MEDICAL CENTERS

Contents

MEDICAL CENTERS

I. GENERAL

The University of California is a chartered constitutional corporation of the State of California. The Board of Regents (The Regents) exercises power of governance over the University, which is a highly decentralized multicampus land grant institution with a total commitment to education, service, and research. The Regents govern the University through a number of committees, one of which is the Committee on Health Services. The Committee on Health Services is responsible for oversight of the medical centers' licensure, accreditation, planning, patient care, and medical staff matters; review of pertinent financial data; consideration of health care legislation; and advising the President with respect to appointments of medical center directors.

The University has five academic medical centers (i.e., Davis, Irvine, Los Angeles, San Diego, and San Francisco), which own and operate seven acute care hospitals and two psychiatric hospitals (Langley Porter Psychiatric Hospital - SF and Neuropsychiatric Hospital - LA) as part of the overall University mission of education, service, and research. The primary purpose for these medical centers is to support the clinical teaching programs of the medical schools on the Davis, Irvine, Los Angeles, San Diego, and San Francisco campuses. The Los Angeles and San Francisco acute care hospitals were constructed by the University on those campuses. The Davis, Irvine, and San Diego hospitals are former county hospitals now operated by the University at the request of the Legislature. These three former county hospitals are located off campus. In 1993, UC San Diego built Thornton Hospital on the La Jolla campus. In 1995, UCLA acquired Santa Monica Hospital. The two psychiatric hospitals were operated by the state on the Los Angeles and San Francisco campuses until 1973, when they were transferred to University operation and control. On July 1, 1997, the Neuropsychiatric Hospital (NPH) in Los Angeles became part of the UCLA Medical Center, at which time UCLAMC assumed complete management and fiscal responsibility for NPH.

The medical centers are closely connected to their respective medical schools, and medical staff may also hold academic appointments in the medical schools. The nine hospitals are self-sustaining and rely primarily on income from patients to support their operations. Each hospital functions within its own community as one of many providers of health services and has the same degree of accountability to third-party payers (e.g., Medicare, Medi-Cal, and commercial insurance) as community hospitals. In addition to reimbursement from third-party payers, the medical centers receive state appropriations through the University's budget for both operating and capital support. Annually appropriated state funds for operations are called Clinical Teaching Support (CTS), or Mental Health Teaching Funds (MHTF) when applied to the two psychiatric hospitals. In this chapter, the term CTS will refer to both Clinical Teaching Support and to Mental Health Teaching Funds. CTS is explained more fully in II.E., below.

II. RELATIONSHIP OF MEDICAL CENTER ACCOUNTING TO UNIVERSITY ACCOUNTING

The University and its medical centers report under the guidance of the Government Accounting Standards Board (GASB). The accounting records of the University are maintained in accordance with the standards prescribed by the American Institute of Certified Public Accountants (AICPA) for colleges and universities, and by the National Association of College and University Business Officers (NACUBO). These standards require that financial transactions be recorded within separate funds and that similar funds be grouped into fund groups for purposes of accounting and financial reporting (fund accounting). The five fund groups are: Current Funds, Endowment and Similar Funds, Plant Funds, Loan Funds, and University of California Retirement Plan Funds. The University's medical centers maintain separate internal accounting records in accordance with the standards prescribed by the AICPA for health care organizations and by the Office of Statewide Health Planning and Development.

The accounting records of the University are maintained on an accrual basis. The accounting records for the medical centers are also maintained on an accrual basis, but in greater detail (e.g., gross revenue, revenue deductions, net revenue, operating expenses - depreciation, and other by cost center) than are the campuses. Each medical center must reconcile its accounting records monthly to the University

II. RELATIONSHIP OF MEDICAL CENTER ACCOUNTING TO UNIVERSITY ACCOUNTING (Cont.)

General Ledger at the campus. At the year's end, the medical center's records must agree with the University General Ledger at the campus.

The detailed revenue and expense accounts reported in the medical center's financial statements are reported in the University Financial Report as "Sales and Services -- Medical Centers" under Revenues and Other Additions, and as "Medical Centers" under Expenditures and Other Deductions.

