

OSBHE FINANCIAL ADMINISTRATION STANDARD OPERATING MANUAL

This policy was developed prior to implementation of Banner FIS. Therefore, specific information related to the previous accounting system (FMS) is no longer relevant. This policy is made available on-line since certain general principles are still applicable. If you have questions, please contact the Controller's Division at (541) 737-3636 / cdwebmaster@ous.edu. Applicable sections of this policy will be transitioned to the new Fiscal Policy format as time and resources permit.

Section 01.25 INVESTED FUNDS (Last Revised 12/97)

A GENERAL

OSSHE is responsible for managing the investment of numerous gifts, bequests, bonds and other funds. This section defines the various types of funds; describes their investment; and outlines the accounting treatment for their investment earnings.

B REFERENCES

[1] The following references are used in this section. The revised statutes and FASOM sections are individually cited in the appropriate subsections.

.... Administrative Rules, ODHE, Division 43, Patent Policies; and Division 45, Copyright Policies.

.... OSBHE Internal Management Directive 6.140, Endowment Fund Investments.

.... ORS 295.005, 351.060, 351.130, 351.220, 351.250, 351.450, 351.460, 351.545, 351.590, 351.615, 352,510, and 351.560.

.... FASOM Sections 01.05, Fund Accounting; 01.22, Gifts, Grants & Contracts; 01.24, Accounting for Reserves; 01.32, Intellectual Property; 01.99, Miscellany; 13.01, Invoice Review; and 14.01, Accounting Glossary of Terms.

C GIFTS AND BEQUESTS

[1] Background

There are two classifications of gifts which ODHE receives, i.e., General Gifts and Endowments and Similar Funds. The following paragraphs describe what types of gifts are included in each of the classifications; each classification's respective investment pool; and the disposition of investment earnings on each of the two pools.

[2] General Gifts

Any individual donation or gift which equals or exceeds \$30,000 in total market value, regardless of the type of gift or the accounting periods in which it is received, shall be designated as a quasi-endowment. Exceptions up to \$100,000 may be authorized by the Office of Administration. Exceptions in excess of \$100,000 may be authorized by the Board. Any quasi-endowment account balance which has a market value of less than \$30,000, may, at the discretion of the institution, and with prior approval of the Office of Administration, be transferred to the Current General Fund or the Current Restricted Fund. Any individual donation or gift of less than \$30,000 may be designated a quasi-endowment at the discretion of the institution.

[3] The Higher Education Donation Fund consists of donations and bequests received in behalf of any institution (see Sec. 01.22D[2], Gift Transactions). The gifts are accepted and expended under terms compatible with the donor's intended purpose.

[4] **The Donation Fund Investment Pool**

The Donation Fund Investment Pool is established for the management of gifts and bequests available for investment. It consists of the monthly balance of each account coded with an 0511 and 0515 cash account for the Higher Education Donation Fund. These cash balances are on deposit with the State Treasurer and are invested in dollar obligations according to ORS 351.130 and Board policy or directive. Interest is earned on the deposits and on other investment securities owned by the Pool.

[5] **Disposition of Donation Earnings**

Investment earnings on the Donation Fund Investment Pool's cash on deposit are reported monthly to the Controller's Division by the State Treasurer's Office. The earnings are credited to account 80-069-0100, Current Donation Interest Income. Earnings on the Pool's other investment securities are reported by the State Treasurer's Office throughout the year and are credited to the same account. The Controller's Division distributes the total earnings to participating accounts at year-end using the following procedure (see Sec. 01.22D[7], Distribution of Interest Earnings):

- a. The Average Monthly Balance of each participating account is determined by totaling all of the monthly account balances and dividing the sum by 12.
- b. The Total Earnings on the cash deposits plus other investment securities are computed by totaling all earnings reported by the State Treasurer throughout the year minus the State Treasurer's investment costs.
- c. The Base is determined by adding all of the Average Monthly Balances together.
- d. The Distribution Rate is calculated by dividing the Total Earnings for the year by the Base.
- e. The Earnings for each participating account is computed by multiplying the Average Monthly Balance of the account by the Distribution Rate.

[6] **Endowments and Similar Funds**

This classification of gifts and bequests includes true endowments, term endowments, funds functioning as endowments, i.e., quasi-endowments, and annuity and life income funds within this classification share some common traits, they also have unique characteristics and conditions as described below.

[7] The True Endowment Fund includes funds which the donor or other external entity has stipulated that the principal is to be maintained inviolate and in perpetuity and that only the investment income from the funds may be expended (see Secs. 01.05F03, TRUE ENDOWMENT FUNDS and 14.01E03, ENDOWMENT FUNDS). Capital gains and losses from investments affect only the principal.

