	101100-01100 - 101160-01160
	Litigation Fund--Building Program	101170-01170
	Available for local use	101171-01171 - 101199-01199
	Reserved for Corporate Accounting	101200-01200 - 101250-01250
	Plant Pool Earnings--State	101251-01251

	Plant Pool Earnings--State Appropriations Fair and Exposition Fund	101254-01254
	Plant Pool Earnings--General	101255-01255
	Proceeds from Real Estate Sales	101259-01259
	University Extension--Capital Outlay Reserve	101261-01261
	Reserved for the UNEX Accountants' use	101262-01262
		- 101279-01279
*	Available for local use	101280-01280
		- 101362-01362
	Transfer from Parking Reserves--Campus	101363-01363
	Transfer from Parking Reserves--Regents' Working Capital	101364-01364
	Transfer from Hospital Reserves	101365-01365
*	Available for local use	101366-01366
		- 101399-01399
	Stop Notices	101400-01400
	Registration Fee--Capital Outlay Unallocated	101410-01410
	Loss--Reconstruction Plant Assets	101415-01415
	Registration Fee--Capital Outlay Approved	101420-01420
	Reserved for Office of the President Net Revenue	101430-01430
		- 101449-01449
*	Available for local use	101450-01450
		- 101480-01480

## E. BORROWED FUNDS

1. Account Numbers

\* Funds advanced by The Regents (Regents' Advance) or multi-campus funded external borrowings are recorded in accounts blocking 101481 - 101535. These funds are assigned by the CAO. Other funds borrowed from external sources are recorded in accounts blocking 101536 - 101599. These fund numbers are assigned by local accounting offices, as needed.

Certain facilities, such as student housing and recreational facilities, parking, and student centers, and faculty clubs, can be partially financed by Regents' Advances. These loans are usually repaid by revenue generated by the operation of the facilities or by fees specially assessed and collected to repay the loan. The following account/fund numbers have been set aside for Regents' Advances:

III. SOURCE OF FUNDS (Cont.)

E. BORROWED FUNDS (Cont.)

1. Account Numbers (Cont.)

Plant Pool Earnings General	101501-01501
Searles Fund	101502-01502
University Opportunity Fund	101503-01503
Nuclear Science Fund	101504-01504
Educational Fund	101505-01505
Other Regents' Funds	101506-01506

Regents' Advances are transferred to the campus by a financial journal or are processed by a subsystem of the Treasurer's Investment System (TIS). Regents' Advances are identified by a five-digit code. The first two digits, indicated here with XX, uniquely distinguish advances. The third digit identifies the campus, and the last two digits are the advance numbers assigned by the subsystem. This five-digit code identifies these loans both in the reference field of the General Ledger and in TIS. Accounting entries are recorded in the General Ledger by D98 machine journals. This subsystem requires campus account numbers for construction and interest costs, as well as for principal and interest repayments. The account numbers must be provided by the campus accounting office and approved by the CAO plant accountant prior to requests for reimbursement of construction costs or when principal repayments are scheduled to begin.

2. Interest

Funds will be transferred monthly from the CAO, to cover current construction expenditures recorded on the campus ledgers, based on requests by the campus accounting officers. Interest is charged at the time these transfers are made; it is calculated on the cumulative amount that has been expended, for which funds have been transferred. The interest rate, unless otherwise stated at the time of Regental approval, is determined during the first month of the drawdown of funds. It is established at the "prime rate" then current on the first day of the month at San Francisco banks for those projects to be repaid in five years or less, or, at the "long-term rate" for projects to

be repaid in excess of five years. The "long-term rate" used is Moody's AA Utility Bond rate on the first day of the month. The Short Term Investment Pool (STIP) rate may also be used for short term borrowings.

Effective October 1, 1988, any new loans from Regents' funds for University projects are to be set at an interest rate equal to the STIP quarterly rate of return in effect for the quarter immediately preceding the date when the first drawdown occurs. The loan's interest rate is to be adjusted each succeeding quarter when a new quarterly STIP rate is calculated.

Interest on Regents' Advances is charged to the construction project account until the project is complete or "beneficial occupancy" occurs, whichever is first; this interest becomes a part of the cost of the project and is included in the principal amount to be repaid. Beneficial occupancy occurs when a project, e.g., a residence hall or parking structure, is placed in use, even though the project is not 100 percent completed and the accounts are not closed. Campus accounting officers are responsible for notifying the CAO when a project has been completed or beneficial occupancy has occurred, because interest should no longer be charged to the project. After receiving this notification, the CAO will calculate the repayment amount and schedule the loan payments in TIS. If the campus fails to notify the CAO promptly, the campus will continue to be charged interest after the project has been completed. Any unused appropriation will revert to the fund source.

### 3. Reporting Expenditures

Exhibit A provides a sample format to be used for reporting expenditures on advances. Many items on this report are repetitive; however, the use of master forms will greatly reduce the time and effort required for preparation.

