**Campus Foundation Financial Reporting Package**

A Campus Foundation Financial Reporting Package was developed to accumulate the required information for the University to comply with the provisions outlined in GASB Statement No. 39. The templates included in the reporting package must be completed, audited and received by UCOP–Financial Accounting no later than **September 15, 2015.**

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If you have any general questions, please contact:


Ruth Satorre
ruth.satorre@ucop.edu
(510) 987-0414


Questions related to the University's Campus Foundation Financial Reporting Package may be addressed to:


Mimi Wu
mimi.wu@ucop.edu
(510) 987-9247

# 1. OBJECTIVES, PRINCIPLES, APPROACH, FORMAT AND CHECKLIST

In May 2002, the Government Accounting Standards Board (the GASB) issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*, requiring the University of California (the University or UC) financial statements to discretely present the Foundations' (consolidated) statements of net position, statements of revenues, expenditures and changes in net position, and statements of cash flows. Certain footnote information is also presented.

## *Objectives*

The objectives of this document are as follows:

- Outline the financial reporting package (FRP) that will result in the accumulation of the necessary financial information (primary financial statements and footnote information) that is generally presented consistently across all campus Foundations in accordance with the principles outlined below.
- Outline the financial reporting package that will result in the accumulation of Foundation financial information that is presented in a manner that is also generally consistent with the University of California's annual report presentation in accordance with the principles outlined below.
- Outline the approach for the timely accumulation of financial information from the Foundations in order to complete the University's consolidated financial statements (campuses, laboratory, retirement system, and foundations) 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 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, do allow for alternatives in respect of certain accounting principles. These differences represent alternatives in the application of GAAP and need not be conformed in discrete presentation.

For example, both the Foundations and the University must comply with GASB Statement No. 31 which requires fair value to be used for all debt securities and equity securities that have readily determinable fair values. Since GASB Statement No. 31 does not apply to many investments which do not have readily determinable fair values, the Foundations and the University use a variety of valuation methods for investments whose fair value is not readily determinable. Since there is no single required method to value these investments, which include investments in venture capital funds, the Foundations and the University may differ in the valuation methods used.

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, therefore there is not a need to conform policies.
- GASB Statement No. 39 does not require any individual Foundation to modify financial statement presentation on their separately audited financial statements as long as it is acceptable under GAAP.

Therefore, the fundamental principles used in developing the Foundation financial reporting package are:

- Accumulate 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 footnote information, without requiring conforming accounting policies.
- Outline areas where the University may have a preference in terms of the accounting policy, but would not constitute a requirement for a Foundation to change its accounting policy.

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

## *Approach*

The Foundation financial reporting package is prepared by 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. The reporting package will include templates for:

- Statements of Net Position
- Statements of Revenues, Expenses and Changes in Net Position
- Statements of Cash Flows
- Foundation Investments, including related GASB Statement No. 40 disclosures and, if applicable, GASB Statements No. 53 (derivative financial instruments)
- Reconciliation of Deposits with the Office of the Chief Investment Officer (OCIO)
- Securities Lending (if applicable)
- Composition of Pledges Receivable
- Outstanding Debt, Obligations Under Life Income Arrangements and Other Liabilities Schedule of Activity
- Subsequent Events

- GASB 65 - Items Previously Reported as Assets and Liabilities analysis
- GASB 70 - Accounting and Financial Reporting for Nonexchange Financial Guarantees accrual
- Endowments – Approved payout and spending rate

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

The financial information provided by the Foundations and sent to UCOP is incorporated into the fiscal closing process and schedule. The Foundation's financial reporting package must be completed and forwarded to the UC Office of the President (UCOP) no later than September 15, 2015 in order to meet deadlines for the completion of UC's consolidated financial statements, printing of the University's Annual Report and ultimate presentation to The Regents at their November meeting. The Foundation's audit must be complete prior to the submission of the templates on September 15, 2015 so that the Foundation's external auditor can render an opinion to The Regents' external auditor related to their ability to rely on the information contained in the reporting package that will be incorporated into the overall UC Annual Report.

The Regents' external auditors will rely on the work of the Foundations external auditor and may also review the templates at the campuses as part of their year-end audit effort.

## *Format*

The Foundations' financial reporting package templates are developed using Excel worksheets. Files should be uploaded to UCOP's SharePoint website.

## *UCOP's SharePoint Instructions*

UCOP uses SharePoint to transmit files to and from the Foundations. UCOP's SharePoint site is located at **https://sp.ucop.edu**. To be set up for access, please contact Mimi Wu (mimi.wu@ucop.edu).

The SharePoint website is organized by UCOP's divisions. A Foundation FRP section has been created under the following divisional tree;

CFO Division / Financial Accounting / Corporate Accounting / Foundation FRP

Or can be accessed directly at

https://sp2010.ucop.edu/sites/finacct/corpacctg/Foundation%20FRP%20FY1415/Forms/AllItems.aspx

Folders have been created within the Foundation FRP section to be used as follows;

FRP Templates Folder: Used by the Foundations to download the respective FRP templates for the June 30, Year-end submission.

| | |
|---|---|
| FRP Submissions: | Used by the Foundations to upload completed FRP reports to UCOP. |
| Administrative Guideline Submissions: | Used by the Foundations to upload files related to compliance with Administrative Guidelines. |
| Financial Statements: | Used by the Foundations to upload Audited Financial Statements |

For questions on the above instructions, please contact Mimi Wu (mimi.wu@ucop.edu). For technical help, please utilize the UCOP Help Center as follows.

**UCOP Help Center**. Available at: https://sp.ucop.edu/help. This site contains the:

- Documents libraries that contains the Site Administration, End User Manuals, and additional SharePoint articles, videos, and slides.
- Practice Site
- FAQ (Frequently Asked Questions)

Additional Resources
There is a vast amount of SharePoint 2010 information available online. Here are some ideas:

**Google Searches**. Make sure you include "SharePoint 2010" in your searches. Even then, you may get mixed results that include 2003 and 2007 information that may not apply to 2010. (**Note** Your search results may include the terms MOSS or WSS 3.0—these also refer to SharePoint 2010.)

**You Tube**. Has excellent videos on SharePoint. Again, make sure the videos you are viewing are based on SharePoint 2010. **Note** Many of the online videos address Administration functions for which you may not have privileges.

### *Checklist*

The documents from the campus Foundations listed below are either necessary for UCOP to complete the University's annual report, or for compliance with the Administrative Guidelines for Campus Foundations.

