## ACCOUNT CLASSIFICATION

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ACCOUNT CLASSIFICATION

"All things have their place, knew we how to place them."

--George Herbert

Part I--General Classification of Accounts

The University records transactions on its books in accordance with the general principles of accounting for educational institutions set forth in "College and University Business Administration." These principles, established by a special committee of the American Counsel on Education, are followed by most universities in the country. The University's accounts are classified by the four methods described below:

I. LOCATION CLASSIFICATION

Because of the multicampus structure of the University, accounts are classified by campus location. At each location there is a further division into two types of accounts: those recording campus activities, and those recording activities under the Office of the President. The General Ledger of each campus is produced and maintained at the campus concerned.

II. FUND CLASSIFICATION

Accounts are classified into the following major fund groups:

- Current Funds Group
- Endowment and Similar Funds Group
- Plant Funds Group
- Loan Funds Group
- University of California Retirement System Funds Group

Most of these groups are further divided into subgroups, which will be explained in Part 2 of this chapter.

A fund is defined by "College and University Business Administration" as "...an accounting entity involving assets, liabilities, revenues and expenditures, receipts and disbursements, and a balance. A fund is established to carry on specific activities or attain certain objectives in the operation of an institution, either at the discretion of the governing board or in accordance with regulations, restrictions, or limitations imposed by sources outside the institution." Thus, the characteristic that distinguishes one fund from another is what it can be used for and not its source of income.
III. SPECIFIC ACCOUNT CLASSIFICATION

The accounts are classified into specific accounts representing balance sheet items (assets, liabilities, fund balances), revenues, and expenditures.

Balance sheet accounts exist in all fund groups. True expenditure accounts exist only in the Current Funds Group. In the Plant Funds Group, there is also a series of expenditure accounts, which is used to accumulate costs of construction in progress. Revenue accounts are used only in the Current Funds Group. Revenue of the other fund groups is credited directly to the fund balances accounts.

To the extent possible, assets and liabilities should be recorded by individual fund. Otherwise, assets and liabilities must be pooled within each major fund group and the books will balance only by group and not by individual fund. However, revenue, expenditure, and fund balances accounts are always identified by individual fund in the General Ledger.

IV. SUB-BUDGET CLASSIFICATION

The expenditure accounts of Current Funds and Plant Funds are broken down on the ledger by "sub-budget" (or "subaccount"), which represents the general object of the expenditures within a specific account. The sub-budget classification permits closer budgetary control and facilitates the preparation of budgetary and financial reports.

A. SUB-BUDGET CLASSIFICATION OF CURRENT FUNDS

Academic Salaries: Academic salaries consist of the salaries of those academic personnel not subject to positive time reporting. Within each expenditure account, both the dollar amounts of the salaries and the number of full-time equivalent (FTE) faculty and teaching assistants are budgeted and controlled.

Nonacademic Salaries: Nonacademic salaries consist of the salaries of nonacademic personnel not subject to positive time reporting. The number of FTE employees is not budgeted and controlled.

General Assistance: Salaries classified under General Assistance are the salaries of all academic and nonacademic personnel who are subject to positive time reporting. The number of FTE employees is not budgeted and controlled.
IV. SUB-BUDGET CLASSIFICATION (Cont.)
A. SUB-BUDGET CLASSIFICATION OF CURRENT FUNDS (Cont.)

Supplies and Expense: The supplies and expense classification consists of the general operating expenditures of an account, with the exception of expenditures for salaries, equipment, and special items.

Equipment and Facilities: The equipment and facilities classification consists of expenditures for inventory equipment and for minor alterations or remodeling of space occupied.

Staff Benefits: Staff benefits consist of employee benefits directly related to salary compensation.

Special Items: Special items are the expenses of a special program or activity, such as a departmental publications program. This subaccount is used to separate such expenses from other expenditures in the same account.

Unallocated: The classification unallocated is used for budgetary entries only. Temporary appropriations may be made to this sub-budget when final determination has not been made as to where certain restricted funds are to be used.

Recharges: Recharges consist of expenses charged to other departments—usually by service departments making recharges on a regular basis. The recharge subaccount receives financial credits; corresponding debits are posted to other subaccounts within the specific account being charged.

B. SUB-BUDGET CLASSIFICATION OF PLANT FUNDS

Definitions of the classifications used with Plant Funds are presented in chapter P-415-8, Plant Accounting: Unexpended Plant Funds.
Part 2--Major Fund Groups

A knowledge of the University's five major fund groups is basic to an understanding of the whole accounting system. The remainder of this chapter is devoted to these fund groups.

V. CURRENT FUNDS GROUP

These are the funds used for the current operation of the University. The group is divided into Unrestricted Funds and Restricted Funds, which are further divided into the subgroups listed in paragraphs A and B, below.

A. CURRENT UNRESTRICTED FUNDS

Current Unrestricted Funds can be used for any institutional purpose designated by The Regents. Following are the funds under this subgroup:

1. General Funds

Most General Funds are provided by the State and are spent within the overall constraints of the approved State budget. Additional sources of General Funds are student fees, such as admissions fees and nonresident tuition, and other miscellaneous revenues.

2. Student Fees

Student fees represent funds which are used to provide services (student health services, counseling, etc.) to regularly enrolled students, or, in the case of University Extension and Summer Sessions, to support the entire instructional program.

3. Sales and Services of Educational Activities

These funds are used to operate organized activities, i.e., income-producing activities operated by departments in connection with the training of students. Examples of such activities are the operations of medical and dental school clinics.

These funds are also used for the activities of educational departments.

**

Sales and Services of Educational Activities funds are derived from either academic support unit recharges, or sales of products or services to multiple individuals or organizations outside the University. When sales are made to non-University
V. CURRENT FUNDS GROUP (Cont.)
   A. CURRENT UNRESTRICTED FUNDS (Cont.)

**
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).

4. Sales and Services of Auxiliary Enterprises

These funds are used in the operation of auxiliary enterprises, and are explained more fully below in the section on classification of expenditures. Income is derived from charges to users.

5. Sales and Services of Teaching Hospitals

These funds are used to operate teaching hospitals related to the medical schools.

6. Other Sources

Other Sources include income sources which do not fall naturally into any of the other classifications. Examples of Other Sources are royalties on patents, some sales of surplus equipment, dental work performed at student health centers, and sales of University Press publications. The funds are used for purposes related to the income source.

7. Reserves

Reserves represent fund balances set aside for future use. They are appropriated to expenditure accounts or transferred to other funds as they are needed. One example is the self-insurance reserve which is derived from insurance charges to departments. Other examples are the numerous reserves for maintenance and replacement of equipment derived from the earnings of auxiliary and service enterprises, organized activities, and other income-producing activities.

** Addition 12/30/93
B. CURRENT RESTRICTED FUNDS

Current Restricted Funds are subject to special restrictions established by various outside sources in accordance with the purpose established by the source of the given fund. Following are the funds under this subgroup:

1. State of California

State of California funds are funds appropriated by the Legislature for special research projects or received under contracts with State agencies. State funds for general operating purposes are classified under Current Unrestricted Funds.

2. United States of America

United States of America funds are funds to be used in Federal projects and programs. A major portion of these funds is used for research under contracts and grants. Also, a large amount is used for Federal student aid programs.

3. Local Governments

Local Governments funds are funds to be used under contract with local governments or tax districts (cities, counties, school districts, etc.).

4. Endowment Income

In a private university, Endowment Income normally provides a substantial portion of general operating expenses. However, for the University of California, a public institution, the State provides the basic operating support. Use of Endowment Income is restricted to the enrichment of educational and research programs beyond the level that the State is able to provide. NOTE: Some of these funds are classified as Unrestricted Funds, according to donor designation.

5. Private Gifts, Grants, and Contracts

This subgroup, like Endowment Income, is also used for the enrichment of University programs. However, income consists of current gifts, grants, and contracts, rather than return on the investment of principal. NOTE: Some gift funds are classified as Unrestricted Funds, according to donor designation.
V.________________ (Cont.)

B.

5. Private Gifts, Grants, and Contracts

for the enrichment of University programs.

and contracts, rather than return on the investment of principal. Some gift funds are classified as Unrestricted Funds, according to

**

Gifts are funds donated irrevocably for

individuals or organizations. Gift do not involve contractual consideration--such as tangible

specified services--provided to the donors by the University. [For a discussion of the distinction


Grants and Contracts are written agreements with external sponsors (generally not individuals) in

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, and (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); and service to industry agreements.

C. CURRENT FUNDS--UNEXPENDED BALANCES CLASSIFICATION

The following classifications are used for the unexpended balance accounts of Current Funds:

1) Reserves
2) Principal Appropriated (funds functioning as endowment)
3) Gifts and Private Grants
4) Endowment Income
5) Specific Purpose Funds:
   - Student Fees
   - State of California
   - United States of America
   - Local Governments
   - Sales and Services of Educational Activities
   - Sales and Services of Teaching Hospitals
   - Other Sources
   - Sales and Services of Auxiliary Enterprises

6) General Funds

D. BALANCE SHEET ACCOUNTS OF THE CURRENT FUNDS GROUP

The balance sheet accounts of the Current Funds Group are similar to those found in any fund accounting system. To the extent possible, balance sheet accounts should be identified on the ledger with a specific fund; otherwise, the assets and liabilities of various funds are pooled within the group. The major exception to this is the series of fund balances accounts. For a detailed listing of the various types of balance sheet accounts, refer to chapter A-115-2, Accounting Codes: General Ledger.

