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## ACCOUNTING AND BUDGET OFFICERS:

In his correspondence to Chancellors dated March 16, 1993, President Peltason announced a revised formula for distributing private overhead recovery, and called on campuses to ensure that all private grants and contracts and associated overhead flow properly through the UC system. This memo provides guidance on the proper identification and accounting treatment of private grants and contracts.

Campuses are expected to review the classification of private gifts, grants and contracts to ensure that all such activities are assigned fund numbers in the private fund range. A review at the Office of the President has indicated that some private gifts, grants and contracts have been assigned fund numbers in the sales and services of educational activities fund range. The following guidelines should be used to distinguish private gifts, grants and contracts from sales and services.

Gifts are funds donated irrevocably for unrestricted or designated purposes by extramural individuals or organizations. Unlike sales and services activities, gifts do not involve contractual consideration — such as tangible property, intellectual property rights, or specified services — provided to the donors by the University. [For a discussion of the distinction between gifts and grants, see the Presidential Policy on Review of Gifts/Grants for Research, July 8, 1970.]

Grants and Contracts are written agreements with external sponsors (generally not individuals) in which the University promises to provide research, training, public service, or *nonstandardized* testing/other services. An agreement which contains one or more of the following provisions is generally a contract or grant: (1) a research protocol or other statement of work, (2) a designated period of performance, (3) a budget, (4) an obligation to account for costs incurred and to return unspent funds, (5) disposition of intellectual property rights. The following are examples of grants and contracts which should not be classified as sales and services:

- Agreements to test a company's drug or device
- Agricultural Marketing Board orders
- Sales of survey services (data collection and/or analysis)
- Service to industry agreements


Use of unique facilities when staff support or analytical services are also provided (i.e., not sold at pre-established, per unit, uniform prices for standard routines)  
Agreements with an external party to run a conference  
Educational services provided at sponsor's site or for sponsor's personnel (e.g., through University Extension)  
Sales of consulting services  
Agreements with non-University hospitals or clinics to provide medical services (e.g., scarce anesthesiology or radiology services)

Sales and Services of Educational Activities funds should be used primarily for either academic support unit recharges within the University, or sales of products or services to multiple individuals or organizations outside the University. When sales are made to non-University customers, the University must not assume any obligation beyond delivery of a standardized product or service at pre-established, per unit, uniform prices (such as rates approved by the campus recharge committee, fee schedules approved for use by hospitals and clinics, etc.).

Generally, sales to a non-University customer should be considered a grant or contract, unless the sale is based on established unit prices, and like services or products are sold to other non-University customers or University departments based on the same unit prices (allowing for the indirect cost differential charged to non-University customers).

Proper categorization of contracts and grants is important not only from the standpoint of accounting consistency, but also to ensure the proper application of University policies governing disclosures of financial interest, intellectual property, application of indirect costs, and the like.

Should you have questions regarding these definitions, please call Jorge Ohy at (510) 987-9842, Barbara Lester at (510) 987-0895, or Ralph Young at (510) 987-0968.

  
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cc: Chancellors  
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