***For the University's Annual Report***

| Document | Date Required | Send To: |
|---|---|---|
| Campus Foundation Financial Reporting Package (Schedules A- L provided in Section 4 of this document) | September 15, 2015 | UCOP SharePoint |
| External auditor's internal communications within the audit firm | September 15, 2015 | Spencer Endicott, KPMG |
| 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*. | September 15, 2015 | UCOP SharePoint |
| Copy of audited financial statements, even if still in draft | September 15, 2015 | UCOP SharePoint |
| Copy of signed Management Representation Letter | September 16, 2015 | UCOP SharePoint |

***For Compliance with the Administrative Guidelines for Campus Foundations***

| Document | Date Required | Send To: |
|---|---|---|
| Copy of audited financial statements if a draft was previously submitted | October 5, 2015 | UCOP SharePoint |
| Report comparing budget to actual administrative expenditures, by fund source | October 29, 2015 | UCOP SharePoint |
| Current list of Foundation officers | October 29, 2015 | UCOP SharePoint |
| Name and address of legal counsel | October 29, 2015 | UCOP SharePoint |
| Names of directors and/or trustees, along with their mailing addresses | October 29, 2015 | UCOP SharePoint |
| Report to the State Registry of Charitable Trusts | November 13, 2015 | UCOP SharePoint |
| Tax Return or Copy of Extension Filed | November 13, 2015 | UCOP SharePoint |

## 2. INFORMATION MAINTAINED ON THE UC GASB WEBSITE

### *The University's GASB Implementation Website*

The Foundation financial reporting package is maintained and updated on the University's GASB website. Notifications are sent to the appropriate contacts as the site is updated with new information.

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 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 complying with the expanded disclosure and reporting requirements for deposit and investment risk and derivative financial instruments as prescribed by GASB Statements No. 40 and 53, respectively.

The website address is http://www.ucop.edu/financial-accounting/dirbf/dep-irms/. The website is password protected. Please contact Mimi Wu at Mimi.Wu@ucop.edu for the user identification and password.

### *New GASB Statement for FY'15*

The following GASB Statement was recently issued; below is a discussion of its applicability to the foundations:

**GASB Statement No. 72**

In February 2015, the GASB issued Statement No. 72, Fair Value Measurement and Application, effective for the University's fiscal year beginning July 1, 2015. This Statement establishes standards for accounting and financial reporting for fair value measurements. The statement requires investments to be measured at fair value and permits the use of net asset value as the fair value when an investment does not have a readily determinable fair value.  Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Statement No. 72 also requires certain disclosures related to all fair value measurements.

***Applicability:*** The Foundations should begin evaluating the effect that Statement No. 72 will have on its financial statements.

## 3. 2015 UC SYSTEMWIDE CLOSING SCHEDULE

This schedule (as of May 15, 2015) 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 KPMG.

These steps provide a high level outline of the University's timing in order to prepare the consolidated financial statements. Key steps and dates specifically related to the campus foundations are highlighted in bold print.

| STEP | DESCRIPTION | DUE DATE |
|---|---|---|
| 01 | UCOP's EIA group to provide rate for discounts of pledges | **7/15** |

| STEP | DESCRIPTION | DUE DATE |
|---|---|---|
| **02** | **Campus, foundation and external audit teams final sign-off on Foundation Financial Reporting Package.** | **9/15** |
| **03** | **Campus Foundations to submit Financial Statement Templates and the auditor's independence, opinion letters and copies of audited financial statements to KPMG (if necessary) and to UCOP.** | **9/15** |
| **04** | **Signed management representation letters due to KPMG.** | **9/18** |
| **05** | **Provide the following documents to UCOP in compliance with the Administrative Guidelines:**<br>▪ **Copy of audited financial statements (if not submitted previously)**<br>▪ **Report comparing budget to actual administrative expenditures, by fund source**<br>▪ **Current list of Foundation officers**<br>▪ **Name and address of legal counsel**<br>▪ **Names of directors and/or trustees, along with mailing addresses** | **10/29**<br>**Note: Audited financials due 10/5** |
| **06** | **Provide the following remaining documents to UCOP in compliance with the Administrative Guidelines:**<br>▪ **Report to the State Registry of Charitable Trusts**<br>▪ **Tax return or copy of extension filed** | **11/13** |

***Foundation Financial Reporting Packages Due***

To the extent that UC Campus Foundations are invested with the Office of the Chief Investment Officer (OCIO), the below is applicable.

| STEP | DESCRIPTION | DUE DATE |
|---|---|---|
| 01 | 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). | **6/26** |
| **02** | **Monthly/Quarterly Endowment statements from EIA available to Campus Foundations as of June 30, 2014.** | **7/31** |

## 4. Financial Reporting Templates

**Campus Foundation Financial Reporting Excel worksheets** will be provided separately with prior fiscal year financial information via UCOP's SharePoint website. An e-mail notification of when it's available will be sent notifying the availability of the Foundation's files. Contact Mimi Wu at (510) 987-9247 with any questions. Below is a listing of the worksheets that will be included in the template.

## A. Statements of Net Position

A.1 Statements of Net Position

A.2 Composition of Foundation Cash & Cash Equivalents

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

## C. Statements of Cash Flows

## D. Foundation Investments and Derivative Financial Instruments

D.1 Composition of Foundation Investments

D.2 Credit Risk Profile of Foundation Investments

D.3 Custodial Risk of Foundation Investments

D.4 Concentration of Credit Risk Associated with Foundation Investments

D.5 Interest Rate Risk Associated with Foundation Investments & Investments Sensitive to Changes in Interest Rates

D.6 Foreign Currency Risk Associated with Foundation Investments

D.7 Liquidity Risk

D.8 Derivative Financial Instruments

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

## E. Reconciliation of Deposits with the Office of the Chief Investment Officer (OCIO)

## F. Securities Lending

F.1 Securities Lending—Composition of Investments

F.2 Securities Lending—Credit Risk Profile of Investment of Cash Collateral

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

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

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

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

## G. Composition of Pledges Receivable

## H. 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 Nonexchange Financial Guarantees accrual

## L. Endowments – Approved payout and spending rate

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

## A. Statements of Net Position

## A.1 Statements of Net Position

### *Assets*

**Cash and cash equivalents:** There may be different accounting policies used by the Foundations to define cash and cash equivalents vs. short-term investments. Some Foundations may have an accounting policy that specifies only demand deposit accounts are classified as cash; everything else is classified as an investment. Other Foundations may have an accounting policy that specifies that other types of cash equivalents are classified as cash. For example, some Foundations may treat UC STIP as a cash equivalent, others may treat UC STIP as an investment. As outlined in the principles, there is not a requirement to conform these policies across all Foundations, as long as they are acceptable under GAAP.

If UC STIP is classified as a cash and cash equivalent in the Foundation's audited financial statements, maintain that same classification for purposes of preparing the financial reporting package. However, please separately identify the portion of cash and cash equivalents represented by UC STIP from all other cash and cash equivalents. In this circumstance, all UC STIP would be classified as cash and none would be classified as an investment.

However, if UC STIP is classified as an investment in the Foundation's audited financial statements, maintain that same classification for purposes of preparing the financial reporting package. In this circumstance, all UC STIP would be classified as an investment and none would be classified as cash.

Finally, for purposes of preparing the financial reporting package, 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 UC STIP or All Other, depending on the nature of the endowment cash). <u>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.</u>

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 does have a preference. The University considers only balances in <u>demand deposit accounts</u> 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.