III. SOURCES OF FUNDS (Cont.)  
E. BORROWED FUNDS (Cont.)

4. External Sources

Borrowed funds from external sources are usually obtained from the proceeds of bond sales, from the issuance of certificates of participation, or from borrowings through a mortgage loan, wherein fees charged to students or the revenues earned by the facilities are pledged to repay the indebtedness. Bond and certificates of participation sales and outside borrowings must be authorized by The Regents; financial arrangements are made by the Treasurer's Office.

Additional information on borrowed funds is presented in Accounting Manual chapters [L-217-11](#), Accounting and Reporting for Leases and Installment Purchase Contracts; [P-415-12](#), Plant Accounting: Borrowed Funds--Local; and [P-415-16](#), Plant Accounting: Certificates of Participation. The procedures for borrowing funds from the State of California are described in Accounting Manual chapter [P-415-71](#), Plant Accounting: State Capital Projects.

F. PLANT INVESTMENT INCOME

There are no revenue accounts as such in the Plant Funds Group; revenues or other additions to funds are credited directly to the fund balances in the balance sheet accounts. Appropriations to the expenditure accounts are made directly from the fund balances accounts.

Most plant funds participate in the Short Term Investment Pool (STIP). Plant investment income is distributed based on the total pool income earned for each quarter as of September 30, December 31, March 31, and June 30. Distributions are based on the average of the three end-of-the-month fund balances in the quarter. Certain funds are invested separately, such as a donation in compliance with the donor's restriction, or bond funds as required by the bond indenture.

During the construction phase, STIP earnings on borrowed funds are to be transferred to the

construction expenditure account as an offset to interest expense. The financial entry to be used is as follows:

Dr. Plant Reserve	X-1015XX-015XX-X-2999
Cr. Plant Expenditure	X-9XXXXXX-015XX-X-XXXX

As previously indicated, interest income on donations may be distributed, when authorized, to the appropriate accounts in the plant ledger. However, interest earned on unexpended Plant Reserves appropriated from Hospital funds, if not needed for the project, should be returned to the Hospital funds.

When interest on negative cash balances in plant funds is charged to Chancellor's Unrestricted funds, the campus has the option of charging the plant project for the lost STIP interest income. The financial journal completed to account for this transaction is as follows:

Dr. Plant Expenditures	X-9XXXXXX-015XX-X-XXXX
Cr. Chancellor's Unrestricted Fund	X-119850-69XXX-0-0199

Plant funds participating in STIP earn interest, which is allocated and recorded as follows:

- 1) Plant funds from Federal sources are combined with current Federal funds for STIP purposes. Campuses shall calculate STIP interest earned on Federal grant funds on deposit and remit the interest to the Federal agency issuing the grant.
- 2) Interest income for the following funds at the campuses and at OP shall be recorded by Corporate Accounting in OP.

<u>Fund Category</u>	<u>Fund Number/Group</u>
State Appropriations <sup>1</sup>	00800 - 00999
* UCHS Net Revenue	01430
* Pool Revenue Bonds	Various
Regents' Funds	01040, 01047, 01048 and 01050

<sup>1</sup> Earnings on State fund balances are credited to Plant Pool Earnings--State (fund 01251).

III. SOURCES OF FUNDS (Cont.)

F. PLANT INVESTMENT INCOME (Cont.)

- 3) The following funds and fund groups shall receive interest income at the campus level.

<u>Fund Category</u>	<u>Fund Number/Group</u>
Gifts and Private Grants	00300 - 00699
Hospital Reserves	01365
Registration Fee Reserves	01410 and 01420
Borrowed Funds <sup>2</sup>	01481 - 01599

- 4) Any interest earned on other funds at a campus shall be credited to the Chancellor's unrestricted funds, except specific funds designated by the Chancellor to receive interest individually.
- 5) Any interest earned on other funds at OP shall be credited to the Plant Pool Earnings--General (fund 01255), unless certain funds have been specifically designated by the President to receive their individual interests.

IV. PLANT ACCOUNTING PROCEDURES

A. GENERAL

Plant expenditure account numbers are assigned within accounts blocking 9X0000 - 9X9990. This accounts blocking is used to record expenditures for a project until completion, including construction in progress. At year end, the costs of the completed projects are capitalized in the Investment in Plant balance sheet. Expenditures for uncompleted construction projects are transferred by a reversing entry to a construction-in-progress asset account at fiscal year end and are carried forward to the next fiscal year.

B. CLEARING ACCOUNTS

Payroll charges should not be recorded directly in plant expenditure accounts, because all payroll costs are recorded as current funds expenditures. However,

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<sup>2</sup> Exceptions are UCHS bonds and loans and Pool Revenue Bonds.

payroll costs that will ultimately be charged to the plant expenditure ledger can be charged to a clearing account in the current funds group and subsequently recharged to the appropriate plant account. All clearing accounts should be cleared on a monthly basis and recharged to the proper account; therefore, they will have zero balances on the June 30 final ledger.

Costs in plant expenditure accounts that must be prorated can be identified with object codes X890 and X891 (substitute the campus location code for X).

