

Office of the President

TO MEMBERS OF THE FINANCE AND CAPITAL STRATEGIES COMMITTEE:

DISCUSSION ITEM

For Meeting of March 14, 2018

**UNIVERSITY OF CALIFORNIA OFFICE OF THE PRESIDENT FUND
RESTRICTIONS**

In April 2017, the California State Auditor recommended that by April 2018 the Office of the President (UCOP) document and review the restrictions on its funds to determine whether it can reallocate any of these funds for other purposes. To implement this recommendation, a working group gathered fund restriction data from both the budgeting and accounting records and developed definitions for fund restrictions and designations. The fund restrictions in the accounting records are determined based on generally accepted accounting principles (GAAP). The University's policies for fund restrictions, which are consistent with GAAP, are included in the footnotes of the annual audited financial statements. The fund restrictions from the budgeting and accounting records were compared and any funds with different classifications between the accounting and budgeting systems were investigated further.

Definitions of fund restrictions that closely align with the University's accounting policies and GAAP were developed by the working group. Funds were segregated between restricted and unrestricted. Unrestricted funds were further segregated between those designated for a specific purpose by the University or undesignated. Detailed definitions are as follows:

- Restricted funds are subject to externally imposed restrictions. The funds are considered restricted until the specific resources are used for the required purpose or for as long as the provider requires the resources to remain intact. Restricted funds may be expendable for a specific purpose or nonexpendable if the provider requires the University to permanently hold the funds. Examples of restricted funds are contracts and grants, gifts and endowments, and special federal and State appropriations. Gifts and endowments are restricted by the donors. Contracts and grants are restricted under the terms of the agreements with the granting agencies; however, since revenues for contracts and grants are reimbursed based on expenditures, the fund balances are usually zero. Restricted resources are each kept in separate funds to demonstrate the resources are spent for the intended purpose.

- Unrestricted funds are not subject to externally imposed restrictions governing their use; however, unrestricted funds may be designated for specific purposes by the Regents or management. Unrestricted funds have been classified into the following categories:
 - Regents-designated funds are governed under Regents policies or previous actions. Examples of these funds include fees from the Department of Energy for the National Laboratories and reserves in the housing loan programs, Mortgage Origination Program (MOP) and Supplemental Home Loan Program (SHLP). In item F17A for this meeting, *Regents Policies on Capital, External Financing, and Employee Housing Assistance Program Matters*, changes to the Regents policies for MOP and SHLP are being proposed, and if approved, the Regents restrictions for the housing loan programs would be reclassified to undesignated funds (see further discussion below).
 - Funds designated for a specific purpose are intended to fulfill certain academic, research, and public service missions; including funds that were generated by self-supporting programs or funds for purposes approved by campuses. Examples of these funds include the University of California Press, University of California Washington Center, UC Health, UCPath and the Wholesale Power Program. Endowment cost recovery charges which are paid from gifts and endowments for the purpose of administering the gifts and endowments are also classified as specific-purpose funds. Fees from the retirement programs and the investment pools for management and administration services are classified as specific-purpose fund.
 - Agency (pass-through) funds are in the process of being distributed to the campuses and/or other third parties. At any point in time, agency funds will have balances that are in transit to/from the campuses and/or other third parties and the Office of the President's role is to distribute the funds similar to an agent. There are no fees or mark-ups by the Office of the President for processing these transactions. As an example, unclaimed property and vendor rebates are received by the Office of the President and distributed to campuses.
 - Undesignated funds are classified as unrestricted for accounting purposes and are not designated as above, and therefore, are available for spending. Commitments for the undesignated funds as of June 30, 2017 were \$38.8 million, as presented in the Office of the President budget at the July 2017 Regents meeting. Some undesignated funds were identified to have very small balances and limited or no activity, and will likely be cleared and closed after completion of additional research.

COMMITTEE**March 14, 2018**

The fund restrictions working group gathered data on fund balances as of June 30, 2017 and 2016 as well as the average expenditure activity in all funds from the last three years. The data for fund balances was reconciled to the accounting records to ensure completeness and accuracy. Certain funds used for accounting accruals, loans, clearing accounts and systemwide self-insurance reserves were excluded. The accounting accruals include systemwide adjustments made to comply with GAAP for pension benefits, retiree health benefits, and compensated absence liabilities.