The University's Issue Resolution Memo (IRM) No. 130, available on the University's GASB website, provides additional background information on this topic.

**Investments:** 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), General Endowment Pool (GEP) and funds held in trust by others.

The primary issues the financial reporting package 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- or long-term on the statement of net position.

*Determination of fair market value*

There may be different accounting policies used by the Foundations in order to value the investments on the statement of net position. As outlined in the principles, there is not a requirement to conform these policies as long as they are acceptable under GAAP.

While there is not a requirement for any Foundation to modify its existing accounting policy with respect to the valuation of investments, the University does have a preference that is outlined below.

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

> Investments are recorded 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 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. Certain securities may be valued on a basis of a price provided by a single source.
>
> Investments also include private equities, absolute return funds and real estate. Private equities include venture capital partnerships, buyout 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. Interests in certain direct investments in real estate are estimated based upon independent appraisals. Because the private equity, real estate 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.

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 statement of revenues, expenses and changes in net position.

*Classification between short-term and long-term*

The classifications of investments and agency funds as either short or long-term is another area where there may be different approaches or accounting policies that may be acceptable under GAAP. Again, there is no requirement for Foundations to modify their existing accounting policies.

If the Foundation's accounting policy is to classify all, or any portion, of UC STIP, TRIP, or GEP as a short-term investment in the Foundation's separately audited financial statements, maintain the same classification for purposes of preparing the financial reporting package. Similarly, if the Foundation's accounting policy is to classify all, or a portion, of UC STIP, TRIP, or GEP as a long-term investment in the Foundation's separately audited financial statements, also maintain the same classification for purposes of preparing the financial reporting package. Regardless of where UC STIP, TRIP, or GEP are classified, separately show each of the amounts in each area on the statement of net position template.

However, in the case of agency funds treatment in the financial reporting package, all agency funds must be classified as an investment.

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

As mentioned under the section *Cash*, above, the University classifies as "cash" only demand deposit accounts. It excludes any short-term investments that have maturity dates within 90 days. The University classifies all fixed income investments with a remaining maturity between 1 and 365 days as short-term investments and all fixed income investments that have remaining maturity dates greater than one year as long-term investments. All equity investments are classified as long-term. However, there are exceptions to this general principle for the classifications related to agency funds and 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 (except for agency funds) 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 may be necessary.

The University's IRM No. 129, available on the University's GASB website, provides additional background information on this topic.

In summary, the guidelines to be used in preparing the financial reporting package 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 UC STIP, TRIP, or GEP separate from all other short-term investments.

- Record the fair value of any investment derivatives. Refer to the GASB Statement No. 53 Issues Resolution Memoranda (IRMs) at the UCOP GASB website for additional information.

- In the case of agency funds treatment in the financial reporting package, agency funds must be classified in short-term or long-term investments at fair value. (The liability will be treated as a current liability.) Classify as short-term in the financial reporting package the portion that is classified as a current asset in the Foundation's separately audited financial statements.

**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 UC STIP, TRIP, or GEP separate from all other long-term investments.

- Record the fair value of any investment derivatives. Refer to the GASB Statement No. 53 IRMs at the UCOP GASB website for additional information.

- 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.

- In the case of agency funds treatment in the financial reporting package, agency funds must be classified in short-term or long-term investments at fair value. Classify as long-term in the financial reporting package the portion that is classified as a noncurrent asset in the Foundation's separately audited financial statements.

For purposes of providing footnote disclosure for investments on a consistent basis with the University, provide the breakdown of investments as outlined on the separate worksheet *Composition of Foundation Investments*.

**Investment of cash collateral:** 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.

> **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.

The University's IRM No. 129, available on the University's GASB website, provides additional background information on this topic.

**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 footnote disclosure in the UC Annual 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:** Separately show any allowance for uncollectible other receivables that is included in the above receivable. The allowance information is necessary for footnote disclosure in the UC Annual Report.

**Pledges receivable:** 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.

Provide the pledge information required to be disclosed in the footnotes to the UC Annual Report as outlined on the separate worksheet *Composition of Pledges Receivable*.

**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:** Separately show any allowance for uncollectible pledges receivable that relates to the current receivable. This information is necessary for footnote disclosure in the UC Annual Report.

**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 necessary for footnote disclosure in the UC Annual Report.

**Less: Allowance:** Separately show any allowance for uncollectible pledges receivable that relates to the noncurrent receivable. This information is necessary for footnote disclosure in the UC Annual Report.

The University's IRM No. 125, available on the University's GASB website, provides additional background information on this topic.

The University's policy for recording pledges is at: http://policy.ucop.edu/doc/3410232/AM-G327-66 which currently includes the following procedures for recording pledges (WITH PROPOSED CHANGES IN RED):

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

Determine the gross pledges to be recorded and the expected fiscal year of payment. Pledges for gifts under ~~$25,000~~ $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)

~~No formula is prescribed for the calculation of the allowance for uncollectible pledges.~~ Gross pledges should be reviewed to determine the ultimate collectibility based on historical collection experience or specific information available from donors on pledges. ~~of the amounts, as for any receivable on the balance sheet.~~ 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** - ~~All~~ Pledges and payments on pledges older than one year past due ~~are recorded~~ 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 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:** Separately show any allowance for uncollectible notes receivable that relates to the above receivable. This information is necessary for footnote disclosure in the UC Annual Report.

**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:** Separately show any allowance for uncollectible notes receivable that relates to the above receivable. This information is necessary for footnote disclosure in the UC Annual Report.

**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:** Funds held in trust by others represents the Foundation's interest as the beneficiary of 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 charitable trusts where the assets are invested and administered by outside trustees.

Foundations should not record these gifts until the time requirements have been met and the gifts are received.

**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 53 through hedge accounting or deferred amount from refunding of debt (debits) under GASB 65.

## *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 and 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 a 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. Disregard if the Foundation does not participate in a securities lending program.

**Funds held for others:** The Foundation may hold and invest funds under agency relationships with various support groups. These amounts are not assets owned or contributed to the Foundation and, accordingly, are recorded on this line item as a current liability (on the basis the support group has immediate access to all funds) and not as revenue.

The University's IRM No. 129, available on the University's GASB website, provides additional background information on this topic.

**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.

Provide the activity required to be disclosed in the UC Annual Report footnotes as outlined on the separate *Outstanding Debt, Obligations Under Life Income Arrangements and Other Liabilities Schedule of Activity* worksheet.

**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.

Provide the activity required to be disclosed in the UC Annual Report footnotes as outlined on the separate *Outstanding Debt, Obligations Under Life Income Arrangements and Other Liabilities Schedule of Activity* worksheet.

**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.

Provide the activity required to be disclosed in the UC Annual Report footnotes as outlined on the separate *Outstanding Debt, Obligations Under Life Income Arrangements and Other Liabilities Schedule of Activity* worksheet.

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.

Provide the activity required to be disclosed in the UC Annual Report footnotes as outlined on the separate *Outstanding Debt, Obligations Under Life Income Arrangements and Other Liabilities Schedule of Activity* worksheet.