E. REVENUE ACCOUNTS OF THE CURRENT FUNDS GROUP

The revenue accounts of Current Funds are divided into groups which correspond to the fund subgroups described in sections A and B, above. Within several revenue account groups, the specific accounts may be associated with an unrestricted fund, such as the General Fund, an unrestricted-other fund, or a restricted fund; in other groups, the accounts correspond only to restricted funds. Revenue accounts are not used with two of the fund subgroups, in which case income is recorded in unexpended balances accounts. The table on the following page shows these various relationships.
Relationship of Revenue Account Groups to Fund Subgroups--Current Funds

<table>
<thead>
<tr>
<th>Revenue Account Group*</th>
<th>Related Fund Subgroup</th>
<th>Unrestricted</th>
<th>Restricted</th>
</tr>
</thead>
<tbody>
<tr>
<td>None**</td>
<td>Prin. Appropriated (of Endowments &amp; Similar Funds)</td>
<td>Prin. Appropriated** (of Endowments &amp; Similar Funds)</td>
<td>---</td>
</tr>
<tr>
<td>Student Tuition &amp; Fees</td>
<td>General Funds &amp; Student Fees</td>
<td>---</td>
<td>State of California</td>
</tr>
<tr>
<td>State of California</td>
<td>General Funds</td>
<td>---</td>
<td>United States of America</td>
</tr>
<tr>
<td>United States of America</td>
<td>---</td>
<td>United States of America</td>
<td>---</td>
</tr>
<tr>
<td>Local Governments</td>
<td>---</td>
<td>Local Governments</td>
<td>---</td>
</tr>
<tr>
<td>Endowment Income**</td>
<td>Endowment Income</td>
<td>Endowment Income</td>
<td>---</td>
</tr>
<tr>
<td>Sales &amp; Services of Educational Activities</td>
<td>General Funds &amp; Sales &amp; Services--Educational Activities</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Sales &amp; Services of Teaching Hospitals</td>
<td>General Funds &amp; Sales &amp; Services--Teaching Hospitals</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Other Sources</td>
<td>General Funds &amp; Other Sources</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Sales &amp; Services of Auxiliary Enterprises</td>
<td>Sales &amp; Services--Auxiliary Enterprises</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>None</td>
<td>Reserves (derived from charges to other funds --no revenue accounts)</td>
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</tbody>
</table>

A more detailed breakdown of revenue accounts is shown in chapter A-115-2, Accounting Codes: General Ledger.

* Principal Appropriated is the classification used in the General Ledger; however, these funds are reported as Endowment Income in the annual financial report.

**Classification is dependent upon specific restriction by donor.
F. EXPENDITURE ACCOUNTS OF THE CURRENT FUNDS GROUP

Expenditure accounts are classified according to program, which corresponds to the purpose for which costs are incurred. Within each program, the accounts are further broken down by academic department or other organizational unit, as follows:

<table>
<thead>
<tr>
<th>Programs</th>
<th>Functions</th>
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<tr>
<td>Educational Programs</td>
<td>Instruction</td>
</tr>
<tr>
<td></td>
<td>Research</td>
</tr>
<tr>
<td>Public Services</td>
<td></td>
</tr>
<tr>
<td>General Support Programs</td>
<td>Academic Support</td>
</tr>
<tr>
<td></td>
<td>Maintenance and Operation</td>
</tr>
<tr>
<td></td>
<td>of Plant</td>
</tr>
<tr>
<td></td>
<td>Student Services</td>
</tr>
<tr>
<td></td>
<td>Institutional Support</td>
</tr>
<tr>
<td></td>
<td>Student Aid</td>
</tr>
<tr>
<td>Other Programs</td>
<td>Teaching Hospitals</td>
</tr>
<tr>
<td></td>
<td>Auxiliary Enterprises</td>
</tr>
<tr>
<td>Programs for budgetary control and</td>
<td>Nonreportable Expense</td>
</tr>
<tr>
<td>other purposes (no expenditures</td>
<td>and Budgetary Balances</td>
</tr>
<tr>
<td>reported in financial statements)</td>
<td></td>
</tr>
</tbody>
</table>

Detailed descriptions of these functions follow:

1. **Instruction**

   All current expenditures of instructional departments, including expenditures for research done as a part of regular instructional programs are included under this function. Expenditures for Summer Sessions and University Extension programs are also under this function. These expenditures may be for salaries, staff benefits, office expenses and equipment, laboratory expenses and equipment, or other departmental expenses. Museums may be included if they are intended primarily for instruction.

2. **Research**

   This function records the expenditures of all separately organized research units, including research institutes, centers, bureaus, laboratories, and stations. Museums are included when their collections are primarily employed by those engaged in research.
V. CURRENT FUNDS GROUP (Cont.)

F. EXPENDITURE ACCOUNTS OF THE CURRENT FUNDS GROUP (Cont.)

Research also includes expenditures for specially budgeted research such as investigations performed under contracts and grants, even in cases in which the research is administered by an instructional department. Expenditures for the operation of the major research facilities under special contract with the Department of Energy are not recorded as Research, but as a special line item in the Financial Report.

3. Public Service

This category is used for expenditures for activities intended to serve the general public. Examples of Public Service activities include holding campus cultural events, operating museums intended primarily for the public, and providing Cooperative Extension.

4. Academic Support

This function records the gross expenditures of all activities which are organized and operated in connection with educational departments and which are conducted primarily as necessary components of professional training programs. These activities include running optometry and dental clinics, home economics cafeterias and nurseries, demonstration schools, and inter-collegiate athletics programs (when such programs are operated as part of the physical education department). Income-producing activities not related to instructional programs are classified under other functions, as appropriate. The Academic Support function also includes the total expenditures of all central and branch libraries administered by the campus general libraries. Such expenditures include salaries and wages, other operating expenses, books, and binding costs. Expenditures of libraries administered by instructional departments or organized research units are charged to the appropriate departmental budgets.

5. Maintenance and Operation of Plant

This heading includes all expenditures for salaries and wages, supplies and expense, and equipment required to maintain and operate the physical plant used by the University, including janitorial service, grounds maintenance, utilities, and major repairs. Many expenditures
are recharged and reported under other functions, such as expenditures for services performed for auxiliary enterprises and for special repairs and maintenance work ordered by specific departments.

6. **Student Services**

This function includes expenditures for services to the student body as a whole. Examples are expenditures for student health services, counseling programs, placement centers, and graduation ceremonies, and expenditures of the offices of the registrar, dean of students, and director of admissions.

7. **Institutional Support**

This function includes expenditures of the general administrative offices serving the University as a whole, including all costs of the offices of The Regents, President, vice-presidents, chancellors, business officers, accounting officers, personnel managers, etc.

This category also includes various current expenditures of the University as a whole that are of a general character and not related to any specific division, exclusive of the libraries and plant operations.

Examples of departments whose expenditures are included in this function are the alumni office, public information office, and University Press. The expenses of service departments are also in this function; these expenses are partly or fully recharged to accounts in other functions. Examples of service departments are the central garage, storehouse, publications office, mail and messenger service, and telephone and telegraph service.

8. **Student Aid**

Under this function are all expenditures for scholarships, fellowships, and prizes. Salaries paid to students under special aid programs requiring service from the student, such as the Work-Study Program, are reported not under Student Aid but under the function where services were performed. Scholarship payments of tuition and fees are recorded as Student Aid expenditures and Student Tuition and Fees income.
V. CURRENT FUNDS GROUP (Cont.)
  F. EXPENDITURE ACCOUNTS OF THE CURRENT FUNDS GROUP (Cont.)

9. Teaching Hospitals

Expenditures for Teaching Hospitals are recorded under this classification.

10. Auxiliary Enterprises

This function, intended to be self-supporting, records the gross expenditures of enterprises which are operated primarily for service to students and staff, such as residences and dining halls; student unions, when not operated independently by the students; and intercollegiate athletics, when not operated as a part of the physical education program.

11. Nonreportable Expenditures and Budgetary Balances

There are two uses of this function: One is the temporary recording of certain nonreportable charges when it is convenient to use an expenditure account; the other is the recording of budgetary balances subject to allocation to another function.

a. Nonreportable Expenditures

The expenditures in this category are nonreportable because they are fund balance adjustments rather than expenses or because they are agency funds which do not belong to the University, or because they are cleared to other accounts by June 30.

   (1) Fund balance adjustments. Examples of these adjustments are charges to Federal, State and private contracts and grants for indirect cost recovery, and payments to beneficiaries of annuity and living trust funds. Financial entries remain in these accounts at June 30 but, for reporting purposes, are converted to adjustments of unexpended balances.

   (2) Receipts and expenditures of agency funds. These are recorded in this function during the year for convenience, and at year-end the net balance is closed to a Current Funds liability account.
(3) Clearing accounts. Some expenditures are charged to several minor clearing accounts in this function. Examples include the balancing entry account and the intercampus payroll clearing account. These accounts are cleared currently. A similar clearing account exists for budgetary entries which are out of balance.

b. Budgetary Balances

(1) Unallocated funds. Appropriations of unallocated funds not assigned to a specific function or department are credited to this function; when the funds are allocated for use, the appropriation is transferred to another function and account for expenditure. Examples are provisions for salary increases, unallocated endowment income, and unallocated scholarship funds.

(2) Budgetary savings. The budgetary savings target allocations are recorded in this function. These are debt entries offsetting anticipated budgetary savings to be realized in other functions, mostly from salaries.

*VI. ENDOWMENT AND SIMILAR FUNDS GROUP

This group is composed of those funds that are nonexpendable and are being retained intact to produce investment income. The nonexpendability may be permanent, as in the case of True Endowment Funds, or temporary, as in the case of Funds Functioning as Endowment.

A. SUBGROUPS OF ENDOWMENT AND SIMILAR FUNDS

Endowment and Similar Funds group is divided into the following subgroups, according to the source of the principal or restrictions on use:

1. True Endowment Funds

True Endowment Funds are funds derived from gifts or bequests the terms of which stipulate that principal must remain inviolate and that only the income may be expended. The use of income from endowment funds is either restricted by the donor or determined by The Regents.
VI. ENDOWMENT AND SIMILAR FUNDS GROUP (Cont.)
A. SUBGROUPS OF ENDOWMENT AND SIMILAR FUNDS (Cont.)

2. Funds Functioning as Endowment

Funds in this subgroup are created by a gift or bequest where a donor does not explicitly instruct that it be used as either a current gift or an endowment. At its own discretion, the University may create a fund functioning as endowment. These funds are invested as if they were a true endowment; however, unlike a true endowment, the institution may authorize the expenditure of principal.

The main source of funds functioning as endowment is private gifts and bequests. Other examples of such funds include indirect cost recovery on Federal and private agency contracts. These funds are invested as endowments; subsequent allocations for current use are made from principal.

3. Funds Held in Trust by Others

Funds held in trust by others are derived from private gifts and bequests held in trust for investment by outside trustees. The terms of the trusts that established such funds vary; the University may be designated as income beneficiary, principal beneficiary, or both.

