Campus Foundation Financial Reporting Package
FY 2020

The Campus Foundation Financial Reporting Package has been developed to gather the required information for the University to comply with the provisions outlined in GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The templates referred to in the reporting package must be completed, audited and submitted online to UCOP–Financial Accounting no later than September 15, 2020.

If you have any questions, please contact:

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Selected links:

UC SharePoint: sp.ucop.edu
FRP FY19-20: sp.ucop.edu/sites/finacct/corpacctg/Foundation%20FRP%20FY1920/Forms
UCOP GASB and IRM: ucop.edu/financial-accounting/dirbf/dep-irms
Wdesk.com: app.wdesk.com/home/
University of California Annual Financial Reports: ucop.edu/financial-accounting/financial-reports

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Campus Foundation Financial Reporting Package

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1. Objectives, Principles, Approach, Format, UC SharePoint Instructions and Checklist

Government Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units,* (issued 5/02) requires the University of California (the University or UC) financial statements to discretely present the Foundations' (consolidated) statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows. Certain information for notes to financial statements is also presented.

Objectives

The objectives of this document are as follows:

- Outline the financial reporting package (FRP) to gather the financial information (primary financial statements and notes to financial statements) that is generally presented consistently across all campus Foundations in accordance with the principles outlined below.
- Outline the FRP to gather the financial information presented in a manner that is generally consistent with the University's Annual Financial Report presentation in accordance with the principles outlined below.
- Outline the approach to gather the financial information from the Foundations to complete the University's consolidated financial statements and Management's Discussion and Analysis in a timely manner.
- Outline the approach for the presentation of Foundation financial information in the University's Annual Financial Report.

Principles

The individual Foundations and the University of California are both subject to generally accepted accounting principles (GAAP) as outlined by the GASB. However, GAAP, as applicable to the Foundations and the University, allows for alternatives in respect of certain accounting principles.

The principles that are in the interpretation of the GASB Statement No. 39 are as follows:

- GASB Statement No. 39 does not require any individual Foundation to modify existing accounting policy elections as long as they are acceptable under GAAP. The University requirement is for discrete presentation, not consolidation.
- GASB Statement No. 39 does not require any individual Foundation to modify financial statement presentation on their separately audited financial statements.

The fundamental principles used in developing the Foundation FRP are:

- Gather financial information in a manner that generally aligns the classification and presentation of assets, deferred outflow of resources, liabilities, deferred inflow of resources, net position, revenues, expenses, cash flows and notes to financial statements, without requiring conforming accounting policies.
- Outline areas where the University may have a preference of the accounting policy, but would not constitute a requirement for a Foundation to change its accounting policy.

In summary, the completion of the FRP should not create any differences from the individual Foundation's audited financial statements in terms of net position at year-end or the increase or decrease in net position for the year. However, some reclassifications between the individual Foundation's audited financial statements and the FRP may be required.

Approach

The Foundation FRP is prepared by the Foundation management, in coordination with the Campus Controller, as necessary. This package will enable the Foundations to report their financial statements to UCOP in a consistent manner and will include all information required by the GASB to be included in the University's audited financial statements each year.

Additional information will be collected to discuss the Foundation's financial position and operating results in the University's Management's Discussion and Analysis (MD&A) included in the University's published financial statements.

The financial information provided by the Foundation to UCOP is incorporated into the fiscal closing process and schedule. The Foundation's FRP must be completed and submitted online to UCOP no later than **September 15** each year to meet deadlines for the completion of UC's consolidated financial statements, printing, and presentation to The Regents at their November meeting. The Foundation's audit must be completed prior to the submission of the templates on **September 15, 2020** for the Foundation's external auditors to render an opinion to The Regents' external auditors related to their ability to rely on the information in the reporting package to be incorporated into the UC Annual Financial Report. The Regents' external auditors will rely on the work of the Foundation's external auditors and may review the templates at the campuses as part of their year-end audit effort.

Format

The Foundation submits documents online to UCOP's SharePoint website. The Foundation inputs and approves the financial reporting package templates online and UCOP–Financial Accounting retrieves the data for the University's financial statements.

UC SharePoint Instructions

UC SharePoint[1] is provided for Foundations to upload and share files with UCOP Financial Accounting. To be set up for this access, please contact Ruth Satorre at ruth.satorre@ucop.edu.

To access the file directory, from UC SharePoint "Sites by Division" menu, go to Chief Financial Officer Division.
File directory: \Financial Accounting\Corporate Accounting\Foundation FRP FY19-20[2].

FOLDER LEVEL 1	FOLDER LEVEL 2	DESCRIPTION
Administrative Guidelines – Compliance	01 – University of California, Berkeley Foundation 02 – University of California San Francisco Foundation 03 – University of California, Davis Foundation 04 – The UCLA Foundation 05 – UC Riverside Foundation 06 – U.C. San Diego Foundation 07 – U.C. Santa Cruz Foundation 08 – University of California Santa Barbara Foundation 09 – The University of California Irvine Foundation 10 – University of California, Merced Foundation Berkeley Lab Foundation Jonsson Cancer Center Foundation	Foundations to upload files related to compliance with Administrative Guidelines for Campus Foundations
Financial Statements	1 – Draft 2 - Final	Foundations to upload audited financial statements
Management Representation Letter	None	Foundations to upload the signed management representation letter

Checklist

A = Documents required for UCOP to complete the University's annual financial report.
B = Documents required for compliance with the Administrative Guidelines for Campus Foundations.

NO.	DOCUMENT	DUE DATE	SEND TO	NOTE
1.	Campus Foundation Financial Reporting Package	Tuesday, 9/15/2020	Online reporting through Wdesk	A
2.	External auditor's internal communications within the audit firm	Tuesday, 9/15/2020	Filip Nowak, PwC	A
3.	External auditor's policy letter re: compliance with procedures required by the *Regents' Policy on Support Groups, Campus Foundations and Alumni Associations* and the *Administrative Guidelines for Campuses*	Tuesday, 9/15/2020	UCOP SharePoint	A
4.	Signed Management Representation Letter	Tuesday, 9/15/2020	UCOP SharePoint	A
5.	Audited financial statements* *Draft is acceptable with the final to be submitted later	Tuesday, 9/15/2020	UCOP SharePoint	A
6.	Audited financial statements, if the final has not previously been submitted	Friday, 10/2/2020	UCOP SharePoint	B
7.	Report comparing budget to actual administrative expenditures by fund source	Friday, 10/23/2020	UCOP SharePoint	B
8.	List of Foundation officers	Friday, 10/23/2020	UCOP SharePoint	B
9.	List of legal counsel, with name and address	Friday, 10/23/2020	UCOP SharePoint	B
10.	List of directors and/or trustees, with name and address	Friday, 10/23/2020	UCOP SharePoint	B
11.	Report to the State Registry of Charitable Trusts	Friday, 11/6/2020	UCOP SharePoint	B
12.	Tax Return or Copy of Extension Filed	Friday, 11/6/2020	UCOP SharePoint	B

[1] UC SharePoint: sp.ucop.edu
[2] FRP FY19-20: sp.ucop.edu/sites/finacct/corpacctg/Foundation%20FRP%20FY1920/Forms

2. Information on UCOP GASB and Issues Resolution Memoranda Website[3]

The Foundation financial reporting package is maintained and updated on the University's authenticated GASB website which requires login credentials. The website address is ucop.edu/financial-accounting/dirbf/dep-irms/. Please contact Ruth Satorre at ruth.satorre@ucop.edu for access.

The website also contains "Issue Resolutions Memoranda" (IRMs). The conclusions expressed in these IRMs are used in the preparation of the University financial statements and Annual Financial Report. Several of these IRMs may be useful to read as background to understand the basis for certain positions that were adopted by the University and may relate to consistency discussions in the Foundation financial reporting package.

In addition, the website includes the documentation that outlines the University's approach to comply with the expanded disclosure and reporting requirements for deposit and investment risks, derivative financial instruments, fair value measurement and application, and irrevocable split interest agreements as prescribed by GASB Statements Nos. 40[4], 53[5], 72[6], and 81, respectively.

GASB Statements effective for FY 2020

The following GASB Statements were issued. Here are discussions on their applicability to the foundations:

- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, was early adopted by the University's fiscal year beginning July 1, 2019. The Statement requires that interest cost incurred before the end of a construction period to be recognized as an expense in the period in which the cost is incurred. As a result, interest costs would not be capitalized as part of the asset's historical cost. For construction in progress, interest cost incurred after applying this Statement No. 89 will not be capitalized. GASB Statement No. 89 has no impact on the Foundations' financial statements.
- GASB Statement No. 90, *Majority Equity Interests* — An Amendment of GASB Statements No. 14 and No. 61, was effective for the University's fiscal year beginning July 1, 2019. The Statement defines a majority equity interest in a legally separate organization and clarifies the accounting and financial reporting for majority equity interests, classified as either investments or component units, in the financial statements. GASB Statement No. 90 has no impact on the Foundations' financial statements.

GASB Statements effective for FY 2021 and beyond

The following GASB Statements have been issued but not yet implemented.

- GASB Statement No. 84, *Fiduciary Activities*, is effective for the University's fiscal year beginning July 1, 2020; This Statement establishes criteria for identifying fiduciary activities of all state and local governments. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. Custodial Investment Funds, previously "Funds Held for Others," will be reported as fiduciary activities in the Statement of Fiduciary Net Position, and the Statement of Changes in Fiduciary Net Position.
- GASB Statement No. 87, *Leases*, is effective for the University's fiscal year beginning July 1, 2021. This Statement establishes a single approach to accounting for and reporting leases based on the principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right -to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. Limited exceptions to the single-approach guidance are provided for short-term leases, defined as lasting a maximum of twelve months at inception, including any options to extend, financed purchases, leases of assets that are investments and certain regulated leases. The University is evaluating the effect that Statement No. 87 will have on its financial statements.

[3] UCOP GASB and IRM (Authenticated): ucop.edu/financial-accounting/dirbf/dep-irms
[4] GASB Statement No. 40 (Issued 03/03), *Deposit and Investment Risk Disclosures—An Amendment of GASB Statement No. 3*
[5] GASB Statement No. 53 (Issued 06/08), *Accounting and Financial Reporting for Derivative Instruments*
[6] GASB Statement No. 72 (Issued 02/15), *Fair Value Measurement and Application*

3. UC Systemwide Fiscal Closing Schedule

This schedule contains certain steps extracted from the systemwide fiscal closing schedule that relate to closing the Endowment ledger, preparing the Endowment statements for Foundations and finalizing the audit with PwC.

These steps provide a high-level outline of the University's timing to prepare the consolidated financial statements.
A = Applicable if the UC Campus Foundation has investments with the Office of the Chief Investment Officer (OCIO).

NO.	DESCRIPTION	RESPONSIBLE OFFICE	DUE DATE	NOTE
1.	Send Campus Accounting Officers Instructions and List of Endowment Funds which require Unexpended Balances be added to principal or returned to the Office of the President (UCOP).	UCOP	Friday, 6/26/2020	A
2.	UCOP's EIA group to provide rate for discounts of pledges.	UCOP	Friday, 7/17/2020	
3.	Monthly/Quarterly Endowment statements from EIA available to Campus Foundations as of June 30.	Foundation	Friday, 8/7/2020	A
4.	Campus, foundation and external audit teams' final sign-off on Foundation Financial Reporting Package.	Foundation	Tuesday, 9/15/2020	
5.	Campus Foundations to submit Financial Statement Templates and the auditor's independence, opinion letters and copies of audited financial statements to PwC (if necessary) and to UCOP.	Foundation	Tuesday, 9/15/2020	
6.	Signed management representation letters due to PwC.	Foundation	Tuesday, 9/15/2020	
7.	Provide the following documents to UCOP: • Audited financial statements	Foundation	Friday, 10/2/2020	
8.	Provide the following documents to UCOP in compliance with the Administrative Guidelines: • Budget-to-actual report • List of foundation officers • Legal counsel, name and address • Directors and Trustees, names and addresses	Foundation	Friday, 10/23/2020	
9.	Provide the following documents to UCOP in compliance with the Administrative Guidelines: • Report to the State Registry of Charitable Trusts • Tax return or copy of extension filed	Foundation	Friday, 11/6/2020	

4. Financial Reporting Online Templates

Campus Foundations financial reporting worksheets are available through Wdesk[7], an online vendor supported product. UCOP–Financial Accounting distributes the worksheets online, and retrieves the data after all foundations have input and approved. Each time the templates are distributed by UCOP Financial Accounting, users will receive an e-mail notification generated by Wdesk.

The templates consist of 27 tabs from A to L and a "Master Check" tab which displays a summary of control totals from various templates to ensure completeness and accuracy. The expected value of control totals is a zero amount. The current version of Wdesk does not calculate and refresh the data unless it's linked within the same worksheet during data input and prior to approval. Users are encouraged to download the templates to an Excel workbook to balance the data before input.

A. Statements of Net Position (SNP)
B. Statements of Revenues, Expenses and Changes in Net Position (SRECNP)
C. Statements of Cash Flows (SCF)
D. SNP—Assets—Investments—Foundation Investments and Derivative Financial Instruments
E. SNP—Assets—Reconciliation of Deposits with the Office of the Chief Investment Officer
F. SNP—Assets—Investment of Cash Collateral—Securities Lending
G. SNP—Assets—Pledges Receivable—Composition of Pledges Receivable
H. SNP—Liabilities—Outstanding Debt, Obligations under Life Income Arrangements and Other Liabilities Schedule of Activity
I. Subsequent Events
J. GASB 65 Items Previously Reported as Assets and Liabilities
K. GASB 70 Accounting and Financial Reporting for Non-exchange Financial Guarantees Accrual
L. Notes to Financial Statements—Note 17—Endowments – Approved Payout and Spending Rate

Schedule		
1	A	Statements of Net Position (SNP)
2	A.1	Composition of Foundation Cash and Cash Equivalents
3	B	Statements of Revenues, Expenses and Changes in Net Position (SRECNP)
4	C	Statements of Cash Flows (SCF)
5	D.1	Composition of Foundation Investments
6	D.1.1	Composition of Foundation Investments – GASB 72
7	D.2	Credit Risk Profile of Foundation Investments
8	D.3	Custodial Risk of Foundation Investments
9	D.4	Concentration of Credit Risk Associated with Foundation Investments
10	D.5	Interest Rate Risk Associated with Foundation Investments and Investments Sensitive to Changes in Interest Rates
11	D.6	Foreign Currency Risk Associated with Foundation Investments
12	D.7	Liquidity Risk Associated with Foundation Investments
13	D.8	Derivative Financial Instruments
14	D.9	Derivative Financial Instruments: Objectives and Terms of Hedging Derivative Instruments
15	E	Reconciliation of Deposits with the Office of the Chief Investment Officer
16	F.1	Securities Lending—Composition of Investments
17	F.2	Securities Lending—Credit Risk Profile of Investment of Cash Collateral
18	F.3	Securities Lending—Evaluation of Custodial Credit Risk Disclosure
19	F.4	Securities Lending—Concentration of Credit Risk Associated with Foundation Investment of Cash Collateral
20	F.5	Securities Lending—Interest Rate Risk Associated with Foundation Investments of Cash Collateral and Investment of Cash Collateral Highly Sensitive to Changes in Interest Rates
21	F.6	Securities Lending—Foreign Currency Risk Associated with Foundation Investment of Cash Collateral
22	G	Composition of Pledges Receivable
23	H	Outstanding Debt, Obligations under Life Income Arrangements and Other Liabilities Schedule of Activity
24	I	Subsequent Events
25	J	GASB 65 Items Previously Reported as Assets and Liabilities
26	K	GASB 70 Accounting and Financial Reporting for Non-exchange Financial Guarantees Accrual
27	L	Endowments – Approved Payout and Spending Rate

[7] Wdesk.com: app.wdesk.com/home/

5. Financial Reporting Templates—Definitions, Policies and Reporting Requirements

A. Statements of Net Position

GASB 84 will be implemented for the year ending June 30, 2021 and will require implementation of a new accounting policy for reporting fiduciary activities. This standard requires that two new statements be presented: the Statement of Fiduciary Net Position, and the Statement of Changes in Fiduciary Net Position. Fiduciary activities include amounts previously reports by the foundations as agency funds or funds held for others. This change in accounting policy requires agency funds or funds held for others be reported in the new fiduciary statements, with reductions in related assets and liabilities on the Foundation's Statements of Net Position and reductions in investment earnings, investment costs, net investment earnings, and administrative costs in the Foundation's Statements of Revenues, Expenses and Changes in Net Position. See separate discussion regarding fiduciary funds, including custodial investment funds, below.

Assets

Cash and cash equivalents[8]: Foundations may have different accounting policies when defining cash and cash equivalents and short-term investments. Some may classify demand deposit accounts as cash, and everything else as investment. Foundations may treat the University's Short-Term Investment Pool (STIP) either as a cash equivalent, or an investment.

If STIP is classified as cash and cash equivalents in the Foundation's audited financial statements, maintain that same classification for purposes of preparing the financial reporting package (FRP). Identify the portion of cash and cash equivalents represented by STIP separately. All STIP are classified as cash and none is classified as an investment.

If STIP is classified as an investment in the Foundation's audited financial statements, maintain that same classification for purposes of preparing the FRP. All STIP are classified as investment and none is classified as cash.