## *Deferred Inflows of Resources*

Deferred inflows 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 53 through hedge accounting; or deferred amounts from refunding of debt (credits) and deferred revenue under GASB 65.

## *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 include 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, 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.

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

The University's IRM No. 132, available on the University's GASB website, provides additional background information on this topic.

## A.2 Composition of Foundation Cash & Cash Equivalents

The *Composition of Foundation Cash and Cash Equivalents* worksheet provides a template to categorize deposits that may, or may not, be exposed to custodial credit risk.

The worksheet must include current and prior year balances for each component of cash and cash equivalents. Comments on significant variances between the current year and prior year should be included on the worksheet.

There are seven major categories on the worksheet:

- Cash in banks where the FDIC insures deposits up to $250,000 per bank. Please indicate the number of banks.
- Cash in banks which are not FDIC insured and not collateralized
- Cash in banks where the bank collateralizes the deposits with federal government securities held in the name of the bank.
- Cash in banks where the bank collateralizes the deposits with corporate money market or other corporate securities.
- Cash invested in the STIP.
- Deposits-in-transit not yet physically at the bank.
- Other – please explain if significant.

The total of all line items must agree to the cash and cash equivalents reported on the statement of net position.

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

## B. Statement of Revenues, Expenses and Changes in Net Position (SRECNP)

### *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 Statement No. 33, 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 in some Foundations may include all, or a portion, of the change in the value of annuity and life income liabilities. At other Foundations, all, or a portion, of the change in value of annuity and life income liabilities may be reported in the nonoperating section of the statement of revenues, expenses and changes in net position. The financial reporting package should agree to the audited financial statements for these Foundations.

While a change in the Foundation's accounting policy is not required, the University's preference is to record the change in the actuarial value of the liability resulting from both the beneficiary becoming older and the change in market value as nonoperating revenue (or expense) on the line item "Change in value of annuity and life income liabilities." See the discussion *Accounting for Annuity and Life Income Arrangements* in Section 9B.

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.

## *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 income (expenses)*

Nonoperating revenue 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.

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

**Realized gain (loss) 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.

**Net appreciation (depreciation) in fair value of the investments:** Net between realized gain (loss) on sale of investments and unrealized appreciation (depreciation) on investments held at year-end.

**Change in value of annuity and life income liabilities:** The change in value of annuity and life income liabilities at some Foundations may include all, or a portion, of the change in the value of annuity and life income liabilities. At other Foundations, all, or a portion of the change in value of annuity and life income liabilities may be reported as contributions revenue in the operating section of the statement of revenues, expenses and changes in net position. The financial reporting package should agree to the audited financial statements for these Foundations.

While a change in the Foundation's accounting policy is not required, the University's preference is to record the change in the actuarial value of the liability resulting from both the beneficiary becoming older and the change in market value as nonoperating revenue (or expense) on the line item "Change in value of annuity and life income liabilities." See the discussion *Accounting for Annuity and Life Income Arrangements* in Section 9B.

**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.

### *Cumulative effect of accounting changes*

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 Report.

### *Net position*

**Restatement of beginning of year net position:** 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 Report.

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

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

## C. Statement of Cash Flows

GASB Statement No. 9, paragraphs 12-37, discuss the classification and reporting of transactions in the statement of cash flows.

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 (grossed up) 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 activity 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 activity 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, under the direct method 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.

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

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

**Payments for administrative or operating expenses:** Includes all activity 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 activity 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 activity 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 Management before using this category.

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

**Purchases of capital assets:** Includes all activity 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 activity 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 <u>and</u> 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 activity associated with payments of principal on outstanding debt during the year.

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

**Interest paid on debt:** Includes all activity 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*

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. As outlined in the principles, there is not a requirement to conform the approaches as long as they are acceptable under GAAP.

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.

The University's IRM No. 176, available on the University's GASB website, provides additional background information on this topic.

**Proceeds from sales and maturities of investments:** Includes all activity 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 activity 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 activity associated with draws under a revolving line of credit that is used to support investment activities.

**Payments under revolving line of credit:** Includes all activity 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:** To the extent that adjustments to the annuity and life income liability are included as part of operating income in the Foundation's audited financial statements, they represent noncash transactions that must be added back to operating results.

The University's preference is for the actuarial adjustments to annuity and life income liabilities to be recorded in the nonoperating section of the statement of revenues, expenses and changes in net position. If that is the case, there is no adjustment to operating income and this line item is not applicable.

**Changes in assets and liabilities:** This section of the statement of cash flows includes only changes in <u>operating assets or liabilities</u>, 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, but are a result of agency relationships.

**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. As a result, this area is no longer applicable to the financial statements (statement of net position; statement of revenues, expenses and changes in net position; or the statement of cash flows).

**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 interest in a charitable remainder trust:** The Foundation should not include beneficial interests in charitable remainder trusts held outside of the foundation for either the current or past fiscal year.  As a result, no disclosures are expected for fiscal year ended June 30, 2015 or 2014.

# D. Foundation Investments and Derivative Financial Instruments

A more comprehensive discussion of the disclosure requirements under GASB Statement No. 40 is available at the UCOP GASB website.

## D.1 Composition of Foundation Investments

The *Composition of Foundation Investments* worksheet provides a template to categorize the investments shown in the statement of net position by investment type. This information is disclosed in the University's Annual Report and will need to be provided for all Foundation investments. 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.

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 in order to provide comparable footnote information in the UC Annual 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.

**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 INCOME SECURITIES

Fixed 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., GNMA).

**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 Statement No. 53.

*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

- 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.

### COMMINGLED FUNDS – 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.

### COMMINGLED 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). This will require an analysis of investments in commingled global funds to determine the allocation between U.S. equities and non-U.S. equities. If the foundation cannot determination the ratio, then contact Bob Yastishak (510/987 9668 or robert.yastishak@ucop.edu) or Jan Kehoe (510/987-9692 or jan.kehoe@ucop.edu) at the Office of the Chief Investment Officer (OCIO).

**COMMINGLED FUNDS – 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). This will require an analysis of investments in commingled global funds to determine the allocation between U.S. equities and non-U.S. equities If the foundation cannot determination the ratio, then contact Bob Yastishak (510/987 9668 or robert.yastishak@ucop.edu) or Jan Kehoe (510/987-9692 or jan.kehoe@ucop.edu) at the Office of the Chief Investment Officer (OCIO).

**COMMINGLED FUNDS – 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.

**COMMINGLED FUNDS – 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.

**COMMINGLED FUNDS – 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).

**COMMINGLED FUNDS – MONEY MARKET FUNDS**

- The Short Term Investment Pool (the 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 UC STIP as an investment in the Foundation's audited financial statements (if UC 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.

### DERIVATIVE INSTRUMENTS

- Investments that are classified as derivatives per GASB 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.

### 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**.**

### MORTGAGE LOANS

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

### 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.

### REAL ESTATE

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

### 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.

**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)

**EXTERNALLY HELD IRREVOCABLE TRUSTS/FUNDS HELD IN TRUST BY OTHERS**

Charitable trusts where the assets are invested and administered by outside trustees and distributions are made to the beneficiary under the terms of the trust agreement.