Reserves held by the University and Fiat Lux for systemwide self-insurance programs where risks of losses have been retained have also been deducted. Fiat Lux reserves are governed by insurance regulations. Other self-insurance programs managed by the University include UC SHIP (Student Health Insurance Program), UC Care and Be Smart About Safety. The UC SHIP provides health insurance for students and is funded by student fees. An oversight board with campus representatives manages the program reserves. UC Care is the self-insured health benefits plan for University employees funded by University and employee contributions. The Be Smart About Safety program funds initiatives that reduce the risk of loss in the University's workers' compensation, general, and employee liability programs and the campuses fund this program.

Of the remaining 466 funds, the working group determined that 217 are restricted, 168 are designated unrestricted, and 81 are undesignated unrestricted. Of the 81 unrestricted undesignated funds, 13 are currently identified as unrestricted in the UCOP budgeting system. The fund restriction working group recommended that 68 funds with total balances of \$74.7 million as of June 30, 2017 be reclassified as unrestricted and undesignated. The funds that are recommended for reclassification to unrestricted and undesignated are primarily from building reserves, legal settlements, investment income, and benefit reserves.

The above analysis meets the California State Auditor recommendation due in April 2018 to document and review the restrictions on funds and fund commitments. As this work continues next year, the working group will focus on the additional recommendations from the California State Auditor for 2019 and 2020, included in Attachment A. These recommendations include performing additional analysis of the funds by obtaining input from the Executive Budget Committee and other stakeholders on suggestions for future use of the funds, modifying the budget system to support reclassification of the funds, updating the budget presentation, and clearing and closing funds with small balances and limited or no activity.

Attachment B shows the number of funds and the fund balances as of June 30, 2017 and June 30, 2016 categorized according to the funds definitions outlined above. The balances shown on this attachment are as of June 30, 2017 and have changed since that date since some of the funds were spent in the 2017-2018 budget.

Attachment A: California State Auditor Recommendations

Attachment B: Fund Balances as of June 30, 2017 and June 30, 2016

California State Auditor Recommendations

By April 2018

- Document and review the restrictions on its funds and fund commitments to determine whether it can reallocate any of these funds to its discretionary budget for reallocation to campuses.

By April 2019

- Publish the results of its review of fund restrictions and fund commitments and any funds it anticipates reallocating to campuses.

By April 2020

- Reallocate to the campuses funds that it identified during its review of fund restrictions and fund commitments.

Fund Balances as of June 30, 2017 and June 30, 2016

<i>(amounts in thousands)</i>		Number of Funds	Balance as of June 30, 2017	Balance as of June 30, 2016
Restricted funds				
Gifts and endowments		107	\$2,990	\$2,685
Contracts and grants		81	-	-
Federal and special state appropriations		29	40,037	24,915
Total restricted funds		217	43,027	27,600
Unrestricted funds				
Regents designated:				
Housing loan programs		4	75,802	68,250
Department of Energy national laboratories		25	89,548	75,656
Total Regents designated funds		29	165,349	143,906
Designated for specific purposes:				
Endowment cost recovery		2	5,558	3,893
UC Press		2	8,449	6,604
UC Washington Center		14	8,272	7,640
UC Health		7	9,064	10,271
Energy and Sustainability		3	11,677	9,133
UC Path		2	4,891	(551)
California Digital Library		12	2,213	2,410
Writing placement exams		1	1,462	1,221
Other programs and fees		74	12,010	7,733
Total designated for specific purposes		117	63,596	48,354
Agency (pass-through) funds		22	(5,734)	35,450
Total designated funds		168	223,211	227,710
Undesignated:				
Funds previously budgeted as unrestricted		13	63,221	86,863
Building and parking reserves		5	7,079	8,051
Legal settlements		5	5,893	36,187
Investment income		6	28,581	28,168
Benefit reserves		9	48,475	44,278
Department deficits		5	(16,418)	(23,758)
Small balances		38	1,129	1,694
Total undesignated funds ⁽¹⁾		81	137,960	181,483
Total unrestricted funds		249	361,171	409,193
Total restricted and unrestricted funds		466	\$404,198	\$436,793

(1) Undesignated funds of \$87.3 million are committed; \$48.5 million for benefit programs and \$38.8 million for other purposes (as presented in the Office of the President budget in July 2017).

<i>(amounts in thousands)</i>		Number of Funds	Balance as of June 30, 2017	Balance as of June 30, 2016
Reconciliation				
Total Office of the President fund balances (from above)		466	\$404,198	\$436,793
Excluded funds:				
Accounting adjustments, loans and clearing accounts		31	(24,583,764)	(20,907,974)
Systemwide self-insurance reserves		37	218,270	163,563
Total fund balances⁽²⁾		534	\$(23,961,296)	\$(20,307,618)

(2) Source was fund balances on the Office of the President UCLA general ledger.