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**1.1.0 Description of Your Cost Accounting System**

The University of California’s cost accounting system incorporates data accumulated and recorded in the financial accounting system. The financial statements of the University of California are prepared on the accrual basis with the following modifications: Depreciation is recorded only on Endowment and Similar Funds investments in real estate. Certain accruals are omitted such as interest receivable on notes receivable in loan funds and accrued interest payable on plant fund borrowings; the inclusion of such amounts would not have a significant effect on the University’s financial statements. Certain leave and post retirement benefits costs are charged on a cash basis (See items 5.1.0 and 6.2.1 below).

The financial records of the University are maintained in accordance with the standards prescribed by the Governmental Accounting Standards Board (GASB) and the National Association of College and University Business Officers. These standards require that financial transactions be recorded within separate funds and that similar funds be categorized into fund groups for purposes of accounting and financial reporting. The fund groups are Current Funds, Endowment and Similar Funds, Plant Funds, Loan Funds, and University of California Retirement System Funds.

**1.2.0 Integration of Cost Accounting with Financial Accounting**

The financial accounting system is primarily designed to meet fund accounting rather than cost accounting requirements. The financial accounting system accumulates expenditures according to funding source, program purpose and expense categories. The University receives funds from a variety of sources including State and Federal appropriations; government and private contracts and grants; student fees; gifts; and income from University enterprises such as hospitals, clinics, and student housing. The funds are used for a wide range of programs including instruction, research, public service, academic support, teaching hospitals, institutional support, operation and maintenance of plant, student services, student financial aid, and auxiliary enterprises. Salaries, fringe benefits, materials and supplies, and various other categories of expense may be incurred by each program.

The cost accounting system uses data accumulated and recorded by the financial accounting system, but regroups the data as necessary to meet OMB Circular A-21 and CAS requirements. For example, University Development fundraising expenses are recorded by the financial accounting system as institutional support (generally an indirect function), but must be reclassified as direct cost in the Other Institutional Activities base to meet A-21 purposes. A clear audit trail is provided for all reclassifications such that the institution’s cost accounting for a given fiscal year reconciles with its audited financial

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statements. With respect to directly charged costs of performing sponsored projects, the cost accounting system can be considered integrated with the financial accounting system.

Depreciation and Use Allowance costs are not recorded in the financial accounting system. These costs are accumulated by the cost accounting system in memorandum records. Departmental Administration costs are recorded in the financial accounting system, but not separately identified from Instruction and Departmental Research costs. The University's cost accounting system creates memorandum records separating Departmental Administration costs from Instruction and Departmental Research costs.

### 1.3.0 Unallowable Costs

University policy requires the identification of unallowable costs for proper costing treatment. Except as described in the following paragraph, material unallowable costs are accumulated in the financial accounting records using designated accounts, funds, object codes, or a combination thereof. Immaterial unallowable costs, such as rare or museum-type books with no value to sponsored agreements, are identified in memorandum records.

Salaries and fringe benefits attributable to the administrative work of faculty and other professional personnel are identified in separate cost accounting system supplementary schedules and excluded from the development of Departmental Administration cost pools as required by Subparagraph F.6.a.(2)(a) of OMB Circular A-21. The cost accounting system also identifies aggregated administrative costs in excess of the reimbursement limitation described in Paragraph G.7.a. of OMB Circular A-21.

Reviews of compliance with existing policy and procedures are conducted in the course of required OMB Circular A-133 audits, and as needed in the judgment of the campus. If additional unallowable costs are identified in the course of a compliance review, appropriate adjustments are made in the cost accounting system records.

### 1.3.1 Treatment of Unallowable Costs

Consistent with Federal regulations, it is the University's policy not to charge unallowable costs directly or indirectly to Federal awards.

The costs of unallowable activities (e.g. fundraising), whether direct or indirect, are excluded from all indirect cost pools and treated as part of Other Institutional Activities for determining indirect cost rates and allocating costs to a major function or activity.

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Unallowable expenses of allowable indirect activities (e.g., housing furnished to officers of the institution) are not allocated to any direct or indirect cost pools.

Unallowable central office costs (e.g., Regents' travel) are not allocated to any direct or indirect cost pools.

The limitation on administrative cost reimbursement described in A-21, G.7.a. does not affect the allocation of administrative costs in the University's cost accounting system; however, it does affect the indirect cost reimbursement rates applied to Federal awards.