**OTHER INVESTMENTS**

- Limited partnership units
- 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, 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.**

## 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.

The *Credit Risk Profile of Foundation Investments* worksheet accumulates the credit rating information necessary for disclosure in the footnotes to the financial statements in UC's Annual 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.

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

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

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 Statement No. 40, ¶41 for a further explanation).

## 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.

The *Custodial Risk of Foundation Investments* worksheet accumulates the exposure to custodial credit risk information related to investment securities necessary for disclosure in the footnotes to the financial statements in UC's Annual 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.

An external investment pool is defined as follows:

> *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 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.

An open-end mutual fund is defined as follows:

> *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 Statement No. 40, ¶9).

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).

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 for a further explanation).

## 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.

The *Concentration of Credit Risk Associated with Foundation Investments* worksheet accumulates the exposure to concentration of credit risk information necessary for disclosure in the footnotes to the financial statements in UC's Annual 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, Q&A No. 31). 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 Statement 40, ¶41 for a further explanation).

## 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.

The *Interest Rate Risk Associated with Foundation Investments and Investments Highly Sensitive to Changes in Interest Rates* worksheet accumulates the exposure to interest rate risk information related to investments and investment derivative instruments necessary for disclosure in the footnotes to the financial statements in UC's Annual Report. <u>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.</u> 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.

Note: As discussed in Section 7 of the University's *Approach to Implementing GASB Statement No. 40*, investments in commingled money market funds <u>other than the STIP</u> 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, please contact UCOP–Financial Management 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 for a further explanation).

## 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.

The *Foreign Currency Risk Associated with Foundation Investments* worksheet accumulates the exposure to foreign currency risk information related to investments and investment derivative instruments necessary for disclosure in the footnotes to the financial statements in UC's Annual 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. In order to review whether foreign currency exchange contracts are potential derivative investments, please refer to IRM 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 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.

If a foundation invests in the GEP or the State Street CAM EAFE pool, contact the Office of the Chief Investment Officer (OCIO) and State Street Bank to determine the foundation's portion of these pools that are exposed to foreign currency risk. Disclose the dollar amount of the foundation's share of these pools that are denominated in foreign currencies using the "Commingled funds – balanced funds" category for the GEP and "Commingled funds – non U.S. equity funds" category for the State Street CAM EAFE pool.

If a foundation invests in commingled funds, other than GEP of State Street CAM EAFE, that are denominated in foreign currencies, disclose the dollar amount that are denominated in foreign currencies in the Commingled funds section, as appropriate.

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 Statement No. 40, Q &A, No. 62).

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 for a further explanation).

## D.7 Liquidity Risk

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

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.

If the Foundation does invest in alternative or non-readily traded investments, the *Liquidity Risks* worksheet accumulates the information necessary for disclosure in the footnotes to the financial statements contained in UC's Annual Report.

The *Liquidity Risks* worksheet includes current and prior year ending balances for the Foundation's alternative investments. Comments on significant variances between the current year and prior year should be included on the worksheet.

## D.8 Derivative Financial Instruments

Disregard this worksheet if the Foundation does not utilize derivative financial instruments.

If the Foundation does use derivative financial instruments, the *Derivative Financial Instruments* worksheet accumulates the information necessary for disclosure in the footnotes to the financial statements contained in UC's Annual Report. For additional information regarding derivative financial instruments, please refer to GASB Statement No. 53 IRMs on the UCOP GASB website.

The *Derivative Financial Instruments* worksheet includes current and prior year ending balances the notional, fair value and change in fair value amounts of the derivative investments. Comments on significant variances between the current year and prior year should be included on the worksheet.

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

Disregard this worksheet if the Foundation does not utilize hedging derivative financial instruments.

If the Foundation does use hedging derivative financial instruments, the *Derivative Financial Instruments: Objectives and Terms of Hedging Derivative Instruments* worksheet accumulates the information necessary for disclosure in the footnotes to the financial statements contained in UC's Annual Report. For additional information regarding derivative financial instruments, please refer to GASB Statement No. 53 IRMs on the UCOP GASB website.

The *Derivative Financial Instruments: Objectives and Terms of Hedging Derivative Instruments* worksheet includes the objectives and terms outstanding at June 30, as well as 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. Reconciliation of Deposits with the Office of the Chief Investment Officer (OCIO)

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 statement of net position. Therefore, this reconciliation is extremely important in the consolidation process.

The *Reconciliation of Deposits with the OCIO* is a reconciliation worksheet between the amounts reported by foundations as deposits with the OCIO and the amounts reported by UCOP EIA and State Street CAM.

The *Reconciliation of Deposits with the OCIO* worksheet separately identifies the following:

<u>Per campus foundations:</u>

- Deposits classified as investments that are recorded at UCOP by EIA and included in the foundation's statement of net position (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 statement of net position (line C);
- STIP deposits classified as cash equivalents that are recorded at the campus and included in the foundation's statement of net position (line D);
- Deposits with the OCIO that are recorded at UCOP by EIA, but are not included in the foundation's statement of net position (line F).

<u>Per June confirmation statements:</u>

- 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 <u>not</u> 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 and L must be explained.

## F. Securities Lending Detail

A more comprehensive discussion of the disclosure requirements under GASB Statement No. 40 is available at the UCOP GASB website.

## F.1 Securities Lending – Composition of Investments

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

If the Foundation participates in a securities lending program, the *Securities Lending – Composition of Investments* worksheet accumulates the information necessary for disclosure in the footnotes to the financial statements contained in UC's Annual Report.

The definitions to be used for categorizing the securities must be consistent with those used by the University and as specified in the instructions to the Schedule D.1, *Composition of Foundation Investments*.

The *Securities Lending – Composition of Investments* worksheet includes current and prior year ending balances for securities lending information, as well as the securities lending income and fees and rebates. Comments on significant variances between the current year and prior year should be included on the worksheet.

## F.2 Securities Lending – Credit Risk Profile of Investment of Cash Collateral

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

If the Foundation participates in a securities lending program, the *Securities Lending – Credit Risk Profile of Foundation Investments* worksheet accumulates the credit rating information necessary for disclosure in the footnotes to the financial statements in UC's Annual 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.

The definitions to be used for categorizing the securities must be consistent with those used by the University and as specified in the instructions to the Schedule D.1, *Composition of Foundation Investments*.

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

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

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 for a further explanation).

## F.3 Securities Lending – Evaluation of Custodial Credit Risk Disclosure

Disregard this worksheet if the Foundation does not participate in a securities lending program.

The *Securities Lending – Evaluation of Custodial Credit Risk Disclosure* worksheet accumulates information regarding the exposure to custodial credit risk involving four aspects of the transaction. Please contact UCOP–Financial Management 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 40, ¶10b).

- *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 for a further explanation).