If endowment cash is classified on a separate line as a noncurrent asset in the separately audited financial statements, reclassify the amount to this cash and cash equivalents line item in current position (as either STIP or All Other, depending on the nature of the endowment cash). This will ensure that the cash and cash equivalents in the statement of cash flows will agree to this line item in the statement of net position.

While there is not a requirement for any Foundation to modify its existing accounting policy with respect to the definition of cash and cash equivalents, the University considers only balances in demand deposit accounts to be classified as cash. All other highly liquid cash equivalents (e.g., money market funds or investments that have maturity dates within 90 days) are classified as short-term investments.

Schedule A.1 Composition of Foundation Cash and Cash Equivalents

This worksheet includes deposits that may, or may not, be exposed to custodial credit risk.

Categories:

- Cash in banks insured by FDIC for deposits up to $250,000 per depositor per bank. Indicate the number of banks
- Cash in banks not insured by FDIC and not collateralized
- Cash in banks collateralized by federal government securities held in the name of the bank
- Cash in banks collateralized by corporate money market or other corporate securities
- Cash invested in STIP
- Deposits-in-transit not yet posted to the bank account
- Other – please explain if significant

Instructions:

- Agree the total to the cash and cash equivalents reported on the statement of net position.
- Include current and prior year balances for each component of cash and cash equivalents. Comments on significant variances between the current year and the prior year should be included on the worksheet.
- Describe the Foundation's formally adopted policy related to custodial credit risk for deposits. This is the Foundation's policy on limiting allowable deposits (GASB[9] Statement No. 40, ¶41, GASB Implementation Guide No. 2015-1, and GASB Implementation Guide No. 2016-1)

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[8] GASB Statements No. 34 (Issued 06/99), *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* and 35 (Issued 11/99), *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities—an amendment of GASB Statement No. 34*, IRM No. 130

[9] GASB Statement No. 40 (Issued 03/03), *Deposit and Investment Risk Disclosure—An Amendment of GASB Statement No. 3*

Investments[10]: Investments may consist of stocks, bonds, U.S. Treasury notes, tax-exempt securities, certificates of deposit, money market accounts, mutual funds, limited partnerships, real estate, investments in the University's Short-Term Investment Pool (STIP) depending on the Foundation's accounting policy, Total Return Investment Pool (TRIP), Blue and Gold Pool (BGP), General Endowment Pool (GEP) and funds held in trust by others.

Investments held for fiduciary activities

For the GASB 84 implementation, investments held for others should no longer be reported.

The primary issues the FRP must address, as they relate to investments, are as follows:

- Whether there must be consistency between the University and the Foundations in terms of how the accounting policy for determining and reporting the value of investments; and
- Whether there must be consistency between the University and the Foundations in terms of the accounting policy used to classify investments as either short-term or long-term on the statement of net position.

Determination of fair market value

Foundations may have different accounting policies to value investments on the statement of net position, and are not required to modify existing accounting policy with respect to the valuation of investments.

[10] GASB Statements No. 34 and 35, IRM No. 129 Classification of Investments and Investment of Cash Collateral

As outlined in the Notes to Financial Statements in the Annual Financial Report, the University's accounting policy for investments is as follows:

University of California 18/19 Annual Financial Report, Notes to Financial Statements, Significant Accounting Policies

Investments are measured and reported at fair value. Securities are generally valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or by utilizing an industry standard pricing service, when available. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued at the quoted bid price of a dealer who regularly trades in the security being valued. Investment in non-exchange traded debt and equity investments are valued using inputs provided by independent pricing services or by brokers/dealers who actively trade in these markets. Certain securities may be valued on a basis of a price provided by a single source.

Investments also include private equities, absolute return funds, real estate, real asset and certain corporate asset-backed securities. Private equities include venture capital partnerships, buyouts, real assets and international funds. Fair values for interests in private equity, absolute value partnerships and real estate partnerships are based on valuations provided by the general partners of the respective partnerships. The valuations are primarily based on the most recent net asset value (NAV) of the underlying investments. The NAV is reported by the external investment managers, including general partners, in accordance with their policies as described in their respective financial statements and offering memoranda. The most recent NAV is adjusted for capital calls, distributions and significant known valuation changes, if any, of its related portfolio through June 30, 20xx and 20xx.

Interests in certain direct investments in real estate are estimated based upon independent appraisals. Because the private equity, real estate, real assets and absolute return partnerships, along with direct investments in real estate, are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would be used had a ready market for such investment existed. These investments are generally less liquid than other investments, and the value reported may differ from the values that would have been reported had a ready market for these investments existed.

For other investments, the University considers various factors to estimate fair value, such as the timing of the transaction, the market in which the company operates, comparable transactions, company performance and projections as well as discounted cash flow analysis. The selection of an appropriate technique may be affected by the availability and general reliability of relevant inputs. In some cased, one valuation technique may provide the best indication of fair value while in other circumstances, multiple valuation techniques may be appropriate. Furthermore, the University may review the investment's underlying portfolio as well as engage external appraisers, depending on the nature of the investment.

The University exercises due diligence in assessing the external mangers' use of and adherence to fair value principles. In conjunction with these procedures, estimated fair value is determined by consideration of a wide range of factors, including market conditions, redemption terms and restrictions and risks inherent to the inputs of the external investment managers' valuation. In situations where the information provided by the external manager is deemed to not be representative of the fair value as of the measurement date, management evaluates specific features of the investment and utilizes supplemental fair value information provided by the external manager along with any relevant market data to measure the investment's fair value.

Investments in registered investment companies are valued based upon the reported net asset value of those companies. Mortgage loans, held as investments, are valued on the basis of their future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Insurance contracts are valued at contract value, plus reinvested interest, which approximates fair value.

Investments denominated in foreign currencies are translated into U.S. dollar equivalents using year-end spot foreign currency exchange rates. Purchases and sales of investments and their related income are translated at the rate of exchange on the respective transaction dates. Realized and unrealized gains and losses resulting from foreign currency changes are included in the University's statements of revenues, expenses and changes in net position.

Classification between short-term and long-term

The classifications of investments as either short-term or long-term may have different approaches or accounting policies acceptable under GAAP. Foundations are not required to modify their accounting policies.

For GASB 84 implementation, fiduciary activities should not be included in the FRP.

If the Foundation's accounting policy is to classify all, or any portion, of STIP, TRIP, BGP, or GEP investments as short-term in the Foundation's separately audited financial statements, maintain the same classification in the FRP. Similarly, if the Foundation's accounting policy is to classify all, or a portion, of these investments as long-term in the Foundation's separately audited financial statements, maintain the same classification in the FRP. List each investment amount, short-term or long-term, separately.

The University's approach to the classification of investments between short-term and long-term is outlined below.

The University classifies demand deposit accounts as cash and cash equivalents, and does not include short-term investments with maturity dates within 90 days. The University classifies all fixed income investments with a maturity of 365 days or less as short-term and a maturity of greater than one year as long-term. All equity investments are classified as long-term, except for investment of cash collateral.

The University's approach is based on the premise that the remaining maturity of the underlying security has priority over the restricted or unrestricted nature of the asset as long as the amount of noncurrent investments on the statement of net position exceeds the restricted nonexpendable net position (e.g., restricted nonexpendable endowments and annuity and life income funds).

If the application of this approach results in the fair value of long-term investments being less than the restricted nonexpendable net position on the statement of net position, then a reclassification of an appropriate amount of short-term investments to long-term is necessary.

In summary, the guidelines[11,12] to be used in preparing the FRP are:

Short-term: Utilize the classification and valuation policies used in preparation of the Foundation's audited financial statements, modified as follows:

- Show the Foundation's investment in the STIP, TRIP, BGP, or GEP separate from all other short-term investments.
- Record the fair value of any investment derivatives.

Long-term: Utilize the classification and valuation policies used in preparation of the Foundation's audited financial statements, modified as follows:

- Show the Foundation's investment in the STIP, TRIP, BGP, or GEP separate from all other long-term investments.
- Record the fair value of any investment derivatives.
- Land and buildings must be classified as long-term unless the circumstances are such that management's intention is to liquidate the asset within the next year.

Schedule D.1 Composition of Foundation Investments gathers the investment information for note disclosures in the AFR.

Investment of cash collateral[13]: If the Foundation participates in a securities lending program, the GASB requires that cash collateral received from the borrower to be reported on the statement of net position as both an asset and liability.

Cash collateral received is invested and reported as "Investment of cash collateral." The University's approach to whether the investment is classified as short- or long-term follows the same approach outlined above for Investments. It is based upon the maturities of the underlying securities.

[11] GASB Statement No. 53, IRM No. 53 *Accounting and Financial Reporting for Derivative Instruments*
[12] GASB Statement No. 72, IRM No. 72 *Fair Value Measurement and Application*

[13] GASB Statements No. 34 and 35, IRM No. 129 *Classification of Investments and Investment of Cash Collateral*

Short-term: All cash collateral invested in fixed income securities with a remaining maturity of less than one year must be classified as a short-term investment at fair market value.

Long-term: All cash collateral invested in fixed income securities with a remaining maturity of more than one year must be classified as a long-term investment at fair market value.

Schedule F Securities Lending

Accounts receivable, net: Accounts receivable is categorized into two major areas: investment income receivable and all other receivables.

Investment income: Include all gross interest, dividends, etc. accrued at the end of the year.

Less: Allowance: Separately show any allowance for uncollectible investment income that is included in the above receivable. The allowance information is necessary for note disclosure in the UC Annual Financial Report.

Other: All other accounts receivable expected to be received within one year should be classified as current. Include receivables related to the timing between trade and settlement date.

Less: Allowance: Show any allowance for uncollectible other receivables for note disclosures in the AFR.

Pledges receivable[14]: Unconditional pledges of private gifts to the Foundation in the future are recorded as pledges receivable and revenue in the year promised at the present value of expected cash flows. Conditional pledges, including pledges of endowments to be received in future periods and intentions to pledge, are recognized when the specified conditions are met or when the promise is made. Pledges for permanent endowments are recognized when received in the "Other changes in net position" section of the statement of revenues, expenses and changes in net position.

Note: Non-payment of pledges should be recorded as follows:

1. If the conditions that result in non-payment of the pledge are precipitated by the University's or Foundation's actions (and not by the donor), the uncollectible pledge is recorded as an operating expense on the SRECNP. Generally, these circumstances are unusual.
2. If the conditions that result in non-payment of the pledge are precipitated by the donor's actions, not by the University of the Foundation, the uncollectible pledge should be recorded as contra revenue on the SRECNP.

Current: All pledges expected to be received as part of the Foundation's normal business operations within one year should be classified as current.

Less: Allowance: Show any allowance for uncollectible pledges receivables for note disclosures in the AFR.

Noncurrent: All pledges, less any unamortized discount to present value, expected to be received as part of the Foundation's normal business operations beyond one year should be classified as noncurrent.

Less: Unamortized discount to present value: Separately show any unamortized discount to present value that relates to pledges receivable where the expected payment extends beyond one year. (The discount rate generally used is the average STIP rate for the year, rounded to the nearest whole percent. The discount rate used in the initial year of the pledge is maintained throughout the term of the specific pledge.) This information is for note disclosures in the AFR.

Less: Allowance: Show any allowance for uncollectible pledges receivables for note disclosures in the AFR.

Schedule G Composition of Pledges Receivable gathers the pledge information for note disclosures in the AFR.

[14] GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, IRM No. 126 *Accounting and Financial Reporting for Derivative Instruments*

The University's Accounting Manual Gifts: Recording of Pledges (on UC SharePoint) has the following guidance:

Procedures for Recording of Pledges

1. Determination of the Gross Pledge Revenue (Step 1)
   Determine the gross pledges to be recorded and the expected fiscal year of payment. Pledges should be determined based on materiality established for each Foundation but the minimum standard for reporting to the University is $50,000. Pledges for gifts under $50,000 are not required to be included in the calculation based upon materiality; however, campuses that find it convenient to do so may elect to reduce the minimum threshold or to record all pledges. List all pledges to be evaluated as to whether or not collectibility is likely. 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.
   a. Aggregation of small gifts
      Campuses should evaluate small gifts (i.e., those that are not tracked individually based on a minimum dollar threshold) and record the estimated net realizable value (after discounts and allowances) based on collection history.
2. Determination of the Allowance for Uncollectible Pledges (Step 2)
   Gross pledges should be reviewed to determine the ultimate collectability based on historical collection experience or specific information available from donors on pledges. Each campus should continue to pursue collection of these pledges and 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 – Pledges and payments on pledges older than one year past due should be considered for inclusion 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 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 or efforts to collect a pledge have been abandoned, 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.

Notes receivable: Notes receivable may consist of either collaterized or noncollaterized notes.

Current: Include the portion of notes receivable expected to be received as part of the Foundation's normal business operations within one year.

Less: Allowance: Show any allowance for uncollectible notes receivables for note disclosures in the AFR.

Noncurrent: Include the portion of notes receivable expected to be received as part of the Foundation's normal business operations beyond one year.

Less: Allowance: Show any allowance for uncollectible notes receivables for note disclosures in the AFR.

Debt Issuance Costs: Debt issuance costs include all costs incurred to issue long-term debt (i.e. general revenue bonds, etc.), including but not limited to insurance costs (net of rebates from the old debt, if any), financing costs (e.g. rating agency fees), and other related costs (e.g. printing, legal, administrative, etc.).

Debt issuance costs, except any portion related to prepaid insurance costs, should be recognized as an expense in the period incurred. Prepaid insurance costs should be reported as an asset and recognized as an expense in a systematic and rational manner over the duration of the related debt.

Capital assets, net of accumulated depreciation: Report total Foundation-owned capital equipment, net of accumulated depreciation if shown as a separate line item on the Foundation's audited financial statements. Otherwise, include the net book value of any property and equipment under "Other noncurrent assets."

Externally held irrevocable trusts/Funds held in trust by others/Beneficial interests in irrevocable split interest agreements[15]: These agreements represent the Foundation's interest as the beneficiary of irrevocable split interest agreements such as charitable trusts where the assets are invested and administered by outside trustees and distributions are made to the Foundation under the terms of the trust arrangement. The Foundation periodically receives notification that it has a financial interest in various irrevocable split interest agreements where the assets are invested and administered by outside trustees.

Foundations should record these in accordance with GASB Statement No. 81, *Irrevocable Split Interest Agreement*. If The Regents of the University of California are the trustee and the campus foundation is the beneficiary of an irrevocable split interest agreement (or vice versa), both the University and the campus foundation must record these in the financial statements. Note that for irrevocable split interest agreements that are outside held where the University has a beneficial interest, these will be reported as Level 3 in the fair value hierarchy because unobservable inputs are used to determine such values (e.g., based on fair value and other assumptions related to life expectancy).

Other assets: Include all other assets, prepaid expenses, etc. not specifically outlined above.

Current: All other position expected to be received/realized as part of the Foundation's normal business operations within one year should be classified as current.

Noncurrent: All other position expected to be received/realized as part of the Foundation's normal business operations beyond one year should be classified as noncurrent. Include the net book value of any property and equipment, unless it is material enough to be shown on the separate line item "Property and equipment, net of accumulated depreciation."

Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net assets by the government that is applicable to a future reporting period. It is unlikely this category will be routinely used, although it may be used in certain circumstances such as accounting for derivative agreements accounted for under GASB[16] No. 53 through hedge accounting or deferred amount from refunding of debt (debits) under GASB[17] No. 65 *Items Previously Reported as Assets and Liabilities*.

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[15] GASB Statement No. 81 (Issued 03/16), *Irrevocable Split-Interest Agreements*
[16] GASB Statement No. 53 (Issued 06/08), *Accounting and Financial Reporting for Derivative Instruments*
[17] GASB Statement No. 65 (Issued 03/12), *Items Previously Reported as Assets and Liabilities*

Liabilities

Accounts payable: Include ongoing trade payables, purchase of securities and other accrued liabilities generated as part of the Foundation's normal business operations.

Unearned revenue or Deferred Inflows of Resources: Unearned revenues or deferred inflows of resources should be recognized if a donor directed gift has been received (payment from the donor is received) and either the conditions or time requirements have not been met. Resources received before time requirements are met but after all other eligibility requirements have been met should be reported as a deferred inflow of resources. Resources received in advance of meeting any conditions or eligibility requirements should be reported as unearned revenues (classified as a liability) by the Foundation.

Conditions or Eligibility Requirements Met (for example, the requirement to use the gift for a specific purpose, meet certain conditions or achieve certain milestones)	Time Requirements Met, (for example, the requirement to use the gift in a specific fiscal year)	Accounting Treatment
Yes	No	Deferred inflow of resources
No	Not applicable since eligibility requirements exist	Unearned revenue included as a component of liabilities

Unearned revenue may include amounts received by the Foundation in a donor directed fund where the donor has not made a determination on the distribution. In these cases, revenue is not recognized until the donor's intentions are determined. The expectation is these situations are resolved within one year. These gifts should also be evaluated for classification as deferred inflows of resources as described above.

GASB 65 also limits the use of the term "deferred" to only deferred outflows and inflows so the Foundation should rename its liabilities from deferred revenue to "unearned".

Collateral held for securities lending: If the Foundation participates in a securities lending program, the cash collateral received from the borrower must be shown on this line item. Not applicable if the Foundation does not participate in a securities lending program.