These funds are recorded in the general ledger. As income is disbursed to the University by the trustee, it is accounted for and used in the same manner as income from endowment funds.

4. Deferred Gifts

Living trust funds, annuity trusts, unitrusts, pooled income, and gift annuity funds are derived from gifts and bequests, the terms of which stipulate that income must be paid to a designated beneficiary for a specified period, which in most cases is the duration of the beneficiary's life.¹

¹ Living trust funds established prior to 1969 required payment only of income earned by the assets of the fund, rather than payment of a set amount. The Tax Reform Act of 1969 limited the types of charitable funds that could be accepted by institutions, and sanctioned only the establishment of annuity trusts, unitrusts, and pooled income funds.
The University currently accepts the following types of deferred gifts:

a) **Annuity trusts** - A fixed dollar amount payment is established at the time a gift is received, based on the market value of the assets.

b) **Unitrusts** - A fixed rate of payment (e.g., five percent of the net fair market value of the trust assets) is established and a valuation must be made at least once a year.

c) **Pooled income funds** - A share of the funds' net income is established, based on the number of units assigned when property is transferred to the fund. The Regents currently have two Pooled Income Funds, the Long Term Income Fund (LTIP) and the General Endowment Pool Balanced Growth Fund (GEPBG).

d) **Gift Annuity Funds (GAF)** - A guaranteed lifetime annuity is established, at a rate based on the beneficiary's life expectancy, in return for an irrevocable gift.\(^2\)

At the end of a specified payment period, income from these deferred gift funds reverts to the University. The principal of such funds may then be transferred to the True Endowment, Funds Functioning as Endowment, or Current Funds group, depending on the terms stipulated by the donor and on the amount of principal available.

5. **Agency Funds**

Agency funds are funds invested by the University, in its capacity as the custodian or fiscal agent, for organizations that are not financially accountable to the University, such as certain campus foundations and UCSF Stanford Health Care. Such entities enter into a contractual arrangement with the Treasurer's Office, which stipulates the terms of withdrawal.

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\(^2\) California GAF's are regulated by the California Department of Insurance. GAF's require that an institution set aside prudent reserves in a trust account equivalent to the amount required to cover future obligations on each contract.
VI. ENDOWMENT AND SIMILAR FUNDS GROUP (Cont.)

B. ACCOUNTS OF THE ENDOWMENT AND SIMILAR FUNDS GROUP

Although the principal of some funds may be appropriated for expenditure, such funds automatically become members of another group when the appropriation is made, so there is no need for expenditure accounts in this group.

VII. PLANT FUNDS GROUP

A. SUBGROUPS OF PLANT FUNDS

Plant funds fall into four main subgroups, which are as follows:

1. Unexpended Plant Funds

These are funds to be expended for plant construction or acquisition. Among the possible sources are State funds, Federal funds, donations, proceeds from the sale of bonds, other borrowings, and transfers from other funds groups for expenditure on plant and equipment.

2. Retirement of Indebtedness

This subgroup consists of funds set aside for the retirement of bonds or the repayment of other long term borrowings made for plant acquisition.

3. Investment in Plant

The University's investment in plant and equipment is recorded under this heading. The assets of this group are valued at cost or appraised value at the time of acquisition. No allowance for depreciation is entered on the books. Assets include land and improvements, buildings, equipment, libraries and collections, and construction in progress. Borrowed money invested in plant is recorded as a liability of this subgroup, while borrowed funds not yet expended are recorded under the Unexpended Plant Funds subgroup.
4. Reserves for Renewals and Replacement

This subgroup consists of funds that are set aside for the renewal and replacement of plant assets. These funds are accounted for in the Current Funds Group during the year and classified as a separate Plant Fund Groups at year-end.

B. ACCOUNTS OF THE PLANT FUNDS GROUP

Balance sheet accounts contain the assets and liabilities associated with plant and equipment. Refer to chapter A-115-2, Accounting Codes: General Ledger, for a complete listing.

There are no revenue accounts in this fund group, income being credited directly to the fund balance. A special group of expenditure accounts is used to record construction in progress; this group provides the basis for valuing completed projects on the balance sheet. This fund group is also used for recording purchases of land, buildings and equipment. The purchase of equipment associated with a new building is recorded in the Plant Funds accounts. However, equipment purchased for previously constructed and capitalized facilities is recorded as an expenditure of Current Funds, the total amount of such expenditures being added to Plant Funds balances annually at June 30.

VIII. LOAN FUNDS GROUP

This group consists of loan funds for students, for faculty for housing, and for emergency loans to students, faculty members and nonacademic employees.

This group contains funds from Federal and University sources for student loans. A large proportion of the money currently loaned out by the University has been provided by the Federal government under various Federal student loan programs. University loan funds are provided from internal sources. Gifts or bequests designated to be used for student loans are classified as loan funds and not as endowment funds.

Funds used for faculty housing are provided from bond issues. Emergency loans are provided from University sources.

The accounts of this group consist only of balance sheet accounts. Assets consist of notes receivable and cash (or temporary investments) not loaned out.
VIII. LOAN FUNDS GROUP (Cont.)

Funds written off as uncollectible are treated as a reduction to funds balances. In the case of University loan funds, the write-off may be charged, at the campus' option, to the Loan Fund Pool Reserve.

IX. UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM FUNDS GROUP

Contributions, income from investments, and benefit payments of the University's retirement system are recorded in this funds group. This group consists of a defined benefit plan (the Retirement Plan), a defined benefit plan for University employees who elected to take early retirement under the PERS Voluntary Early Retirement Incentive Program (PERS-VERIP), and two defined contribution plans (a 401(a) plan and a 403(b) plan).

Contributions to these funds by the University, the employees, and from investment income are recorded as additions to fund balances, while administrative expenses and benefits paid are recorded as reductions. There are no revenue or expenditure accounts. Administrative expenses are paid from an Other Sources fund in the Current Funds Group and recharged to the Retirement System Funds Group.

X. REFERENCES

American Counsel on Education, College and University Business Administration, April 1992.

Accounting Manual Chapters:

- A-115-2 Accounting Codes: General Ledger
- P-415-8 Plant Accounting: Unexpended Plant Funds

President Jack W. Peltason, Letter to the Chancellors announcing a revised formula for distributing private overhead recovery, March 16, 1993.

Associate Vice President Lawrence C. Hershman and University Controller Joseph A. Pastrone, Joint memorandum to Accounting and Budget Officers providing guidance on the identification and accounting treatment of private grants and contracts, July 28, 1993.
EXHIBIT A: REVIEW OF GIFTS/GRANTS FOR RESEARCH

Office of the President

July 8, 1980

CHANCELLORS
VICE PRESIDENT KENDRICK
*EXECUTIVE ASSISTANT WILSON

Subject: Review of Gifts/Grants for Research

In a review of the University's gifts/private grants for research, the State Auditor General concluded that in many cases monies awarded to the University which should have been classified and processed as grants were classified and processed as gifts.

To clarify this situation and to insure greater consistency among campuses, the following guidelines shall be observed:

In general, classify funds as gifts when the following characteristics exist:

* donor does not impose contractual requirements;
* funds are awarded irrevocably.

In general, classify funds as grants when the following characteristics exist:

* provision for audits by or on behalf of the grantor;
* the grantor is entitled to receive some consideration such as a detailed technical report of research results or a report of expenditures;
* testing or evaluating of proprietary products is involved;
* the research is directed to satisfying specific grantor requirements (e.g., terms and conditions stating a precise scope of work to be done rather than a general area of research);
* a specified period of performance is prescribed or termination is at the discretion of the grantor;

*Delegated also to the individual responsible for Internal Administrative Services, Systemwide Administration.
EXHIBIT A: (Cont.)

Chancellors, Kendrick, Wilson
July 8, 1980

* funds unexpended at end of period shall be returned to the grantor;

* patent rights requested by grantor.

Since in many situations all of the above characteristics will not be present, judgment must be exercised in order to classify the gift/grant in accordance with the intent of this policy. The decision as to whether a particular award should be considered a gift cannot be made based upon the presence or absence of a single characteristic or criterion. Rather, one must look at the award in toto in order to make a judgment as to its proper classification.

Regardless of the designation of an award for research as a gift or grant, it will be subject to the research review process as well as to the administrative rules and procedures which apply to all University Funds. The processing of gifts will not include the application of indirect costs. Processing of grants will include the application of indirect costs in accordance with university policy.

The above guidelines are not intended to indicate whether processing of gifts/grants occurs in the Contract and Grants Office or the Development Office. Report governmental grants to Systemwide Administration for inclusion in the contracts and grants EDP system and report all other gifts/grants to Systemwide Administration according to stated Gift and Development reporting needs. However, organization of the processing/acceptance/administration of gift/grant funds is a local matter.

/s/ D. S. Saxon

David S. Saxon
President

cc: Principal Officers of The Regents
Laboratory Directors
Members, President's Administrative Council

12/30/93
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I. INTRODUCTION

Generally Accepted Accounting Principles and University accounting policy require all donations and gifts, whether of tangible or intangible property, to be recorded in the financial statements at fair value as of the date of donation. The date of donation for gifts-in-kind occurs when an authorized representative of the University accepts the gift and clear title to the property is delivered to the University. The authorized representative of the University is the President, or the Chancellor as the President’s designee. In general, all gifts of $5 million or more, whether given to the University or to a campus foundation, must be accepted or authorized for acceptance by the President or the President’s designee. The University Office of General Counsel should be consulted when questions arise regarding clear title to an item of property, especially for gifts of art, historic papers or records, personal papers, or photography. After a donation has been made, the following financial reporting issues must be considered in the appropriate fiscal year, regardless of the difficulties or ambiguities:

1. The determination of the fair value of the gift, including the manner in which donor and other external appraisals should be utilized;

2. Whether the gift should be capitalized and depreciated/amortized over future years, capitalized and not depreciated/amortized, or immediately expensed; and

3. If depreciated/amortized, the period over which the recorded value should be depreciated/amortized.
Costs incurred to evaluate donations are the responsibility of the campus and should not be added to the capitalized value of the gift.

A collection of gifts from the same source, same technology, etc., given within a short period of time, should be considered as one gift for purposes of the review process outlined below.