#### C. PLANT CONSTRUCTION ACCOUNT NUMBERS

Plant construction accounts are classified as either major or minor capital improvement projects. A major capital improvement project is defined as one with total appropriations of more than \$250,000. Funds, regardless of source, may not be transferred from one major project to another without the approval of the AVP--DB. Minor capital improvement projects are defined as projects with total appropriations of \$250,000 or less.

Plant construction account numbers are assigned by the campus accounting office or other appropriate office, as determined by the Chancellor. The second digit in the account number is used to identify the campus. The plant account numbers may be assigned within the accounts blocking for each group classification, as shown below:

##### 9X0000 - 9X3999--Account Classification 1

Major Capital Improvement projects of a non-medical nature: the construction account will end in a zero (such as 9X1980). The equipment associated with the project will be recorded in separate accounts, e.g., in sequence from 9X1981 - 9X1989. Note that only nine subdivisions of equipment are possible in this sequence. However, additional equipment subdivisions can be recorded, beginning with 9X1991 (9X1990 should not be used).

##### 9X4000 - 9X5999--Account Classification 2

Major Capital Improvement projects of a medical nature. Construction and equipment account numbers will be in accordance with Account Classification 1.

IV. PLANT ACCOUNTING PROCEDURES (Cont.)

C. PLANT CONSTRUCTION ACCOUNT NUMBERS (Cont.)

9X6000 - 9X6249--Account Classification 3

Utility and Site Development projects of either a medical or non-medical nature. Since no equipment is associated with utility projects, 250 numbers are available for this type of project.

9X6250 - 9X6499--Account Classification 4

Housing projects. Construction and equipment sequencing as indicated for Account Classification 1.

9X6500 - 9X6999--Account Classification 5

Parking projects, both structures and surfaces.

9X7000 - 9X7499--Account Classification 6

Minor Capital Improvements of a non-medical nature.

9X7500 - 9X7999--Account Classification 7

Minor Capital Improvements of a medical nature.

9X8000 - 9X8499--Account Classification 8

\* Advance and General Planning and Feasibility Studies.

9X8500 - 9X8524--Account Classification 9

Purchase of property accounts.

9X8525 - 9X8549--Account Classification 10

Installment Purchases and Capitalized Leases (equipment, etc.).

9X8550 - 9X8599--Account Classification 11

Loss--Reconstruction Assets.

9X8600 - 9X8699--Account Classification 12

Capital Improvements primarily for fire protection.

9X8700 - 9X8799--Account Classification 13

Capital Improvements primarily for seismic safety.

9X8800 - 9X8999--Account Classification 14

Miscellaneous--not classified above.

9X9000 - 9X9099--Unreleased Project Accounts

(Refer to section IV.D., Assignment of Unreleased Projects Accounts).

9X9100 - 9X9989--Reserved for special request

The above numbers are used for special projects or when another group classification is temporarily filled. Campuses should contact the CAO before using numbers in this group.

999990--Used by all campuses for year-end closing purposes

This account is used for fiscal closing as an offset to all other plant construction in progress accounts.

## D. ASSIGNMENT OF UNRELEASED PROJECTS ACCOUNTS

The Unreleased Project accounts must be uniform among campuses. Accounts blocking 9X9000 - 9X9099 of the Plant Construction account numbers has been assigned. Account numbers are assigned within this blocking by fiscal year sequence. The second digit in the account number is used to identify the campus. The fifth digit in the account number designates the source of funds (e.g., 1 = State Minors, 3 = Health Sciences, etc., as listed below). The sixth digit in the account number corresponds to the fourth number of the fiscal year the funds are approved (for example, 1997-98 would be 7). For example, a San Diego unrealized State funded minor project approved by the State Budget Act for fiscal year 1997-98 would be assigned account number 969017; the account number for Davis would be 939017.

\* Following is a listing of the unrealized project accounts:

IV. PLANT ACCOUNTING PROCEDURES (Cont.)

D. ASSIGNMENT OF UNRELEASED PROJECTS ACCOUNTS (Cont.)

<u>Source of Funds</u>		<u>Account Number</u>
1)	Unreleased State Minor Capital Project	9X901X
2)	Unreleased State Capital Outlay Appropriation	9X902X
3)	Unreleased Health Science Projects	9X903X
4)	Unreleased Special State Funded Projects	9X904X
5)	Unreleased Regent Appropriation	9X905X
6)	Unreleased Federal Funds	9X906X
7)	Unreleased Campus Funds	9X907X
8)	Unreleased State Revenue Bonds	9X908X
9)	Unreleased State General Obligation Bonds	9X909X

E. PLANT EXPENDITURE SUBACCOUNTS

Plant expenditure subaccount titles differ from those titles used in the current funds expenditure series. The subaccount titles and definitions used in the plant expenditure series are as follows:

<u>Subaccount</u>	<u>Title</u>	<u>Definition</u>	
0	Site Clearance and Preparation	Costs required to prepare a site for construction.	
*	1	Construction	All structures and their appurtenances; Group 1 equipment (see definition below).
	2	External Utilities	All utilities outside of building. Includes ducts, wires, pipes, conduits, manholes, and

			any associated machinery or equipment; does not include temporary service for construction.
*	3	Groups 2 and 3	Movable equipment (see definition below).
	4	Landscaping	Includes grading, paving, curbs, gutters, roads, walks, sprinklers, and planting.
	5	Consultant Services--External	Limited to services of architects, engineers, landscape architects, and other consultants.
	6	Facilities Management Services--Internal	Includes payroll costs of office of architects and engineers, related supplies and expense costs, and overhead charges.
	7	Surveys, Tests, Plans, Specifications, etc.	Costs of property surveys, test boring and analyses, tests of construction materials, typing, reproduction and binding of specifications and plans.
	8	Special Items	Miscellaneous services not covered under other subbudgets.
	9	Unallocated and Contingency Funds	This initially includes the total project appropriation available for expenditure in the other subaccounts, the project contingency, and the contingency reserve.

Occasionally it may be necessary to establish nonstandard subaccounts for special purposes, e.g., nonstandard subaccounts are used in the purchase of property accounts

IV. PLANT ACCOUNTING PROCEDURES (Cont.)  
E. PLANT EXPENDITURE SUBACCOUNTS (Cont.)

where the standard title cannot reasonably be used. In these cases, the campus has the option of establishing an appropriate subaccount title.

Group 1, 2, and 3 Equipment - It is not appropriate to record Group 2 and 3 equipment expenditures against major capital construction accounts. These expenditures are to be recorded in the equipment accounts associated with each project. Conversely, Group 1 equipment should not be recorded in the equipment accounts. The definition of equipment in Groups 1, 2, and 3 is as follows:

Fixed Equipment (Group 1)

- 1) Equipment that is built-in or permanently affixed to a building or structure. Examples are: fixed laboratory benches, fixed sterilizing equipment, fixed seating in auditoriums and lecture halls, and permanent television distribution equipment.
- 2) Equipment units related to basic building operations are part of general building construction and are **excluded** from the definition of fixed equipment. Examples are: building hardware, building service units, such as heating systems, exhaust and air conditioning systems, and elevators.

Movable Equipment (Group 2)

- 1) Building furniture and furnishings. Includes heavy-duty furniture for lobbies, special corridors, and areas where the public tends to congregate.
  - 2) Classroom furniture. General assignable classroom furniture including, but not limited to, the following: lecturns, tablet armchairs, and seminar tables.
  - 3) General assignable office furniture. Consists of the following items only: desks, chairs, tables, bookcases, and correspondence files.
  - 4) "Inventorial equipment" for the University is defined as items of a type that (a) have an acquisition value of \$1,500 or more, (b) are free-standing, and (c) have a normal life expectancy of one year or more.
- \*  
\*

- 5) Specialized equipment is inventoried movable equipment. It is grouped for University purposes into two categories: (a) office equipment, and (b) laboratory and other equipment. Classification of equipment into one of these categories is determined by the principal use of the equipment. For example, calculators are normally office equipment, but could be classified as laboratory equipment if they are to be used in a statistical laboratory for students in the social sciences.

#### Movable Equipment (Group 3)

- \* 1) Non-inventorial equipment, supplies and materials for the University are defined as items that (a) have an acquisition value of less than \$1,500, (b) are required to equip a space for programmed function, and (c) are essential to initial and ongoing operations in new space assigned to a department or activity.
- 2) Initial supplies and materials shall be limited to the minimal requirement for start-up operations, after which time the cost should be anticipated in the operating budget for the department or activity.
- 3) General assignable office furniture and other similar standard furniture items are considered non-inventorial and classified as general assignment furnishing.

#### F. CAPITAL ASSET ACCOUNT NUMBERS

A Capital Asset Account Number (CAAN) is a four digit alpha-numeric field assigned at the time a capital project or construction contract begins to incur expenses. The CAAN is a unique key used to identify a capital asset or building, which facilitates the interface of asset-related information between corporate and campus systems such as, but not limited to, subsidiary plant asset ledgers, plant expenditure accounts, and systems for facilities inventory, equipment inventory, and risk management and indirect cost recovery.

Campuses may assign CAAN's within the 0001-9999 series; however, CAAN's and their asset titles must be used consistently among the Plant Asset, Facilities Inventory, and Equipment Inventory systems, and any

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\* other system that contains or reports building data. A CAAN need not include the campus location code as the first digit. Alpha characters (i.e., the letters A thru Z) may be used in any of the four positions in the CAAN; however, campuses should verify that their local general ledger can accept these alpha characters.

Since the CAAN is a unique identifier for a specific capital asset or building, it should be used consistently to record costs and expenditures among the following plant accounts:

Account 101800	--	Land
Account 101801	--	Buildings and Structures
Account 101802	--	General Improvements
Account 101804	--	Fixed Equipment

Each asset, or building or separate structure must be assigned an individual CAAN, including buildings attached by court areas, breezeways, or designed in clusters. A building complex involving multiple buildings or separate structures will, therefore, be associated with more than one CAAN, since each building within the complex must be assigned a separate CAAN.