Schedule F Securities Lending

Annuities payable: Annuities payable represent the actuarially determined future fixed payment contractual obligations to beneficiaries of charitable gift annuities, or annuity trusts, for which the Foundation serves as trustee.

Charitable gift annuities, or annuity trusts, are arrangements where the Foundation agrees to pay the donor (or another annuitant) a fixed sum of money over a term, usually for the remainder of that person's life, in exchange for a current gift. The annuity is a general obligation of the Foundation (see Section 9A, *Summary of Planned or Deferred Gift Arrangements*).

Current: Separately show annuities payable expected to be paid within one year.

Noncurrent: Separately show annuities payable expected to be paid beyond one year.

Schedule H Outstanding Debt, Obligations under Life Income Arrangements and Other Liabilities Schedule of Activity Provide the activity required for note disclosures in the AFR.

Liabilities to life beneficiaries: Liabilities to life beneficiaries represent the actuarially determined value of estimated future contractual obligations to beneficiaries of charitable remainder unitrusts or pooled income funds for which the Foundation serves as trustee.

Charitable remainder unitrusts are identical to charitable remainder annuity trusts except payments to beneficiaries are based upon a fixed percentage of the market value of the trust, re-determined annually (see Section 9A, *Summary of Planned or Deferred Gift Arrangements*).

Pooled income funds resemble charitable remainder annuity trusts in that assets are irrevocably given to the Foundation in trust and the donor, or designated beneficiary, retains a life interest on the income earned on the gift (see Section 9A, *Summary of Planned or Deferred Gift Arrangements*).

Current: Separately show liabilities to life beneficiaries expected to be paid within one year.

Noncurrent: Separately show liabilities to life beneficiaries expected to be paid beyond one year.

Schedule H Outstanding Debt, Obligations under Life Income Arrangements and Other Liabilities Schedule of Activity Provide the activity required for note disclosures in the AFR.

Debt: Mortgages or other borrowings, including any debt arrangements with campuses, or capital leases, must be shown on this line if displayed as a separate line item in the Foundation's audited financial statements.

Current portion of long-term debt: Separately show the portion of long-term debt expected to be paid in one year.

Noncurrent: Separately show the portion of long-term debt expected to be paid beyond one year.

Schedule H Outstanding Debt, Obligations under Life Income Arrangements and Other Liabilities Schedule of Activity Provide the activity required for note disclosures in the AFR.

For current refundings and advance refundings resulting in defeasance of debt reported by the Foundation, the difference between the reacquisition price and the net carrying amount of the old debt should be reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Other liabilities: This category includes all other liabilities not specifically outlined above.

Current: All other liabilities expected to be paid as part of the Foundation's normal business operations within one year should be classified as current.

Noncurrent: All other liabilities expected to be paid as part of the Foundation's normal business operations beyond one year should be classified as noncurrent.

Schedule H Outstanding Debt, Obligations under Life Income Arrangements and Other Liabilities Schedule of Activity Provide the activity required for note disclosures in the AFR.

Deferred Inflows of Resources

Deferred inflows of resources represent the consumption of net position by the government that is applicable to a future reporting period. This category is used for accounting for irrevocable split interest agreements under GASB[18] Statement No. 81. Other than for irrevocable split interest agreements, it is unlikely this category will be routinely used, although it may be used in certain circumstances such as accounting for derivative agreements accounted for under GASB[19] Statement No. 53 through hedge accounting; or deferred amounts from refunding of debt (credits); deferred revenue under GASB[20] Statement No. 65.

Treatment of Irrevocable Split Interest Agreements

I. UC Administered Irrevocable Split Interest Agreement Where the University is also a Beneficiary

1. Remainder Interest – For any irrevocable split interest agreements that the University administers with the University as the beneficiary of a remainder interest, the difference between the asset and liability should be recorded as a deferred inflow of resources upon inception. Deferred inflows should be adjusted for the following for these UC administered irrevocable split interest agreements.
    - Changes in the fair value of investments
    - Reduction in the carrying value of capital assets
    - Changes in liabilities (including the value of annuity and life income liabilities) due to re-measurement

    At termination of these UC administered irrevocable split interest agreements, any remaining deferred inflows should be eliminated and recognized as revenue or an addition to permanent endowment.
2. Lead Interest - For any irrevocable split interest agreements that the University administers with the University as the beneficiary of a lead interest, the University should record deferred inflow of resources based on the settlement amount that incorporates the terms of the agreement and assumptions including estimated rate of return, mortality rate, discount rate, etc. The lead interest benefit for the period should be recognized as a decrease in deferred inflow and recorded as revenue or an addition to permanent endowment. The amount should be re-measured at the end of each period based on the changes in assumptions used to determine the settlement amount. Once the University has received all committed lead interest payments, any remaining deferred inflows should be offset against liability.
3. Life Interest in Real Estate - For any irrevocable split interest agreements that the University administers with the University as the beneficiary of a life interest in real estate, the difference between the asset and liability should be recorded as a deferred inflow of resources upon inception. The changes in the fair value of the investment or the carrying amount of the capital asset should be adjusted at the end of each reporting period into deferred inflows of resources.

II. Third Party Irrevocable Split Interest Agreement Where the University is also a Beneficiary

Upon inception, deferred inflow is recorded in the same amount as the fair value of the beneficial interest of the irrevocable split interest agreement (part of other assets on the SNP). As the beneficial interest asset is re-measured annually, the corresponding deferred inflow is adjusted. Additionally, when the University has a lead interest, deferred inflow is reduced by periodic distributions. Deferred inflows and beneficial interest asset must be liquidated at termination, with an increase in revenue or addition to permanent endowment.

[18] GASB Statement No. 81 (Issued 03/16), *Irrevocable Split-Interest Agreements*
[19] GASB Statement No. 53 (Issued 06/08), *Accounting and Financial Reporting for Derivative Instruments*
[20] GASB Statement No. 65 (Issued 03/12), *Items Previously Reported as Assets and Liabilities*

Net position

Total net position in the financial reporting package must agree to total net position in the Foundation's audited financial statements, although the classification for purposes of preparing the financial reporting package may result in differences among the categories themselves.

Net Investment in Capital Assets: This category includes any capital assets the Foundation may have, net of accumulated depreciation, reduced by any outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Utilize this category only if shown as a separate line item in the Foundation's audited financial statements and in the financial reporting package.

Restricted: This category includes net position resulting from transactions with purpose restrictions as restricted net position until the resources are used for the specific purpose or for as long as the provider requires the resources to remain intact.

Nonexpendable: This category includes the net position subject to externally-imposed restrictions that they be maintained permanently by the Foundation. Such position includes the corpus of the Foundation's permanent endowment funds, plus any amounts added to principal in accordance with the donor's wishes. Trust resources that are not expendable upon maturity are also included in this category. Separately report endowments and annuity and life income funds in this nonexpendable category.

Endowments: This category includes funds to which the donor has stipulated that the fund principal shall remain inviolate and that only income be expended to provide ongoing support of campus programs. Distributions are made consistent with the intentions of the donor. If income is required to be added to principal in accordance with the donor's wishes, it should also be classified in this category.

Annuity and life income funds: Annuity and life income funds are resources acquired by the Foundation subject to an agreement whereby assets are made available on the condition that the Foundation bind itself to pay stipulated amounts periodically to designated individuals. Payments of such amounts terminate at a time specified in the agreement and upon termination the principal of the remaining funds reverts to the Foundation. Utilize this category if the donor's intent includes restrictions where the resource is not expendable upon maturity.

Expendable: This category includes net position whose use by the Foundation is subject to externally-imposed restrictions that can be fulfilled by actions of the Foundation pursuant to those restrictions or that expire by the passage of time. This includes contributions designated by donors for use by particular departments or programs or for specific purposes or functions of the campus. Further, undistributed income, realized gains and losses and unrealized gains and losses in endowment investments are also classified in the appropriate categories outlined below unless otherwise specified by the donor.

Separately report endowments, annuity and life income funds, funds functioning as endowments and gifts within this expendable category. Depending on the nature of the agreement, funds held by others may also be appropriately categorized on the annuity and life income fund or gift line items.

Endowments: This category should include undistributed income and realized and unrealized gains and losses associated with permanent endowments.

Annuity and life income funds: Annuity and life income funds are resources acquired by the Foundation subject to an agreement whereby assets are made available on the condition that the Foundation bind itself to pay stipulated amounts periodically to designated individuals. Payments of such amounts terminate at a time specified in the agreement and upon termination the principal of the remaining funds reverts to the Foundation. Utilize this category if the donor's intent allows for the resources to be expendable upon maturity.

Funds functioning as endowments: This category includes term endowments and quasi-endowments. Quasi-endowments are Foundation assets where the fund principal may be invaded by special request of the fund beneficiary or at the discretion of management or the Board of Directors for the purpose of fulfilling the intent and purpose of the original gift.

This category should include principal, undistributed income and realized and unrealized gains and losses associated with funds functioning as endowments.

Gifts: This category includes donor advised funds and outright gifts of cash, securities, real estate or personal property are made to the Foundation and are immediately available to assist the campus in its programs. Gifts are recognized when they are verifiable, measurable, and probable of collection and all applicable eligibility requirements have been met. Restricted gifts must be used in accordance with the donor's wishes.

This category should include principal, undistributed income and realized and unrealized gains and losses associated with gifts.

Pool participants. This is a new category for GASB 84 requirements.

Unrestricted[21]: Unrestricted net position is not subject to externally-imposed restrictions and is available for use at the Foundation's or Chancellor's discretion.

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[21] GASB Statements No. 34 and 35, IRM No. 132 *Classification of Investments and Investment of Cash Collateral*

B. Statements of Revenues, Expenses and Changes in Net Position

GASB 84 is a new accounting policy for fiduciary activities effective for the year ending June 30, 2021. All investments held for others are reported as custodial investments funds, separate from the foundation and the corresponding income, expenses and changes in net position should be reported in a separate statement.

Operating revenues

Revenues received in conducting the programs and services of the Foundation should be presented in the financial reporting package as operating activities. These revenues do not result from capital and related financing, non-capital financing or investing activities.

Operating revenue includes contributions and other income.

Contributions revenue: Contributions, including pledges meeting the requirements of GASB[22] Statement No. 33, as amended, and GASB[23] Statement No. 36 are recognized as operating revenue in the period received or pledged. Principal operating revenues are derived from gifts and other fund-raising activities. Contributions revenue may include contributions or appropriate pledges from corporations, foundations or individuals.

Contributions revenue includes gifts related to funds functioning as endowment (quasi or term), the accretion of the unamortized discount on pledges receivable and the appropriate annuity and life income funds (those that will not be permanent endowments upon maturity). However, contribution revenue excludes additions to permanently restricted net position which is separately reported under other changes in net position.

Contributions revenue excludes conditional pledges, including pledges for endowment purposes, which depend on the occurrence of a specified future or uncertain event, such as matching gifts from other donors. Conditional pledges are recognized when conditions are substantially met.

Contribution revenue excludes new gifts related to UC and third-party administered irrevocable split interest agreements, changes in the value of annuity and life income liabilities or changes in its fair value under GASB Statement No. 81, Irrevocable Split Interest Agreements; these should be reported as part of deferred inflows of resources. Contribution revenue should only be recorded on the reporting period when the irrevocable split interest agreement is terminated. At termination, any remaining deferred inflows should be eliminated and recognized as revenue or additions to permanent endowments.

Donations of marketable securities, real estate or other non-monetary items are recorded at their fair market value at the date of the gift.

Non-payment of pledges that are precipitated by donor action, not by the University or Foundation, is recorded as contra revenue. Note: The allowance for uncollectible receivables is shown on a separate line item under operating expenses if the conditions that result in non-payment of the pledge are precipitated by the University's or Foundation's actions (and not by the donor).

Other operating revenue: This category includes income from other operating revenue sources not included under contributions revenue.

Capital share and individual account transactions. For GASB 84, this category should include shares sold, reinvested distributions, and shares redeemed.

[22] GASB Statement No. 33 (Issued 12/98), *Accounting and Financial Reporting for Nonexchange Transactions*
[23] GASB Statement No. 36 (Issued 04/00), *Recipient Reporting for Certain Shared Nonexchange Revenues—an amendment of GASB*

Operating expenses

Expenses incurred in conducting the programs and services of the Foundation are presented in the financial reporting package as operating activities. These expenses do not result from capital and related financing, non-capital financing or investing activities.

Operating expenses include grants to campuses, allowance for uncollectible receivables and administrative and other expenses.

Grants to campuses: Grants to campuses include distributions made to campus departments, units or programs. While not a requirement, the preference is to include gift fees paid to campuses in this category.

Allowance for uncollectible receivables: Include the current year allowance for uncollectible pledges or other receivables. The allowance for uncollectible receivables is reported under operating expenses if the conditions that result in non-payment of the pledge are precipitated by the University's or Foundation's actions (and not by the donor). Non-payment of pledges that are precipitated by the donor should be recorded under contribution revenue as contra revenue.

Administrative and other operating expenses: This category includes management, administrative and other operating expenses not specifically outlined above, including travel, office costs, audit, legal, and gifts to others (donor advised funds) etc.

Nonoperating revenues (expenses)

Nonoperating revenues and expenses in the financial reporting package includes investment income and expense, securities lending income, realized gain or loss on the sale of investments, net unrealized appreciation or depreciation in the fair value of investments held at the end of the year, interest expense and other nonoperating income or expense.

Investment income, net: This category includes interest and dividends earned on investments, net of any investment management fees or revolving line of credit expense. Also include changes in the fair value of any investment derivatives. This should exclude those related to UC and third-party administered irrevocable split interest agreements that should be reported as part of deferred inflows of resources.

GASB Statement No. 84 requires the proportional share of investment income, securities lending income, realized gains/losses, unrealized gains/losses, and any other operating activities should be netted against the foundation amounts and reported in the statement of revenues, expenses and net changes in fiduciary net position.

Securities lending income, net: If the Foundation participates in a securities lending program, include the securities lending income, net of fees and rebates.

Realized gains (or losses) on sale of investments: Realized gains or losses should be recorded as the difference between the proceeds from the sale and the cost of the investment sold. The calculation of realized gains and losses is independent of the net unrealized appreciation or depreciation in the fair value of investments held at year-end. This should EXCLUDE those related to UC and third-party administered irrevocable split interest agreements that should be reported as part of deferred inflows of resources.

Net appreciation (depreciation) in fair value of the investments: Net between realized gains (or losses) on sale of investments and unrealized appreciation (depreciation) on investments held at year-end. This should EXCLUDE those related to UC and third-party administered irrevocable split interest agreements that should be reported as part of deferred inflows of resources.

Change in value of annuity and life income liabilities: With the implementation of GASB Statement No. 81, changes in the value of annuity and life income liabilities are now included as part of deferred inflow of resources and NOT part of non-operating income (loss); therefore, this item should NOT be used.

Interest expense: This category includes any interest expense on any outstanding debt.

Other nonoperating income (expenses): This category includes all other nonoperating income or expenses not specifically outlined above.

Other changes in net position

Permanent endowments: Gifts for permanent endowment purposes on this line item include only additions to permanent endowments and other additions of permanently restricted net position, such as the appropriate annuity and life income funds (those that will become permanent endowments upon maturity). Gifts related to funds functioning as endowments (quasi and term) and the appropriate annuity and life income funds (those that will not be permanently restricted upon maturity) are recognized as contributions under operating revenue.

Held for Pool Participants: Report fiduciary fund net position for custodial investment funds as a restricted expendable amount in a separate line.

Net position

Cumulative effect of accounting changes (if applicable): Cumulative effect of accounting changes may arise from the adoption of a newly-issued GASB pronouncement. If accounted for as a cumulative adjustment that does not restate beginning of year net position, report the effect on this line and thoroughly explain the circumstances.

Please notify UCOP–Financial Accounting of any of these circumstances as soon as possible. The disclosure will need to be included in the University's Annual Financial Report.

Restatement of beginning of year net position (or beginning of the year net position if cumulative effect is not applicable): A restatement of beginning of year net position may also arise from the adoption of a newly-issued GASB pronouncement. If accounted for as a restatement of beginning of year net position, report the effect on this line and thoroughly explain the circumstances.

Please notify UCOP–Financial Accounting of any of these circumstances as soon as possible. The disclosure will need to be included in the University's Annual Financial Report.

Beginning of year net position, as reported or restated (if applicable): Must agree to the prior year reporting package used to prepare the UC Annual Financial Report unless the Foundation's prior year audited financial statements have been restated. Please notify UCOP–Financial Accounting of these circumstances as soon as possible. The disclosure will need to be included in the University's Annual Financial Report.

End of year net position: Must agree to the Foundation's audited financial statements for the current year.

C. Statements of Cash Flows

GASB[24] Statement No. 9, paragraphs 12-37, as amended, and GASB[25] Statement No. 34 discuss the classification and reporting of transactions in the statement of cash flows. Cash flows are not required for fiduciary funds; however, cash flows for the foundation should be net of cash flows for fiduciary funds.

The statement of cash flows extracts any non-cash or accrual transactions as reflected in the statement of net position and statement of revenues, expenses and changes in net position. The amounts shown are those directly related to increasing or decreasing cash throughout the reporting period.

For purposes of the Foundation financial reporting package, cash on the statement of cash flows must agree to cash (only the cash shown on the cash line item reported under current assets) reported on the statement of net position.

Transactions are required to be reported in one of four categories using the direct method.