#### 1.5.0 State Laws or Regulations

State regulations place restrictions on the use of State funds, and also establish financial reporting requirements for various funds. However, the University is not aware of any State laws, regulations or special agreements limiting the allowance of costs or materially influencing its cost accounting practices.

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### 2.1.0 Criteria for Determining How Costs are Charged to Federally Sponsored Agreements or Similar Cost Objectives

For all categories of cost, including materials and supplies, salaries and wages, fringe benefits, travel, consultants, services, subgrants and subcontracts, and miscellaneous expenses, the University's policy is to comply with Office of Management and Budget guidance in treating costs as either direct or indirect, according to the purpose and circumstances under which the cost was incurred.

Direct costs are those costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional direct activity; or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Identification with the major activity rather than the nature of the goods and services involved is the determining factor in distinguishing direct from indirect costs. For instance, salaries and wages may be treated as direct costs or indirect costs depending on whether the employee is performing a direct institutional activity (such as research) or an indirect institutional activity (such as general university administration).

Academic departments and other organizational units often incur costs for both direct and indirect objectives. In such departments, when administrative and clerical salaries or other costs are charged directly to sponsored projects, care is exercised to assure that costs incurred for the same purpose in like circumstances are consistently treated as direct costs for all activities of the unit. This is accomplished through a direct charge equivalent or other mechanism that assigns the costs directly to the appropriate activities, as recommended by the Office of Management and Budget in its memorandum entitled "Direct Charging of Administrative and Clerical Salaries" dated July 13, 1994, attached as Exhibit A, and by the National Institutes of Health in a notice in the NIH Guide dated September 23, 1994, attached as Exhibit B.

Costing differences may occur due to the specific restrictions of the funding agencies. For example, private sponsors may allow as direct costs certain administrative costs that are normally classified as indirect costs under section F.6.b of OMB Circular A-21. The effect, if any, of this costing practice results in lower total costs to the Federal government.

The major functions specific to the reporting unit are identified as direct cost bases in its indirect cost proposals. Separate rates, including on- and off-campus rates when appropriate, are negotiated with the University's cognizant Federal agency for all major functions that include Federal awards.

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Indirect costs are those costs that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other direct institutional activity, subject to the limitations and exclusions mandated by OMB Circular A-21.

### 2.2.0 Description of Direct Materials

Direct materials and supplies are those materials and supplies that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity; or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Categories of such materials and supplies include, but are not limited to, general- and special-purpose non-capital items, computer software, lab instruments and supplies, lab glass/ceramics, chemicals and gases.

Academic departments and other organizational units often incur materials and supplies costs for both direct and indirect objectives. In such departments, when materials and supplies are charged directly to sponsored projects, care is exercised to assure that costs incurred for the same purpose in like circumstances are consistently treated as direct costs for all activities of the unit. This is accomplished through a direct charge equivalent or other mechanism that assigns the costs directly to the appropriate activities, as recommended by the Office of Management and Budget in its memorandum entitled "Direct Charging of Administrative and Clerical Salaries" dated July 13, 1994, attached as Exhibit A, and by the National Institutes of Health in a notice in the NIH Guide dated September 23, 1994, attached as Exhibit B.

### 2.3.2 Inventory Requisitions from Central or Common, Institution-owned Inventory

Inventory requisitions from the central, campuswide storehouse are charged to projects based on an average cost per unit which is adjusted whenever new purchases are added to the inventory. The cost of the new goods is added to the value of the existing inventory and a new average unit cost is determined. When goods are taken out of inventory, the value of the inventory is reduced based on the average unit cost in effect.

Requisitions from central inventory are also assessed a surcharge for storage, service and handling in addition to the inventory valuation described above. The surcharges are designed to cover the anticipated operating costs of the storehouse. The surcharges are revised periodically, but no less than annually, to adjust for any surplus or deficit.

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#### 2.4.0 Description of Direct Personal Services

Direct personal services are those that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity; or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Direct personal services costs consist of individual employee salary and wages and associated fringe benefits in proportion to the employee's effort on each direct activity.

Academic departments and other organizational units often incur personal services costs for both direct and indirect objectives. In such departments, when personal services are charged directly to sponsored projects, care is exercised to assure that costs incurred for the same purpose in like circumstances are consistently treated as direct costs for all activities of the unit. This is accomplished through a direct charge equivalent or other mechanism that assigns the costs directly to the appropriate activities, as recommended by the Office of Management and Budget in its memorandum entitled "Direct Charging of Administrative and Clerical Salaries" dated July 13, 1994, attached as Exhibit A, and by the National Institutes of Health in a notice in the NIH Guide dated September 23, 1994, attached as Exhibit B.