A single building that is constructed on more than one foundation also should be assigned the number of CAAN's necessary to account for each separate foundation upon which the building is built. Thus, in a multiple foundation building or multiple structure construction project or purchase, capitalized costs must be allocated to each building or structure and associated with the CAAN for each building.

For example, the purchase of land, a building, and general improvements should be given the same CAAN and asset title. However, if the land includes two buildings, at least two CAAN's are required: one CAAN for the land and one building and another CAAN for the other building. Alternatively, three CAAN's may be assigned: one for each building and one for the land.

A separate CAAN should be established for capitalized costs, such as telecommunications wiring or fencing, that cannot be related to a single asset or building.

IV. PLANT ACCOUNTING PROCEDURES (Cont.)

G. WORKING DRAWINGS, CONSTRUCTION, AND EQUIPMENT  
APPROPRIATIONS

Annually, when the State Budget Act is passed or The Regents approve funds for a project, campuses shall record an appropriation in the corresponding Unreleased Projects accounts. Notification of the appropriation will be made by means of the State Budget Act or approved Regents' item, as applicable.

No expenditures may be made from the Unreleased Projects accounts. Upon receipt of a copy of the Budget Act or an approved Regents' item, the campus accounting office will prepare a budgetary entry debiting Plant Reserves and crediting the appropriate Unreleased Projects account for each project. No financial entries are made to the related Plant Reserve accounts at that time.

When the AVP--DB approves the Project Planning Guide (PPG), and/or the State Public Works Board approves the release of funds, the campus will be notified that it may proceed with the project. The notification will be made by means of a letter from the AVP--DB.

Upon receipt of the letter from the AVP--DB, subject to campus procedures, the designated campus authority may proceed to incur expenditures. The campus accounting office will prepare a budgetary entry debiting the Unreleased Projects account and crediting the appropriate project expenditure account. If no prior appropriation to the Unreleased Projects account was made (as in the case of campus-funded projects), the debit would be to Plant Reserves.

H. MAJOR CAPITAL PROJECTS--APPROVAL AND AUGMENTATION

All major capital improvement projects require approval by the President or The Regents. The President is authorized to approve amendments to the Capital Improvement Program administratively up to \$5 million. Projects that require Regental approval include the following:

- 1) The addition of a new project with a total cost in excess of \$5 million.

- 2) Any modification to the cost of a project over the standard cost-rise augmentation in excess of 25 percent, which would result in a new total project cost of more than \$5 million.
- 3) Any project having a significant environmental impact.
- 4) All new projects that require design approval by the Committee on Grounds and Buildings.
- 5) Any substantial program modification of a project previously approved by The Regents.

After the initial approval of the budget is received from the AVP--DB, changes to the budget need not be resubmitted to OP for approval unless:

- 1) An augmentation is required;
- 2) A surplus is declared;
- 3) A change in the distribution between construction and equipment is necessary; or
- 4) OP or Regental approval is required for a change in the source of funding.

#### I. MINOR CAPITAL PROJECTS--PLANNING AND AUGMENTATION

Minor capital improvement projects add new space, or alter, extend, or improve the programmed design or function of an existing space or building system. The total project cost includes the related fixed equipment and cannot exceed the State and University maximum allowed amount. Project budgets that exceed the allowable amount become major capital projects, requiring approval in The Regents' Budget for Capital Improvements and Capital Improvement Program. The campus planning office is then required to seek the necessary approvals from the AVP--DB.

Minor capital improvement projects may be funded from State capital outlay funds or from non-State funds, or from a combination of both. Combining approved minor projects together is permissible if (a) the work is of a similar nature, or (b) the work is of a dissimilar nature but integral to the functioning of a new or

IV. PLANT ACCOUNTING PROCEDURES (Cont.)

I. MINOR CAPITAL PROJECTS--PLANNING AND AUGMENTATION  
(Cont.)

improved facility. Project safety code requirements may be included in a minor capital improvement program. (Minor capital improvement projects do not include repairs of, or alternations to, campus buildings, structures, or facilities to continue their usability at the designed level of service. Projects of this nature should be funded from campus operating budgets.)

State appropriations for minor capital improvements are included in the Budget Act as the "lump-sum," and are allocated to the campuses by the AVP--DB as soon as possible after the Budget Act is signed. Because minor projects do not require the State Department of Finance release and are available for expenditure immediately, they should be appropriated into the plant expenditure ledger. However, State bond funded projects are an exception to this rule and may require AVP--DB approval to release the funds.

A capital project may be funded by OP with non-State monies. Sources of such funding may include borrowed funds, Regents' funds, and/or University funds. When such a minor capital project is approved, or when the preliminary planning phase for a major capital project is authorized, the campus will be notified that it may proceed with the project. This notification will be made by letter from the AVP--DB. Upon receipt of a copy of the AVP--DB letter, subject to campus procedures, the designated campus authority may proceed with the minor capital project or with the preliminary planning phase of the major capital project. The campus accounting office should then prepare a budgetary entry to debit Plant Reserves and credit the project account.

Minor capital projects funded by the campus with non-State monies are approved by the designated campus authority.