Because many aspects of medical center operations, such as recording depreciation expense, are unique to the University environment, and because a large volume of accounting transactions, such as patient accounts receivable, occur daily, each University medical center maintains its own accounting organization. The division of accounting activities between the medical center accounting department and campus accounting office is determined by the Chancellor of the campus, subject to the following principles:

A. CHART OF ACCOUNTS

In establishing the chart of accounts for the medical center, each campus should follow the University's account structure. Within the University's accounting system, the seven acute care hospitals are classified as "Teaching Hospitals" and are assigned expenditure account numbers in the 42XXXX series and fund account numbers in the 63000 series. The two psychiatric hospitals are classified as "Academic Support -- Other" and are assigned expenditure account numbers in the 43XXXX series and fund account numbers in the 63000 series.

B. REVENUE AND ACCOUNTS RECEIVABLE

Each medical center maintains a properly controlled system for establishing individual patient accounts, recording patient charges in those accounts, and processing patient bills/claims from those accounts. The medical center's system must provide a monthly summary of revenue and the corresponding accounts receivable total for entry in the University General Ledger by means of a journal entry. While the detail of the individual patient accounts must be maintained in the medical center's accounts receivable system, the total accounts receivable is reconciled monthly to the

University General Ledger control account. Hospital sundry debtor transactions, cost reimbursement receivables, and certain Medi-Cal receivables (SB855, SB 1255, SB1732, and Med Ed funds) are controlled by separate General Ledger accounts.

C. RECEIPTS AND DISBURSEMENTS

The Treasurer of The Regents maintains control over all University cash, including investment of cash balances, thus ensuring that cash is available for payroll and other disbursements as needed. Each medical center maintains a cashiering station to process and deposit all cash receipts in accordance with established University and campus procedures. Individual credits to patient accounts receivable are recorded in the medical center billing system, with daily batch totals recorded in the University General Ledger control account. Payments that cannot be identified to the proper patient accounts upon receipt are deposited and credited to an undistributed cash account. The medical center is responsible for the prompt identification and disposition of any unidentified cash receipts.

Unless a medical center has its own disbursement office, all disbursements, including payroll, are processed, recorded, and paid through the campus accounting office and the campus administrative data processing center in accordance with established University procedures. At its option, a medical center may maintain an independent system for recording medical center disbursements. The data maintained in this independent system must be reconciled to the University General Ledger periodically during the year and at the end of the fiscal year.

D. COST ALLOCATION

Each medical center maintains a cost allocation procedure, based on hospital industry standards, in order to produce internal reports of gain or loss by revenue center and by sponsor that are consistent with hospital industry practices. These cost allocations will not be recorded in the University General Ledger.

E. STATE APPROPRIATIONS

Historically, the State of California has appropriated funds to the University for allocation to the medical centers for Clinical Teaching Support (CTS), capital

II. RELATIONSHIP OF MEDICAL CENTER ACCOUNTING TO UNIVERSITY ACCOUNTING (Cont.)

E. STATE APPROPRIATIONS (Cont.)

outlay projects, and equipment purchases. Each medical center maintains a system for controlling state appropriations allocated to the campus.

Clinical Teaching Support, which is discussed in detail in Accounting Manual chapter H-576-73, is used primarily to provide financial support for patients who are essential to the clinical teaching program, but who are unable to pay the full cost of their hospital care. CTS also may be used to support teaching costs of ambulatory care programs. CTS applied to individual patient accounts or used to support teaching costs in ambulatory care is recorded by the hospital, and a monthly summary of state funds applied is prepared and recorded in the University General Ledger by the campus accounting office from information provided by the medical center. For financial reporting, 1/12th of the annual amount of CTS available to the medical center will be accrued as revenue monthly.