Gift data is also used in the Annual Report on Private Support to The Regents and campus reports to the Council for Aid to Education. While gift data in these reports should correspond as closely as possible to the campus financial statements, because the gift data are based upon reporting standards that differ in some ways, the reports need not reflect exactly the same data. However, where the reports differ, the appropriate campus staff should provide an explanation for the differences. The Development Policy and Administration Manual includes a table that outlines the differences in reporting standards.

II. GIFTS OF INTANGIBLE PROPERTY

The campus may accept gifts of intangible property, contractual rights, or similar intangible assets from commercial enterprises. In general, if the donor organization wishes to claim a tax deduction, the organization will have commissioned an independent appraisal supporting the value of the donation. The assumptions used in these appraisals typically incorporate the donor’s perspective. The assumptions may include:

- An estimate of the potential size of the commercial market, growth rates, market share, etc. and the resulting cash flows;

- An estimate of the inception date for a commercial application based upon the organization’s internal commitment to the research and development effort necessary to bring the invention into commercial use;

- An estimate of the investment in property, equipment, and working capital necessary to bring the invention into commercial use;
II. GIFTS OF INTANGIBLE PROPERTY (Cont.)

- An estimate of the probability of a successful outcome;
- An estimate of the royalty rate; and
- A discount rate based upon the organization's cost of capital.

After the intangible asset has been donated to the campus, the value may differ from that estimated by the donor organization. Appropriate and valid assumptions in a commercial enterprise may not be appropriate in a university setting. Reasons for using different assumptions may include:

- Uncertainty about the size, growth rate and market share for the commercial application;
- A delay in the inception date for a commercial application;
- A review of the appropriate investment required by the University or spin-off organization;
- Different considerations of the probability of a successful outcome;
- Different experiences for royalty rates for similar inventions; and
- Discount rates that are more closely aligned with the perceived risk/return reward requirements from external financial partners.

The approach for determining the fair value of donated intangible property shall represent the best estimate of the value that would be realized by the campus, using assumptions that are specific to the campus. Depending on the value contained in the donor's appraisal, the campus shall perform one of the following reviews:
• If the donor appraised value of the intangible property is less than $5 million, the campus may record the donor’s appraised value in lieu of obtaining an additional independent appraisal of the value that would be realized by the campus, using assumptions that are specific to the campus. Unless the appraised value is immaterial, the campus Controller shall review the donor’s appraisal to ensure agreement with the methodologies and assumptions used in determining the value.

• If the donor appraised value of the intangible property is between $5 million and $20 million, the campus Controller shall consult with the University Office of General Counsel, Financial Management, Office of Technology Transfer, and External Affairs in order to determine whether to record the donor appraised value or to commission an independent review of the donor’s appraised value.

• If the appraised value of the intangible property is greater than $20 million, the campus Controller, in conjunction with the Vice President—Financial Management, may engage an independent firm to review the donor’s appraisal for both methodology and assumptions. The independent firm retained by the University may also assist management in modeling the estimated fair value of the donated intangible property, using assumptions that are specific to the University.

The circumstances surrounding the campus’s intended use of the donated intangible property will determine whether the campus shall be required to: a) record gift income at the fair value and capitalize an asset that will be amortized over a period of years; or b) record gift income at the fair value, with an offsetting research and development expense in the year of donation.

• If the intangible property is utilized in research and development efforts that will likely result in multiple products or uses, the value shall be recorded as gift income and capitalized as an asset that will be amortized over a period of years.
II. GIFTS OF INTANGIBLE PROPERTY (Cont.)

- If the intangible property is utilized in research and development efforts that will likely result in a single product or use, the value shall be recorded as gift income, with an offsetting research and development expense.

If the value of the intangible asset is capitalized, the campus shall amortize the value over a period that relates to the potential future cash flows, up to a maximum of eight years. The Vice President—Financial Management should be consulted with respect to the amortization period.

III. GIFTS OF SOFTWARE

Gifts of software from a vendor or other organization may be donated to a campus. The approach for determining the fair value of donated software must represent the best estimate of the value that would be realized by the campus, using assumptions that are specific to the campus.

- If the gift is a commercially available product, the value may be best determined by obtaining the list price for the software, less any available educational discount.

- If the gift is not a commercially available product, two approaches to valuing the gift may be considered, depending upon the circumstances: 1) the "cost approach," analyzing the cost to develop the product to the point of donation, i.e., the cost to replicate the software; or 2) a forecast of the future income from the product, discounted to present value, if the campus plans to commercialize the software.

Depending on the determined value, the campus shall perform one of the following reviews:

- If the value of the software is determined to be less than $5 million, the campus may record the value determined by using one of the methods outlined above. The campus Controller shall review the analysis to ensure agreement with the methodologies and assumptions used in determining the value.

- If the value is determined to be between $5 million and $20 million, the campus Controller shall consult with the University Office of General Counsel, Financial Management, and External Affairs in order to determine
whether to record the determined value or to commission an independent review of the value.

- **If the value is determined to be greater than $20 million,** the campus Controller, in conjunction with the Vice President-Financial Management, may engage an independent firm to value the software.

The circumstances surrounding the campus’s intended use of the donated software shall determine whether the campus will be required to: a) record gift income at the fair value and capitalize an asset that will be amortized over a period of years; or b) record gift income at the fair value, with an offsetting research and development expense in the year of donation. If the software is utilized in the operations of the campus and requires internal programming costs to install, configure, or customize the product, those costs may also be capitalized to the extent that the cost of the overall project exceeds the University’s capitalization threshold for these circumstances.

- **If the software is utilized for multiple uses, or in research and development efforts that will likely result in multiple products or uses,** the value shall be recorded as gift income and capitalized as an asset that will be amortized over a period of years.

- **If the software is utilized only for a narrow, specific use, or is utilized in research and development efforts that will likely result in a single product or use,** the value shall be recorded as gift income, with an offsetting research and development expense.
III. GIFTS OF SOFTWARE (Cont.)

If the value of the software is capitalized, the campus shall amortize the value over a period representing the estimated useful life of the software, up to a maximum of 5 years. The Vice President-Financial Management should be consulted with respect to the amortization period.

IV. GIFTS OF SPECIALIZED RESEARCH EQUIPMENT

The approach for determining the fair value of donated specialized research equipment shall represent the best estimate of the fair value of these tangible assets.

Two approaches to the valuation of the equipment may be considered, depending upon the circumstances: 1) the donor’s specific book value at the date of donation, if available, which may represent a reasonable approximation of the fair value; or 2) the donor’s original cost of the equipment, less any depreciation based upon the campus’s estimate of the original useful life of the equipment.

Depending on the determined value, the campus shall perform one of the following reviews:

- If the value of the equipment is determined to be less than $5 million, the campus may record the value determined by using one of the methods outlined above. The campus Controller shall review the analysis to ensure agreement with the methodologies and assumptions used in determining the value.

- If the value is determined to be between $5 million and $20 million, the campus Controller shall consult with the University Office of General Counsel, Financial Management, and External Affairs in order to determine whether to record the determined value or to commission an independent review of the value.

- If the value is determined to be greater than $20 million, the campus Controller, in conjunction with the Vice President-Financial Management, may engage an independent firm to value the equipment.

The equipment must be capitalized and depreciated using a useful life that is appropriate for the estimated remaining life of the asset.

V. GIFTS OF STOCK IN CLOSELY-HELD CORPORATIONS OR STOCK OPTIONS
Several approaches may be taken to determine the fair value of stock in closely-held corporations or stock options that are not publicly traded. Valuation of these gifts may be complicated and must be considered on a case-by-case basis. The approach shall result in the best estimate of the fair value of these financial assets.

In all cases, the campus must work with the donor to obtain information necessary to form an opinion as to the value. Financial statements of the organization should be obtained and reviewed to determine any recent transaction indicating a per-share value. In many cases, the Board of Directors establishes a view of the fair value of the stock each time employee stock options are granted. This information may be found in the footnotes to the financial statements or in the Board minutes. In other cases, the company may have recently completed a new round of private financing or redemption of the stock that would provide an indication of the per-share value.

Depending on the determined value, the campus shall perform one of the following reviews:

- **If the value is determined to be less than $5 million**, the campus may record the value determined by using one of the methods outlined above. The campus Controller shall review the analysis to ensure agreement with the methodologies and assumptions used in determining the value.

- **If the value is determined to be between $5 million and $20 million**, the campus Controller shall consult with the University Office of General Counsel, Financial Management, and External Affairs in order to determine whether to record the determined value or to commission an independent review of the value.

V. **GIFTS OF STOCK IN CLOSELY-HELD CORPORATIONS OR STOCK OPTIONS**
(Cont.)

- **If the value is determined to be greater than $20 million**, the campus Controller, in conjunction with the Vice President-Financial Management, may engage an independent firm to value the stock.

The stock or stock options must be recorded as an investment and marked to fair value on June 30 of each year; therefore, on-going information must be developed to perform the annual update of fair value.
VI. GIFTS OF ART OR ANTIQUITIES

In general, valuation of art or antiquities relies on the donor’s appraisal and the reputation of the appraiser. The approach must result in the best estimate of the fair value of these financial assets. In addition, clear title to the property must be established. The University Office of General Counsel may be consulted if title is ambiguous.

Depending on the appraised value furnished by the donor and the evaluation of the appraiser, the campus shall perform one of the following reviews:

- **If the value of the art or antiquities is determined to be less than $5 million**, the campus may record the value determined by the donor’s appraisal. The campus Controller, in consultation with a recognized expert in the field of study, shall review the appraisal to ensure agreement with the methodologies and assumptions used in determining the value.

- **If the value is determined to be in excess of $5 million**, the campus Controller shall consult with the Office of General Counsel, Financial Management, and External Affairs in order to determine whether to record the donor’s appraised value or to commission an independent review of the value.

The art or antiquities must be capitalized in Special Collections and recorded as gift income in the year donated. The value is not depreciated for financial reporting purposes.

VII. GIFTS OF HISTORICAL PAPERS OR RECORDS, PERSONAL PAPERS, OR PHOTOGRAPHY

In general, valuation of historical papers or records, personal papers, or photography relies on the donor’s appraisal and the reputation of the appraiser. The approach must result in the best estimate of the fair value of these financial assets. In addition, clear title to the property must be established. The University Office of General Counsel may be consulted if title is ambiguous.