J. CARRY FORWARD APPROVAL FOR NON-STATE FUNDS

Non-State fund allocations made by OP for capital improvement projects are usually made from Plant Pool Earnings--General, Plant Pool Earnings--State, the Nuclear Science Fund, the University Opportunity Fund,

and the Educational Fund. While no lapsing dates are normally assigned to these fund sources, the AVP--DB will monitor the status of allocated funds to ensure that they are being used in a timely manner.

If the funds have not been expended at the close of each fiscal year, a Request for Carry Forward of Capital Funds should be completed and transmitted to the AVP--DB. A copy of the request form is provided in Exhibit B.

#### K. FINANCIAL ENTRIES TO FUND EXPENDITURES

Financial entries will be made to the campus Plant Reserve accounts to fund the expenditures from:

- 1) State appropriations. Quarterly claim reimbursement journals.
- 2) Federal funds. Campus drawdowns/claims.
- 3) Regents' or President's appropriations. The CAO forwards a financial journal to the campus accounting officer, subsequent to the AVP--DB's authorization to begin the project.
- 4) Regents' Advances. Monthly Regents' Advance expenditure report (see Exhibit A).
- 5) Bond-funding. The CAO forwards a financial journal to the campus accounting officer after the bonds were sold.
- 6) Local Borrowings. The campus accounting office prepares a financial journal when a copy of the Treasurer's Report indicates that the cash has been received. The receipt of cash is determined based on drawdown schedule submitted by the campus.
- 7) Campus-funding. The campus accounting office prepares a financial journal, if necessary, at the time the AVP--DB authorizes the project to begin.

#### L. NONCAPITAL EXPENDITURES

Included in plant fund expenditures are certain costs that are considered noncapital expenditures. In plant

IV. PLANT ACCOUNTING PROCEDURES (Cont.)  
L. NONCAPITAL EXPENDITURES (Cont.)

expenditure accounts, noncapital costs should be identified by object code 6297. Generally, such costs are categorized as follows:

- 1) Minor repairs and noncapital costs incidental to major construction projects. Also included in this category is the cost of moving a department into a building.
- 2) Minor repair expenditures incurred in connection with a minor capital improvement project.
- 3) General campus planning and studies that are not related to any specific project.
- 4) Purchase of noninventorial equipment and initial complement of supplies.
- 5) Costs incurred on a project that is subsequently abandoned.

Noncapital costs, such as those listed above, are written off against the plant funds during the capitalization process.

Occasionally, accounting officers are advised by the AVP--DB to reclassify or record certain expenditures as noncapital. Generally, such expenditures were incurred for plans and specifications that were subsequently abandoned. An account entitled Noncapital Expenses--Various Projects should be established in the miscellaneous accounts blocking 9X8800 - 9X8999 (account classification 14) of plant accounts. The expenditures, which must be transferred to a noncapital expense category, should be recorded in this new account, both budgetarily and financially. The new account should be closed out each June 30 through the normal capitalization process.

The expenditures for work involved in certain capital projects, i.e., repairs, replacements, and maintenance is similar to those incurred by the local campus plant maintenance department. In order to properly record these expenditures as the cost of regular plant maintenance and operation, rather than as capital outlay expenditures, the costs must be transferred to

the Current Fund account, "Major Repairs and Alterations--Transferred from Plant Funds." Accounting offices must analyze all minor projects at June 30 to determine which projects should be capitalized. After this determination is made, the noncapital expenditures for these projects must be transferred to the "Major Repairs and Alterations--Transferred from Plant Funds" account with an equal amount of plant funds transferred to Current Funds, Unexpended Balance--Specific Funds, to finance the transfer. The following journals are prepared:

Financial

- 1) To transfer expenses from the Minor Capital Improvement Projects (Plant Funds) to the Major Repairs and Alterations--Transferred from Plant Funds account (Current Funds):

Dr. Major Repairs and Alterations-- Transferred from Plant Funds	X-64XXXX-XXXXX-X-7200
Cr. Minor Capital Improvement Projects	X-9XXXXX-XXXXX-X-XXXX

- 2) To transfer Plant Funds to Current Funds to cover the expenses transferred in the previous entry:

Dr. Plant Funds Reserve	X-10XXXX-XXXXX-0-3010
Cr. Unexpended Balances --Noncapital Plant	X-119850-6XXXX-0-0525

Budgetary

- 3) To reduce an appropriation by the amount of expense transferred to the Major Repairs and Alterations--Transferred from Plant Funds account:

Dr. Minor Capital Improvement Projects	X-9XXXXX-XXXXX-9
Cr. Plant Funds Reserve	X-10XXXX-0XXXX-0

IV. PLANT ACCOUNTING PROCEDURES (Cont.)

L. NONCAPITAL EXPENDITURES (Cont.)

- 4) To appropriate the Plant Funds transferred to current funds:

Dr. Unexpended Balances  
    --Noncapital Plant                   X-119850-XXXXX-X

Cr. Major Repairs and  
    Alterations--  
    Transferred from  
    Plant Funds                         X-64XXXX-XXXXX-X

M. ACCOUNTING FOR FIRE AND OTHER LOSSES

Although fire losses are used as an example, the procedures contained in this section apply to capital losses, regardless of the nature of the loss, when reconstruction is financed with General Funds (1990).