[8] The Term Endowment Fund contains donations and gifts in which all or part of the principal may be expended after a designated time period or upon the occurrence of some event (see Secs. 01.05F04, TERM ENDOWMENT FUNDS and 14.01T02, Term Endowment Funds).

[9] Quasi-endowments exist at the discretion of the Board and are not true endowments (see Secs. 01.05F05, FUNDS FUNCTIONING AS ENDOWMENT FUNDS (QUASI-ENDOWMENTS) and 14.01F15, FUNDS FUNCTIONING AS ENDOWMENT FUNDS). The donor has not limited the expenditure of the principal, but Board policy does. Designation of a gift as a quasi-endowment and expenditure of quasi-endowment principal or income are subject to the two conditions described in paragraph 01.25C[2], General Gifts, as well as the third condition listed below:

.... Any quasi-endowment account balance which has a market value of less than \$30,000, at the discretion of the institution and with prior report to the Office of Administration, may be transferred to the Current General Fund or the Current Restricted Fund.

Note: This fund also contains Endowment Pool Income (see paragraph 01.25C[12], Endowments and Similar Funds Investment Pool).

[10] Annuity and life income funds include property which is donated to an institution on the condition that the institution periodically pay to designated persons either:

- a. A stipulated amount until a specified time or event (annuity agreement).
- b. The income earned on the donated assets for the lifetime of one or more designated persons (life income agreement).

Full control of both principal and investment income, in annuity and life income agreements, eventually passes to the institution subject to the terms of the agreement (see Secs. 01.05F06, ANNUITY AND LIFE INCOME FUNDS and 14.01A26, ANNUITY AND LIFE INCOME FUNDS).

[11] **Endowments and Similar Funds Investment Pool**

This pool contains all endowment, quasi-endowment and annuity and life income funds available for investment. Investments are made partially by the State Treasurer in dollar obligations and partially by participating in the Common Fund (see paragraph 01.25C[13]. Investment income is available for expenditures in accordance with the terms and conditions of the endowment or gift instrument (see paragraph 01.25C[14], Disposition of Endowment Earnings). If there are no restrictions on the investment earnings, they may be spent at the institution's discretion.

[12] The common Fund is a non-profit membership investment corporation. Its sole objective is to enable colleges and universities to join together to obtain professional management of Pooled Endowment funds. Investments are made via purchasing stocks. Eligibility for participation in the Common Fund includes all state colleges and universities as well as independent schools.

[13] **Disposition of Endowment Earnings**

Endowment Pool investment earnings are distributed monthly based upon the number of "participation units" owned by each permanent and quasi-endowment funds. The Distribution Rate is determined by the Controller's Division based upon the Average Unit Value of the previous five-year period.

When the Controller's Division receives earnings on non-pooled assets, they are distributed to the permanent or quasi-endowment fund owning those assets.

[14] Institutions may reinvest their distributed endowment earnings contingent upon any restrictions imposed by the parent endowment. All reinvestments must be placed in the Quasi-Endowment fund and are treated as new cash to the Endowment Pool Fund.

Reinvestments may be made using one of the following options:

.... If the earnings are from a quasi-endowment source:

a. They may be returned to the parent quasi-endowment account.

or

b. They may be placed in a separate quasi-endowment account containing earnings from other endowments dedicated to like restrictions.

.... If the earnings are from a true endowment source:

a. They may be placed in a separate quasi-endowment account.

or

b. They may be combined with a quasi-endowment account with like restrictions.

Note: Reinvestment earnings from a true endowment account cannot be returned to the parent endowment account.

D HIGHER EDUCATION BOND BUILDING FUND

[1] General

The Higher Education Bond Building Fund contains the proceeds from the sale of two types of bonds, i.e., XI-F(1) and XI-G. The proceeds finance buildings and other capital outlay projects. Investments of the proceeds are made, pending the actual need for capital outlay disbursements, according to ORS 351.450. The investments, dollar obligations, mature in no more than two years.

[2] XI-F(1) Bonds

This type of bond is authorized by Article XI-F(1) of the Oregon Constitution to finance self-supporting and self-liquidating capital outlay projects (see Sec. 14.01B07, BOND BUILDING FUNDS XI-F(1)).

[3] XI-G Bonds

This type of bond is authorized by Article XI-G of the Oregon Constitution to finance educational and general capital outlay projects (see Sec. 14.01B08, BOND BUILDING FUNDS XI-G).