#### 2.5.0 Method of Charging Direct Salaries and Wages

Direct salary costs for faculty, staff and students are paid based on estimates made prior to the performance of services. For employees in certain categories, timesheets are also required to document performance. In either case, employees charged in part or in whole to federal or federal flow-through funds must complete after-the-fact activity records, and make adjustments if significant differences are indicated, as required by A-21, J.8.c.(2)(b).

#### 2.5.1 Salary and Wage Cost Distribution Systems

Employees whose salaries and wages are not directly charged to any Federal funds are not required to complete after-the-fact activity records. As a rule, the salary and wages of an employee who is not working on sponsored agreements or similar cost objectives are entirely assignable to a single indirect or direct cost objective. The personal services expenses attributable to such an employee are included in the appropriate indirect cost accumulation pool or direct allocation base along with the other costs of the pool or base, identified through the financial accounting system by function, account, fund and object code. The main exception to the above rule occurs in academic departments and other organizational units when a direct charge equivalent or similar mechanism is used, whereby an equitable portion of the salaries and wages that would otherwise be classified

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as departmental administration is treated as a direct cost to assure consistent costing treatment for all activities of the unit.

**2.5.2 Salary and Wage Cost Accumulation System**

Salary and wages (including premium pay) paid by the University to its employees are processed through the University's payroll system. A specific fund source(s), program purpose(s) (account) and amount(s) of pay must be identified for each individual payment of salaries and wages prior to processing. The information accumulated in the payroll system is posted to the general ledger of the University's financial accounting system. Payroll costs posted to sponsored projects are recovered through the sponsors as direct costs. The amounts posted to individual federally sponsored projects may be adjusted at a later time based on the information provided in the after-the-fact activity report.

**2.6.0 Description of Direct Fringe Benefits Costs**

Fringe benefits at the University of California include holidays, sick leave, vacation, other paid leaves permitted under University policy (e.g., jury duty), sabbatical leave, social security, retirement plan, health insurance, dental insurance, optical insurance, worker's compensation insurance, unemployment insurance, non-industrial disability insurance, life insurance, annuitant health and dental insurance, incentive award program, employee support program, and tuition/fee remission of certain student employees. The University does not classify fringe benefits as direct or indirect costs in all circumstances; rather, the costing treatment of a given employee's fringe benefits is consistent with, and in proportion to, the costing treatment of that employee's salary and wages. Direct fringe benefits costs are those that are attributable to an employee's direct personal services costs (See 2.4.0. above for a description of direct personal services costs).

**2.6.1 Method of Charging Direct Fringe Benefits**

For holidays, sick leave, vacation, other paid leaves permitted under University policy (e.g., jury duty), see section 5.1.0.

Social security, health insurance, dental insurance, optical insurance, worker's compensation insurance, unemployment insurance, non-industrial disability insurance, life insurance, and tuition/fee remission are measured based on actual cost, assigned to the University Fiscal Year in which they are accrued, and allocated to direct and/or indirect objectives on a prorated basis consistent with the allocation of the benefiting employee's salary and wages.

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The retirement plan, incentive award program, and employee support program are measured based on average cost, assigned to salaries of eligible employees in the University Fiscal Year in which they are accrued, and allocated to direct and/or indirect objectives on a prorated basis consistent with the allocation of the employee's salary and wages.

Annuitant health and dental benefits are measured based on average costs, assigned to salaries of current employees, and allocated to direct and/or indirect objectives on a prorated basis consistent with the allocation of the employee's salary and wages.

2.7.0 Description of Other Direct Costs

Subgrants and subcontracts are identifiable specifically with a particular sponsored project or other activity and are for that reason treated as direct costs. Medical liability insurance is treated as a direct cost, whether or not the cost can be assigned to particular sponsored projects or other activities, in accordance with OMB Circular A-21 requirements.

Travel, consultants, services, consumable supplies and miscellaneous expenses are treated as direct costs when they can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity; or can be directly assigned to such activities relatively easily with a high degree of accuracy. In addition, where regulatory compliance or other administrative costs have been initiated after 1991, and where these costs can be identified specifically with a particular sponsored project or other institutional direct activity, or can be directly assigned to such activities relatively easily with a high degree of accuracy, such costs are directly charged to benefiting activities.