Cash flows from operating activities

Operating activities generally result from providing services and producing and delivering goods, and include all transactions and other events that are not defined as capital and related financing, noncapital financing, or investing activities. Cash flows from operating activities generally are the cash effects of transactions and other events that enter into the determination of net operating income.

Receipts from contributions: Include all activities associated with contributions revenue in the statement of revenues, expenses and changes in net position, adjusted by any accruals or deferrals at the beginning and end of the fiscal year in accounts in the statement of net position necessary to convert contributions revenue from the accrual basis to the cash basis. This category includes contributions from all sources. However, it excludes additions to permanent endowments or other permanently restricted net position, such as annuity and life income funds that will become permanent endowments upon maturity.

Payments to campus: Includes all activities associated with grants to campuses in the statement of revenues, expenses and changes in net position, adjusted by any accruals or deferrals at the beginning and end of the fiscal year in accounts in the statement of net position necessary to convert payments to campus from the accrual basis to the cash basis.

Payments to beneficiaries: While not included on the statement of revenues, expenses and changes in net position since the activity is recorded through the adjustments to the annuity and life income liability accounts, cash payments and cash receipts associated with gift annuities, charitable remainder trusts or pooled income funds are recorded on the statement of cash flows in accordance with the direct method.

If the annuity arrangement requires the income earned to be distributed to the beneficiary, the amount shown on the "Payment to beneficiaries" line must be offset by the amount of investment income earned on the associated trust arrangement that is credited to the annuity and life income liability in the statement of net position and reflected in the statement of cash flows as "Other receipts." In this arrangement, there is no net cash provided or used by operating activities from these transactions.

However, if the annuity arrangement requires additional amounts in excess of the income earned to be paid to the beneficiary requiring liquidation of a portion of the investment, the amount shown on the "Payment to Beneficiaries" line must be the total cash payment, the income earned is reflected as "Other Receipts" and the liquidation of the investment is shown on the "Proceeds from Sales and Maturities of Investments" line in the investing activities section of the statement of cash flows.

Schedule H Outstanding Debt, Obligations under Life Income Arrangements and Other Liabilities Schedule of Activity Payments to beneficiaries must agree to payments associated with annuities payable and liabilities to life beneficiaries shown on the separate worksheet.

Also see the discussion on *Accounting for Annuity and Life Income Arrangements in Section 9B*.

[24] GASB Statement No. 9 (Issued 09/89), *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*
[25] GASB Statement No. 34 (Issued 06/99), *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*

Payments for administrative or operating expenses: Includes all activities associated with administrative and other operating expense on the statement of revenues, expenses and changes in net position, adjusted by any accruals or deferrals at the beginning and end of the fiscal year in accounts in the statement of net position necessary to convert payments for administrative or operating expenses from the accrual basis to the cash basis.

Other receipts (payments): Includes all activities associated with all other operating revenue or expenses not included above in the statement of revenues, expenses and changes in net position, adjusted by any accruals or deferrals at the beginning and end of the fiscal year in accounts on the statement of net position necessary to convert other receipts (payments) from the accrual basis to the cash basis.

In addition, consistent with the "Payments to beneficiaries" discussion above, investment income associated with gift annuities, charitable remainder trusts or pooled income funds are recorded in the statement of cash flows as "Other receipts" in order to offset "Payments to beneficiaries."

As outlined above and discussed in *Accounting for Annuity and Life Income Arrangements in Section 9B*, there is no net cash provided or used by operating activities from annuity and life income transactions.

Cash flows from noncapital financing activities

Noncapital financing activities include cash flows related to private gifts for permanent endowment purposes.

Private gifts for permanent endowment: Includes all activities associated with gifts of permanent endowments or additions to other permanently restricted net position, such as annuity and life income funds that will become permanent endowments upon maturity, reported in the "Other changes in net position" section of the statement of revenues, expenses and changes in net position.

Other receipts: Includes activity related to cash received for a charitable remainder unitrust (CRUT) where a portion of the cash is attributable to the annuity payable. For example, if $8 million of cash is received and $2 million is an addition to permanent endowment and $6 million is an annuity payable, the $6 million is recorded as an "Other receipt" in the "Cash flows from noncapital financing activities" section of the statement of cash flows.

Cash flows from capital and related financing activities

Capital and related financing activities include a) acquiring and disposing of capital assets used in providing services or producing goods, b) borrowing money for acquiring, constructing, or improving capital assets and repaying the amounts borrowed, including interest, and c) paying for capital assets obtained from vendors on credit.

It is unlikely this category will be routinely used, although it may be used in certain circumstances. If the Foundation's audited financial statements include transactions in the "Capital and related financing activities" section of the statement of cash flows, report them in the financial reporting package in a consistent manner. Please contact UCOP–Financial Accounting before using this category.

Proceeds from long-term debt: Includes all activities associated with proceeds from new borrowings during the year.

Purchases of capital assets: Includes all activities associated with purchases of property and equipment during the year that is used in the Foundation's normal business operations, adjusted by any accrued liabilities at the beginning or end of the fiscal year in accounts in the statement of net position necessary to convert property and equipment purchases from the accrual basis to the cash basis.

All activities related to property or equipment held for investment purposes must be shown in the Cash Flows from Investing Activities section on the statement of cash flows.

Do not use this line item unless the activity is material and property and equipment is shown as a separate line item in the Foundation's audited statement of net position and statement of cash flows.

Proceeds from the sale of capital assets: Includes the cash proceeds from the sale of property or equipment that are reported as capital assets.

Do not use this line item unless the activity is material and property and equipment is shown as a separate line item in the Foundation's audited statement of net position and statement of cash flows.

Principal paid on debt: Includes all activities associated with payments of principal on outstanding debt during the year.

Schedule H Outstanding Debt, Obligations under Life Income Arrangements and Other Liabilities Schedule of Activity Any payments on this line item in the statement of cash flows must agree to the payments shown on the separate worksheet.

Interest paid on debt: Includes all activities associated with interest paid on outstanding debt during the year, except for interest payments under lines of credit used for investment related purposes that are recorded as an offset to investment income, adjusted by any interest accruals at the beginning and end of the year in accounts in the statement of net position necessary to convert interest expense from the accrual basis to the cash basis.

Cash flows from investing activities[26]

Investing activities include transactions involving investment purchases and sales and investment income and expense.

With respect to transactions involving investment purchases and sales, the cash flow in the statement of cash flows must use the direct method. There may be different approaches used by Foundations to develop investment transactions using the direct method.

There is not a requirement for any Foundation to modify its accounting policy in this area. For information purposes, the University's approach is based upon two principles:

- The settlement date, not trade date, determines the date when the cash flows, and
- Transactions between the University and the fund manager, or trustee, not transactions of the fund manager, or trustee are recorded as cash flow.

Proceeds from sales and maturities of investments: Includes all activities associated with investment sales or maturities of investments, adjusted by any accruals at the beginning and end of the fiscal year in accounts in the statement of net position necessary to convert sales or maturities of investments from the accrual basis to the cash basis.

Purchases of investments: Includes all activities associated with investment purchases, adjusted by any accruals at the beginning and end of the fiscal year in accounts in the statement of net position necessary to convert investment purchases from the accrual basis to the cash basis.

Investment income, net of investment expense: Includes all interest, dividends or other investment income associated with the Foundation's investments, net of any investment related expenses, adjusted by any accruals at the beginning and end of the fiscal year in accounts in the statement of net position necessary to convert investment income and expense from the accrual basis to the cash basis.

Although not a requirement if the Foundation's audited financial statements are prepared on a different basis, it is the University's preference that the portion of investment income associated with gift annuities, charitable remainder trusts and pooled income funds be classified as "Other receipts," as discussed above.

Proceeds from revolving line of credit: Includes all activities associated with draws under a revolving line of credit that is used to support investment activities.

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[26] GASB 34 & 35, IRM 176 Definition and Presentation of Cash Flow from Investing Activities and Activities of External Trusts

Payments under revolving line of credit: Includes all activities associated with payments under a revolving line of credit that is used to support investment activities.

Cash and cash equivalents

Beginning of year: For purposes of the financial reporting package, cash and cash equivalents in the statement of cash flows must agree to cash and cash equivalents at the beginning of the year in the statement of net position template (cash and cash equivalents in the current assets section), including any reclassification required for endowment cash.

End of year: For purposes of the financial reporting package, cash and cash equivalents in the statement of cash flows must agree to cash and cash equivalents at the end of the year in the statement of net position template (cash and cash equivalents in the current assets section), including any reclassification required for endowment cash.

Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities

The reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities and supplementary noncash activities information is also a required disclosure.

Operating income: Operating income (loss) must agree to the statement of revenue, expenses and changes in net position.

Adjustments necessary to reconcile net operating income (loss) to net cash provided (used) by operating activities

Depreciation expense: Depreciation expense (noncash expense) must be added back to net operating income (loss). Depreciation expense must agree to the amount included in the statement of revenue, expenses and changes in net position.

Noncash gifts: To the extent that non cash gift revenue (marketable securities, real or personal property, etc.) is included in operating income on the statement of revenues, expenses and changes in net position, it must be deducted on the statement of cash flows in order to arrive at net cash provided or used by operating activities. Assuming the other side of this transaction is investments, the "Changes in operating asset and liabilities–investments" line will need to exclude this amount in order for the statement to balance to the increase or decrease in cash for the year. Note: There has been some confusion among foundations regarding this item. The directions presented here are correct and should be followed by all foundations.

Allowance for uncollectible receivables: Allowance for uncollectible receivables (noncash expense) must also be added back to net operating income (loss). The allowance for uncollectible receivables includes the allowances for uncollectible accounts receivables, pledges receivable and notes receivable and must agree to the amount included in the statement of revenue, expenses and changes in net position.

Change in value of annuity and life income liabilities: With the implementation of GASB Statement No. 81, changes in the value of annuity and life income liabilities are now included as part of deferred inflow of resources and NOT part of operating income (loss); therefore, this item should NOT be used.

Changes in assets and liabilities: This section of the statement of cash flows includes only changes in operating assets or liabilities, i.e., those included in the adjustment of operating income (loss) in the statement of revenues, expenses and changes in net position from the accrual to the cash basis as shown on the net cash provided (used) by operating activities in the statement of cash flows. The section excludes changes in assets or liabilities associated with noncapital financing, capital and related financing and investing activities.

Investments: Generally, changes in investments are reported as cash flows from investing activities. However, to the extent that new annuity or life income funds are reported as contribution revenue, include only changes related to the portion of the investments attributable to that contribution revenue. Exclude activity if the foundation has assets that are not attributable to contribution revenue.

Accounts receivable, net: Includes only changes in the gross amount of accounts receivable related to accounts included in operating income. Any allowance for uncollectible receivables is shown separately, as noted above, and investment income receivables generally are of an investing, not operating nature.

Pledges receivable: Include changes in the gross amount of pledges receivable related to accounts included in operating income, including the effect of the change in the unamortized discount to present value. The change in the allowance for uncollectible pledges is shown separately, as noted above, as part of the allowance for uncollectible receivables.

Notes receivable: Include changes in the gross amounts of notes receivable related to accounts included in operating income or (loss). As noted above, the change in the allowance for uncollectible notes receivable is shown separately as part of the allowance for uncollectible receivables.

Funds held in trust by others: The Foundation should not record assets associated with funds held in trust by others within the changes in operating assets and liabilities section. Beneficial interests in irrevocable split interest agreements from outside held trusts should be included in the supplemental noncash activities information of the cash flow statement.

Other assets: Include changes in other assets to the extent that they are related to operating revenue or expenses.

Accounts payable: Include changes in accounts payable to the extent that they are related to accounts included in operating income or (loss).

Annuities payable: Include changes in annuities payable to the extent that they are related to accounts included in operating income or (loss).

Liabilities to life beneficiaries: Include changes in liabilities to life beneficiaries to the extent that they are related to accounts included in operating income or (loss).

Unearned revenue: Include changes in unearned revenue to the extent that they are related to accounts included in operating income or (loss).

Other liabilities: Include changes in other liabilities to the extent that they are related to accounts included in operating income or (loss).

Supplemental noncash activities information

Gifts of property: If a Foundation receives a gift of real or personal property that is included in the statement of revenues, expenses and changes in net position, the fair value of the real or personal property donation must be included on this line.

Gifts of marketable securities: If a Foundation receives a gift of marketable securities that is included in the statement of revenues, expenses and changes in net position, the fair value of the securities donation must be included on this line.

Noncash gifts: If a Foundation receives non cash gifts that are included in the statement of revenues, expenses and changes in net position, the fair value of the non-cash gifts must be included on this line.

Security lending activity: If a Foundation has a securities lending program, increases in collateral held for securities lending from the prior year must be recorded as a positive amount on this line; decreases from the prior year must be recorded as a negative amount on this line.

Interest added to principal: If a foundation does not pay interest expense, but enters into an arrangement where the interest is added to principal, the amount must be recorded on this line as a noncash item.

Beneficial interests in irrevocable split interest agreements: The Foundation should include beneficial interests in irrevocable split interest agreements held outside of the foundation for either the current or past fiscal year that is reported as part of other assets.

Fiduciary Funds

Statement of Fiduciary Net Position: The statement of fiduciary net position should be used to report the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position of custodial investment funds. Net position for investment custodial funds should be reported as restricted: held for pool participants.

Statement of Changes in Fiduciary Net Position: The statement of changes in fiduciary net position should be used to report additions to and deductions from custodial investment funds. The statement of changes in fiduciary net position should disaggregate additions by source including, if applicable, separate display of:

- Investment earnings
- Investment costs (including investment management fees, custodial fees, and all other significant investment-related costs)
- Net investment earnings (investment earnings minus investment costs).

See Exhibit 5A for Statement of Fiduciary Net Position.
See Exhibit 5B for Statement of Changes in Fiduciary Net Position.

Notes to the Financial Statements: To the extent the sections below apply to investments held for fiduciary activities, including custodial investment funds, the disclosures should be included in the footnotes to the financial statements. If the fiduciary funds hold units of the foundation's investment pools, the disclosures for investment funds should be followed, for example, the holdings are valued at NAV. The disclosures can be made either in the form of a table or sentences within the footnotes, either presentation is acceptable.

The statement of fiduciary net position and the statement of changes in fiduciary net positon should not be included in the FRP.

D. SNP—Assets—Investments—Foundation Investments and Derivative Financial Instruments

A more comprehensive discussion of the disclosure requirements under GASB[27,28] Statements No. 40 and 72 are available at the UCOP GASB website.

Schedule D.1 Composition of Foundation Investments

Schedule D.1 Composition of Foundation Investments The worksheet provides a template to categorize the investments shown in the statement of net position by investment type.

AFR Note 2 Investments. This information is disclosed in the University's Annual Financial Report in Note 2.

All deposits with the Office of the Chief Investment Officer (OCIO), including STIP, GEP or State Street CAM or separate investments must be included in the appropriate categories as outlined below.

The schedule of the activity must include current and prior year ending balances by investment type. Comments on significant variances between the current year and prior year should be included on the worksheet.

Definitions to be used for categorizing the securities must be consistent with those used by the University to provide comparable note disclosures in the UC Annual Financial Report. They are as follows:

Equity Securities

Equity securities include common and preferred stocks, convertible securities, American depository receipts, and securities of foreign corporations listed on the New York Stock exchange, American stock exchange, NASDAQ, and foreign exchanges.

[27] GASB Statement No. 40 (Issued 03/03), *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3*
[28] GASB Statement No. 72 (Issued 02/15), *Fair Value Measurement and Application*

Domestic

- Individual common and preferred stocks of U.S. corporations that are purchased in U.S. currency. This also includes common and preferred stocks in non-U.S. corporations that are traded in U.S. currency.

Foreign

- Individual common and preferred stocks of non-U.S. companies that are purchased in a local (non-U.S.) currency
- Individual ADRs (American Depository Receipts)

Fixed- or Variable- Income Securities

Fixed- or variable- income securities include U.S. and foreign government securities, government agency bonds and domestic and foreign corporate bonds.

U.S. Government

U.S. Treasury Bills, Notes & Bonds

- Bills, notes or bonds that are issued, insured or guaranteed by the U.S. government

U.S. Treasury Strips

- Stripped securities that are issued, insured or guaranteed by the U.S. government

U.S. Treasury Inflation Protection Securities (TIPS)

- Treasury Inflation Protection Securities that are issued, insured or guaranteed by the U.S. government

U.S. Government-Backed Securities

- Bonds or notes issued by a federal government agency that are insured or guaranteed by the U.S. government

U.S. Government-Backed – Asset-Backed Securities

- Asset-backed securities issued by a federal government agency that are insured or guaranteed by the U.S. government (e.g., Government National Mortgage Association)

Other U.S. Dollar-Denominated

Corporate Bonds

- Bonds or notes issued by U.S. corporations in U.S. dollar denominations

Commercial Paper

- Commercial paper issued by U.S. corporations in U.S. dollar denominations

Repurchase Agreements

- Repurchase agreements issued by U.S. corporations in U.S. dollar denominations that are not defined as a derivative instrument per GASB Statement No. 53

U.S. Agencies

- Bonds or notes issued by U.S. federal agencies, but not insured or guaranteed by the U.S. government, in U.S. dollar denominations

U.S. Agencies – Asset-Backed Securities

- Asset-backed securities issued by U.S. federal agencies but not insured or guaranteed by the U.S. government in U.S. dollar denominations (e.g., FNMA, Freddy Mac)

Corporate – Asset-Backed Securities

- Asset-backed securities issued by U.S. corporations in U.S. dollar denominations (e.g., Mortgage-backed Securities Pools)
- TBA asset-backed securities that are not defined as a derivative instrument per GASB[29] Statement No. 53

[29] GASB Statement No. 53 (Issued 06/08), *Accounting and Financial Reporting for Derivative Instruments*

Certificates of Deposit

- Certificates of deposit issued by U.S. corporations in U.S. dollar denominations

Supranational/Foreign

- Bonds or notes issued by foreign sovereign, supranationals (i.e., an entity that is formed by two or more central governments through international treaty), foreign agencies or foreign corporations in U.S. dollar denominations.
- Asset backed securities issued by foreign sovereign, supranationals, foreign agencies or foreign corporations in U.S. dollar denominations.