Depending on the appraised value from the donor and the evaluation of the appraiser, the campus shall perform one of the following reviews:

- **If the value of the historical papers or records, personal papers, or photography is determined to be less than $5 million**, the campus may record the value
VII. GIFTS OF HISTORICAL PAPERS OR RECORDS, PERSONAL PAPERS, OR PHOTOGRAPHY

In general, valuation of historical papers or records, personal papers, or photography relies on the donor’s appraisal and the reputation of the appraiser. The approach must result in the best estimate of the fair value of these financial assets. In addition, clear title to the property must be established. The University Office of General Counsel may be consulted if title is ambiguous.

Depending on the appraised value from the donor and the evaluation of the appraiser, the campus shall perform one of the following reviews:

- **If the value of the historical papers or records, personal papers, or photography is determined to be less than $5 million**, the campus may record the value determined by the donor’s appraisal. The campus Controller, in consultation with a recognized expert in the field of study, shall review the appraisal to ensure agreement with the methodologies and assumptions used in determining the value.

- **If the value is determined to be in excess of $5 million**, the campus Controller shall consult with the University Office of General Counsel, Financial Management, and External Affairs in order to determine whether to record the donor’s appraised value or to commission an independent review of the value.

The historical papers or records, personal papers, or photography must be capitalized in Special Collections and recorded as gift income in the year donated. The value is not depreciated for financial reporting purposes.

VIII. RESPONSIBILITIES

It is the responsibility of the Controller to determine the fair value of all donations and gifts, whether of tangible or intangible property, to record all gift income in campus financial statements, and to determine whether the gift should be capitalized and depreciated/amortized over future years.
**Note: All gifts payable to or intended for The Regents or any other University of California entity (EXCEPT those gifts payable to or intended for a campus foundation) must be deposited and recorded in a Regents' account.

IX. REFERENCES


**Addition 6/30/06
RECORDING OF PLEDGES

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RECORDING OF PLEDGES

I. INTRODUCTION

A pledge is defined as an unconditional promise to give cash or other assets. GASB 33 requires that promises of private donations should be recognized as receivables and revenue in the accounting period in which they are verifiable, measurable, probable of collection, and all applicable eligibility requirements have been met.

The following guidelines will assist in the determination of which pledges to record, calculation of the discounted pledge amount, and the necessary accounting entries. All pledges should be recorded as restricted revenue. Recording pledges as unrestricted revenue, even if they will be unrestricted once received, may lead financial statement users to conclude incorrectly that these funds are currently available.

A minimum dollar amount for recording individual pledges is outlined below for financial statement purposes due to materiality considerations. However, in order to eliminate or minimize differences between gift reporting records and the general ledger, campuses may decide to record all pledges.

<table>
<thead>
<tr>
<th>Type of Gift</th>
<th>Record Pledge</th>
<th>Recognition</th>
<th>Minimum</th>
<th>Restriction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current/Plant/Loan</td>
<td>Yes</td>
<td>Record in full</td>
<td>$50,000</td>
<td>Restricted</td>
</tr>
<tr>
<td>Endowment</td>
<td>No</td>
<td>Record when received</td>
<td>---</td>
<td>Restricted</td>
</tr>
<tr>
<td>Funds Functioning as Endowment-Donor</td>
<td>No</td>
<td>Record when received</td>
<td>---</td>
<td>Restricted</td>
</tr>
<tr>
<td>Designated</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Funds Functioning as Endowment-UC</td>
<td>Yes</td>
<td>Record in full (in Current Funds). Non-mandatory transfer to endowment occurs after the receipt of cash.</td>
<td>$50,000</td>
<td>Restricted</td>
</tr>
<tr>
<td>Designated</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
II. PROCEDURES FOR RECORDING OF PLEDGES

The GASB rules for inclusion of pledges in the financial statements differ from those followed for the Council for Advancement and Support of Education (CASE) standards. For the accounting treatment, a pledge need not be considered as legally binding, but as a non-binding promise of a gift in which the organization has a reasonable expectation that the donor will honor his commitment.

A. Eligibility Requirements for Gift Reporting Prior to Receipt of Funds

According to GASB 33, in order for a gift to be recorded prior to receipt of funds, all four of the following eligibility requirements must be met:

1. **Required characteristics of recipients** - This eligibility requirement is necessary to identify the recipient of certain programs, i.e., a state, a school district, etc.

2. **Time requirements** - Recognition is required in the period when the resources are required to be sold, disbursed, or consumed, or the provider first permits use, or when resources can be invested for a specified term or in perpetuity. In the absence of a specified time requirement, this eligibility requirement is considered met.

3. **Reimbursements** - The resources are provided on a reimbursement basis and allowable costs have been incurred.

4. **Contingencies** - The provider has required some action on the part of the recipient and that action has occurred. An example is a requirement for matching funding. No revenue is recorded until the matching requirement is met.
II. PROCEDURES FOR RECORDING OF PLEDGES (Cont.)

B. Recording of Pledges

Of the four eligibility requirements discussed in GASB 33, two primarily affect recording of gifts: time requirements and contingencies.

Time requirements specify the period when resources are to be used or when use may begin, or, as in endowment gifts, specify that the resources are required to be maintained intact either in perpetuity or until a specified date or event has occurred. Contingencies require the recipient to satisfy a specified action in order to be eligible for the gift. An endowment gift is an example of a pledge that is not recorded until received because of the time requirement. A matching gift is an example of a pledge that is not recorded if it is contingent on a total amount being received from other entities before the matching amount is earned.

1. Determination of the Gross Pledge Revenue (Step 1)

Determine the gross pledges to be recorded and the expected fiscal year of payment. At campus option, pledges for gifts under $50,000 need not be included in the calculation based upon materiality; however, campuses may elect to record all pledges. List all eligible pledges made to the University, regardless of collectibility. The pledges should be separated by fund group and show an amount due each year for each pledge. Totals for each year are then be used for the calculation.
2. Determination of the Allowance for Uncollectible Pledges (Step 2)

No formula is prescribed for the calculation of the allowance for uncollectible pledges. Gross pledges should be reviewed to determine the ultimate collectibility of the amounts, as for any receivable on the balance sheet. Each campus should utilize the following guidelines in order to evaluate the collectibility of their pledges each year.

a. Specific allowance

The specific allowance for uncollectible pledges is recorded as an offset to either current or noncurrent pledges in relation to where the gross pledge is recorded. If the allowance relates to a gross pledge that is recorded as a current pledge receivable, the allowance is recorded as an offset to that current receivable. Similarly, if the allowance relates to a gross pledge that is recorded as a noncurrent pledge receivable, the allowance is recorded as an offset to that noncurrent receivable.

1. More than one year past due - All pledges and payments on pledges older than one year past due are recorded in the allowance for uncollectible pledges, including all future scheduled payments under the pledge, even if the future payment is not yet past due.

2. Less than one year past due - If it is determined through consultation with the appropriate campus personnel that collection is unlikely for pledges that
II. PROCEDURES FOR RECORDING OF PLEDGES (Cont.)

B. Recording of Pledges (Cont.)

2. Determination of the Allowance for Uncollectible Pledges (Step 2) (Cont.)

are less than one year past due, the current payment, plus all future scheduled payments under the pledge, are also recorded in the allowance for uncollectible pledges.

b. General allowance

In addition to establishing specific allowances for specific pledges as outlined above, a general allowance for pledges is recorded utilizing a three-year rolling average of pledges written off. In order to avoid double counting pledges that had been specifically identified in the allowance for uncollectible pledges in prior periods, specific allowances recorded in prior years must be taken into account in making this calculation of the three-year rolling average. Campuses shall base the calculation on historical data available locally.

c. Write-offs

An evaluation of the allowance for uncollectible pledges is made each year in order to determine whether there are specific allowances recorded in the prior year that must be removed by writing off the pledge receivable against the allowance account.

As part of the evaluation process, the campus must assess whether a pledge has been
or is in the process of being restructured. Restructuring discussions with the donor may result in the same gross pledge amount paid over a longer time than originally promised, or for a pledge for a lesser amount over the same term or over a different term.

If a specific pledge is restructured, the campus shall record a marginal adjustment to the gross pledge receivable, the allowance, or the discount, as necessary. If a specific pledge is not restructured and does not appear likely to be restructured, the specific pledge shall be written off.

If it is determined that a specific pledge is to be written off, the gross pledge should be deleted from the calculation of the allowance (Step 2) and the discounted pledge amount (Step 3). This action reduces Pledges Receivable and reduces the Allowance for Doubtful Accounts. The discounted revenue that was recorded in the previous year does not change, but the current year’s revenue is effectively reduced by the reversal of the previous year’s recording of the pledge, which occurs at July 1 (see entry 4 below).

3. Calculation of the Discounted Pledge Amount (Step 3)

Because pledges represent payments to be made in future periods, the present value of the future income must be determined when recording pledges in the financial statements. Three variables are needed in order to perform the calculation: rate, number of periods, and payment amounts. Some financial calculators and Excel are capable of performing this function.
II. PROCEDURES FOR RECORDING OF PLEDGES (Cont.)

B. Recording of Pledges (Cont.)

3. Calculation of the discounted pledge amount
   (Step 3) (Cont.)

   The rate used in calculating the present value of
   the future income is the investment rate the
   University would earn if similar funds were
   invested. For this calculation, the rate is based
   on the annual STIP rate. For ease of calculation,
   pledges expected to be paid in Year 1 are not
   discounted, and pledges in Year 2 and beyond are
   assumed to be paid at the beginning of each year.

   Campuses should list the amount for Year 1
   separately from Year 2 and beyond so that the
   amounts for current and noncurrent receivables are
   available separately.

   Rather than track pledge payments made against
   the receivables throughout the year, these entries
   should be reversed in their entirety in July (4).
   As pledge payments are received, they are recorded
   as gifts (5). At the subsequent year-end,
   outstanding pledges are identified, totaled,
   discounted, and recorded, once again using Steps 1
   through 3 (6-8). Once a pledge is discounted at a
   particular rate, the rate does not change for the
   life of the pledge, but the rate may change each
   year for new pledges received in that year. The
   interest component of the pledge payment
   previously received and discounted does not need
   to be recorded separately.