For example, funds for a fire loss settlement, determined by the Risk Management and Safety Office to be \$300,000, are provided from 1990 funds appropriated to the Self Insurance Program. When the Director of Risk Management and Safety authorizes reconstruction of the damaged facilities (based on an approved Project Planning Guide [PPG] from the campus), and allocates funds in the amount of \$300,000 to the campus, the following procedures apply:

- 1) The AVP--DB issues a transfer of funds for \$300,000 of 1990 funds to the campus predesignated Operation and Maintenance of Plant account (64XXXX-1990-4).
- 2) The buildings and grounds department immediately issues a Physical Plant Requisition (PPR) or Construction and Repair Requisition (C&R) to the facilities management (FM) department in the amount of \$300,000. This action is a valid lien against the 1990 funds in the buildings and grounds department's account; the accounting officer can then inform the FM office of the availability of funds so the project can begin. (Projects valued at less than \$15,000 do not involve the issuance of a PPG or Minor Capital Improvement Project Proposal [MCIPP]; therefore, expenditures may be recorded directly from the

Operation and Maintenance of Plant [OMP] account, subaccount 4, object code 9700 to the plant expenditure account. Projects valued from \$15,000 to \$200,000 require MCIPP's and projects over \$200,000 require PPG's.)

- 3) Upon receipt of the buildings and grounds department's PPR or C&R, the plant accountant takes the following actions:
  - a) A new plant account is established in accounts blocking 9X8550 - 9X8599 entitled Loss Reconstruction--(specific project). Accounts in this category are temporary, existing only during the fiscal year to accumulate expenses that will be transferred to the appropriate Current Funds account at June 30.
  - b) After the above account has been established, a Plant Fund account entitled Loss Reconstruction--Plant Assets, 101415-01415 is established. A budgetary entry is prepared to appropriate the \$300,000 to the expense account.
  - c) Assuming that as of June 30 only \$290,000 in expenses has accumulated, leaving an available budgetary balance of \$10,000, the plant accountant would reduce the budgetary entries by \$290,000 and transfer all expenditures from the plant account by subaccount and by object code to the current OMP account 64XXXX-19900-4-9700, reducing the established lien accordingly. The July 1 balances in the accounts will then be equal (\$10,000). There may be instances where other University plant funds, as well as the 01415 fund account, are used. The 01415 fund account should be expended before other University plant funds are used. Because of the nature of the 01415 fund account, all expenditures recorded must be transferred at June 30, even if the project is not completed or accepted. The foregoing assumes that if an asset is damaged in one year, the asset value is decreased by the determined damage and that subsequently the value is restored to the asset when the asset is reconstructed.

IV. PLANT ACCOUNTING PROCEDURES (Cont.)

N. NON-UNIVERSITY CAPITAL PROJECTS

The campus may be involved with a non-University entity on a capital project, which may include the construction of housing or research facilities. The University may be involved with obtaining a loan and then transferring the funds to another organization to construct a project. The campus also could receive money, in consideration of future rent, to construct a building.

Because these agreements are very detailed and may span several years, maintaining accurate records is essential.

1. Loan Payable/Receivable

When a contract involves the University in borrowing money and lending it to a third party, the following entry must be made to record the receipt of cash:

Dr.	OP Financial Control	X-119500
	or Campus Cash	X-10XXXX
Cr.	Liability	X-10019X-XXXXX

When payments are made to or on behalf of the third party, the following entry must be made:

Dr.	Account Receivable	X-10010X-XXXXX
Cr.	Campus Cash	X-10XXXX

A separate Plant Reserve Fund in the Borrowed Funds group should be maintained for control purposes.

When money is received from the third party, the amount should be credited to accounts receivable.

2. Prepaid Rent

When money is received as prepaid rent, the following financial journals must be prepared:

Dr.	OP Financial Control	X-119500
	or Campus Cash	X-10XXXX
Cr.	Prepaid Rent	X-116XXX

To record the cash received, the credit should be to a prepaid rental account (116700 - 116999) in Current Funds.

The campus should transfer the amount received to Unexpended Plant Funds from the Current Funds unexpended balance account 119850 using a fund number in the "Other Sources" category. This needs to be established for recording the earned rent (see next journal entry). Any plant account fund number within the University Funds group (01000 - 01480) can be used. The following is an example of the financial journal:

Dr.	Unexpended Balance	X-119850-66XXX-X-0520
Cr.	University Funds	X-101XXX-01XXX-X-3000

Thereafter, the normal accounting procedure for construction can be followed. The amount in the prepaid rental account will be recognized over the life of the lease. At the end of the term of the lease, the prepaid rental account will be zero. For simplicity, the straight line method should be used. The following is an example of this entry:

Dr.	Prepaid Rent	X-116XXX
Cr.	Rental Income	X-266XXX-66XXX

At year end, the balance in the rental income account will be transferred to the Unexpended Balance account 119850-66XXX. Under this procedure, the debit balance in the Unexpended Balance account 119850 should always be equal to the credit amount in the prepaid account 116XXX.