Other

- Municipal bonds issued by institutions within the U.S (e.g., state, local or U.S. territory governments) in U.S. dollar denominations
- Time deposits issued by U.S. banks or corporations in U.S. dollar denominations

Foreign Currency-Denominated

Government/Sovereign

- Bonds or notes issued by foreign sovereign, supranationals (i.e., an entity that is formed by two or more central governments through international treaty), or foreign agencies denominated in currencies other than U.S. dollars.
- Asset backed securities issued by foreign sovereign, supranationals, or foreign agencies denominated in currencies other than U.S. dollars.

Corporate

- Bonds or notes of corporations denominated in currencies other than U.S. dollars
- Asset backed securities of foreign corporations denominated in currencies other than U.S. dollars

Commingled Funds

Absolute Return Funds

- Investments in an absolute return strategy through an external investment pool, for example long/short equity, market neutral equity, convertible bond arbitrage, distressed securities, currencies and global asset allocation.

Balanced Funds

- The General Endowment Pool (the GEP) refers to the UC investment pool managed by the Office of the Chief Investment Officer (OCIO). Include all the Foundation's interest in the GEP on this line. Do not classify by type of underlying security.
- Other investments in external commingled funds that have an asset allocation including both an equity and a fixed income component. This includes both U.S. and non-U.S. balanced funds.

U.S. Equity Funds

- Deposits at State Street Bank representing the charitable assets held in the Russell 3000 fund.
- Investments in external commingled funds that invest primarily in U.S. equity securities.
- U.S. equity funds that may be in a commingled global fund (an external commingled fund that invests U.S. dollars or foreign currencies primarily in equity securities from the U.S., international developed countries and emerging market countries) that invests primarily in U.S. equity securities.

Non-U.S. Equity Funds

- Deposits at State Street Bank representing the charitable assets held in the EAFE fund.
- Investments in external commingled funds that invest primarily in non-U.S. equity securities. Investments may be in U.S. or foreign currencies.
- Non-U.S. equity funds that may be in a commingled global fund (an external commingled fund that invests U.S. dollars or foreign currencies primarily in equity securities from the U.S., international developed countries and emerging market countries) that invests primarily in non-U.S. equity securities.

Private Equity

- Venture capital partnerships
- Buy-out funds
- Include both U.S. and foreign partnerships. Foreign partnership investment may be in U.S. or foreign currencies. In the future, if the foreign partnerships are a significant dollar value they may be broken out separately

U.S. Bond Funds

- Deposits at State Street Bank representing the charitable assets held in the fixed income fund.
- Investments in external commingled funds that invest primarily in U. S. fixed income securities.

Non-U.S. Bond Funds

- Investments in external commingled funds that invest primarily in non-U.S. fixed income securities. Investments may be in U.S. or foreign currencies.

Real Estate Investment Trusts

- Investments in external commingled funds that invest primarily in companies that engage in the ownership, operation or development of income-producing real estate, such as REITs and Real Estate Operating Companies (REOCs).

Real Assets

- Investments in external commingled funds that invest primarily in real assets (physical asset that have value due to their substance and properties such as precious metals, machinery, gas, oil, etc.) and securities of companies that derive their profits or revenues from activities related to real assets.

Money Market Funds

- The Short Term Investment Pool (STIP) refers to the UC investment pool managed by the Office of the Chief Investment Officer (OCIO). Include all the Foundation's interest in the STIP on this line only if the Foundation's accounting policy is to classify STIP as an investment in the Foundation's audited financial statements (if STIP is classified as a cash and cash equivalent, do not include the amount on this investment schedule). Do not classify by type of underlying security.
- Deposits at State Street Bank representing the charitable assets held in the money market fund.
- Investments in external commingled funds that invest primarily in money market securities.

Investment Derivatives

- Investments that are classified as derivatives per GASB[30] Statement No. 53. These investments are typically futures contracts, TBA mortgage-backed securities, options, forward contracts, foreign currency exchange contracts, synthetic guaranteed insurance contracts, select repurchase agreements and interest rate swaps. Investments that are classified as either hedging or investment derivatives should be included.
- a separately managed private equity fund

Mortgage Loans

- Mortgage loans that are made directly by the University, the MOP program loans
- Mortgage loans that are made directly by the Foundation

Real Estate

- Direct investments in real estate, both private investments and publicly traded REIT's.

Other Investments - Insurance Contracts

- Insurance contracts or guaranteed investment contracts issued by insurance companies where only the interest rate is guaranteed. Insurance policies should be included as Other Investments. Note: Synthetic guaranteed insurance contracts, as defined by GASB Statement No. 53, should not be included in this category, but should be reported under derivative investments.

Other Investments - Futures Contracts and Options

- Future, forward and option investments on securities, indices and other risk factors that are not defined as a derivative instrument per GASB Statement No. 53.

Other Investments - Equitized Market Neutral Investments

- Equity funds which are structured to be invested equally long and short in the market. These products are equitized or contain index future overlays of an S&P 500 index or similar market index (e.g., Russell 3000).

Other Investments

- Limited partnership units

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[30] GASB Statement No. 53 (Issued 06/08), *Accounting and Financial Reporting for Derivative Instruments*

- Insurance policies
- Foreign currency contracts not defined as a derivative instrument per GASB Statement No. 53
- Commodities
- Other investments not included above

Note: Deposits with the Office of the Chief Investment Officer (OCIO) other than STIP, TRIP, BGP, GEP or State Street may include separately invested securities. If so, these securities must be included in the appropriate category listed above based upon the nature of each underlying security.

Schedule D.1.1 Composition of Foundation Investments – GASB Statement No. 72

Schedule D.1.1 Composition of Foundation Investments-GASB Statement No. 72[31] The worksheet provides a template to categorize the investments shown in the statement of net position by its fair value hierarchy.

AFR Note 5 Fair Value. This information will be disclosed in the University's Annual Financial Report Note 5.

Please note that all deposits with the Office of the Chief Investment Officer (OCIO), including STIP, GEP or State Street CAM or separate investments must be included in the appropriate categories as outlined below.

Schedule D.1 – Composition of Foundation Investments Total investments must agree to the combined total of current and noncurrent investments on the statement of net position included in the financial reporting package. The sum of all the categories listed here should equal to the total of the categories on the worksheet.

Definitions to be used for categorizing the securities must be consistent with those used by the University in order to provide comparable note disclosure information in the UC Annual Financial Report. They are as follows:

Level 1 – Quoted unadjusted prices in active markets

Prices based on unadjusted quoted prices in active markets that are accessible for identical assets or liabilities are classified as Level 1. Level 1 investments include equity securities commingled funds (exchange traded funds and mutual funds), certain exchange traded derivatives (warrants, rights, options, futures) and other publicly traded securities.

Level 2 – Observable inputs other than quoted prices

Quoted prices in the markets that are not considered to be active, dealer quotations, or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly are classified as Level 2. Level 2 investments include fixed- or variable-income securities, commingled funds (institutional funds not listed in active markets), certain non-exchange traded derivatives (warrants, rights, options, futures, repurchase agreements, swaps, and swaptions), and other assets that are valued using market information.

Level 3 – Unobservable inputs

Investments classified as Level 3 have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value of these investments are based upon the best information in the circumstance and may require significant management judgment. Level 3 investments include private equity investments and real estate.

Net Asset Value (NAV)

Investments whose fair value is measured at NAV are excluded from the fair value hierarchy. Investments in non-governmental entities that do not have a readily determinable fair value may be valued at NAV. Investments measured at NAV included hedge funds, private equity investments, and commingled funds.

Investments in the pools managed by the OCIO (i.e., General Endowment Pool (GEP), Short-Term Investment Pool (STIP), Blue and Gold Pool (BGP) and Total Return Investment Pool (TRIP)) are considered to be external investment pools. These should be reported at net asset value and excluded from the fair value level hierarchy.

[31] GASB Statement No. 72 (Issued 02/15), *Fair Value Measurement and Application*

As outlined in GASB[32] Statement No. 53, paragraph 82, *Additional disclosures for fair value measurements of investments in certain entities that calculate the net asset value (NAV) per share (or its equivalent)*, "A government should disclose information that addresses the nature and risks of the investments and whether the investments are probable of being sold at amounts different from the NAV per share (or its equivalent)." Such information would include the following:

1. Amount of unfunded commitments related to that investment type
2. General description of the terms and conditions upon which a government may redeem investments in the type (for example, quarterly redemption with 60 days' notice)
3. Circumstances in which an otherwise redeemable investment might not be redeemable (for example, investment subject to a redemption restriction such as a lockup or gate)
4. Any other significant restriction on the ability to sell investments in the type at the measurement date

To assess whether investments by type are probable of being sold at amounts different from the NAV per share (or its equivalent) as of the most recent fiscal year end, provide the following information EXCEPT for investments in the pools managed by the OCIO (i.e., General Endowment Pool (GEP), Short-Term Investment Pool (STIP), Blue and Gold Pool (BGP) and Total Return Investment Pool (TRIP)):

- Investment type – absolute return and hedge funds, private equities, real assets, real estate
- Fair value
- Unfunded commitment
- Redemption terms and restrictions – Examples include:
  - Not eligible for redemption
  - Generally, lock-up provisions range from ___ to ___ years. After initial lock-up expires, redemptions are available on a rolling basis and require ___ to ___ days' prior notification.

Not Leveled

Generally, cash equivalents are measured at other than fair value (including amortized cost) and, thus, are not subject to the fair value disclosure requirements. Investments excluded from the fair value hierarchy include US dollars held as part of funds owned solely by the University. If an investment is measured at fair value, it is included in the fair value hierarchy.

[32] GASB Statement No. 53 (Issued 06/08), *Accounting and Financial Reporting for Derivative Instruments*

Frequently Asked Questions for GASB Statement No. 72

Do we need to disclose a roll forward of what is in level 3, similar to what's done by FASB reporters?

No. GASB 72 does not require this information.

What should I do if the leveling information returned by State Street (custodian) is blank?

If leveling information returned by State Street (custodian) is blank, consider the following steps to determine the appropriate the fair value level:

1) Obtain the security CUSIP (investment managers and custodians sometimes use dummy CUSIPs or asset IDs to track securities so ensure that you obtain *the* security CUSIP)
2) Determine the type of security and the pricing source(s) used to determine the price of the security.

What should I do if we have reclassifications made after the leveling information was provided?

When reclassifications are made between types of investments, ensure that the reclassification is appropriately reducing the level that you are reclassifying from and increasing the level that you are increasing. Examples of areas of reclassification will include fund of funds where all investments in the parent and child fund are held by you and derivatives that are not classified under derivatives and need to be reclassified to the derivatives investment line item.

What do I need to do to validate the leveling information provided by State Street?

Validation of the leveling information provided by State Street will be done through attribute sampling. Since State Street only provides leveling information for level 1 and level 2 investment holdings, there is minimal judgement used in determining the fair value level. Further, the risk of material misstatement is determined to be low for the fair value hierarchy disclosures. As such, it is determined that a confidence level of 95%, an expected deviation rate of 0.00%, and a tolerable deviation rate of 10% provides sufficient comfort over the fair value leveling performed by State Street on level 1 and level 2 investment holdings, resulting in a sample size of 30.

Do I need to ask for additional information from the State Street or others?

When beginning the process of obtaining the information from an investment manager or custodian, you can begin by asking the investment manager or custodian for their pricing level policy and/or any communication they may have on GASB Statement 72.

When an investment's NAV is rolled forward from a date prior to the measurement date by the Foundation, is this fair value price still considered at NAV?

If an investment's NAV is provided to UC/foundation prior to the measurement date (e.g. 3/31/YY NAV provided for 6/30/YY year-end) and the UC/foundation performs a roll forward of the NAV to the measurement date (e.g. 6/30/YY) the investment is considered to be measured at NAV and is excluded from the fair value hierarchy.

When an investment's NAV is provided at a date prior to the measurement date and the investee provides an estimated updated NAV to the Foundation at the measurement date is this still considered at NAV?

If an investment's NAV is provided to UC/foundation prior to the measurement date (e.g. 3/31/YY NAV provided for 6/30/YY year-end) and an updated estimated NAV is provided for the measurement date (e.g. 6/30/YY) the investment is considered to be measured at NAV and is excluded from the fair value hierarchy. UC/foundation still needs to ensure that the NAV is being calculated in accordance with fair value measurement.

What other types of assets and liabilities are within scope of GASB 72?

Generally, any asset or liability measured at fair value is within scope of GASB 72. As an example, this includes derivatives held, and investment of cash collateral received as part of securities lending activity.

Schedule D.2 Credit Risk Profile of Foundation Investments

Fixed income securities and derivative financial instruments are subject to credit risk, which is the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline.

Schedule D.2 Credit Risk Profile of Foundation Investments The worksheet gathers the credit rating information. The worksheet includes current and prior year balances for each category that requires disclosure, including those that require disclosure but are "Not rated." Comments on significant variances between the current year and the prior year should be included on the worksheet.

AFR Note 2 Investments Credit Risk. This information is disclosed in the University's Annual Financial Report Note 2.

Since there is no credit risk associated with U.S government guaranteed securities, the amount on this worksheet must equal the "Subtotal-U.S government guaranteed" line item on *Schedule D.1 Composition of Foundation Investments*.

It is necessary to determine the specific credit risk ratings associated with fixed income securities in the "Other U.S. dollar denominated" and "Total foreign currency denominated" categories. The totals for each of these two line items must equal the corresponding line items on Schedule *D.1 Composition of Foundation Investments*.

The following line items require credit risk rating disclosure; however, they are all "Not rated."

- Mortgage loans
- Insurance contracts
- Commingled funds
  - U.S. bond funds
  - Non-U.S. bond funds
  - Money market funds

Schedule D.1 Composition of Foundation Investments The totals for each of these line items must equal the corresponding line items on the worksheet.

Finally, briefly describe the Foundation's formally adopted policy related to credit risk. This is the Foundation's policy that has been formally adopted and limits the Foundation's allowable investments (see GASB[33] Statement No. 40, ¶41, GASB Implementation Guide No. 2015-1, and GASB Implementation Guide No. 2016-1 for a further explanation).

Schedule D.3 Custodial Risk of Foundation Investments

Custodial risk is the risk that in the event of the failure of the custodian, the investment securities may not be returned.

Schedule D.3 Custodial Risk of Foundation Investments The worksheet gathers the exposure to custodial credit risk information related to investment securities necessary for disclosure in the notes to the financial statements in UC's Annual Financial Report. The worksheet includes current and prior year balances for each category that requires disclosure. Comments on significant variances between the current year and the prior year should be included on the worksheet.

Each campus foundation will need to perform its own review to determine the nature and extent of the disclosure required, especially as it relates to securities held by the Foundation's custodian.

Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form; therefore, they have been excluded from the worksheet.

> *External investment pool.* An arrangement that commingles (pools) the moneys of more than one legally separate entity and invests, on the participant's behalf, in an investment portfolio; one or more of the participants is not part of the sponsor's reporting entity. An external investment pool can be sponsored by an individual government, jointly by

[33] GASB Statement No. 40 (Issued 03/03), *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3*

more than one government, or by a nongovernmental entity. An investment pool that is sponsored by an individual state or local government is an external investment pool if it includes participation by a legally separate entity that is not part of the same reporting entity as the sponsoring government. If a government-sponsored pool includes only the primary government and its component units, it is an internal investment pool and not an external investment pool.

Open-end mutual fund. An SEC-registered investment company that issues shares of its stock to investors, invests in an investment portfolio on the shareholders' behalf, and stands ready to redeem its shares for an amount based on its current share price. An open-end mutual fund creates new shares to meet investor demand, and the value of an investment in the fund depends directly on the value of the underlying portfolio. Open-end mutual funds include governmental external investment pools that are registered as investment companies with the SEC and that operate as open-end funds.

Similarly, investments that are evidenced by partnership records, contracts with insurance companies, title documents held in the name of the campus foundation, investment derivatives, etc. are not subject to custodial credit risk disclosure since their existence is not evidenced by securities that exist in either physical or book-entry form. This is the case with real estate, commodities, limited partnership units, futures contracts, options, funds held in trust by others, foreign currency contracts, etc.

A campus foundations' investment in the University's STIP or GEP is considered to be an investment in an external investment pool; therefore, they are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form and no disclosures are required for these specific investments (GASB[34] Statement No. 40, ¶9, GASB Implementation Guide No. 2015-1, and GASB Implementation Guide No. 2016-1).