4. Accounting Entries Necessary to Record a Pledge

   Recording the pledges is an annual calculation
   performed by each campus at year-end unless, at
   campus option, recording and adjusting is more
frequent. Entries are made to accounts in each fund group (loan, plant, current) for which there are pledges. The campus should record the gross pledges receivable from Step 1 (1); determine the collectibility of the pledges, and if necessary, record an allowance for uncollectible pledges at year-end from Step 2 (2); and, finally, calculate the amount of the discount and record a reduction of revenue and a contra-receivable from Step 3 (3).

### Exhibit A

1. **Dr. Pledges receivable-current** 1,890,000  
   **Dr. Pledges receivable-noncurrent** 3,110,000  
   **Cr. Gift Revenue** 5,000,000  
   **Step 1**  
   To record year-end gross pledges

2. **Dr. Gift Revenue** 81,000  
   **Cr. Allowance for Doubtful Accounts** 81,000  
   **Step 2**  
   To record allowance for uncollectible accounts

3. **Dr. Gift Revenue** 490,345  
   **Cr. Discount pledge receivable-noncurrent** 490,345  
   **Step 3**  
   To record discount on pledge receivables

### New fiscal year

4. **Dr. Gift Revenue** 5,000,000  
   **Cr. Pledges receivable-current** 1,890,000  
   **Cr. Pledges receivable-noncurrent** 3,110,000  
   **Step 1**  
   To reverse pledges recorded at previous year-end

   **Dr. Allowance for Doubtful Accounts** 81,000  
   **Cr. Gift Revenue** 81,000  
   **Step 2**  
   To reverse allowance for uncollectible accounts

   **Dr. Discount pledge receivable-noncurrent** 490,345  
   **Cr. Gift Revenue** 490,345  
   **Step 3**  
   To reverse discount on pledge receivables

5. **Payment is received**  
   **Dr. Cash** 1,000,000  
   **Cr. Gift Revenue** 1,000,000  
   **Step 1**  
   To record pledge payment

6. **Dr. Pledges receivable-current** 1,000,000  
   **Dr. Pledges receivable-noncurrent** 3,000,000  
   **Cr. Gift Revenue** 4,000,000  
   **Step 1**  
   To record year-end gross pledges

7. **Dr. Gift Revenue** 60,000  
   **Cr. Allowance for Doubtful Accounts** 60,000  
   **Step 2**  
   To record allowance for uncollectible accounts

8. **Dr. Gift Revenue** 485,000  
   **Cr. Discount pledge receivable-noncurrent** 485,000  
   **Step 3**  
   To record discount on pledge receivable

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Exhibit A (Cont.)

After the entries are recorded, the accounts will appear as follows:

<table>
<thead>
<tr>
<th>Cash</th>
<th>Pledges Receivable-Current</th>
<th>Pledges Receivable-Noncurrent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr</td>
<td>Cr</td>
<td>Dr</td>
</tr>
<tr>
<td>FYE 6/30/00</td>
<td>1,890,000 (1)</td>
<td>FYE 6/30/00</td>
</tr>
<tr>
<td>1,000,000 (5)</td>
<td>1,890,000 (4)</td>
<td>FYE 6/30/01</td>
</tr>
</tbody>
</table>

Discount Pledge Receivable

<table>
<thead>
<tr>
<th>Noncurrent</th>
<th>Gift Revenue</th>
<th>Allowance for Doubtful Accts.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr</td>
<td>Cr</td>
<td>Dr</td>
</tr>
<tr>
<td>FYE 6/30/00</td>
<td>490,345 (3)</td>
<td>FYE 6/30/00</td>
</tr>
<tr>
<td>FYE 6/30/01</td>
<td>485,000 (8)</td>
<td>FYE 6/30/00</td>
</tr>
<tr>
<td>490,345 (4)</td>
<td>485,000 (8)</td>
<td>FYE 6/30/00</td>
</tr>
</tbody>
</table>
ENDOWMENT AND SIMILAR FUNDS

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ENDOWMENT AND SIMILAR FUNDS

"By pooling its endowments the University has provided to every donor of endowment moneys an ultimate assurance of safety, of absolute fairness of treatment, of productivity, and of permanence for the fund which he has created. This means that each endowment fund, the terms of which permit such action, is regarded as having a due proportional share in every investment made with the moneys which represent the total of the endowments thus pooled. Thus each endowment profits proportionately by each particularly favorable investment made, each is insured by the combined millions of the whole pool, and all alike share in the increase in productivity in the pool moneys...."

--Report of the Secretary to the Regents for the Year Ending June 30, 1905

I. INTRODUCTION

The Endowment and Similar Funds group consists of true endowment funds, funds functioning as endowment, funds held in trust by others, deferred gifts (living trust funds, annuity trusts, unitrusts, charitable lead trusts, pooled income, gift annuity), and agency funds.¹

This chapter provides a general description of University's endowment management program and the types of funds that make up the endowment and similar funds group. A brief description of the pools in which the funds in this group are invested is provided in Section IV, Investment. (Accounting Manual Chapter I-582, Investments and Investment Income, provides an overview of the University's investment operations.) This chapter also covers accounting, reporting, and distribution of endowment income and principal appropriated.² In addition, the total return method of calculating the annual payout for certain funds, adopted recently by the Regents, is covered in Section V.D.

¹ Agency funds are reported separately in the University's Annual Financial Report, but are handled as endowments for investment purposes.

² Although endowment income and principal appropriated are actually recorded in the Current Funds group, they are covered in this chapter in order to complete the discussion of the Endowment and Similar Funds group.
II. ENDOWMENT MANAGEMENT

A. AUTHORITIES

The Treasurer of The Regents is responsible for managing the investments of the endowment and similar funds group.

The President, as stated in section 100.4(t) of the Standing Orders of The Regents, has the following responsibilities:

"The President is authorized to determine, consistent with any expressed intent of the donor, the purpose for which and the campus or other location at which a gift shall be used, to determine whether income and/or principal shall be used, and to make allocations and reallocations in accordance therewith, to the extent not specified by the donor of a gift."

The President has redelegated this authority to the Provost and Senior Vice President - Academic Affairs.

The President has redelegated the authority to designate the purpose and type of fund to the Chancellor if the donor has clearly specified the campus at which such funds are to be used.

The Gifts and Bequests Review Committee is authorized to allocate and reallocate gifts and bequests a) in accordance with terms specified by the donor, to designate the purpose for which, and the location at which the income or principal shall be used; and b) consistent with any expressed intent of the donor to make the above determinations to the extent not specified by the donor of the gift. The Committee is also responsible for the review of accumulated endowment income that exceeds five years payout. (The Development Policy and Administration Office (DPA), University and External Relations, Office of the President (OP), performs the staff work for these functions.)

B. ESTABLISHMENT OF NEW FUNDS

The Chancellor may determine the fund designation when new funds are established from monies generated within the University and for new funds established by gifts or bequests, if restrictions are not stipulated by the donor, and the amount is not in excess of $250,000. The Chancellor is granted the same authority for funds
II. ENDOWMENT MANAGEMENT (Cont.)
B. ESTABLISHMENT OF NEW FUNDS (Cont.)

functioning as endowment for amounts up to $500,000. Proposals for gifts in excess of $500,000 should be referred to OP.

The fund designation for each new fund established in the Endowment and Similar Funds group has three components:

1) Type of fund (true endowment, fund functioning as endowment, etc.) (See Section III, Fund Types);

2) Campus or other location at which the fund is to be employed; and

3) Purpose for which the fund may be used (student aid, research, etc.).

The first designation pertains to the general restrictions associated with the principal of the new fund. The second and third designations govern the specific uses of the income, whether principal may be expended, and the conditions under which withdrawals may be made.

When a new endowment fund is established, Financial Management prepares the endowment fund principal and income Account Fund Profiles (AFP) and the Fund Attribute Table (FAT). The AFP sets up the funds in the general ledger. The FAT contains investment instructions, fund restrictions, donor information, a brief synopsis of fund use, and special reporting codes.

C. ADMINISTRATION

The OP Financial Management office is responsible for verifying that endowment and similar funds are established in accordance with the terms of the fund. This office maintains the accounting records for principal and investment income, distributes principal appropriated and endowment payout to campuses or to the proper accounts for expenditure, and provides information to each accounting officer regarding the terms of funds distributed to his/her campus.

The accounting officer is responsible for ensuring compliance with the terms of a fund after appropriations have been transferred to the campuses.
D. ACCUMULATION OF ENDOWMENT INCOME

The University is legally required to administer the endowment funds it has accepted, in accordance with all the terms imposed by the donor. Since an implied requirement of the law is that the University must put endowment payout to use, income may not accumulate for an unreasonable period of time. To ensure compliance with this law, The Office of the General Counsel (General Counsel) has recommended that endowment income should not be allowed to accumulate beyond five years.

This policy does not apply to those situations in which the donor has implicitly or expressly authorized the accumulation of income for longer periods.

The Gifts and Bequests Review Committee is responsible for ensuring compliance with this policy. Accounting officers should review endowment income balances periodically and advise the Secretary of the Gifts and Bequests Review Committee when income from an endowment fund cannot be expended during the mandated period.

If the original terms of an endowment fund are so outdated that it is difficult to expend the income, the Chancellor should notify Financial Management, which will request the General Counsel's assistance in reviewing the terms of the fund. The Chancellor's request should include a proposal outlining an alternative use of the income that is as close to the donor's original intention as possible. If the outdated terms are impossible to satisfy, the General Counsel may seek to have the terms legally altered.

III. FUND TYPES

All funds in the Endowment and Similar Funds group are considered principal, since this fund group includes only those funds intended for investment.

The Endowment and Similar Funds group is divided into the following subgroups, according to the source of the principal or restrictions on use:

- True endowment funds
- Funds functioning as endowment
- Funds held in trust by others
- Deferred gifts
- Agency funds
III. FUND TYPES (Cont.)

A. TRUE ENDOWMENT FUNDS

True endowment funds are funds derived from gifts or bequests, the terms of which stipulate that principal must remain inviolate and that only the income may be expended. The use of income from endowment funds is either restricted by the donor or determined by The Regents.

The University has issued guidelines to gift officers and others regarding the acceptance of endowments (and other gifts) to ensure that the University will not be bound by restrictions that are difficult to administer or are in conflict with established University goals or policies. These guidelines are published by the Vice President--University and External Relations in the Development Policy Manual.