F. REPORTS

The major medical center financial reports are: (1) the monthly "Hospital Activity and Financial Status Report" and (2) the quarterly "Clinical Enterprise Report" (CER). The Hospital Activity and Financial Status Report is prepared monthly by the Office of the President from patient and financial data submitted by each medical center, and is mailed to The Regents as a "between the meeting" item. The more extensive quarterly reports, issued in September, December, March, and June, include graphs and a written analysis prepared by the Office of the President. At the end of the fiscal year, The Regents receive both unaudited and audited financial reports for June 30. The quarterly CER is not a complete financial statement that is auditable, and, therefore, is not available to The Regents, but is used internally as a management report. In addition to the Hospital Activity and Financial Status Report, The Regents receive an Annual Report for each medical center, which contains a mission statement, the medical staff bylaws, and policies and procedures of the campus to implement medical center governing body responsibilities. This report is coordinated through the Office of the Vice President for Clinical Services.

The patient and financial data for the Langley Porter Psychiatric Hospital is not included in the activity and financial status reports to The Regents. The patient and financial data for the Neuropsychiatric Hospital - Los Angeles (NPH-LA) has been included with the UCLA Medical Center's data since management responsibility for NPH-LA was assumed by UCLA Medical Center in fiscal year 1997-98.

Reports of medical center operations are prepared from hospital records that include the data in the University General Ledger, from accruals, and from cost allocation data maintained by the medical center. Each medical center is responsible for the timely preparation and submission of these reports and for reconciling them to the University General Ledger. The financial statements of the medical centers are prepared in conformity with Generally Accepted Accounting Principles (GAAP).

G. PLANT ASSETS

Medical center equipment and buildings and the funds set aside for medical center capital projects are recorded and managed in accordance with University policies governing plant funds. Plant assets in use and medical center generated funds set aside in the "Unexpended Plant Fund" are included in the medical center financial reports. Other unexpended plant funds (i.e., those generated from sources other than medical center operations, such as state appropriations for capital projects or gifts) are included in medical center
* financial reports as the projects are under construction (based upon Campus ledger entries for construction in progress). All plant assets with a value of $1500 or more and a useful life of more than one year are depreciated using the straight line method of depreciation.

H. ENDOWMENT AND SIMILAR FUNDS AND DONATIONS

Funds arising from donations and endowments that are restricted by the donor as to use by the medical center are recorded and managed in accordance with University policy for endowment and similar funds and donations. These are not usually included in the medical center financial reports unless they have been expended for capital assets, at which time they are recorded in the medical center plant asset accounts.

II. RELATIONSHIP OF MEDICAL CENTER ACCOUNTING TO UNIVERSITY ACCOUNTING (Cont.)

I. TRANSACTIONS BETWEEN THE MEDICAL CENTER AND SCHOOL OF MEDICINE/CAMPUS

The medical centers engage in a number of transactions with the campus and the school of medicine. The exchange of funds between the entities shall be accurately recorded as either an expense or as an equity transfer.

The following guidelines should assure that all transactions are recorded in accordance with Generally Accepted Accounting Principles (GAAP) and reported consistently among the medical centers and schools of medicine/campuses.

Guidelines:

Expenses

1. Medical center expenses are defined as the cost of services (including labor and benefits), supplies, and other items purchased and consumed in the provision of patient-care services during a given period of time.

2. If the medical center receives some tangible value/benefit, the associated costs shall be recorded as an expense.

3. Reasonable expenses are the cost of any goods and services that would be purchased if the medical center were a free-standing entity, not associated with a school of medicine or as part of the University.

4. Services shall be purchased at the lower of cost or market. If a medical center pays more than the actual cost or market value, the difference shall be considered support, and that difference shall be recorded as an equity transfer through the fund balance in the balance sheet.

5. Non-operating expenses shall consist of the following: interest expense for GAP Loan, loss of disposable assets, and a net decrease in the fair value of investment (GASB-31).

Equity (Fund Balance) Transfer

1. Equity transfer can occur only between related not-for-profit entities when one controls the other or when both are under common control (i.e., The Regents).

2. Equity transfer embodies no expectation of repayment, nor receipt of anything of immediate economic value.

3. An exchange of funds between the medical center and the school of medicine or between the medical center and the campus in which no value or benefit is transferred to the medical center shall be recorded as an equity transfer.

4. Amounts paid for necessary goods or services to the school of medicine or campus shall be recorded as an expense by the medical center. Amounts paid in excess of the lower of cost or market shall be recorded by the medical center as an equity transfer.