## F.4 Securities Lending – Concentration of Credit Risk Associated with Foundation Investment of Cash Collateral

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

The *Securities Lending – Concentration of Credit Risk Associated with Foundation Investment of Cash Collateral* worksheet accumulates the exposure to concentration of credit risk information associated with the investment of cash collateral necessary for disclosure in the footnotes to the financial statements in UC's Annual 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, Q&A No. 31). 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.

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 for a further explanation).

## F.5 Securities Lending – Interest Rate Risk Associated with Foundation Investment of Cash Collateral & Investment of Cash Collateral Highly Sensitive to Changes in Interest Rates

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

The *Securities Lending – Interest Rate Risk Associated with Foundation Investment of Cash Collateral and Investments that are Highly Sensitive to Changes in Interest Rates* worksheet accumulates 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 Report. The worksheet <u>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.</u> 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.

The *Interest Rate Risk* 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.

The *Investments Highly Sensitive to Changes in Interest Rates* portion of the worksheet outlines the investment types typically requiring disclosure. Indicate the <u>***dollar value and the weighted average maturity***</u> (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, please contact UCOP–Financial Management 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 for a further explanation).

## F.6 Securities Lending - Foreign Currency Risk Associated with Foundation Investment of Cash Collateral

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

The *Securities Lending – Foreign Currency Risk Associated with Foundation Investment of Cash Collateral* worksheet accumulates 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 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, Q &A, No. 62).

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 for a further explanation).

## G. Composition of Pledges Receivable

The *Composition of Pledges Receivable* worksheet accumulates the information necessary for disclosure in the footnotes to the financial statements in UC's Annual Report.

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. Outstanding Debt, Obligations Under Life Income Arrangements and Other Liabilities Schedule of Activity

The *Outstanding Debt, Obligations Under Life Income Arrangements and Other Liabilities Schedule of Activity* worksheet accumulates the information necessary for disclosure in the footnotes to the financial statements in UC's Annual Report as required by GASB Statement No. 34, Paragraphs 119 a-c.

**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.

## I. Subsequent Events

The *Subsequent Events* worksheet accumulates 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 Report.

## J. GASB 65 analysis

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 Accrual

The GASB 70 accrual 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 Report.

## L. Endowments – Approved payout and spending rate

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

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.

## 6. INSTRUCTIONS FOR SUBMISSION OF THE FINANCIAL REPORTING PACKAGE TO UCOP

The financial reporting package templates have been developed using Excel worksheets and are available via UCOP's SharePoint website. UCOP will consolidate the worksheets in order to present Foundation financial information in the University's Annual Report. Therefore, it is important that Foundations ***do not modify*** the templates as they are being completed (i.e., ***do not add or delete columns or rows***).

Completed financial reporting packages are due to UCOP no later than September 15, 2015. Foundations should submit their financial reporting packages to the SharePoint website. For questions about the website send to Mimi Wu (mimi.wu@ucop.edu).

# 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 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) will be available on the UCOP GASB website as Word documents.

*Submission Requirements*

The internal correspondence must be provided to the UCOP external audit team manager no later than September 15, 2015. The fax number for KPMG Spencer Endicott is 213/ 955 8721. Hard copies of the documents should be sent to the following address:

**Spencer Endicott**
KPMG LLP
355 S. Grand Ave, Suite 2000
Los Angeles, CA 90071

Confirmation that the correspondence was issued should be provided to Mimi Wu at UCOP by either fax or mail. The fax number is (510) 587-6400. The mailing address is as follows:

**Mimi Wu**
UCOP–Financial Accounting
1111 Franklin Street, 6th Floor
Oakland, California 94607

# EXHIBIT A

## *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 KPMG 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 B

### *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 C**

### ***External Auditor's "Package" Opinion***

**[External Auditor Office Letterhead]**

University of California, **[name of Foundation]** and KPMG, 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 KPMG 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. FOUNDATION STATEMENTS/FOOTNOTE DISCLOSURE IN UC'S ANNUAL REPORT

Foundation statements and footnote disclosures may be viewed in prior year University Annual Reports, beginning FY 2006-2007. University Annual Reports are available at the following web address: http://www.universityofcalifornia.edu/reportingtransparency/.

# 9. OTHER INFORMATION

## A. Summary of Planned or Deferred Gift Arrangements

***(*****Adapted from the UC *****Development Policy and Administrative Manual)***

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.

### 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 redetermined 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 <u>net income unitrusts</u>, 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 noncharitable 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 IV: D.2 of the *Development Policy and Administration Manual* 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 IV: D.5, Life Insurance, and Section IV: C, General Information About Noncash Gifts of the *Development Policy and Administration Manual*.

## B. Discussion of Accounting for Annuity and Life Income Arrangements

*Including financial statement presentation under GASB 34*

Also see the worksheet following this discussion.

| | Investments (Cost) | | Unrealized Gain or Loss | | Annuity or Life Income Liability | | Cash | |
|---|---|---|---|---|---|---|---|---|
| **Statement of Net Position** | $1000 (1) | | $100 (5) | | | $400 (1) | | |
| | | | | | | 20 (2) | $20 (2) | |
| | | | | | 20 (3) | | | 20 (3) |
| | | | | | 10 (4) | | | |
| | | | | | 390 (6) | | | |

| | Contribution Revenue | | Change in Annuity and Life Income Liability | | Unrealized Appreciation (Depreciation) of Investments | |
|---|---|---|---|---|---|---|
| **SRECNP** | | $600 (1) | $10 (4) | | | $100 (5) |
| | | 390 (6) | | | | |

**(1) Record the initial gift of marketable securities as an investment at fair value at the date of donation ($1,000), a liability to the beneficiary for the present value of the future obligation under the terms of the agreement ($400) and contribution revenue ($600).**

*SRECNP*

The $600 of contribution revenue is shown as "Contributions" in the operating revenue section of the SRECNP.

Note: In this example, the credit is to contribution revenue under the assumption that upon maturity the donor's intent is for the gift not to be a permanent endowment. If this gift eventually would become a permanent endowment, the credit would either go to "Additions to permanent endowments" in the Other Changes in Net Position section of the SRECNP (the basis for this under GASB 33, paragraph 22, is that the gift has been received and the Foundation has started to honor the donor's stipulation not to sell or consume the corpus), or to Deferred Inflow of Resources on the statement of net position (on the basis that the gift has been received but the Foundation doesn't begin honoring the donor's stipulation until maturity). While seemingly inconsistent, a case can be made for either treatment. The University's preference in this circumstance is for the credit to go to "Additions to permanent endowments" on the SRECNP.

*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 line item "Receipts from contributions" in the

"Net cash provided (used) by operating activities" section of the Statement of Cash Flows includes $600 of contribution revenue, plus the $400 increase in the liability associated with this transaction, less $1,000 of investments associated with the transaction. 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). The line item "Receipts from contributions" in the Statement of Cash Flows includes $600 of contribution revenue, plus the $400 increase in the liability associated with this transaction, less -0- of investments associated with the initial recording of the transaction since the initial debit would be to "cash" rather than "investments".