If the foundation invests in a GEP subsidiary pool, refer to the discussion of the GEP subsidiary pool structure provided in Section 13 of the GASB Statement No. 40 document.

If a campus foundation has individual securities as investments that are "separately invested" by the Office of the Chief Investment Officer (OCIO), they are exposed to custodial credit risk in that they are uninsured, are not registered in the name of the campus foundation, but are held by the University's custodian and registered in the University's, not the campus foundation's name (GASB Statement No. 40, ¶9, GASB Implementation Guide No. 2015-1, and GASB Implementation Guide No. 2016-1).

Finally, briefly describe the Foundation's formally adopted policy related to custodial risk. This is the Foundation's policy that has been formally adopted and limits the Foundation's allowable investments (see GASB Statement No. 40, ¶41 and GASB Implementation Guide No. 2015-1, ¶1.5 for a further explanation).

Schedule D.4 Concentration of Credit Risk Associated with Foundation Investments.

Concentration of credit risk is the risk associated with a lack of diversification of having too much invested in a few individual issues, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic or credit developments.

Schedule D.4 Concentration of Credit Risk Associated with Foundation Investments The worksheet gathers the exposure to concentration of credit risk information necessary for disclosure in the footnotes to the financial statements in UC's Annual Financial Report. The worksheet includes current and prior year balances for each issuer that requires disclosure. Comments on significant variances between the current year and the prior year should be included on the worksheet.

Each campus foundation will need to perform its own review to determine the extent of the disclosure required.

For purposes of making the calculation, affiliates and subsidiaries of parent corporations may be engaged in similar activities and may have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. In these cases, the campus foundation should consider the credit risk of the parent company, its affiliates, and its subsidiaries in determining whether the University holds a concentration of credit risk. For example, if the University holds Ford Motor Co. common stock and a Ford Motor Credit Co. bond, they should be combined in the concentration of credit risk calculations (see GASB Statement No. 40 and GASB Implementation Guide No. 2015-1, ¶1.56).

[34] GASB Statement No. 40 (Issued 03/03), *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3*

Investments issued or guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments are excluded from the requirement. Campus foundation investments in the STIP, GEP, or State Street CAM pools are not included in the concentration of credit risk tests since they are external investment pools.

List each individual issuer and the dollar amount of the investment where the individual issuer exceeds 5 percent of total Foundation investments.

Also, briefly describe the Foundation's formally adopted policy related to concentration of credit risk. This is the Foundation's policy that has been formally adopted and limits the Foundation's allowable investments (see GASB[35] Statement 40, ¶41 and GASB Implementation Guide No. 2015-1, ¶1.5 for a further explanation).

Schedule D.5 Interest Rate Risk Associated with Foundation Investments and Investments Highly Sensitive to Changes in Interest Rates

Interest rate risk is the risk that the value of fixed income securities will decline because of rising interest rates. The prices of fixed income securities with a longer time to maturity, measured by duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations.

Schedule D.5 Interest Rate Risk Associated with Foundation Investments and Investments Highly Sensitive to Changes in Interest Rates The worksheet gathers the exposure to interest rate risk information related to investments and investment derivative instruments. Interest rate risk at UC is measured using the ***effective duration method***. This method must be consistently used by all of the Foundations preparing this worksheet. The worksheet includes current and prior year duration for each category that requires disclosure. Comments on significant variances between the current year and the prior year should be included on the worksheet.

AFR Note 2 Investments Interest Rate Risk. This information is disclosed in the University's Annual Financial Report for all investments.

Note: As discussed in Section 7 of the University's *Approach to Implementing GASB Statement No. 40, Deposit and Investment Risk Disclosures*[36], investments in commingled money market funds other than the STIP will have an effective duration of zero. The effective duration for the STIP will be available on the Office of the Chief Investment Officer (OCIO)'s password-protected website.

The *Interest Rate Risk* portion of the worksheet outlines the investment types requiring disclosure of the duration.

The *Investments Highly Sensitive to Changes in Interest Rates* portion of the worksheet outlines the investment types typically requiring disclosure. Indicate the ***dollar value*** and the ***effective duration*** for each of these categories of specific investments. If there are other types of investments that may fall into the definition outlined in GASB Statement No. 40, ¶16, as amended, and GASB[37] Statement No. 53, ¶76 please contact UCOP–Financial Accounting or the Office of the Chief Investment Officer (OCIO) to discuss the appropriate treatment for worksheet purposes.

Finally, briefly describe the Foundation's formally adopted policy related to interest rate risk. This is the Foundation's policy that has been formally adopted and limits the Foundation's allowable investments (see GASB Statement No. 40, ¶41 and GASB Implementation Guide No. 2015-1, ¶1.5 for a further explanation).

Schedule D.6 Foreign Currency Risk Associated with Foundation Investments

Exposure from foreign currency risk results from investments in foreign currency-denominated equity or fixed income securities.

Schedule D.6 Foreign Currency Risk Associated with Foundation Investments The worksheet gathers the exposure to foreign currency risk information related to investments and investment derivative instruments. The worksheet includes current and

[35] GASB Statement No. 40 (Issued 03/03), *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3*
[36] Approach to Implementing GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, Implementation Document (Updated 05/11)
[37] GASB Statement No. 53 (Issued 06/08), *Accounting and Financial Reporting for Derivative Instruments*

prior year balances for each investment exposed to foreign currency risk that requires disclosure. Comments on significant variances between the current year and the prior year should be included on the worksheet.

AFR Note 2 Investments Foreign Currency Risk. This information is disclosed in the University's Annual Financial Report Note 2.

Each campus foundation will need to perform its own review to determine the extent of the disclosure required. In order to review whether foreign currency exchange contracts are potential derivative investments, refer to IRM[38] 53.5, *Assessing Whether the University's Foreign Currency Exchange Contracts are Investment Derivatives or Hedging Derivatives*, on the UCOP GASB website.

All Foundation investments (this includes separately managed investment accounts) and investment derivative instruments that are exposed to foreign currency risk must be disclosed, including the U.S. dollar balances, organized by currency denomination and investment type. Foreign currency risk disclosures should be consistent with amounts shown as "non-U.S." investments per composition of investments footnote.

If a foundation invests in the GEP (a position in an external investment pool), the foundation does not need to "look through" to the investments of the pool, as this is not required (see GASB[39] Implementation Guide No. 2015-1, ¶1.3.8 and ¶1.65.4). Disclose the dollar amount of the Foundation's share of these pools using the "Commingled funds – balanced funds" category for the GEP. As the GEP does not primarily invest in foreign securities, the value of the GEP will not be disclosed in the foreign currency risk disclosures.

If the Foundation invests in separately managed accounts these securities must be included in the appropriate category based upon the nature of each underlying investment holding. This includes an investment in a separately managed private equity fund held by the foundation. However, if the separately managed account itself holds any commingled funds (or externally managed funds) then a look through would not be required for the individual investment holding (see GASB Implementation Guide No. 2015-1, ¶1.3.8 and ¶1.65.4).

If the Foundation invests in commingled funds (other than GEP) that are denominated in foreign currencies or invest primarily in non-U.S. securities, disclose the full dollar amount as subject to foreign currency risk, as appropriate. This includes investments in balanced funds, real assets, real estate investment trusts, absolute return funds, non-U.S. bond funds, and non-U.S. equity funds.

If the Foundation invests in commingled funds (other than GEP) that are denominated in U.S. currency or invest primarily in U.S. securities, do not disclose the full dollar amount as subject to foreign currency risk, as appropriate.

If the Foundation invests in a limited partnership that has investments in various countries, consisted with the requirements for external investment pools, no "look through" is required. However, if the Foundation investment is in a limited partnership that primarily non-U.S. investments then the fair value of the limited partnership should be disclosed under the foreign currency risk disclosures.

In general, the requirement to disclose foreign currency exposure for commingled funds applies when the fund primarily holds investments Non-U.S. investments (greater than 50% of holdings). This can be determined by a review of the investment strategy of the fund, or a high level review of the underlying investments.

If the Foundation has an investment in other international mutual funds, disclosure is not required for individual investments in the fund. Disclosure of the fair value and type of investment is sufficient (see GASB[40] Statement No. 40, GASB Implementation Guide No. 2015-1, ¶1.65.4).

Finally, briefly describe the Foundation's formally adopted policy related to foreign currency risk. This is the Foundation's policy that has been formally adopted and limits the Foundation's allowable investments (see GASB Statement No. 40, ¶41 and GASB Implementation Guide No. 2015-1, ¶1.5 for a further explanation).

Schedule D.7 Liquidity Risk Associated with Foundation Investments

Securities have liquidity risk if a market price is not available for a security or the security does not have a ready market.

[38] IRM 53.5 *Assessing Whether the University's Foreign Currency Exchange Contracts are Investment Derivatives or Hedging Derivatives*
[39] GASB Implementation Guide No. 2015-1
[40] GASB Statement No. 40 (Issued 03/03), *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3*

Alternative investments are defined as marketable alternatives (hedge funds), limited partnerships, private equity, venture capital funds and certain asset-backed securities. All of these securities are considered to have liquidity risk.

Schedule D.7 Liquidity Risks If the Foundation invests in alternative or non-readily traded investments, this worksheet gathers the information for note disclosures in the AFR. Include current and prior year ending balances for alternative investments, and comments on significant variances between the current year and the prior year should be included on the worksheet.

Schedule D.8 Derivative Financial Instruments

This worksheet is not applicable if the Foundation does not utilize derivative financial instruments.

Schedule D.8 Derivative Financial Instruments If the Foundation uses derivative financial instruments, the worksheet gathers the information for note disclosures in the AFR. Include current and prior year ending balances for alternative investments, and comments on significant variances between the current year and the prior year should be included on the worksheet. Refer to GASB[41,42] Statements No. 53 and 72 IRMs on the UCOP GASB website.

Schedule D.9 Derivative Financial Instruments: Objectives and Terms of Hedging Derivative Instruments

This worksheet is not applicable if the Foundation does not have hedging derivative financial instruments.

Schedule D.9 Derivative Financial Instruments: Objectives and Terms of Hedging Derivative Instruments If the Foundation uses hedging derivative financial instruments, the worksheet gathers the information for note disclosures in the AFR. Refer to GASB Statements No. 53 and 72 IRMs on the UCOP GASB website. The worksheet includes the objectives and terms outstanding at June 30, and the credit rating of the associated counterparty.

The accounting for derivative agreements subject to hedge accounting requires that the gains or losses associated with fair value changes be deferred and reported as a deferred inflow of resources or deferred outflow of resources on the Statement of Net Position.

E. SNP—Assets—Reconciliation of Deposits with the Office of the Chief Investment Officer

The University must exclude from its statement of net position all deposits that the Foundations have with the Office of the Chief Investment Officer (OCIO), regardless of whether they are recorded at UCOP Endowment and Investment Accounting (EIA), State Street Charitable Asset Management (CAM), or at the campus; or whether they are classified as investments or cash and cash equivalents in the Foundation's SNP. Therefore, this reconciliation is extremely important in the consolidation process.

Schedule E Reconciliation of Deposits with the OCIO The worksheet reconciles between the amounts reported by foundations as deposits with the OCIO and the amounts reported by UCOP EIA and State Street CAM, and separately identifies the following:
Per campus foundations:

- Deposits classified as investments that are recorded at UCOP by EIA and included in the foundation's SNP (line A);
- Deposits classified either as investments or cash and cash equivalents that are recorded at State Street CAM and included in the foundation's statement of net position (line B);
- Deposits classified as cash equivalents that are recorded at UCOP by EIA and included in the foundation's SNP (line C);
- STIP deposits classified as cash equivalents that are recorded at the campus and included in the foundation's SNP (line D);
- Deposits with the OCIO that are recorded at UCOP by EIA, but are not included in the foundation's SNP (line F).
  Per June confirmation statements:
- Deposits with the OCIO per the UCOP EIA June 30 statement (line H);
- Deposits (investments and cash and cash equivalents) with the OCIO held at State Street CAM per the State Street June 30 statement (line I);
- Deposits with the OCIO that are recorded at UCOP by EIA, but not included in the UCOP EIA June 30 statement (line J);
- STIP deposits recorded at the campus, but not included in the UCOP EIA June 30 statement (line K).

Foundations must provide brief explanations and fund number information for deposits classified as cash equivalents recorded at the campus, as well as for deposits that are not included in the their statements of net position.

Differences between lines G (Campus records) and L (University records) must be explained.

[41] GASB Statement No. 53 (Issued 06/08), *Accounting and Financial Reporting for Derivative Instruments*
[42] GASB Statement No. 72 (Issued 02/15), *Fair Value Measurement and Application*

F. SNP—Assets—Investment of Cash Collateral—Securities Lending

Schedule F.1 Securities Lending—Composition of Investments

This worksheet is not applicable if the Foundation does not participate in a securities lending program. Please contact UCOP–Financial Accounting to discuss this template if it is applicable to your Foundation.

Schedule F.1 Securities Lending – Composition of Investments If the Foundation participates in a securities lending program, the worksheet gathers the information for note disclosures in the AFR. The worksheet includes current and prior year ending balances for securities lending information, and the securities lending income and fees and rebates. Include comments on significant variances between the current year and the prior year should be included on the worksheet.

AFR Note 3 Securities Lending. This information is disclosed in the University's Annual Financial Report Note 3.

Schedule D.1 Composition of Foundation Investments Definitions to be used for categorizing the securities must be consistent with those used by the University and as specified in the instructions to this worksheet.

Schedule F2. Securities Lending—Credit Risk Profile of Investment of Cash Collateral

This worksheet is not applicable if the Foundation does not participate in a securities lending program. Please contact UC–Financial Accounting to discuss this template if it is applicable to your Foundation.

Schedule F.2 Securities Lending – Credit Risk Profile of Foundation Investments If the Foundation participates in a securities lending program, the worksheet gathers the credit rating information necessary for disclosure in the notes to the financial statements in UC's Annual Financial Report. The worksheet includes current and prior year balances for each category that requires disclosure, including those that require disclosure but are "Not rated." Comments on significant variances between the current year and the prior year should be included on the worksheet.

Schedule D.1 Composition of Foundation Investments Definitions to be used for categorizing the securities must be consistent with those used by the University and as specified in the instructions to this worksheet.

Although equity securities are not subject to credit risk profile disclosure, list the amount of any investment of cash collateral that is invested in equity securities so that the worksheet reconciles all investment of cash collateral shown on the Schedule F.1, *Securities Lending – Composition of Investments*, by investment type.

List the amount of cash collateral that is invested in U.S government guaranteed securities.

It is necessary to determine the specific credit risk ratings associated cash collateral that is invested in fixed income securities in the "Other U.S. dollar-denominated" and "Total foreign currency-denominated" categories.

List the amount of cash collateral that is invested in any of the following investment types:

- Mortgage loans
- Insurance contracts
- Commingled funds
    - U.S. bond funds
    - Non-U.S. bond funds
    - Money market funds

Schedule F.1 Securities Lending – Composition of Investments The total investment of cash collateral must equal the corresponding line item on the worksheet.

Finally, briefly describe the Foundation's formally adopted policy related to credit risk associated with the investment of cash collateral. This is the Foundation's policy that has been formally adopted and limits the Foundation's allowable investments (see GASB Statement No. 40, ¶41 and GASB Implementation Guide No. 2015-1, ¶1.5 for a further explanation).

Schedule F.3 Securities Lending—Evaluation of Custodial Credit Risk Disclosure

This worksheet is not applicable if the Foundation does not participate in a securities lending program.

Schedule F.3 Securities Lending – Evaluation of Custodial Credit Risk Disclosure The worksheet gathers information regarding the exposure to custodial credit risk involving four aspects of the transaction. Please contact UCOP–Financial Accounting if there is a conclusion that custodial credit risk disclosure is required.

- Custodial Credit Risk Associated with Securities Owned by the Foundation and Lent for which Cash Collateral is Received

  The underlying securities lent for cash collateral are not subject to custodial credit risk disclosure requirements because the collateral for the loans is reported in the statement of net position (GASB[43] Statement No. 40, ¶10b and GASB Implementation Guide No. 2015-1, ¶1.10.3).

- Custodial Credit Risk Associated with Securities Owned by the Foundation and Lent for which Securities Collateral is Received

  Please indicate whether the securities lent are, or are not, subject to custodial credit risk disclosures. Provide an explanation or documentation for the conclusion.

- Custodial Credit Risk Associated with the Investment of Cash Collateral

  Please indicate whether the investment of cash collateral is, or is not, subject to custodial credit risk disclosures. Provide an explanation or documentation for the conclusion.

- Custodial Credit Risk Associated with the Securities Received by the Foundation as Collateral in Securities Lending Transactions

  Please indicate whether the securities received as collateral are, or are not, subject to custodial credit risk disclosures. Provide an explanation or documentation for the conclusion.

Finally, briefly describe the Foundation's formally adopted policy related to custodial risk. This is the Foundation's policy that has been formally adopted and limits the Foundation's allowable investments (see GASB Statement No. 40, ¶41 and GASB Implementation Guide No. 2015-1, ¶1.5 for a further explanation).

Schedule F.4 Securities Lending—Concentration of Credit Risk Associated with Foundation Investment of Cash Collateral

This worksheet is not applicable if the Foundation does not participate in a securities lending program. Please contact UCOP–Financial Accounting to discuss this template if it is applicable to your Foundation.