B. FUNDS FUNCTIONING AS ENDOWMENT

Funds in this subgroup are created by a gift or bequest where a donor does not explicitly instruct that it be used as either a current gift or an endowment. At its own discretion, the University may create a fund functioning as endowment. These funds are invested as if they were a true endowment; however, unlike a true endowment, the institution may authorize the expenditure of principal. The main source of funds functioning as endowment is private gifts and bequests. Other examples of such funds include indirect cost recovery on Federal and private agency contracts. These funds are invested as endowments; subsequent allocations for current use are made from principal.

C. FUNDS HELD IN TRUST BY OTHERS

Funds held in trust by others are derived from private gifts and bequests held in trust for investment by outside trustees. The terms of the trusts that established such funds vary; the University may be designated as income beneficiary, principal beneficiary, or both.

These funds are recorded in the general ledger. As income is disbursed to the University by the trustee, it is accounted for and used in the same manner as income from endowment funds.
D. DEFERRED GIFTS

Living trust funds, annuity trusts, unitrusts, pooled income, and gift annuity funds are derived from gifts and bequests, the terms of which stipulate that income must be paid to a designated beneficiary for a specified period, which in most cases is the duration of the beneficiary's life.3

The University currently accepts the following types of deferred gifts:

1) **Annuity trusts** - A fixed dollar amount payment is established at the time a gift is received, based on the market value of the assets.

2) **Unitrusts** - A fixed rate of payment (e.g., five percent of the net fair market value of the trust assets) is established and a valuation must be made at least once a year.

3) **Pooled income funds** - A share of the funds' net income is established, based on the number of units assigned when property is transferred to the fund. The Regents currently have two Pooled Income Funds, the Long Term Income Fund (LTIP) and the General Endowment Pool Balanced Growth Fund (GEPBG).

4) **Gift Annuity Funds** (GAF) - A guaranteed lifetime annuity is established, at a rate based on the beneficiary's life expectancy, in return for an irrevocable gift.4

At the end of a specified payment period, income from these deferred gift funds reverts to the University. The principal of such funds may then

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3 Living trust funds established prior to 1969 required payment only of income earned by the assets of the fund, rather than payment of a set amount. The Tax Reform Act of 1969 limited the types of charitable funds that could be accepted by institutions, and sanctioned only the establishment of annuity trusts, unitrusts, and pooled income funds.

4 California GAF's are regulated by the California Department of Insurance. GAF's require that an institution set aside prudent reserves in a trust account equivalent to the amount required to cover future obligations on each contract.
III. FUND TYPES (Cont.)
   D. DEFERRED GIFTS (Cont.)

   be transferred to the True Endowment, Funds
   Functioning as Endowment, or Current Funds group,
   depending on the terms stipulated by the donor and
   on the amount of principal available.

E. AGENCY FUNDS

   Agency funds are funds invested by the University, in
   its capacity as the custodian or fiscal agent, for
   organizations that are not financially accountable to
   the University, such as certain campus foundations and
   UCSF Stanford Health Care. Such entities enter into a
   contractual arrangement with the Treasurer's Office,
   which stipulates the terms of withdrawal.

IV. INVESTMENT POOLS

   The University invests Endowment and Similar Fund group
   funds in the following pools: General Endowment Pool (GEP),
   High Income Pool (HIP) or Short-Term Investment Pool (STIP).
   In addition, some funds may be held for separate investment.
   Refer to Accounting Manual chapter I-582, Investments and
   Investment Income, for more information.

A. GENERAL ENDOWMENT POOL

   The GEP primarily holds long-term securities and thus
   is intended for funds that are to be retained
   permanently. The GEP is the default investment for
   true endowments and funds functioning as endowment.

B. HIGH INCOME POOL

   Funds invested in the High Income Pool (HIP) include:
   deferred gifts, agency funds, and endowment funds where
   donors have stipulated that the income must exceed that
   provided by the GEP.

C. SHORT TERM INVESTMENT POOL

   Endowment and similar funds are invested in the STIP
   under the following conditions:

   1) Funds to be invested in the GEP that were not
      received on the valuation date will be invested in
      STIP until the next valuation date, so that income
      will accrue in the interim.
2) Funds held for separate investment (see Section D below) that do not hold a specific type of asset.

**Endowment funds** participate in STIP as dollar-day (Type 1) funds; STIP income earned is distributed monthly to designated revenue accounts (J-239590-3XXXX). Participation is based on a daily weighted average for the month—which is ascertained from the STIP history file. The total STIP income available for the month is distributed in proportion to the weighted average.

**Endowment income balances**, however, participate in STIP as dollar-month (Type 2) funds, and STIP income is distributed quarterly to designated revenue accounts (J-267911-3XXXX). Participation is based on month-end general ledger balances. To receive STIP dollar-month income, participating balances must average at least $1,000 per month for the quarter.

For further information on STIP, refer to Business and Finance Bulletin A-60, Short Term Investment Pool (STIP)—Distribution of Income.

**D. SEPARATELY INVESTED FUNDS**

Some funds in the Endowment and Similar Funds group are held for separate investment instead of being pooled in the GEP, e.g., funds with donor or Regents' restrictions that prohibit pooling or limit investment to specific classes of assets, such as bonds, stocks, etc. In addition, the assets of some funds (e.g., deferred gifts) are restricted to tax-exempt securities in order to limit a donor's tax liability. A separately invested fund may hold its own investments or be invested in STIP.

A number of endowment funds hold separate investments in real estate or mortgages that are acquired through gift or bequest.

Certain funds retain investments in oil and gas leases, savings accounts, equities held in trust by others, patents, copyrights, royalty assignments, etc., when the investments are especially attractive, or when retention is required under the terms of a fund.

Certain funds functioning as endowment are invested separately for use as loans to other fund groups for financing construction projects or other University
IV. INVESTMENT POOLS (Cont.)
D. SEPARATELY INVESTED FUNDS (Cont.)

programs. The loans, which normally bear interest, are recorded as investments on the balance sheet of the Endowment and Similar Funds group under the heading Advances to Other Funds.

V. ENDOWMENT INCOME ACCOUNTING AND REPORTING

A. RESTRICTION CODES

A series of restriction codes precede endowment principal account titles in the general ledger to specify restrictions (or the absence thereof) on the use of the income. These restrictions, which are stipulated by the donor or The Regents, relate to general use, specific purpose, and campus location. (See Appendix I-A for a list of restriction codes.)

The five-digit restriction code is broken down as follows:

1) The first two digits, or the specific restriction code, indicate the subgroup to which a fund belongs—true endowment, funds functioning as endowment, annuity funds, etc. It also indicates whether the restriction was stipulated by the donor or The Regents and designates the general use of the fund.

2) The second two digits, the purpose code, identify more specific uses for the endowment income, as shown in the table in Appendix I-B. These purposes may include research, scholarships and fellowships, purchases of library books, endowed chairs, etc.

3) The last digit indicates the location, i.e., the campus to which the endowment income is to be distributed, as designated by the donor or The Regents. (For a list of campus codes, refer to Accounting Manual chapter A-115-2, Accounting Codes: General Ledger.)

The letter J is used to designate OP, multi-campus funds, rotating funds, or funds for nonspecific locations.
B. AVAILABILITY OF INVESTMENT INCOME FOR EXPENDITURE

Endowment fund investment income is recorded in revenue accounts during the year in which the income is earned but is not made available for expenditure by the campuses until the following year.

C. ACCOUNTING FOR INVESTMENT INCOME

Entries into the Endowment and Similar Funds revenue accounts are recorded via different methods, depending upon the source of the investment income. When income from stocks, bonds, and other securities is received, it is entered in the Treasurer's Investment System (TIS).

1. Income from Securities

Securities income earned from GEP investments is credited to revenue account J-238990-38990, and securities income earned by separately invested funds is credited to revenue accounts J-239591-34100 to J-239591-39997 (except J-239591-38990).

Securities income, rents, mortgages, and other types of income are entered into the OP General Ledger.

2. Security Lending

Occasionally, securities are loaned to brokers for specific periods of time. The income earned is distributed to the funds from which the securities were loaned.

3. Advances

Income from loans to construction projects is recorded as part of the advances subsystem of the TIS. The advances subsystem credits income directly to revenue accounts, and also credits an investment account with principal payments.

For a complete table of account codes for GEP funds and separately invested funds, refer to Appendix II.

For funds whose terms require that income be added to endowment principal, investment income is transferred on a monthly basis for GEP, HIP, and
V. ENDOWMENT INCOME ACCOUNTING AND REPORTING (Cont.)

C. ACCOUNTING FOR INVESTMENT INCOME (Cont.)

STIP income, and annually for all other income. The investment income for funds that make endowment income available for expenditure remains in revenue accounts through the June 30 final general ledger after which it is transferred to unexpended balances accounts during the post-closing process. Such balances are transferred to the campuses for expenditure or, in the case of OP programs, are appropriated directly to location J expenditure accounts.

D. TOTAL RETURN METHOD

The University uses the "income-only" method of calculating the annual payout for all endowment funds except funds invested in the GEP. Effective for the fiscal year beginning July 1, 1998, The Regents approved the total return method of calculating the annual payout for funds invested in the GEP. Under this method, institutions are permitted to distribute investment gains (both realized and unrealized) as well as investment income (traditionally defined as rents, royalties, dividends, and interest). Funds invested in other vehicles, e.g., HIP, separately invested, real estate, and oil and gas royalties, will continue to receive payouts based on actual income earned on those investments.

The total return payout methodology approved by The Regents sets the payout formula as follows: up to 4.75% of the sixty-month moving average market value for funds invested in the GEP. This calculation is based on the market value per share of GEP and looks at the number of shares of GEP each participant fund holds for each month of the fiscal year. The sixty-month average concludes with the June 30 market value for each fiscal year.

At the end of each fiscal year after the average market value is calculated, an analysis is performed to determine the total amount of payout for each fund invested in the GEP. This figure is then compared to

5 Adoption of the total return method is predicated on the adoption of the Uniform Management of Institutional Funds Act (UMIFA), which The Regents approved in March 1998.
the actual income earned by the fund, and an augmentation (or reduction) is recorded in the general ledger. This augmentation/reduction is treated in the University financial statements as a non-mandatory transfer. The total return payout is transferred to the campus in the following fiscal year.