5. Funding made available to the school of medicine for salary support for faculty and staff associated with non-clinical activities (i.e., teaching and research) shall be considered subsidization of these programs and shall be recorded as an equity transfer.

III. THE FOLLOWING SECTION PROVIDES A BRIEF DESCRIPTION OF TOPICS RELEVANT TO THE MEDICAL CENTERS

A. WORKING CAPITAL

While some working capital is generated from the hospital operations, some may be borrowed from the University's Short-Term Investment Pool (STIP) or Commercial Paper Program. STIP is the net cash balance of all University funds invested daily by the Treasurer. Cash shortfalls at the medical centers are mainly due to the large amount of accounts receivable. If the medical center should have a need for working capital, that need shall be met from the legally available cash balances in the unrestricted portion of STIP. Unrestricted STIP represents the cash balances of the University that are not restricted as to use by outside parties. The University's policy requires the medical centers to pay

III. THE FOLLOWING SECTION PROVIDES A BRIEF DESCRIPTION OF TOPICS RELEVANT TO THE MEDICAL CENTERS (Cont.)

A. WORKING CAPITAL (Cont.)

interest on the actual working capital advance funded from STIP. A medical center with a working capital balance will receive STIP interest on the amount of the balance. The Regents have established a maximum line of working capital that can be loaned from STIP to the medical centers. The borrowing limits from STIP by the medical centers are:

1. A medical center's working capital borrowings from STIP for a month shall not exceed 60% of the medical center's total accounts receivable for that same month (total accounts receivable being defined as patient accounts receivable, net of allowances, plus intergovernmental transfers under SB 855, SB 1255, and Medi-Cal Medical Education programs); and

2. The total working capital borrowing for the medical centers shall not exceed 15% of legally available cash balances of the unrestricted portion of STIP.

More details about working capital can be found in Accounting Manual chapter H-576-85, Hospitals: Working Capital.

B. RECHARGES

Recharges are a transfer of expenses but not of income between the department doing the charging and the department (medical center) being charged. The medical centers are charged by their respective campuses for sales (e.g., storehouse purchases) and services (e.g., personal, internal audit, and campus accounting) provided to the medical centers. In addition, Office of the President administrative costs and costs paid for centrally (e.g., malpractice and liability insurance) are charged to the medical centers by the Office of the President. The medical centers may also charge campus departments for sales and services provided.

C. MULTI-YEAR HOSPITAL FINANCIAL PLANNING AND MANAGEMENT MODEL

The University's medical centers, with the aid of consultants and the Office of the President, developed a computer-based multi-year Medical Center Financial

Planning and Management Model (Model). The purpose of the Model is to develop, test, and present alternative analyses for a variety of operating and financial environments in a consistent and meaningful way. The Model, which is PC-based and maintained at each medical center, was designed to allow medical center management to project alternative financial operating results based on varying assumptions and objectives. The Model prepares annual financial statements in a consistent format using assumptions developed by the Office of the President and/or by the individual medical centers. The Model contains two fiscal years of historical data and ten years of projected data, including the current fiscal year (base year) and nine subsequent fiscal years. The Model may be used at any time by each medical center for its own purpose; however, at specific scheduled times, revised projections of annual financial data are requested by the Office of the President for inclusion in the Hospital Activity and Financial Status Report to The Regents and for the University's budget request to the state, including The Regents' Budget request, Governor's Budget Bill, and for Legislative review and hearings on the budget. Also, the Model is run for special projects as requested by campus or medical center management or by staff at the Office of the President. Refer to Accounting Manual Chapter H-576-61 for more information.

D. AUDITS

External Auditors

The primary objective of The Regents' external auditors is to express an opinion on the financial statements of the University, the University's retirement system, and the University's medical centers. The Office of the President recharges the medical centers for the cost of the medical center audits and for out-of-pocket expenses incurred by the auditors. In addition to the annual audits performed by The Regents' external auditors, there are audits performed by federal and state auditors or external audits of University programs, which may be requested from time to time for management purposes. The Regents' external auditors prepare and issue management letters containing observations, comments, and constructive suggestions to the Office of the President and to the chancellors of each campus on matters affecting internal controls and on operating and accounting procedures. The auditors also prepare an

III. THE FOLLOWING SECTION PROVIDES A BRIEF DESCRIPTION OF TOPICS RELEVANT TO THE MEDICAL CENTERS (Cont.)

D. AUDITS (Cont.)

overview letter for presentation to the Audit Committee of The Regents. For information on Engagements with The Regents' Audit Firm, see Business and Finance Bulletin BUS-76.