Schedule F.4 Securities Lending – Concentration of Credit Risk Associated with Foundation Investment of Cash Collateral The worksheet gathers the exposure to concentration of credit risk information associated with the investment of cash collateral necessary for disclosure in the notes to the financial statements in UC's Annual Financial Report. The worksheet includes current and prior year balances for each issuer that requires disclosure. Comments on significant variances between the current year and the prior year should be included on the worksheet.

For purposes of making the calculation, affiliates and subsidiaries of parent corporations may be engaged in similar activities and may have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. In these cases, the campus foundation should consider the credit risk of the parent company, its affiliates, and its subsidiaries in determining whether the University holds a concentration of credit risk. For example, if the University holds Ford Motor Co. common stock and a Ford Motor Credit Co. bond, they should be combined in the concentration of credit risk calculations (see GASB Statement No. 40, and GASB Implementation Guide No. 2015-1, ¶1.56). Investments issued or guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments are excluded from the requirement. Campus foundation investments in the STIP or GEP are not included in the concentration of credit risk tests in since they are external investment pools.

List each individual issuer and the dollar amount of the investment where the individual issuer exceeds 5 percent of the total investment of cash collateral.

[43] GASB Statement No. 40 (Issued 03/03), Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3

Also, briefly describe the Foundation's formally adopted policy related to concentration of credit risk associated with the investment of cash collateral in securities lending transactions. This is the Foundation's policy that has been formally adopted and limits the Foundation's allowable investments (see GASB Statement No. 40, ¶41 and GASB Implementation Guide No. 2015-1, ¶1.5 for a further explanation).

Schedule F.5 Securities Lending—Interest Rate Risk Associated with Foundation Investments of Cash Collateral & Investments of Cash Collateral Highly Sensitive to Changes in Interest Rates

This worksheet is not applicable if the Foundation does not participate in a securities lending program. Please contact UCOP–Financial Accounting to discuss this template if it is applicable to your Foundation.

Schedule F.5 Securities Lending – Interest Rate Risk Associated with Foundation Investments of Cash Collateral and Investments that are Highly Sensitive to Changes in Interest Rates The worksheet gathers the exposure to interest rate risk information related to the investment of cash collateral associated with securities lending transactions necessary for disclosure in the footnotes to the financial statements in UC's Annual Financial Report. The worksheet relates only to the investment of cash collateral. Interest rate risk at UC for the cash collateral pool is measured using the ***weighted average maturity method*** (using days to reset, not days to maturity). This method must be consistently used by all of the Foundations preparing this worksheet. The worksheet includes current and prior year weighted average maturity for each category that requires disclosure. Comments on significant variances between the current year and the prior year should be included on the worksheet.

Interest Rate Risk This portion of the worksheet outlines the investment types requiring disclosure of the duration. Note: The measure of interest rate risk for the cash collateral pools associated with securities lending programs will be the weighted average maturity method, rather than the effective duration method used for investments. The weighted average maturity method is more descriptive/informative for money market-type investment arrangements.

Investments Highly Sensitive to Changes in Interest Rates This portion of the worksheet outlines the investment types typically requiring disclosure. Indicate the ***dollar value*** and the ***weighted average maturity*** (using the number of days to maturity of the underlying security, not days to reset) for each of these categories of specific investments. If there are other types of investments that may fall into the definition outlined in GASB Statement No. 40, ¶16, as amended, and GASB Statement No. 53, ¶76 please contact UCOP–Financial Accounting or the OCIO to discuss the appropriate treatment for worksheet purposes.

Finally, briefly describe the Foundation's formally adopted policy related to interest rate risk associated with the investment of cash collateral in securities lending transactions. This is the Foundation's policy that has been formally adopted and limits the Foundation's allowable investments (see GASB Statement No. 40, ¶41 and GASB Implementation Guide No. 2015-1, ¶1.5 for a further explanation).

Schedule F.6 Securities Lending—Foreign Currency Risk Associated with Foundation Investment of Cash Collateral

This worksheet is not applicable if the Foundation does not participate in a securities lending program. Please contact UCOP–Financial Accounting to discuss this template if it is applicable to your Foundation.

Schedule F.6 Securities Lending – Foreign Currency Risk Associated with Foundation Investment of Cash Collateral The worksheet gathers the exposure to foreign currency risk information related to the investment of cash collateral associated with securities lending transactions necessary for disclosure in the footnotes to the financial statements in UC's Annual Financial Report. The worksheet includes current and prior year balances for each investment exposed to foreign currency risk that requires disclosure. Comments on significant variances between the current year and the prior year should be included on the worksheet.

Each campus foundation will need to perform its own review to determine the extent of the disclosure required.

All investment of cash collateral that is exposed to foreign currency risk must be disclosed, including the U.S. dollar balances, organized by currency denomination and investment type.

If the investment of cash collateral includes an international mutual fund, disclosure is not required for individual investments in the fund. Disclosure of the fair value and type of investment is sufficient (see GASB Statement No. 40, and GASB Implementation Guide No. 2015-1, ¶1.65.4).

Finally, briefly describe the Foundation's formally adopted policy related to foreign currency risk associated with the investment of cash collateral in securities lending transactions. This is the Foundation's policy that has been formally adopted and limits the Foundation's allowable investments (see GASB Statement No. 40, ¶41 and GASB Implementation Guide No. 2015-1, ¶1.5 for a further explanation).

G. SNP—Assets—Composition of Pledges Receivable

Schedule G Composition of Pledges Receivable The worksheet gathers the information necessary for disclosure in the footnotes to the financial statements in UC's Annual Financial Report.

AFR Note 8 Pledges Receivable. This information is disclosed in the University's Annual Financial Report Note 8.

The *Composition of Pledges Receivable* worksheet includes current and prior year ending balances for gross pledges receivable for both operations and capital (donor specifies the pledge is for a capital project), the allowance for uncollectible pledges and the unamortized discount to present value. The Foundation should identify the current pledges (expected to be received within one year) and noncurrent pledges (expected to be received beyond one year). Comments on significant variances between the current year and prior year should be included on the worksheet.

The concentration of pledge revenue and receivables information that is required on this worksheets comes from two different perspectives. The *revenue* concentration information relates to the revenue recorded during the current fiscal year for pledges that *originated in the fiscal year*. The *receivable* concentration information relates to the largest pledges receivable, as of the end of the current fiscal year, *regardless of the year they originated*.

In addition, provide future payment information on gift pledges outstanding for each of the next five years, then in five year increments thereafter.

Finally, provide information relating to the dollar amount of the top five pledges recognized as revenues during the year and the dollar amount of the top five outstanding pledges receivable at year-end. This data will be used to determine the concentration of credit risk disclosure requirements.

H. SNP—Liabilities—Outstanding Debt, Obligations under Life Income Arrangements and Other Liabilities Schedule of Activity

Schedule H Outstanding Debt, Obligations under Life Income Arrangements and Other Liabilities Schedule of Activity The worksheet gathers the information as required by GASB Statement No. 34[44], Paragraphs 119 a-c.

AFR Note 12 Self Insurance, Obligations under Life Income Agreements and Other Liabilities. This information is disclosed in the University's Annual Financial Report Note 12.

Section I—Outstanding Debt Schedule of Activity: The outstanding debt schedule of activity will likely have very limited use. The reconciliation of the outstanding debt activity includes the beginning and end of year balances and increase and decreases during the year for the current and noncurrent portions.

In order to maintain a consistent approach to outlining the activity on this schedule among the Foundations and the University, ***all new obligations associated with debt is assumed initially to be recorded entirely in the noncurrent section, then the portion payable within one year is shown as a reclassification out of noncurrent to current***.

Similarly, in order to maintain a consistent approach, all principal payments must be shown as being made out of the current liability.

Reclassifications from noncurrent to current ***must offset*** each other.

Section II—Obligations Under Life Income Arrangements and Other Liabilities Schedule of Activity: The reconciliation of the account activity should include beginning and end of year balances and increases and decreases during the year for the current and noncurrent portions of annuities payable, liabilities to life beneficiaries, and all additional liabilities classified as "other."

In order to maintain a consistent approach to outlining the activity on this schedule among the Foundations and the University, all new obligations associated with annuities payable and liabilities to life beneficiaries are assumed initially to be recorded entirely in the noncurrent section, then the portion payable within one year shown as a reclassification out of noncurrent to current.

Adjustments to existing liabilities only relates to annuities and life income arrangements. This line includes changes to the liabilities associated with adjustments to the actuarial value of existing obligations as of the beginning of the year, including adjustments to the actuarial liability of contracts that matured during the year. The adjustments are assumed initially to be recorded entirely in the noncurrent section, then the portion payable within one year shown as a reclassification out of noncurrent to current.

Similarly, in order to maintain a consistent approach, ***all payments to beneficiaries under annuities or life income arrangements must be shown as being made out of the current liability***.

Reclassifications from noncurrent to current ***must offset*** each other.

The "Other" caption on the schedule only relates to other liabilities included on the schedule excluding annuities and life income arrangements. No amounts are expected to be included in OTHER. If amounts are populated an explanation is required.

The activity in other current and noncurrent liabilities may or may not follow the convention outlined above for annuities and life income arrangements. However, any reclassification of other liabilities between current and noncurrent must offset each other.

[44] GASB Statement No. 34 (Issued 06/99), *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*

I. Subsequent Events

Schedule I Subsequent Events The worksheet gathers the information that may be disclosed as a subsequent event in the Foundation's separately audited financial statements. This information will be used to determine whether the disclosure will be necessary in the University's Annual Financial Report.

J. GASB 65 Items Previously Reported as Assets and Liabilities

Analyze whether any unearned revenue related to contracts and grants should be reported as deferred inflows of resources. Deferred inflows include any resources received before time requirements are met but after all other eligibility requirements have been met.

K. GASB 70 Accounting and Financial Reporting for Non-exchange Financial Guarantees Accrual

Schedule K GASB 70 accrual The worksheet will be used to report whether an accrual has been recorded in the Other Noncurrent Liabilities section of the Foundation's audited financial statements for nonexchange financial guarantees of another entity's obligations. An example would include guarantee for student loans.

This information will be used to determine whether the disclosure will be necessary in the University's Annual Financial Report.

L. Notes to FS—17—Endowments—Approved Payout and Spending Rate

Disclose the spending rate and total approved endowment payout for the current and prior fiscal year.

AFR Note 17 Endowments and Gifts. This information is disclosed in the University's Annual Financial Report Note 17.

This information will be used for disclosing the range of distribution policies (i.e., 3% to 6%) and total payouts during the year in the University Annual Financial Report.

Exhibit 5A - Statement of Fiduciary Net Position

UNIVERSITY OF CALIFORNIA XXX FOUNDATION
STATEMENTS OF FIDUCIARY NET POSITION

	Foundation		Custodial Investment Funds[45]	
At June 30, 20xx and 20xx (In thousands of dollars)	20xx	20xx	20xx	20xx
ASSETS				
Current assets				
Cash and cash equivalents	$	$	$	$
Short-term investments				
Contributions receivable, net				
Other assets				
Current assets				
Noncurrent assets				
Investments				
General endowment pool				
Gift annuity and trusts				
Other				
Contributions receivable, net				
Other assets				
Noncurrent assets				
Total assets	$	$	$	$
LIABILITIES				
Current liabilities				
Accounts payable and other accrued liabilities	$	$	$	$
Gift annuities payable				
Trust liabilities				
Current liabilities				
Noncurrent liabilities				
Other noncurrent liabilities				
Gift annuities payable				
Trust liabilities				
Noncurrent liabilities				
Total liabilities	$	$	$	$
Deferred Inflow of Resources				
from Irrevocable Split-Interest Agreements	$	$	$	$
NET POSITION				
Restricted:				
Nonexpendable				
Endowments	$	$	$	$
Expendable				
Endowments				
Funds functioning as endowments				
Gifts				
Pool participants				
Total expendable				
Total restricted				
Unrestricted				
Total net position	$	$	$	$

See accompanying Notes to Financial Statements.

[45] Include disclosure if applicable and information for custodial investment funds may be presented in either a table or as a description format is acceptable. Examples of both options for several disclosure are included for information.

Exhibit 5B - Statement of Changes in Fiduciary Net Position

UNIVERSITY OF CALIFORNIA XXX FOUNDATION
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

	Foundation		Custodial Investment Funds[46]	
Years ended June 30, 20xx and 20xx (In thousands of dollars)	20xx	20xx	20xx	20xx
Operating revenues				
Contributions revenue	$	$	$	$
Other operating revenue				
Investment fund purchases				
Total operating revenues				
Operating expenses				
Grant expenses				
Management and general expenses				
Investment fund withdrawals				
Total operating expenses				
Net operating income (loss)	$	$	$	$
Nonoperating revenues (expenses)				
Investment income, net	$	$	$	$
Change in fair value of investments				
Total nonoperating revenues (expenses)				
Income (loss) before other changes in net position				
Other changes in net position				
Additions to permanent endowments				
Change in net position				
NET POSITION				
Beginning of year				
End of year	$	$	$	$

See accompanying Notes to Financial Statements.

[46] Include disclosure if applicable and information for custodial investment funds may be presented in either a table or as a description format is acceptable. Examples of both options for several disclosure are included for information.

6. Instructions for Submission of the Financial Reporting Package to UCOP

1. At interim, each foundation will identify designated users to access Wdesk, the online data collection application. UCOP–Financial Accounting will set up user access based on names and e-mail addresses provided by each foundation. Each user will receive e-mail notifications generated by Wdesk during initial setup, and when changes are made to the templates.
2. Prior to year end, UCOP–Financial Accounting will notify users when the templates are available. Users can download the templates into Excel spreadsheets. When the data is ready, the preparer inputs the data online, and submits the template to an approver for review. After the template has been submitted for review, the template is in the locked status.
3. To unlock a template, an approver rejects the template for a preparer to make changes. Once the data has been approved, the template is again placed in the locked status.
    - If the template is put to a locked status by the preparer, either the approver or UCOP–Financial Accounting can unlock the template for changes.
    - If the template is put to a locked status by the approver, only UCOP–Financial Accounting can unlock the template for changes.
4. After all foundations have approved the data with each template showing a locked status, UCOP will retrieve the consolidated data from Wdesk.

7. External Audit Reporting Package Process and Requirements

The Regents' external auditor must rely on the work of each Foundation's external auditor in order to support the inclusion of the Foundations' financial statements into the University's Annual Financial Report. The Regents' external auditor has prepared the standard forms that are described in this section. Each Foundation's external auditor will be required to report on the Foundation's Financial Reporting Package using these forms as part of the closing process as follows:

- Unaffiliated Firm Confirmation Letter

  If the Foundation's external auditor is not the Regents' external auditor, the Unaffiliated Firm Confirmation Letter is required to be completed and submitted each year. The Letter is provided in this section as Exhibit A.

- "In-Relation to" Opinion

  If the Foundation's external financial statements are complete and issued by the reporting deadlines set forth in the Foundation Financial Reporting Package document, the Foundation's external auditor may elect to issue an "in-relation to" opinion (see Exhibit B in this section). Use of this opinion requires that the financial statements be issued since the Financial Reporting Package is reported on in-relation to the basic financial statements.

  Note: The example included as Exhibit B is based upon an opinion developed by The Regents' external auditor. If the Foundation's external audit firm is not the same as The Regents' external audit firm, the wording of the opinion may differ slightly.

  Note: If the Foundation's external audit firm is the same as the Regents' external audit firm, it will use a slightly different form of this "package" opinion and it will be limited to internal audit firm issuance. The campus foundation and UCOP will not receive a copy of this internal correspondence. Instead, each will receive a confirmation that the correspondence was issued and coincides with the form of the opinion associated with the foundation's financial statements.

- "Package" Opinion

  If the Foundation's audit is complete, but the basic financial statements are not yet issued, the Foundation's external auditor may elect to use the form of the "package" opinion provided in Exhibit C in this section. This approach is available only if the audit is complete and all necessary reviews and approvals, including audit committee review and approval, are complete. Use of the "package" opinion will require that there will be no changes whatsoever to the amounts presented in the basic financial statements when they are issued.

  Note: If the Foundation's external audit firm is the same as the Regents' external audit firm, it will use a slightly different form of this "package" opinion and it will be limited to internal audit firm issuance. The campus foundation and UCOP will not receive a copy of this internal correspondence. Instead, each will receive a confirmation that the correspondence was issued and coincides with the form of the opinion associated with the foundation's financial statements.

Foundations should discuss the form of opinion with their external auditors in advance so that the timing of discussions with the audit committee, etc. can be scheduled to meet the submission deadlines.

The required external auditor letters (independence letter, "in-relation to" opinion and "package" opinion) are available on the UCOP GASB website as Word documents.

The internal correspondence must be provided to the UCOP external audit team manager no later than September 15, 2020. The fax number for PwC Filip Nowak is (415) 498-7100. Hard copies of the documents should be sent to the following address:

Filip Nowak
PwC LLP
3 Embarcadero Center
San Francisco, CA 94111-4004

Confirmation that the correspondence was issued should be provided to Ruth Satorre at UCOP by either fax or mail. The fax number is (510) 987-0600. The mailing address is as follows:

Ruth Satorre
UCOP Financial Accounting
1111 Franklin Street, 6th Floor
Oakland, California 94607

Exhibit 7A - Unaffiliated Firm Confirmation Letter

[Provided by the Regents' External Auditor]

[Date]

In connection with your audit of the financial statements of [name of Foundation] as of June 30, 20__ and for the year then ended, please confirm to us that you:

- Are independent under the requirements of the United States of America and the American Institute of Certified Public Accountants (AICPA).