[4] Disposition of Investment Earnings

Investment earnings accrue to the Higher Education Bond Sinking Fund and are distributed to participating accounts annually (see paragraph 01.25E[5], Disposition of Investment Earnings)

E HIGHER EDUCATION BOND SINKING FUND

[1] General

The Higher Education Bond Sinking Fund contains cash reserves accumulated for the redemption of principal and interest on OSBHE Building Bonds, except for Series 1972 C Building Bonds. Accumulated cash reserves in the Isolation Facility Bond Sinking Fund are

used for the redemption of principal and interest on Series 1972 C Building Bonds. Temporary investments of Bond Sinking Fund reserves are made in accordance with ORS 351.460(1). Investments of Isolation Facility Bond Sinking Fund reserves are made in dollar obligations according to ORS 351.545(1). Maturity of both types of investments normally does not exceed five years.

[2] XI-F(1) Bonds

A separate subfund of the Higher Education Bond Sinking fund is maintained for the payment of principal and interest on XI-F(1) Bonds. This subfund consists of the following:

- Student building fees.
- Earnings from self-supporting activities.
- Interest earned on the XI-F(1) subfund of the Bond Building Fund.
- Interest earned on this Bond Sinking Fund subfund itself.

[3] XI-G Bonds

A separate subfund of the Higher Education Bond Sinking Fund is maintained for the payment of principal and interest on XI-G Bonds. This subfund consists of the following:

- Interest earned on the XI-G subfund of the Bond Building Fund (see paragraph 01.25D[3], XI-G Bonds).
- Interest earned on this Bond Sinking Fund subfund itself.

[4] Isolation Facility Bond Sinking Fund

This fund is made up of contributions from the State Racing Commission and earned interest on the fund itself.

[5] Disposition of Investment Earnings

Investment earnings on the Bond Sinking Fund's cash on deposit with the State Treasurer are reported monthly to the Controller's Division. The earnings are credited to an undistributed income account. Other Bond Sinking Fund investments with the State Treasurer also earn interest and/or accumulate discounts monthly. These earnings are credited to the same undistributed income account. The Controller's Division distributes the total earnings for the year to each participating sinking fund, except dormitory sinking funds (see paragraph 01.25E[6], Consolidated Dormitories Sinking Fund), on a prorata basis to the overall Higher Education Sinking Fund.

[6] Consolidated Dormitories Sinking Fund

The debt service on all dormitories in ODHE is consolidated into a debt service pool. This consolidation is a mechanism for equalizing debt service payments on all debt service payments on all dormitory operations. The investment earnings of this sinking fund are used to reduce the Consolidated Dormitories' debt service to the dormitory operations for each institution. this proration is made annually using the following procedure:

- a. The Total Earnings are the yearly accumulation of all earnings on the cash deposits, other investments as reported monthly by the State Treasurer and all other net receipts of the Sinking fund.
- b. The Net Debt Service is the amount necessary to restore the Consolidated Dormitories Sinking Fund to its required level after reduction by the amount of Total Earnings on the sinking fund.

- c. An Average Occupancy Rate is calculated by totaling the three-term occupancy of each institution's dormitories for the previous five-year period and dividing by 15.
- d. The Net Debt Service is prorated to each of the institutions' dormitory operating accounts based upon the Average Occupancy Rate.

[7] Isolation Facility Sinking Fund

Investment earnings on the Isolation Facility Sinking Fund are credited to its General Ledger accounts as earned.

F HIGHER EDUCATION BUILDING REPAIR AND EQUIPMENT REPLACEMENT RESERVE FUND

[1] General

The Higher Education Building Repair and Equipment Replacement Reserve Fund contains reserves used by auxiliary enterprises which are self-sustaining and those supported by incidental and health service fees. The purpose of the reserves is to fund major or unusual building repairs and to fund purchases of new equipment. The reserve balances participate in the interest earnings of the Fund. Additional information can be found in Sec. 01.24, Accounting for Reserves.

[2] Disposition of Investment Earnings

Investment earnings on this Fund are distributed annually by the Controller's Division. The distribution to each type of auxiliary enterprise reserve is based on the monthly balance of each respective reserve account. Earnings may be used to reduce the funding of the reserves from operating accounts (see Sec. 01.24D09, INTEREST EARNINGS ON BUILDING REPAIR AND EQUIPMENT REPLACEMENT RESERVES OF AUXILIARY ENTERPRISES).

G HIGHER EDUCATION STUDENT ACTIVITIES FUND

[1] General

The Higher Education Student Activities Fund contains all revenue from incidental fees, optional fees, health service fees and all operating revenue from intercollegiate athletics, student unions, health services, and educational activities (ref. ORS351.590).