Internal Auditors

Each medical center is subject to audit by the local campus Internal Audit Department and provides funding for these services. Each year, the local Internal Audit Department, with management input, establishes an audit plan based on risk assessment of all operations and functions. The audit plan is approved by the campus audit committee, which typically has medical center representation.

Medical center management may also request special purpose audits, consultations, and other advisory services. These requests are processed based on risk prioritization, time availability, and requisite expertise. In addition to providing audits and advisory services, internal auditors conduct investigations according to University policy for reporting and investigating improper governmental activities and local implementing procedures.

Internal Audit maintains a relationship with the Compliance Officer, and will usually serve on the campus's Corporate Compliance Committee in order to coordinate audit and investigation activities in the compliance area. The campus Internal Audit Director reports both to campus officials and to the University Auditor, who provides a conduit to The Regents as necessary. Audit and investigation reports are presented to cognizant managers before being forwarded to senior campus and Office of the President officials.

E. LEGAL SERVICES

The Office of the General Counsel is responsible under the Bylaws of The Regents for providing legal services for the University of California. This is done primarily by attorneys in the Office of the General Counsel in Oakland and resident counsel, who are a part of the Office of the General Counsel, located at some

campuses and medical centers and at the DOE laboratories. Outside counsel is retained by the General Counsel, when such services are required, subject to campus, medical center, or laboratory responsibility for funding.

Services provided cover the full range of University activities. All litigation is handled or overseen by attorneys in the Office of the General Counsel in Oakland. Claims subject to the University's self-insurance program are handled by outside counsel, subject to the oversight of General Counsel. General services required by the campuses and medical centers are provided by resident counsel at locations served by resident counsel and by the office in Oakland. A variety of specialized subject matter services, e.g., health care issues, gift and development matters, labor and employment issues, environmental matters, and complex transactional matters, including real estate and procurement transactions, are provided by the office in Oakland.

F. RISK MANAGEMENT

Medical Malpractice Insurance

The University maintains a professional medical and hospital liability self-insurance trust fund, which serves as the funding mechanism for the Professional Medical and Hospital Liability Program (Program). Additional coverage for the Program is provided through excess insurance. The Program's trust provides funding for claims up to specific limits (i.e., $5 million per occurrence). The medical centers, schools of medicine and other health science schools (e.g., Optometry), psychiatric hospitals, and the University's medical professionals (those licensed in the healing arts) and medical center staff are covered for acts and omissions in the course and scope of employment, as defined by the California Tort Claims Act, at University-owned or affiliated medical facilities. The Professional Medical and Hospital Liability Program is funded by the following sources:

1) State appropriations,
2) income generated by the medical centers, psychiatric hospitals, and medical practice plans; and
3) student health insurance fees charged by each campus.

III. THE FOLLOWING SECTION PROVIDES A BRIEF DESCRIPTION OF TOPICS RELEVANT TO THE MEDICAL CENTERS (Cont.)

F. RISK MANAGEMENT (Cont.)

The Office of Risk Management in the Office of the President determines the required program assessments following an annual review by consulting actuaries hired from outside the University. The method for allocating cost is determined by a combination of risk exposure and losses, both actual (i.e., paid on reserve claims) and incurred but not reported (IBNR), by a specific campus. A portion of the medical center's cost is based on exposure factors and on actual losses (experience). The allocation to the medical centers also includes non-patient general liability and employment practices liability.

The actuary determines the Program assessment by campus, as well as a breakdown for Student Health Services and for the schools of medicine/medical centers. Apportionment of the campus assessment between the school of medicine and the medical center is determined locally. The campus is notified following the actuary's report (usually in April) of its assessment for the coming fiscal year.