- Are aware that the audited financial statements of [name of Foundation] will be included in the consolidated financial statements of the University of California for the year ended June 30, 20__, on which we will report, and that your report thereon will be relied upon and referred to by us.

- Are familiar with accounting principles generally accepted in the United States of America and the generally accepted auditing standards promulgated by the AICPA and will conduct your audit and report in accordance therewith or disclose variations therefrom.

- Will inform us if there are any limitations on the scope of your audit that limits your ability to provide us with any information that we requested.
- Will provide us with a schedule of audit adjustments proposed by you that includes both those recorded by management as well as those not recorded by management. Please provide this to us by [Date].

This request for information represents a standard practice adopted by PricewaterhouseCoopers LLP in carrying out our responsibility as principal auditor.

Please confirm your agreement with the foregoing by signing and dating a copy of this letter and returning it to us.

Very truly yours,

[External Auditor Signature]

The foregoing is confirmed:

____

Signature

____

Date

Exhibit 7B - External Auditor's "In-Relation To" Opinion

[External Auditor Letterhead]

The Board of Directors
University of California __________________ Foundation

In our opinion, the accompanying statements of net position and the related statements of revenues, expenses and changes in net position and of cash flows present fairly, in all material respects, the financial position of the University of California ____________ Foundation (the Foundation) at June 30, 20__ and 20__, and the changes in its net position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Foundation's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

(Insert as applicable paragraphs related to RSI for MD&A, accounting changes, etc.)

OUR AUDIT WAS CONDUCTED FOR THE PURPOSE OF FORMING AN OPINION ON THE BASIC FINANCIAL STATEMENTS TAKEN AS A WHOLE. THE ACCOMPANYING SPECIAL-PURPOSE STANDARD UNIVERSITY OF CALIFORNIA FORMS, AS SPECIFIED IN THE UNIVERSITY OF CALIFORNIA "GASB 39 CAMPUS FOUNDATION FINANCIAL REPORTING PACKAGE" DATED __________, ARE PRESENTED FOR PURPOSES OF ADDITIONAL ANALYSIS AND ARE NOT A REQUIRED PART OF THE BASIC FINANCIAL STATEMENTS. SUCH INFORMATION HAS BEEN SUBJECTED TO THE AUDITING PROCEDURES APPLIED IN THE AUDIT OF THE BASIC FINANCIAL STATEMENTS AND, IN OUR OPINION, IS FAIRLY STATED IN ALL MATERIAL RESPECTS IN RELATION TO THE BASIC FINANCIAL STATEMENTS TAKEN AS A WHOLE

Exhibit 7C - External Auditor's "Package" Opinion

[External Auditor Office Letterhead]
University of California, [name of Foundation] and PricewaterhouseCoopers LLP

We have audited the accompanying special-purpose standard University of California forms, as specified in the University of California "Foundation financial reporting package" dated (issued) __________, for the [name of Foundation] as of June 30, 20__ and 20__ and for the years then ended. These standard forms are the responsibility of [name of Foundation]'s management. Our responsibility is to express an opinion on these standard forms based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the standard of the University of California's forms are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the standard of the University of California forms. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of financial information on the standard University of California forms. We believe that our audit provides a reasonable basis for our opinion.

The accompanying special-purpose standard company forms have been prepared solely to enable the University of California to prepare consolidated financial statements and not to report on [name of Foundation] as a separate entity. Accordingly, the forms are not intended to present fairly the financial position of [name of Foundation] as of June 30, 20__ and 20__, or the results of its operations or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America because of:

1. Omission of a description of accounting policies.
2. Omission of information relative to:
   (a) List any other subjects that would require disclosure in conventional financial statements.

However, in our opinion, the accompanying special-purpose standard company forms for [name of Foundation] as of June 30, 20__ and 20__ and for the years then ended have been prepared, in all material respects, to give the information required to be shown in accordance with the procedures contained in the University of California's "Foundation financial reporting package" [except as follows:].
[Add explanatory paragraph if accounting principles have not been consistently applied.]

This report is intended solely for the use of the University of California, the [name of Foundation]'s management, and PricewaterhouseCoopers LLP in connection with the inclusion of the [name of Foundation] as a component unit in preparation and audit of the consolidated financial statements of the University of California and should not be used for any other purpose.

[Date of report]

8. University of California Annual Financial Reports

Foundation statements and note disclosures are included in the University Annual Financial Reports[47].
The University of California Annual Financial Reports are available at: ucop.edu/financial-accounting/financial-reports.

9. Other Information

A. Summary of Planned or Deferred Gift Arrangements (Adapted from the UC Development Reference Guide)

The term deferred gifts covers a class of gifts that share a common characteristic: the gift is divided into a present interest and a future interest, and the donor irrevocably gives one interest but either personally retains the other interest or retains it for another beneficiary. For this reason, the gift is sometimes referred to as a split interest gift. The term deferred gift historically arose because, in the most common forms of this type, the donor retains the present interest and gives the future interest to charity. However, this is not always true (for the most obvious example see "Charitable Lead Trusts", below), and in any case the donor has not deferred making a gift, but has only deferred the time when the University may enjoy the benefit of the gift. For this reason, the term planned gifts is frequently used.

Deferred Giving Vehicles

The Internal Revenue Code recognizes various basic types of deferred gift vehicles: charitable remainder annuity trusts; charitable remainder unitrusts; pooled income funds; and charitable lead trusts. Another vehicle, not technically a deferred gift, is the charitable gift annuity, a contract entered by a charitable organization and a donor to provide a lifetime annuity for up to two persons, in exchange for a current gift.

Charitable Remainder Annuity Trust

A charitable remainder annuity trust is created when cash or securities (or, in exceptional cases, income producing, debt free real property) is irrevocably transferred from the donor to a trustee in return for a guaranty that named beneficiaries will receive at least annually a fixed dollar amount established at the time of the transfer of assets. This fixed amount must be at least five percent of the fair market value of the trust assets at the time of transfer, and must be paid from principal if earned income does not reach a level at least equivalent to the guaranteed annuity. Any excess income over the required annuity payment to the beneficiaries is returned to the trust principal for reinvestment.

Once an annuity trust has been established, no additional gifts may be made to the trust; it is possible, however, to establish additional annuity trusts. Charitable remainder annuity trust assets may be pooled with other assets for investment purposes.

An annuity trust may be established for the lifetimes of one or more individuals, or for a fixed term not to exceed twenty years. Payments from the trust may continue to a beneficiary after the donor is deceased, but may not continue beyond the lives of the originally named beneficiaries, all of whom must be living when the trust is established.

Charitable remainder annuity trusts are valued for reporting purposes at the amount of cash or the market value of other assets at the time they are received, unless it is anticipated that the principal will be invaded to meet the payout obligation, in which case the gift should be reported at its estimated net realizable value.

[47] University of California Annual Financial Reports: ucop.edu/financial-accounting/financial-reports/index.html

Charitable Remainder Unitrust

A charitable remainder unitrust is identical to a charitable remainder annuity trust, except that payments to beneficiaries are based on a fixed percentage (not less than five percent) of the market value of the trust as calculated on the valuation date(s). For purposes of calculating the payment to the beneficiary, the fair market value of the trust is re-determined at least annually. Unlike annuity trusts, the payments from unitrusts may therefore increase (or decrease) over time, potentially providing a hedge against inflation. Also unlike annuity trusts, a unitrust is permitted to receive additional contributions. As with annuity trusts, unitrust assets may be pooled with other assets for investment purposes.

A unitrust's earnings may be less than the prescribed percentage of the market value of the trust assets. In this case, one of several things may happen. If the trust is not a net income unitrust and income is insufficient, the principal will be invaded to make the payments to the beneficiaries. In the case of net income unitrusts, however, only the net income is paid to the beneficiaries; the principal remains inviolate. Depending on the trust's terms, the income payout for subsequent years may exceed the fixed percentage stated in the trust agreement in order to compensate for any deficiencies from prior years in which the trust earned less than the stated percentage (called a "makeup provision"), or there may be no provision for recovery of the shortfall in subsequent years.

For all charitable remainder unitrusts, regardless of type, any excess income earned over the stipulated payout is returned to the trust principal for reinvestment. As with an annuity trust, a unitrust may be established for the lives of one or more individuals, or for a fixed term not to exceed twenty years.

Payments from a unitrust may continue to a beneficiary after the donor is deceased, but may not continue beyond the lives of the originally named beneficiaries, all of whom must be living at the time the trust is established.

Charitable remainder unitrusts, like charitable remainder annuity trusts, are valued by the University for reporting purposes at the amount of cash or the market value of property or securities at the time the assets are received.

Pooled Income Funds

Pooled income funds resemble charitable remainder trusts in that assets are given irrevocably to the Foundation in trust, and the donor or other designated beneficiary retains a life interest in the income earned on the gift. Pooled income funds also resemble mutual funds, in that the income generated by a pooled fund is paid on a prorated basis to all the participants in the pool.

Donors' gifts to pooled income funds are held for investment purposes in one pool, which functions similarly to a mutual fund. When a donor makes a gift to the fund, units are assigned to the named beneficiaries based on the market value of the gift. The income from the pool is then prorated and paid periodically to each beneficiary on the basis of the number of units assigned. Because the fund's entire income must be distributed each year, the income stream to the donor is potentially greater (or less) than is the case with a charitable remainder trust. (Capital gains are not distributed to donors but are retained by the pool.)

Pooled income fund gifts are valued by the University for reporting purposes at the amount of cash or the market value of securities when the assets are received.

Charitable Lead Trust

A charitable lead trust is the "mirror image" of a charitable remainder trust and, as with remainder trusts, may be structured either as an annuity trust or as a unitrust. A charitable lead trust is established when assets are transferred to a trustee, with instructions to make designated payments to the Foundation for a specified period, invading principal if necessary. On termination of the trust, assets either revert to the donor or pass to the non-charitable beneficiary named by the donor.

No gift should be reported for the transfer of the corpus of a charitable lead trust, nor should an estimate be made of the present value of the income interest. Rather, income from charitable lead trusts should be reported as a gift in each year income is received.

Donations Sometimes Classified as Deferred Gifts

Some donations are considered deferred gifts under certain circumstances: charitable gift annuities; real property, if the donor retains a life interest in the property; life insurance, if premiums will be paid to maintain the policy rather than surrendering the policy for cash; installment bargain sales; and externally held trusts, if they are charitable remainder or charitable lead trusts.

Charitable Gift Annuity

Charitable gift annuities resemble commercial annuities issued by insurance companies, except that the annuitant (donor) tenders a greater sum of money (the “gift” portion of the transaction) and in turn receives a partial charitable income tax deduction for the gift. The charity agrees to pay the donor (or another annuitant) a fixed sum of money annually, usually for the remainder of that person's life.

The charitable gift annuity resembles a charitable remainder annuity trust in that the annuitant receives a fixed payment, except a charitable gift annuity is a general obligation of the charity; a charitable remainder annuity trust is backed only by the portfolio of the trust, and therefore if the trust is exhausted, the annuity ceases.

Real Property with a Retained Life Interest

Donors may give a remainder interest in a personal residence or farm and receive an immediate charitable income tax deduction, while enjoying the use of the property for the rest of their lives or for a specified number of years.

The donor makes the gift by executing a new deed to the property.

When a gift of a remainder interest in a residence or farm is proposed, it must be determined in advance who will pay for taxes and other costs of maintaining the property. See Section II: D.2 of the Development Reference Guide for more information about gifts of real property.

Life Insurance

When a life insurance policy is given, it may be surrendered immediately for its cash value, or it may be maintained, in which case it is considered a deferred gift.

For more information, see Section II: D.5, Life Insurance, and Section II: C, General Information about Noncash Gifts of the Development Reference Guide.

B. Discussions on Accounting for Annuity and Life Income Arrangements

This financial statement presentation is under GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 61, *The Financial Report Entity: Omnibus*.

1. Record the initial gift of marketable securities as an investment at fair value at the date of donation of $1,000, a liability to the beneficiary for the present value of the future obligation under the terms of the agreement of $400 and deferred inflow of resources of $600.
    - *Statement of Cash Flows*
        - If the gift is marketable securities that are accepted, sold and proceeds reinvested in another Foundation investment arrangement, the "net cash provided from operating activities" and "net cash provided (used) by investing activities" on the Statement of Cash Flows are both zero. The $1,000 sale of the original gift of securities is recorded on the Statement of Cash Flows as "Proceeds from the sales and maturities of investments" $1,000, offset by "Purchases of investments" ($1,000). Both of these line items are in the "Net cash provided (used) by investing activities" section.

        - However, if the gift is cash that is then invested in another Foundation investment arrangement, the "Net cash provided by operating activities" is $1,000 and the "Net cash provided (used) by investing activities" is ($1,000).

2. Record investment income of $20.
    - *Statement of Cash Flows*
        - In this transaction, investment income is directly associated with an operating activity related to payments to beneficiaries. Therefore, the investment income would be recorded on the Statement of Cash Flows as an "other receipt" in the "Net cash provided (used) by operating activities" section of the statement.

        - Note: The amount shown on the "Other receipts" line must exactly offset the amount on the "Payments to beneficiaries" line (see 3 below) so there is no effect on the section "Net cash provided (used) by operating activities."

3. Record the cash payment to the beneficiary as an offset to the liability of $20.
    - *Statement of Cash Flows*
        - The payment to beneficiaries is directly related to an operating activity. Therefore, the payment would be recorded on the Statement of Cash Flows as a "Payment to beneficiaries" in the "Net cash provided (used) by operating activities" section of the statement.

        - Note: The amount shown on the "Payment to beneficiaries" must exactly offset the amount of investment income included in "Other receipts" (see 2 above) so there is no effect on the section "Net cash provided (used) by operating activities."

4. Record the adjustment to the liability associated with the beneficiary becoming older and the change in asset value of $10.

- *SNP* - The adjustment to the liability resulting from both of these circumstances is included in the SNP as “Deferred inflow of resources – irrevocable split interest agreement.” It is not necessary to distinguish and separately account for the reasons for the adjustment to the liability.

5. Record the increase (or decrease) in the fair value of the investment at the end of the year $100.
    - *SNP* - The “Unrealized increase (or decrease) in the fair value of investments” is recorded as “Deferred inflow of resources – irrevocable split interest agreement” ($100).

6. Reverse the liability of $390 upon maturity.
    - *SRECNP* - The SRECNP includes $1,100 of “Contribution revenue” or “Permanent endowment” in the Other Changes in Net Position section of the SRECNP, depending on the irrevocable split interest agreement.
    - *Statement of Cash Flows* - The contribution revenue is an operating activity and is included in “Receipts from contributions”. Since no cash is generated from this transaction, the corresponding reversal of the deferred inflow of resources ($710) is recorded as an offset to “Receipts from contributions”. The net effect is zero on the “Receipts from contributions” line in the “Net cash provided (used) by operating activities” section of the Statement of Cash Flows.

	Statement of Net Position										Statement of Revenues, Expenses and Changes in Net Position	
Transaction	Cash		Investments (Cost)		Investments - Unrealized Gain or Loss		Annuity and Life Income Liability		Deferred Inflow of Resources		Contribution Revenue or Permanent Endowment	
(1) Receipt of gift			$1,000					$400		$600		
(2) Record investment income	$20							20				
(3) Payment to the beneficiary		$20					$20					
(4) Record actuarial adjustments							10			10		
(5) Record unrealized gain/loss					$100					100		
(6) Liability reversal upon maturity							390		710			$1,100
			$1,000		$100							$1,100

ACCOUNTING FOR ANNUITY AND LIFE INCOME ARRANGEMENTS

		Debit (Credit)				Increase (Decrease)			
Transaction	Reference	Statement of Net Position		SRECNP		Statement of Cash Flows		Reconciliation of Net Operating Revenues to Net Cash Provided (Used) by Operating Activities	
Receipt of $1,000 marketable securities, establish a liability of $400 and deferred inflow of resources of $600	(1)	Investment	$1,000			Receipts from contributions	$0		
		Liability	($400)			Sale of investments	$1,000		
		Deferred inflow	($600)			Purchase of investments	($1,000)		
Receipt of $1,000 cash, establish a liability of $400 and deferred inflow of resources of $600		Investment	$1,000			Receipts from contributions	$1,000		
		Liability	($400)			Purchase of investments	($1,000)		
		Deferred inflow	($600)						
Record investment income	(2)	Cash	$20			Other receipts	$20		
		Liability	($20)						
Record payment to beneficiary	(3)	Cash	($20)			Payment to beneficiary	($20)		
		Liability	$20						
Adjust liability based on actuarial calculations	(4)	Liability	$10						
		Deferred inflow	($10)						
Record the unrealized gain (or loss) in the fair value of investments held at year end	(5)	Investment	$100						
		Deferred inflow	($100)						
Record the termination of the liability upon maturity	(6)	Liability	$390	Operating - Contributions revenue	($1,100)	Receipts from contributions	$0	Operating income	$1,100
		Deferred inflow	$710						
				Other changes in net position - permanent endowments	($1,100)	Noncapital financing - Private gifts for permanent endowments	$1,100	Non-cash addition - Other noncash gifts	($1,100)

10. Contact List

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