Academic departments and other organizational units often incur expenses in these categories for both direct and indirect objectives. In such departments, when travel, consultants, services and miscellaneous expenses are charged directly to sponsored projects, care is exercised to assure that costs incurred for the same purpose in like circumstances are consistently treated as direct costs for all activities of the unit. This is accomplished through a direct charge equivalent or other mechanism that assigns the costs directly to the appropriate activities, as recommended by the Office of Management and Budget in its memorandum entitled "Direct Charging of Administrative and Clerical Salaries" dated July 13, 1994, attached as Exhibit A, and by the National Institutes of Health in a notice in the NIH Guide dated September 23, 1994, attached as Exhibit B.

2.8.0 Cost Transfers

COST ACCOUNTING STANDARDS BOARD  
DISCLOSURE STATEMENT  
REQUIRED BY PUBLIC LAW 100-679  
EDUCATIONAL INSTITUTIONS

CONTINUATION SHEET

NAME OF REPORTING UNIT  
University of California, Los Angeles Campus

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When Federally sponsored agreements or similar cost objectives are credited for cost transfers to other projects, grants, or contracts, the credit amount for direct charges is always based on the same amount(s) or rate(s) originally used to charge or allocate costs to the project. The credit amount for indirect costs is based on the indirect cost rate in effect at the time of the transfer, which in some instances may differ from the indirect cost rate at the time of the original charge. The differences, if any, do not result in a material impact on Federal awards.

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3.1.0 Indirect Cost Categories - Accumulation and Allocation

Note: except for (a) below, indirect cost expenses are recorded and accumulated as current funds expenses in the University's financial accounting system. But because the financial accounting system was designed on Generally Accepted Accounting Principles rather than for OMB Circular A-21 and Cost Accounting Standards purposes, some regrouping of the recorded costs is necessary. For example, University fundraising activity is recorded by the financial accounting system as Institutional Support (the equivalent of general administrative expense); but must be reclassified as Other Institutional Activity to meet Circular A-21 requirements.

Such reclassifications are generally based on attributes found in the financial accounting system data (e.g., financial accounts linked to the Development Office in the foregoing example are reclassified from Institutional Support to Other Institutional Activity). The reclassified costs are reconcilable to the University's audited financial statements.

(a) Depreciation/Use Allowance/Interest:

**Buildings:** A subsystem of the University's financial accounting system records the capitalized value of buildings, and the Federal contribution to each, by building. The cost accounting system uses this information to calculate depreciation/use allowance costs in accordance with Section J.12. of OMB Circular A-21.

**Equipment:** The University's financial accounting system records the category, funding source, and capitalized value of items of equipment. The cost accounting system uses this information to calculate depreciation/use allowance costs in accordance with Section J.12. of OMB Circular A-21.

**Capital Improvements to Land:** The University's financial accounting system records the capitalized value of improvements to land and other general improvements. The cost accounting system uses this information to calculate depreciation/use allowance costs in accordance with Section J.12. of OMB Circular A-21.

**Interest:** Interest expense on University debt, including State of California capital leases, is included in the University's financial accounting system. The University's prorated share of the State of California General Obligation interest cost is shown on State and University memorandum records.

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(b) Operation and Maintenance: Costs are identified, recorded and accumulated in the financial accounting system (but see Note above).

(c) General Administration and General Expense: Costs are identified, recorded and accumulated in the financial accounting system (but see Note above).

(d) Departmental Administration:

The administrative allowance described in Paragraph F.6.a.(2)(a) of OMB Circular A-21 is not recorded in the financial accounting system, but is calculated in the cost accounting system.

Administrative expenses of deans' offices are identified in the financial accounting system by department, account and fund.

Allowable administrative expenses within academic departments and research units are recorded, but not always separately identified, in the financial accounting system. When these costs are not separately identified, they are accumulated in the cost accounting system using data from the financial accounting system, through a calculation which separates allowable administrative expenses from direct instruction and departmental research expenses.

(e) Sponsored Project Administration: Costs are identified, recorded and accumulated in the financial accounting system (but see Note above).

(f) Library: Costs are identified, recorded and accumulated in the financial accounting system (but see Note above).

(g) Student Administration and Services: Costs are identified, recorded and accumulated in the financial accounting system (but see Note above).

For a description of Allocation Base Codes D, Y<sup>1</sup> and Y<sup>2</sup>; see item 3.5.0 below.