In 1997-98, the base year, the apportionment of the campus assessment related to medical malpractice was established by the Office of the President at 50/50 between schools of medicine and medical centers. An equal split was used because data is insufficient to determine a more precise apportionment.

The apportionment between the school of medicine and medical center may be changed, but the change must be based upon and supported by analysis. If the change is less than five percentage points from the base year (1997-98), the Director of Risk Management must be notified by the campus no later than September 30, so that an accurate assessment can be made. If the apportionment between the school of medicine and the medical center is five percentage points or greater, the notice shall be accompanied by an analysis that supports the change. The analysis must be sent to both the Director of Risk Management and the Vice President--Financial Management.

Because the medical centers' financial statements are audited annually, the review and analysis that supports the change in the apportionment between the school of

medicine and its medical center must withstand review by external auditors. Until better information becomes available, an analysis shall consist of a review of a sample of malpractice claims for the previous three fiscal years. The analysis submitted to the Office of the President shall be approved by the Vice Chancellor for Administration.

Additional information about the University's Professional Medical and Hospital Liability Program can be found in Accounting Manual chapter I-577-55, Insurance: Medical Malpractice Insurance Program and Business and Finance Bulletin BUS-9: Professional Medical and Hospital Liability Self-Insurance Program.

Workers' Compensation

The University of California Workers' Compensation Insurance Program is self-insured and covers the workers' compensation risk of the University at all of its locations. The program is managed by the Office of Risk Management in the Office of the President.

Claims are administered by a company specifically hired for that purpose. The claim reserve is secured by a trust fund. Each campus has a Workers' Compensation Manager who can help develop safety programs, answer questions, and help resolve related problems. The campuses and the medical centers are notified in February of the payroll assessment rate for the subsequent fiscal year. The program rates are per $100 of payroll. Through the Distribution of Payroll Expense reporting process, the assessment rate is applied to gross salaries. The rate applied to all wages at the medical centers and the psychiatric hospitals is different from the campus rate.

The Workers' Compensation funding "corridor" concept was developed in 1998 to help reduce the volatility in annual funding requirements. The medical center "corridors" are approximately 20 percent of ultimate discounted losses, up to a maximum of $1.75 million. Refunds will be made when a medical center exceeds its "corridor" amount. Deficit surcharges will be implemented when a medical center exceeds its deficit "corridor" amount. The deficit repayment period for the medical centers is three years.

III. THE FOLLOWING SECTION PROVIDES A BRIEF DESCRIPTION OF TOPICS RELEVANT TO THE MEDICAL CENTERS (Cont.)

F. RISK MANAGEMENT (Cont.)

Additional information about Workers' Compensation can be found in Accounting Manual chapter P-196-86, Payroll: Workers' Compensation Insurance and in Business and Finance Bulletin BUS-73: Workers' Compensation Self-Insurance Program.

G. RESERVES

The term "Hospital Reserves" generally refers to the retained earnings (equity) account at each medical center. This account is also referred to as the "Equity in Current Assets".

The reserve account is established at each University medical center to provide for future financial needs, including capital equipment and improvements, but not for the replacement of buildings. While separate reserve accounts may be established, each medical center must maintain the Equity in Current Assets account. Any additional reserve accounts require the approval of the President.

Equity in Current Assets

The Equity in Current Assets reserve account is credited with annual operating gains and depreciation on University-owned buildings and equipment, leasehold improvements used in connection with patient care, and equipment purchases financed on a deferred payment plan. The Equity in Current Assets reserve account is charged with expenditures for new and replacement equipment, for facilities modification, with any annual operating loss, and to pay the principal on outstanding loans. At the end of the year, the balance in this account should not be less than the depreciation recorded for all inventoried equipment during the prior fiscal year. Exceptions to this policy require the approval of the Senior Vice President--Business and Finance. Funds must be transferred from Equity in Current Assets to the Unexpended Plant Fund account in order to encumber funds prior to going to bid on capital projects. If more funds are encumbered than needed, the excess funds must be transferred back to the Equity in Current Assets account.

H. PERSONNEL SYSTEM

Employees of the University are either represented employees (i.e., employees covered by an exclusive collective bargaining agreement) or non-represented employees.