STIP interest on Unexpended Plant Funds may be credited to the plant reserve.

### 3. Rental Expense/Income

When the University uses, without paying a fee, part of a building that was constructed and operated on campus property by a non-University entity, the following entry must be made to record rental expense and income at the fair market value:

IV. PLANT ACCOUNTING PROCEDURES (Cont.)  
N. NON-UNIVERSITY CAPITAL PROJECTS (Cont.)

Dr. Research Expense	X-44XXXX-6XXXX-3-5100
Dr. Administration Expense	X-66XXXX-6XXXX-3-5100
Dr. Auxiliary and Service Enterprise	X-76XXXX-6XXXX-3-5100
Cr. Rental Income	X-26XXXX-6XXXX

When recording this transaction, the campus must use the same fund number for both the expense and income.

4. Transfer of Leased Property

At the end of a land lease agreement between the University and a non-University entity, the building constructed and operated by a non-University entity becomes the property of the University. The following entry must be made by the campus to record the asset at fair market value in the Investment in Plant fund account:

Dr. Buildings and Structures	X-101801
Cr. Investment in Plant	X-10199X-XXXXX

When the building is transferred to the University with debt, the campus must record the asset as an expenditure in the Unexpended Plant fund account at fair market value. The fund balance amount should be split between gift funds and borrowed funds. The following entry should be made:

Dr. Plant Expenditures	X-9XXXXX-XXXXX-X
Cr. Gift Funds	X-100XXX-00XXX-X-1100
Cr. Borrowed Funds	X-1015XX-015XX-X-1550

At fiscal year end, the following entry must be made to capitalize the building in Investment in Plant fund account:

Dr. Buildings and Structures	X-101801
Cr. Liability	X-1019XX
Cr. Investment in Plant	X-10199X-XXXXX

**\*\*** O. ASBESTOS REMOVAL

The costs of asbestos removal, when part of a larger renovation or remodeling project, may be capitalized. Costs that are solely for asbestos removal must be recorded as an expense. For example, asbestos removal costs funded from Asbestos Removal Special State Appropriation fund number 20580 should not be capitalized.

V. RESPONSIBILITIES

The Accounting Officer, in coordination with the appropriate campus units, has the following responsibilities:

- 1) Establish procedures for the review of all contracts and purchase orders; ensure that funds are available prior to the award of a contract.
- 2) Undertake whatever accounting procedures are necessary to maintain the integrity of the allocations. Capital outlay funds that are allocated to the campus may be used only for the purpose for which they were allocated.
- 3) Establish a procedure for preventing the loss of necessary funds due to the lapse of time.
- 4) Ensure that appropriations for major and minor projects are allocated in accordance with the established limitations, as specified in this chapter and the University of California Facilities Manual.

VI. REFERENCES

Accounting Manual chapters:

- |          |  |
|----------|--|
| P-415-3  | Plant Accounting: Investment in Plant        |
| P-415-5  | Plant Accounting: Retirement of Indebtedness |
| P-415-71 | Plant Accounting: State Capital Projects     |

VI. REFERENCES (Cont.)

University of California Facilities Manual

Director Donald L. Alter, Memorandum to Accounting Officers  
on Special Accounting Procedures for Non-UC Building on  
UC Land, November 1, 1989.

Manager Barbara Lester, Memorandum to Assistant Vice  
Chancellors/Accounting Officers on Capital Asset  
Account Numbers (CAAN), February 7, 1996.

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Historical note: Original Accounting Manual chapter first  
published 2/2/70. Revised 2/1/71, 9/1/73, 2/1/81, 11/15/88,  
3/1/90, 6/30/97, 12/30/97, and 6/30/00; analyst--Ken Strangfeld.

EXHIBIT A: REGENTS' ADVANCE EXPENDITURE REPORT

To: Corporate Accounting--Endowments Section

Fr: \_\_\_\_\_ Campus

Report of Expenditures for the Month Ended \_\_\_\_\_ 19\_\_\_\_

Title/Fund # \_\_\_\_\_ Advance no. xx

Authorized expenditure	\$	_____	
Less: Amount capitalized	-	_____	
Balance available 7-1-__	\$	_____	
Expense per general ledger--current month			\$ _____
Less: Expense per general ledger--last month	-	_____	
Total expense current month			\$ _____

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Title/Fund # \_\_\_\_\_ Advance no. xx

Authorized expenditure	\$	_____	
Less: Amount capitalized	-	_____	
Balance available 7-1-__	\$	_____	
Expense per general ledger--current month			\$ _____
Less: Expense per general ledger--last month	-	_____	
Total expense current month			\$ _____

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Reconciliation:		<u>01503</u>	<u>01504</u>	_____
Fund detail and summary financial total	\$	_____	\$	_____
Amount claimed above	-	_____	-	_____
Difference	\$	_____ *	\$	_____ *

\*If not equal to -0-, explain: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