### 3.2.0 Service Centers

Explanation for User Charges Code "B" in Column (4): If the operating costs of a service center include costs that are potentially unallowable charges to Federally sponsored agreements, the service center may develop one set of rates for charging Federally supported activities that excludes recovery of such costs and a second set of rates for charging non-Federally supported activities that includes recovery of such costs, or a

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refund of unallowable costs is made to Federally supported activities. A single rate may be used, with unallowables refunded at the end of each year. In addition, service centers may add overhead burden to the billing rates for non-University customers.

Other Service Centers with Annual Operating Budgets exceeding \$1,000,000 or that generate significant charges to Federally sponsored agreements either as a direct or indirect cost:

		(1)	(2)	(3)	(4)	(5)	(6)
<u>Campus Community Safety</u>	<u>C</u>	<u>B</u>	<u>C</u>	<u>A</u>	<u>A</u>	<u>B</u>	
<u>Copy Services</u>		<u>A</u>	<u>B</u>	<u>C</u>	<u>A</u>	<u>A</u>	<u>B</u>
<u>Facilities</u>		<u>C</u>	<u>B</u>	<u>C</u>	<u>A</u>	<u>A</u>	<u>B</u>
<u>Fleet Services</u>		<u>A</u>	<u>B</u>	<u>C</u>	<u>B</u>	<u>A</u>	<u>B</u>
<u>Mail Services</u>	<u>C</u>	<u>B</u>	<u>C</u>	<u>A</u>	<u>A</u>	<u>B</u>	
<u>Physics-High Tech Group</u>	<u>C</u>	<u>C</u>	<u>C</u>	<u>A</u>	<u>A</u>	<u>B</u>	
<u>Storehouse</u>		<u>A</u>	<u>A</u>	<u>C</u>	<u>B</u>	<u>A</u>	<u>B</u>
<u>Telecommunications</u>		<u>A</u>	<u>B</u>	<u>C</u>	<u>A</u>	<u>A</u>	<u>B</u>

### 3.3.0 Indirect Cost Pools and Allocation Bases

For a description of Allocation Base Codes D, Y<sup>1</sup> and Y<sup>2</sup>; see item 3.5.0 below.

### 3.4.0. Composition of Indirect Cost Pools

(a) Depreciation/Use Allowance/Interest: The expenses under this heading are the portion of the costs of the institution's buildings, capital improvements to land and buildings, equipment and interest on purchases of capital assets which are computed in accordance with OMB Circular A-21 Sections J.12. and J.22.e.

**Buildings:** The University's financial accounting system records the capitalized value of buildings, and the Federal contribution to each, by building number. Use allowance expenses are calculated in accordance with Section J.12. of OMB Circular A-21.

**Equipment:** The University's equipment management system records the category, funding source and capitalized value of items of equipment. Equipment not purchased with Federal funds is depreciated on a straight-line basis according to useful life tables developed by the University.

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Capital Improvements to Land: A use allowance of 2% of the non-Federal cost of capital improvements is taken.

Interest: Only interest allowable under the provisions of OMB Circular A-21 Section J.22.e. is included in indirect cost. Interest expense on University debt, including State of California capital leases, is included in the University's financial accounting system. The University's prorated share of the State of California General Obligation interest cost is shown on State and University memorandum records.

(b) Operation and Maintenance: The expenses under this heading have been incurred for the administration, maintenance, preservation, and protection of the institution's physical plant. They include expenses normally incurred for such items as janitorial and utility services; repairs and ordinary or normal alterations of buildings, furniture and equipment; care of grounds; maintenance and operation of buildings and other plant facilities; security; earthquake and disaster preparedness; environmental safety; hazardous waste disposal; property, liability and all other insurance relating to property; space and capital leasing, facility planning and management; and, central receiving. The operation and maintenance expense category includes its allocable share of depreciation and use allowances and interest costs. Operation and maintenance expenses are recorded in the financial accounting system by function, account, department, and object code.

(c) General Administration and General Expense: The expenses under this heading are indirect costs (see Part II for the distinction between direct and indirect costs) that have been incurred for the general executive and administrative offices of the institution and other expenses of a general character, plus their allocable share of depreciation and use allowances, interest, and operation and maintenance expenses. General administration and general expense are recorded in the financial accounting system by function, account and department.