Terms and conditions of employment for represented employees (i.e., patient care technical unit, clerical and allied services unit, and services unit) are covered by the collective bargaining agreements between the University and the various unions. Patient care technical (PCT) unit employees and service employees are represented by the American Federation of State, County, and Municipal Employees (AFSCME). In addition, the Nurses are represented by the California Nurses Association (CNA), and both the Non-Senate Instructional Unit (i.e., lecturers) and the Librarians are represented by the University of California-American Federation of Teachers (UC-AFT). Clerical unit employees are represented by the Coalition of University Employees (CUE). Research support professionals, residual patient care professionals, and technical unit employees are represented by University Professional and Technical Employees (UPTE). Police officers are represented by Federated University Police Officers Association (FUPOA). Graduate students are represented by the United Auto Workers. If the agreement is vague or does not address a particular personnel policy, the Office of Labor Relations should be contacted for an interpretation. All labor negotiations are conducted by the Office of Labor Relations in the Office of the President.

Personnel policies for non-represented employees are covered in Personnel Policies for Staff Members, issued July 1, 1996.

I. CAPITAL PROJECTS

The University receives funds for its capital improvement programs from the State of California, various federal agencies, gifts, funds generated by the hospitals, and loans from University funds and 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 revenues

III. THE FOLLOWING SECTION PROVIDES A BRIEF DESCRIPTION OF TOPICS RELEVANT TO THE MEDICAL CENTERS (Cont.)
I. CAPITAL PROJECTS

earned by the facilities are pledged to repay the indebtedness. Bond and certificate of participation sales and outside borrowings must be authorized by The Regents, and financial arrangements are made by the Treasurer's Office. Capital projects are categorized as minor or major projects, depending on the cost of the project. A minor capital project costs $250,000 or less, whereas a major capital project costs over $250,000. These capital project categories primarily determine the level of University approval required.

All new major capital improvement projects require a Project Planning Guide (PPG) and approval by the President or The Regents.

Major capital improvement projects which require Regental approval include: (1) new projects with a total cost in excess of $20 million; (2) any project having a significant environmental impact; (3) projects requiring design approval by the Grounds and Buildings Committee; (4) substantial program modification for a project previously approved by The Regents, in excess of 25% of the total budget; and (5) any budget modification to project cost in excess of 25 percent.

The President can approve amendments to the CIP between $10 million and $20 million, provided concurrence is obtained from the Chairman of the Board, the Chairman of the Committee on Grounds and Buildings, and the Chairman of the Committee on Finance, and also provided that the action be reported at the next meeting of the Board.

Projects costing between $5 and $10 million require the approval of the Vice President for Budget, who has been delegated the authority by the President. Projects costing between $250,000 and $5 million require the approval of the Chancellor, who has been delegated the authority by the President. Projects in these categories with *any* external financing require the financial approval of the President.

Minor capital improvement projects do not include repairs of or alterations to campus buildings, structures, or facilities to continue their usability at the designed level of service. Projects of this nature should be recorded as an operating expense.

The funding source for the capital project dictates the supporting documentation required. Capital projects using state funds or Medical Center Reserves (Equity in Current Assets) require the inclusion of a payback analysis in the PPG or an explanation of why the project must proceed even though there is no projected payback. In addition, a five-year analysis of Medical Center Reserves should be separately provided. Capital projects using borrowed funds require the following supporting documentation: a payback analysis, an amendment to the Capital Budget, and a financing item for Regental approval, which includes a financial feasibility analysis.

Additional information about capital projects can be found in the Plant section (chapters P-415-XX) of the Accounting Manual; the Accounting Manual chapter L-217-11, Accounting and Reporting for Leases and Installment Purchase Contracts; and the Business and Finance Bulletin BUS-55, Financial Feasibility of Loan Projects.

The medical centers transfer funds from their Equity in Current Assets account to the Unexpended Plant Fund account prior to initiating a capital project. The funds in the Unexpended Plant Fund account are encumbered for specific capital projects.

Historical note: Original Accounting Manual chapter first published 3/1/90. Revised: 6/30/00 and 6/30/02; analyst--John Turek.

End.