**(2) Record investment income through the liability account ($20).**

*SRECNP*

No effect on the SRECNP.

*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 ($20).**

*SRECNP*

There is no effect on the SRECNP.

*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 ($10).**

*SRECNP*

The adjustment to the liability resulting from both of these circumstances is a non-operating activity, therefore the effect is included in the SRECNP in the non-operating section as “Change in value of annuity and life income liabilities”. There is not a need to distinguish and separately account for the reasons for the adjustment to the liability

*Statement of Cash Flows*

There is no effect from these circumstances on the Statement of Cash Flows.

**(5) Record the increase (or decrease) in the fair value of the investment at the end of the year $100.**

*SRECNP*

The “Unrealized increase (or decrease) in the fair value of investments” is recorded in the non-operating section of the SRECNP ($100).

*Statement of Cash Flows*

There is no cash effect from unrealized increases or decreases in the fair value of investments.

**(6) Record the termination of the liability upon maturity ($390)**

*SRECNP*

The SRECNP includes $390 of “Contribution revenue”.

*Statement of Cash Flows*

The contribution revenue is an operating activity and is included in “Receipts from contributions”. However, there is no cash generated from this transaction, therefore the corresponding reversal of the liability ($395) is recorded as an offset to “Receipts from contributions”. The net effect is -0- on the “Receipts from contributions” line in the “Net cash provided (used) by operating activities” section of the Statement of Cash Flows.

## ACCOUNTING FOR ANNUITY AND LIFE INCOME ARRANGEMENTS

| Transaction | Reference | Debit (Credit) Statement of Net Position | Debit (Credit) SRECNP | Increase (Decrease) Statement of Cash Flows | Increase (Decrease) Reconciliation of Net Operating Revenues to Net Cash Provided (Used) by Operating Activities |
|---|---|---|---|---|---|
| Receipt of $1000 marketable securities, establish a liability of $400 and contribution revenue of $600<br><br>(Note-this example is not for an annuity or life income agreement that ultimately becomes a permanent endowment upon maturity) | (1) | Investment $1000<br><br>Liability ($400) | Operating-Contributions ($600) | Receipts from Contributions $0<br><br>Sale of Investments $1000<br><br>Purchases of Investments $1000 | Operating Income $600<br><br>Change in Value of Annuity and Life Income Liabilities $400<br><br>Investments ($1000) |
| Receipt of $1000 cash, establish a liability of $400 and contribution revenue of $600<br><br>(Note-this example is not for an annuity or life income agreement that ultimately becomes a permanent endowment upon maturity) | None | Investments $1000<br><br>Liability ($400) | Operating-Contributions ($600) | Receipts from Contributions $1000<br><br>Purchase of Investments ($1000) | Operating Income $600<br><br>Change in Value of Annuity and Life Income Liabilities $400<br><br>Investments ($1000) |
| Record investment income | (2) | Cash ($20)<br><br>Liability ($20) | | Other receipts $20 | |
| Record payment to beneficiary | (3) | Cash ($20)<br><br>Liability $20 | | Payments to Beneficiaries ($20) | |

## 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 |
| Adjust liability as a result of actuarial calculations related to the annuitant’s age or the change in asset value | (4) | Liability $10 | Nonoperating- Change in Value of Annuity and Life Income Liabilities ($10) | | |
| Record the unrealized gain (or loss) in the fair value of investments held at year end | (5) | Investments $100 | Nonoperating- Unrealized (Appreciation) Depreciation on Investments Held at Year End ($100) | | |
| Record the termination of the liability upon maturity | (6) | Liability $390 | Operating- Contributions revenue ($390) | Receipts from contributions $0 | Operating Income $390<br><br>Noncash addition-Change in Value of Annuity and Life Income Liabilities ($390) |

# 10. CONTACT LIST

## *University of California, Office of the President*

**Peggy Arrivas**
Associate Vice President and Systemwide Controller Financial Accounting
University of California, Office of the President
1111 Franklin Street, 6th Floor, Oakland, CA 94607-5200
Phone: 510/ 987 9067 Fax: 510/ 587 6400 Email: peggy.arrivas@ucop.edu

**Geoff O'Neill**
Assistant Vice President, Institutional Advancement
University of California, Office of the President
1111 Franklin Street, 7th Floor, Oakland, CA 94607-5200
Phone: 510/ 987 9774 Fax: 510/ 987 9181 Email: geoff.oneill@ucop.edu

**Ruth Satorre**
Director Corporate Accounting
University of California, Office of the President
1111 Franklin Street, 6th Floor, Oakland, CA 94607-5200
Phone: 510/ 987 0414 Email: Ruth.Satorre@ucop.edu

**Mimi Wu**
Senior Accountant, Corporate Accounting
University of California, Office of the President
1111 Franklin Street, 6th Floor, Oakland, CA 94607-5200
Phone: 510/ 987 9247 Fax: 510/ 587 6400 Email: mimi.wu@ucop.edu

**Bob Yastishak**
Director, Treasury Operations
University of California, Office of the President
1111 Broadway Ave, 21st Floor, Oakland, CA 94607-5200
Phone: 510/987 9668 Email: robert.yastishak@ucop.edu

**Jan Kehoe**
Assistant Director, Treasury Operations
University of California, Office of the President
1111 Broadway Ave, 21st Floor, Oakland, CA 94607-5200
Phone: 510/987 9692 Email: jan.kehoe@ucop.edu

## *KPMG LLP*

**Mark Thomas**
Partner
KPMG LLP
20 Pacifica, Suite 700
Irvine, CA 92618-3391
Phone: 949/ 885 5630 Fax: 949/ 861 9859 Email: mtthomas@kpmg.com

**Spencer Endicott**
Senior Manager
KPMG LLP
355 S. Grand Ave, Suite 2000
Los Angeles, CA 90071
Phone: 213/ 955 8721 Fax: 503/ 348 8387 Email: sendicott@kpmg.com

## *Campus Controllers*

**Delphine Regalia**
Associate Vice Chancellor, Finance & Controller
University of California, Berkeley
2195 Hearst Avenue, Room 130
Berkeley, CA 94720
Phone: 510/ 643 7628 Fax: 510/ 643 7628 Email: dmregalia@berkeley.edu

**Mike Allred**
Associate Vice Chancellor–Finance
University of California, Davis
One Shields Avenue
Davis, CA 95616 – 8504
Phone: 530/ 757 8501 Fax: 530/ 757 8510 Email: jmallred@ucdavis.edu

**Bent Nielsen**
AVC & Controller-Accounting & Fiscal Services
University of California, Irvine
Accounting Office
Irvine, CA 92697-1050
Phone: 949/ 824 3267 Fax: 949/ 824 2098 Email:bnielsen@uci.edu

**Allison Baird-James**
Assistant Vice Chancellor/Controller, Business and Finance Services
University of California, Los Angeles
Corporate Financial Service, UCLA Wilshire Center
10920 Wilshire Blvd., Suite 600
Los Angeles, CA 90024
Phone: 310 794 8686 Fax: 310/ 794 8697 Email: abaird-james@finance.ucla.edu