(d) Departmental Administration: The expenses under this heading are indirect costs (see Part II for the distinction between direct and indirect costs) that have been incurred for administrative and supporting services that benefit common or joint departmental activities or objectives in academic deans' offices, academic departments and divisions, organized research units, institutes, study centers, and research centers, subject to the limitations and exclusions in OMB Circular A-21, F.6.a. and F.6.b., including the special rules regarding treatment of salary and fringe benefits attributable to the 3.6% MTDC administrative allowance for faculty and other professionals. Departmental Administration includes an allocable share of depreciation and use allowances, interest, operation and maintenance, and general administration and general expense. Administrative expenses of deans' offices are identified in the financial accounting system by department, account and fund;

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such expenses are allocated to the academic departments or research units overseen by the dean on the basis of modified total cost. Administrative expenses within academic departments and research units, when not separately identified in the financial accounting system, are accumulated through a calculation with a clear audit trail which separates allowable administrative expenses from direct instruction and departmental research expenses.

(e) Sponsored Project Administration: The expenses under this heading are limited to those indirect costs (see Part II for the distinction between direct and indirect costs) incurred by a separate organization(s) established primarily to administer sponsored projects, including such functions as grant and contract administration (Federal and non-Federal), special security, purchasing, personnel administration, and editing and publishing of research and other reports. They include salaries, benefits and expenses of the head of such organization, assistants and immediate staff, together with the salaries, benefits and expenses of personnel engaged in supporting activities of such organization, plus an allocable share of depreciation and use allowances, interest, operation and maintenance, and general administration and general expense.

(f) Library: The expenses under this heading are indirect costs (see Part II for the distinction between direct and indirect costs) that have been incurred for the operation of the library, including the cost of books and library materials purchased for the library, less applicable credits, plus an allocable share of depreciation and use allowances, interest, operation and maintenance, and general administration and general expense. Library expenses are identified in the financial accounting system by function and department.

(g) Student Administration and Services: The expenses under this heading are indirect costs (see Part II for the distinction between direct and indirect costs) that have been incurred for the administration of student affairs and for services to students, including expenses of such activities as deans of students, admissions, registrar, counseling and placement services, student advisers, student health and infirmary services, catalogs, and commencements and convocations, plus an allocable share of depreciation and use allowance, interest, operation and maintenance, general administration and expense, and department administration. Student administration and services are identified in the financial accounting system by function, department and account.

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### 3.5.0 Composition of Allocation Bases

C - Modified Total Cost Basis. All salaries and wages, fringe benefits, materials and supplies, services, travel, and subgrants and subcontracts up to the first \$25,000 of each subgrant or subcontract are included. Equipment, capital expenditures, charges for patient care and tuition remission, rental costs, scholarships, and fellowships as well as the portion of each subgrant and subcontract in excess of \$25,000 are excluded. Other items, such as cost of goods sold, are excluded where necessary to avoid a serious inequity in the distribution of indirect costs. Service centers are included.

D - Modified Total Direct Cost Basis. All direct salaries and wages, fringe benefits, materials and supplies, services, travel, and subgrants and subcontracts up to the first \$25,000 of each subgrant or subcontract are included. Direct equipment, capital expenditures, charges for patient care and tuition remission, rental costs scholarships, and fellowships as well as the portion of each subgrant and subcontract in excess of \$25,000 are excluded. Other items, such as cost of goods sold, are excluded where necessary to avoid a serious inequity in the distribution of indirect costs. Service centers are included.

H+J - Employees plus Students, full-time equivalent basis. The amount allocated to the employee category is further allocated to the major functions of the University in proportion to the salaries and wages of all employees applicable to those functions. The amount allocated to the student category is assigned to the instruction function of the University.

K - Student Hours -- classroom and work performed. All student classroom hours are classified as instruction hours. Work hours are classified as instruction, research, other sponsored projects, or other institutional activities based on the work performed. The ratio of hours classified to each of the direct functions is used to allocate the student administration and services cost pool with costs analogous to employee fringe benefits. Other student administration and services costs deemed to benefit only instruction, e.g. convocation costs, are pooled separately and allocated only to the instruction function.

L - Square Footage. All usable square footage of benefiting direct and indirect activities is included. Common areas such as hallways, stairwells and restrooms are excluded. The square footage of a given room is assigned to direct and indirect cost objectives based on a survey of the space usage of the room during the fiscal year or, in the absence of survey data, based on salaries and wages. For utilities costs, the square footage of a given room may be weighted according to a utility usage survey, conducted in accordance with Circular A-21 and submitted to the Government with the University's rate proposal.