E. ENDOWMENT COST RECOVERY ASSESSMENT

In March 1999, The Regents passed a resolution to allow an endowment cost recovery fee assessment for funds currently invested in the GEP. The assessment is a campus unique rate limited to actual costs or 0.15% of the 60-month moving average (see Section D above). Campuses provide financial data annually to Financial Management to substantiate the rate assessed at the campus level. Each year, as income is transferred to the campuses the cost recovery fee is assessed and reported separately to each campus.

Exhibit A provides examples of a total return payout and a cost recovery assessment calculation. The total return payout rate in effect for the fiscal year ending June 30, 1999 is 4.35%. This rate will be reviewed annually and may change.

VI. DISTRIBUTION OF PRINCIPAL APPROPRIATED

When an appropriation is made from principal, the book value of the fund is permanently reduced; this is reflected by a permanent decrease in the balance sheet of the Endowment and Similar Funds group. An offsetting increase appears in the Current Funds group (if the appropriation is for current expenditures), in the Plant Funds group (for capital expenditures), or in the Loan Funds group (for loans). Thus, while it may be said that principal may be expended, the expenditure itself is not recorded within the Endowment and Similar Funds accounts but rather within Current, Plant, or Loan Funds accounts.

Principal appropriated for current expenditure is transferred by financial journal entry from the principal accounts of the Endowment and Similar Funds group to Unexpended Balances--Principal Appropriated (account J-119750, fund blocking 04100-09997) of the Current Funds group. From these J accounts, the balances are transferred (through financial control accounts) to local campus Unexpended Balances--Principal Appropriated accounts (local campus account X-119750, fund blocking 04100-09997). The
VI. DISTRIBUTION OF PRINCIPAL APPROPRIATED (Cont.)

balances are appropriated from the local Unexpended Balances--Principal Appropriated accounts to campus expenditure accounts for authorized purposes.

VII. TRANSFER OF INCOME TO CAMPUSES

The following guidelines govern the transfer of endowment income to campus accounts:

A. ESTIMATE OF ENDOWMENT INCOME

Each spring, Financial Management prepares the Budget of Estimated Endowment Income, which contains a projection of the distributable Endowment and Similar Funds group income available for expenditure during the next fiscal year. This estimate is used to establish a budget file for use in preparing campus operating budgets. A copy of the student aid portion of the budget (sections 3 to 9), which specifies the student aid funds permanently assigned to each campus, is also distributed to the Office of the Provost and Senior Vice President--Academic Affairs to assist in the equitable distribution of multi-campus funds.

On July 1 of each year, campuses make operating budget entries in the general ledger from their revised budget files. Adjustments to actual income are made in the general ledger several months later when endowment income is actually transferred to the campus ledgers. Endowment income assigned to a campus for only one year is established on the campus's general ledger, but not in its budget file.

B. TRANSFER OF INCOME

Three types of income from the Endowment and Similar Funds group are transferred to the campus ledgers in August of each year:

1) Income from endowment funds permanently assigned to a campus;

2) Income from funds rotating among campuses each year; and

3) Income from multi-campus student aid funds allocated by the Office of the Provost and Senior Vice President--Academic Affairs.
Endowment income is transferred to the campuses via a computer-generated journal (02-D86), which identifies the campus location by the restriction code assigned to each fund. The 02-D86 journal does not require a manual response by the campuses. The income from multi-campus, rotating, and OP funds is manually transferred via financial journal by Financial Management or by the campus responsible for the administration of multiple campus funds. These transactions require a campus response.

All endowment income is transferred from Unexpended Balances--Endowment Income (account J-119820, fund blocking 34100-39997), through financial control accounts to the local unexpended balance accounts (local campus account X-119820, fund blocking 34100-39997). From these local accounts the funds are appropriated to campus expenditure accounts for authorized use.

C. COMPLIANCE WITH FUND TERMS

After endowment income has been transferred to the campuses, the campus accounting officer is responsible for ensuring that all expenditures are made in accordance with the terms of a fund. The accounting officer is also responsible for notifying a designated department that income from new endowment funds is available to that department for expenditure.

D. RETURN OF UNEXPENDED INCOME TO OP

Unexpended endowment income and principal appropriated at fiscal year-end are either retained by the campus (carried forward) or must be returned to OP. The following guidelines govern whether unexpended funds are retained or returned by campuses:

1. Income Always Retained by Campuses

Unless the return of unexpended income is mandated by the fund terms, unexpended balances of endowment funds are retained permanently by the campus. Campuses also retain the current year's income of any rotating funds allocated to them for that year.
VII. TRANSFER OF INCOME TO CAMPUSES (Cont.)

D. RETURN OF UNEXPENDED INCOME TO OP (Cont.)

2. Income Always Returned by Campuses

Certain funds require that unexpended income be added to principal; such income must be returned to OP by September 30 (three months after the fiscal year end). Financial Management provides accounting officers with a list of these funds each year, as part of the fiscal closing process.

3. Income Retained by Campuses for Specific Purposes

The income from some OP endowment funds is allocated to campuses to carry out specific projects or programs and may be expended only for these authorized purposes. At fiscal closing, Financial Management provides the accounting officers with a list of those funds from which specific allocations have been made. The campuses retain the unexpended income for any projects or programs that are still in progress; all other unexpended balances must be returned to OP.

VIII. DISTRIBUTION OF INCOME TO OUTSIDE RECIPIENTS

Living trust funds, annuity trusts, unitrusts, pooled income funds, and gift annuity funds require the distribution of income to recipients outside the University. This income is distributed by Financial Management in accordance with agreements with annuitants and trust beneficiaries, or as required by the terms of the fund. Some annuity funds specify that part of the income earned may be retained for the benefit of the University.

The income from agency funds is also distributed to recipients outside the University, since the University is merely acting as a custodian or fiscal agent for these funds. Agency funds income is distributed in accordance with the agency's requirements, or as soon as possible after June 30.

Living trust fund, annuity trust, and unitrust disbursements are charged to a nonreportable expenditure account, Payment to Beneficiaries (account J-804020, fund blocking 34100-39997). In the University's annual Financial Report, payments to beneficiaries are recorded as adjustments to funds balances in the Current Funds group.
IX. REPORTING RESPONSIBILITIES

Each campus is responsible for providing financial statements or reports, as required, to donors or recipients of income from endowments administered by the campus. Financial Management is responsible for providing financial statements or reports, as required, to donors or designees for funds whose income benefits more than one campus.

X. REFERENCES

Development Policy Manual, Development Policy and Administration, Office of the Vice President--University and External Relations.

Standing Orders of The Regents:

Section 100.4 (s) and (t): Duties of the President in regard to allocations of gifts.

Section 100.4 (dd): Duties of the President in regard to solicitation and acceptance of gifts.

The Regents, Minutes adopting the policy on endowed chairs, May 21, 1998.

Vice President Donald Swain, Memorandum to Acting Assistant Vice President J. A. Pastrone on the allocation of unrestricted gifts of $1,000 or less, May 14, 1980.

Senior Vice President Frazer, Memorandum to Associate Vice President Pastrone on the allocation of unrestricted bequests, January 8, 1988.

Delegations:

President David P. Gardner, Memorandum to Chancellors delegating authority to allocate gifts, July 19, 1985 (See DA 1052).

President J.W. Peltason, Memorandum to Chancellors, Vice President--Agriculture and Natural Resources, and Vice President--University and External Relations delegating authority to solicit and accept gifts, March 23, 1994 (See DA 2011).

President J.W. Peltason, Memorandum to Provost Massey delegating authority to allocate gifts and bequests, January 12, 1995 (See DA 2030).
X. REFERENCES (Cont.)

President Richard C. Atkinson, Memorandum to Associate Vice President Hershman delegating authority to allocate operating funds, February 27, 1997 (See DA 2081).

Business and Finance Bulletin

A-60, Short-Term Investment Pool (STIP)--Distribution of Income.

Accounting Manual chapters:

A-115-1, Account Classification.
A-115-2, Accounting Codes, General Ledger.
A-115-3, Accounting Codes: Transaction Codes for Fund Balances Accounts.
I-582, Investments and Investment Income.

## APPENDIX I-A - RESTRICTION CODES--ENDOWMENT AND SIMILAR FUNDS

### SPECIFIC RESTRICTION CODE (FIRST TWO DIGITS) 12114

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<td>Restricted by The Regents for student aid</td>
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**Annuity and Living Trust Funds**

**Gift Annuity Funds**

- Annuity Fund (1969 Tax Reform Act)
- Unitrust (1969 Tax Reform Act)
- Pooled Income (1969 Tax Reform Act)
- Annuity funds
- Trust agreements

**Agency Funds**

Invested for affiliated organizations of the University as a service

**Addition 6/30/00**
APPENDIX I-B

PURPOSE CODE (SECOND TWO DIGITS) 1211 4

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<td>Income added to principal and principal withdrawn for use</td>
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<td>84</td>
<td>Income added to principal to build up fund for ultimate use</td>
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<td>Income added to loan fund</td>
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<td>Trust and agency funds</td>
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**Addition 6/30/00**
APPENDIX II

INVESTMENT INCOME—ACCOUNT CODES

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<td>239592 - 3XXXX</td>
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Exhibit A: University of California  
Examples of Endowment Total Return/Cost Recovery Calculations

1. Endowment Invested at Same Level all Year

<table>
<thead>
<tr>
<th>As of the End of Month</th>
<th>Avg Mkt Value Per Share GEP</th>
<th>Endowment Shares in GEP</th>
<th>Monthly Total Return Rate = 4.35%/12</th>
<th>=</th>
<th>Total Return Payout Amount</th>
<th>Monthly Cost Recovery Rate = .15%/12</th>
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<tr>
<td>JUL 12.39978</td>
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<td>$619.10</td>
<td>0.000125</td>
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<td>$21.35</td>
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**TOTAL** $7,429.26 $256.18

2. Endowment Established During Year with Additional Gifts During Year

<table>
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<tr>
<th>As of the End of Month</th>
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<th>X Monthly Total Return Rate = 4.35%/12</th>
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<th>Total Return Payout Amount</th>
<th>Monthly Cost Recovery Rate = .15%/12</th>
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<tr>
<td>JUL 12.39978</td>
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**TOTAL** $166.13 $5.73