**Michael R Riley**
Controller & Assistant Vice Chancellor, Business and Financial Services
University of California, Merced
5200 North Lake Road
Merced, CA 95343
Phone: 209/ 228 4073 Fax: 209/ 724 4499 Email: mriley5@ucmerced.edu

**Bobbi McCracken**
Associate Vice Chancellor for Financial Services
University of California, Riverside
1201 University Ave., No. 1-208
Riverside, CA 92521
Phone: 909/ 787 3303 Fax: 909/ 787 3314 Email: bobbi.mccracken@ucr.edu

**Debbie Rico**
Interim Controller/Interim Assistant Vice Chancellor
University of California, San Diego
9500 Gilman Drive MC0951
La Jolla, CA 92093-0951
Phone: 858/ 534 0386 Fax: 858/ 534 0429 Email: drico@ucsd.edu

**John Ellis**
Controller and Assistant Vice Chancellor
University of California, San Francisco
1855 Folsom Street, MCB 425
San Francisco, CA 94143-0812
Phone: 415/ 476 1496 Fax: 415/ 476 7892 Email: johng.ellis@ucsf.edu

**Jim Corkill**
Controller/Director of Business & Financial Services Accounting Services & Controls
University of California, Santa Barbara
3201 Student Affairs & Administration Services
Santa Barbara, CA 93106
Phone: 805/ 893 4095 Fax: 805/ 893 8682 Email: jim.corkill@accounting.ucsb.edu

**Kirk Lew**
AVC-Financial Affairs
University of California, Santa Cruz
Office: 2300 Delaware Ave, A275D
Mail:1156 High Street, Santa Cruz, CA 95064
Attention: Accounting ServicesPhone: 831/ 459 5308 Fax: 831/ 459 3838 Email: kllew@ucsc.edu

## *Foundations*

**Loraine Binion**
Executive Director of Finance and Administration, University Relations
University of California, Berkeley
2000 Center Street
Berkeley, CA 94720-4200
Phone: 510/ 643 7004 Fax: 643 9413 Email: lbinion@berkeley.edu

**Tania Walden**
Treasurer, UC Davis Foundation
University Relations
University of California, Davis
1460 Drew Avenue
Davis, CA 95616
Phone: 530/ 754 2003 Fax: 530 754 1156 Email: trwalden@ucdavis.edu

**Amy Seropian**
Accounting Manager, UC Davis Foundation
University Relations
University of California, Davis
1460 Drew Avenue, Suite 100
Davis, CA 95616
Phone: 530/ 754 1126 Fax: 530 754 1156 Email: arseropian@ucdavis.edu

**Lynn Rahn**
Chief Financial Officer, The UCI Foundation
Executive Director Business & Finance, University Advancement
University of California, Irvine
100 Theory, Suite 250
Irvine, CA 92617
Phone: 949/ 824 8212 Fax: 949/ 824 2774 Email: lrahn@uci.edu

**Christie Israel**
Controller
The UCI Foundation
University of California, Irvine
100 Theory, Suite 250
Irvine, CA 92617
Phone: 949/ 824 1509 Fax: 949/ 824 2774 Email: cisrael@uci.edu

**Sona Mahboobani**
Executive Director, Finance & Information Management
University of California, Los Angeles
10920 Wilshire Blvd., Suite 900
Los Angeles, CA 90024
Phone: 310/ 794 3422 Fax: 310/ 794 3487 Email: smahboobani@support.ucla.edu

**Julie Ann Sina**
Vice President – Finance, CFO and Treasurer
The UCLA Foundation
UCLA Wilshire Center
10920 Wilshire Blvd., Suite 1100
Los Angeles, CA 90024
Phone: 310/ 794 3354 Fax: 310/ 794 3487 Email: jsina@support.ucla.edu

**Stephanie Zielonka**
Controller
The UCLA Foundation
UCLA Wilshire Center
10920 Wilshire Blvd., Suite 900
Los Angeles, CA 90024
Phone: 310/ 794 4234 Fax: 310/ 794 3487 Email: szielonka@support.ucla.edu

**Michael R Riley**
Controller & Assistant Vice Chancellor, Business and Financial Services
University of California, Merced
5200 North Lake Road
Merced, CA 95343
Phone: 209/ 228 4073 Fax: 209/ 724 4499 Email: mriley5@ucmerced.edu

**Elizabeth Wottring-Gonzales**
Assistant Director of Finance & Administration
VCUA Finance & Administration
University of California, Riverside
252 Highlander Hall, A
Riverside, CA 92521
Phone: 951/ 827 6389 Fax: 951/ 827 7202, Email: elizabeth.wottring@ucr.edu

**Marlene Shaver**
Assistant Vice Chancellor, Advancement
Chief Financial Officer, University of California San Diego Foundation
9500 Gilman Drive, #0940
La Jolla, CA 92093
Phone: 858/ 534 1032 Fax: 858/ 534 8160 Email: mshaver@ucsd.edu

**I-Ju Tracy**
Foundation Controller, External Relations
University of California, San Diego
9500 Gilman Drive, #0940
La Jolla, CA 92093
Phone: 858/ 534 1038 Fax: 858/ 534 8160 Email: itracy@ucsd.edu

**Steve Downs**
Executive Director
Financial Services and Administration
University of California, San Francisco
UCSF Box 0248
44 Montgomery Street, Suite 2200
San Francisco, CA 94143-0248
Phone: 415/ 476 3618 Fax: 415/ 476 5560 Email: sdowns@support.ucsf.edu

**Janet Jones**
UCSF Foundation Accounting Manager
Director-Gift & Endowment Accounting
UCSF Controllers Office/UCSF Foundation
220 Montgomery Street, 5th Floor
P.O. Box 0248
San Francisco, CA 94104
Phone: 415/ 514 2900 Fax: 415/ 476 5560 Email: janet.jones@ucsf.edu

**Eric Sonquist**
Chief Financial Officer
University of California, Santa Barbara Foundation
4219 Cheadle Hall
Santa Barbara, CA 93106-2013
Phone: 805/ 893 8585 Fax: 805/ 893 5611 Email: eric.sonquist@ucsb.edu

**Melodie Lee**
Assistant Director, Financial Management
University of California, Santa Barbara Foundation
Mail Code 1130
1110 Phelps Hall
University of California
Santa Barbara, CA 93106-1130
Phone: 805/ 893 5274 Fax: 805/ 880 5827 Email: melodie.lee@ucsb.edu

**Jo Westbrook**
Foundation and Alumni Association Controller
University of California, Santa Cruz
1156 High Street
Santa Cruz, CA 95064
Phone: 831/ 427 4762 Fax: 831/ 427 4775 Email: jwestbro@ucsc.edu

## 11. UNIVERSITY OF CALIFORNIA ANNUAL REPORTS

The University's Annual Reports are available at the following web address: http://www.universityofcalifornia.edu/reportingtransparency/.