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Y<sup>1</sup> - Sponsored Project Administration costs are allocated to benefiting direct cost functions based on the modified total direct cost of sponsored agreements in each direct cost function.

Y<sup>2</sup> - Library costs are allocated to the direct cost functions of instruction, research, other sponsored projects and other institutional activities based on the number of employees and students, and on the salaries and wages of employees.

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4.1.0 In practice, the residual value of equipment has been de minimis.

4.1.1 Asset valuations are consistent with those used in the institution's financial statements; however, the University does not report depreciation on its financial statements nor is it required to under GASB rules.

4.3.0. Since the University does not report depreciation on its financial statements, gains and losses on disposition of depreciable property are not recognized in the financial accounting system. The actual gains and losses experienced by the University do not impact sponsored agreements costs.

4.4.0 Moveable equipment is capitalized if the per-item cost (or fair market value if donated) is \$500 or more, and its useful life is two years or more. There is no minimum dollar threshold for capitalization of other assets; however, other assets must have a useful life of two years or more to be capitalized.

4.5.0. The initial complement of supplies and accessory items acquired with and needed to put an inventorial item into operation are included in the capitalized value of the item. However, mass purchases of similar items are not capitalized

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### 5.1.0 Method of Charging Leave Costs

The Los Angeles campus is in the process of converting the charging of vacation leave costs to the accrual basis of accounting. All other leave costs, including sick, holiday, sabbatical and other (e.g., jury duty) leave costs are charged on the cash basis of accounting. Leave costs other than sabbatical leave are measured based on actual cost, assigned to the University Fiscal year in which leave is taken or accrued, and allocated to direct and/or indirect objectives on a prorated basis consistent with the allocation of the employee's salary and wages. Sabbatical leave costs are not charged to sponsored agreements.

### 5.2.0 Applicable Credits

All discounts, rebates or allowances are offset against the specific direct or indirect costs to which they relate. In some circumstances certain types of income are appropriately treated as an applicable credit for indirect cost computations. In such circumstances a general adjustment is made to the appropriate cost pool.

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**6.1.1 Defined-Contribution Pension Plans**

Description for item C: The University offers eligible employees a tax-deferred retirement plan described under section 401(a) of the Internal Revenue Code. The 401(a) plan features separate accounts for nonelective pretax contributions and elective after-tax contributions. The University also offers eligible employees a tax-deferred retirement plan described under section 403(b) of the Internal Revenue Code. Contributions to the 403(b) program are made on a pretax basis and participation in the plan is voluntary.

**6.1.2 Defined-Benefit Pension Plan**

Actuarial cost method(s): Actuarial cost is determined using different actuarial methodologies to satisfy different reporting and disclosure standards. They are:

- (1) For funding: Normal cost and Actuarial Accrued Liability-Entry Age Normal
- (2) For determining GASB 5-Pension Benefit Obligation: Projected Unit Credit
- (3) For determining the FASB 35-ABO: Unit Credit

Asset valuation method: Actuarial value of assets is determined using the adjusted market value method -- the expected market value plus investment gains/losses amortized over a five-year period. On July 1, 1994, the University set the actuarial value of assets equal to the market value of assets.

Criteria for changing actuarial assumptions and computations: Past experience trends and future expectations are considered and are periodically reviewed by The Regents and the trustees of the UC Retirement Plan. Currently the following assumptions are used:

Economic assumptions: investment return; annual rates of increase in salaries (inflation component plus merit and promotion component); consumer price index.

Demographic assumptions: mortality (1983 Group Mortality Table set back two years); termination rates, based on plan experience; disability rates, based on plan experience; disabled mortality, 1987 Group Long Term Disability Table; retirement; form of benefit payment; percentage married; spouse ages, wives 3 years younger than husbands; number of dependents of married members; refund probability; future service for part-time employees; entry age; administrative expenses.

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Amortization periods for prior service costs: Currently there are no prior service costs to be amortized.

Amortization periods for actuarial gains and losses: Currently there is no amortization of actuarial gains and losses.

Funding Policy: The Regents' funding policy provides for actuarially determined periodic contributions at rates that provide for sufficient assets to be available when benefits are due, measured in line with the tax-deductible contribution limits set forth in IRC Sec. 412. The contribution rate is determined using the entry age normal actuarial funding method. The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligation.

#### 6.2.0 Post Retirement Benefits Other Than Pensions

Medical and dental insurance benefits are provided as post retirement benefits other than pensions at the University of California. As of January 1996, these benefits were provided through eleven medical plans and two dental plans. Listed below are the names of each plan and the corresponding annuitant enrollment for all retirees.

##### Medical Programs:

Core (California)	139
Core (New Mexico)	177
FHP/Take Care	349
Foundation	1,407
Health Net	4,582
Kaiser North	5,945
Kaiser South	2,702
Los Alamos Total Care	3,461
PacifiCare	412
Prudential High Option	10,032
<u>UC Care</u>	<u>3,942</u>
<b>TOTAL Annuitant Medical</b>	<b>33,148</b>

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Dental Programs:

Delta Dental	30,216
PMI	1,706
<u>Total</u>	<u>31,922</u>

The plans and enrollment figures shown above are for the entire University of California system, and the cost of these benefits is allocated to all University segments including the Los Angeles campus.

6.2.1 The University's PRB costs are determined on the basis of cash accounting.

End of Part VI

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### 7.1.0 Organizational Structure

The University of California system is coordinated by an Office of the President, composed of the President, Vice Presidents, Regents' Officers, and their staffs. The President reports to The Board of Regents of the University of California, a body of 18 appointed and 7 *ex officio* members. The primary function of the Office of the President is to represent the University of California system, shown as segments below, as a single institution to state and federal agencies, particularly in matters of budget and legislation, and to set systemwide policy and direction. In addition, some research and public service funds are held at the corporate office and allocated annually to campuses, as are library and affirmative action provisions. The Division of Agriculture and Natural Resources, a statewide system of campus-based academic and research programs, county cooperative extension offices and many special statewide projects, is coordinated by one of the Vice Presidents.

#### University Campus Segments:

- University of California, Berkeley
- University of California, Davis
- University of California, Irvine
- University of California, Los Angeles
- University of California, Riverside
- University of California, San Diego
- University of California, San Francisco
- University of California, Santa Barbara
- University of California, Santa Cruz

#### Government-owned Contractor-operated (GOCO) Segments:

- Ernest Orlando Lawrence Berkeley National Laboratory
- Lawrence Livermore National Laboratory
- Los Alamos National Scientific Laboratory

#### Teaching Hospital Segments:

- University of California, Davis Medical Center
- University of California, Irvine Medical Center
- University of California, Los Angeles Medical Center
- University of California, San Diego Medical Center
- University of California, San Francisco Medical Center

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**7.2.0 Cost Accumulation and Allocation**

A. Services performed at the Office of the President on behalf of the entire University include the following: research funding allocations; academic planning; health science programs; faculty, staff and student policies; budget development, negotiation, and allocation; external and governmental relations; facilities administration; audit; corporate accounting; research policy; central administrative databases; treasurer functions; and legal affairs. There are also special services requested by and performed for specific campuses.

B. As described in sections 1.1.0 and 1.2.0 above, the financial accounting system records and accumulates expenditures according to funding source, program purpose and expense categories. The expenditures of the Office of the President as well as those at each of the nine campus locations are separately identifiable within the formal accounting system. The information accumulated in the accounting system is reclassified into cost pools in accordance with OMB Circular A-21.

C. Office of the President costs are reclassified into the cost pools of building use, equipment use, operation and maintenance, general administration, sponsored project administration, library, student administration and services, instruction, research, other sponsored activities and other institutional activities. Adjustments are made to these pools to reflect services provided to the three Government-owned, Contractor-operated facilities and five teaching hospitals. The building, equipment and operation and maintenance costs which support the departments and units within the Office of the President are allocated to the other cost pools within the Office of the President based on salary and wages. Operation and maintenance costs such as facility planning which benefit the entire University are allocated to campuses based on the ratio of total assigned square footage at the campuses. General administration costs are allocated to campuses based on the ratio of total current funds expenditures at the campuses. Sponsored projects administration costs are allocated to campuses based on the ratio of total sponsored project costs at the campuses. Library costs are allocated to campuses based on the ratio of total library costs at the campuses. Student administration and services costs are allocated to campuses based on the ratio of total student activity costs at the campuses. Services performed for specific campuses are recharged to those campuses and do not appear as central office costs.

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D. The accounting office of the Berkeley campus provides general accounting support for the Office of the President. The value of this service, as computed by the Berkeley campus, is transferred to the Office of the President's general administration cost pool during the indirect cost rate calculation process.

E. None

End of Part VII