[2] Disposition of Investment Earnings

Investment earnings accumulate and are distributed on an annual basis. The Controller's Division distributes the total earnings to participating accounts using the following procedure:

- a. The Average Monthly Balance of each participating account is determined by totaling all monthly balances (List 13 through List 11) and then dividing the sum by 12.
- b. The Total Earnings are computed by totaling all interest reported by the State Treasurer throughout the year.
- c. The Distribution Rate is the average monthly rates for Daily Cash computed from the monthly Treasury Report.
- d. The Interest Earnings for each participating account are computed as follows:

1. Multiply the Average Monthly Balance by the Distribution Rate to obtain Nominal Rate Earnings. The total Nominal Rate Earnings for all accounts will be more or less than the total to be distributed by an Undistributed Difference.
 2. Convert the Average Monthly Balances to absolute values, then compute a prorata share of the Undistributed Difference for each account according to the proportion the Absolute Average of each account bears to the total of all Absolute Averages.
 3. The sum of the amounts computed in 1. and 2. above for each account is the total Distribution to that account.
- e. This method is used for distribution of Student Activities Funds, Perkins Loan Funds and Health Professions Loan Funds. It is best suited for a mix of accounts with both positive and negative month-end balances during the year.

H HIGHER EDUCATION INVENTION FUND

[1] General

The Higher Education Invention Fund includes revenue received from the ownership or management of intellectual property which includes patents, copyrights, inventions, discoveries, processes and ideas (ref. ORS 351.220). The property is acquired through the development of research outcomes, gifts, purchases and assigned shares received for managing the property. The revenues are used for the acquisition, management and development of intellectual property as well as for the advancement of institutional research (refs. ORS 351.250 and Sec. 01.32, Intellectual Property).

[2] Disposition of Investment Earnings

Investment earnings accumulate and are distributed to participating accounts annually following the same procedure as used with the Donation Fund Investment Pool (see Sec. 01.25C([5], Disposition of Donation Earnings). The cash account code used for Invention Fund accounts is 0269.

I LAND GRANT INTEREST FUND

[1] General

The Land Grant Interest Fund is held and administered by the State Land Board. It is composed of two subfunds, i.e., the Oregon State University Land Grant Interest Fund and the University of Oregon Land Grant Interest Fund. These subfunds contain the interest earned on the proceeds from land sales. Both subfunds are used exclusively for salaries and other current expenses at the respective institutions. The disposition of remaining interest, after expenses, at year-end is described in paragraph 01.25I[4], Disposition of Interest Earnings.

[2] Oregon State University Land Grant Interest Fund

This fund is made up of interest earned on the proceeds from the sale of lands granted to the State under the Land Grant Act of July 2, 1862 (ref. ORS 352.560).

[3] University of Oregon Land Grant Interest Fund

This fund is made up of the interest earned on the proceeds from the sale of university lands donated to the State under the Congressional Act of February 14, 1859 (ref. ORS 352.510).

[4] **Disposition of Interest Earnings**

Investment earnings are credited to Board revenue accounts. The balance of unexpended interest, at the end of the fiscal year, in the OSU Land Grant Interest Fund, is added to and becomes part of the principal which earns interest also. Unexpended interest of \$500 or more, in the U of O Land Grant Interest Fund, is treated in the same manner.

J UNIVERSITY OF OREGON VILLARD ENDOWMENT INTEREST FUND

[1] **General**

The University of Oregon Villard Endowment Interest Fund consists of interest earned on a gift from Henry Villard. The gift stipulates that the interest will be spent for the U of O Library and other university support (ref. ORS 351.050).

[2] **Disposition of Interest Earnings**

Investment interest is credited to a U of O Current Restricted account. The balance in this fund also earns interest which is credited to the same account.

K TRUST FUNDS

[1] **General**

Certain student deposit funds and agency funds are classified as trust funds and, as such, participate in the State investment pool. Earned interest is credited by the State Treasurer to ODHE for distribution to the appropriate accounts (see paragraph 01.25K[4], Disposition of Investment Earnings).

[2] **Agency Trust Fund**

This fund includes moneys from parents, students, other individuals, faculty members, outside organizations and student organizations. ODHE acts as the custodian or fiscal agent for the payer or as the principal in a principal/agent relationship. Disbursements are made under the direction of the payer. Investment earnings accumulate and are distributed monthly to institutions. The following fund types and cash accounts participate in the investment program:

a. **Fund Type:**

XX-860-XXXX

Cash Account:

0090

Account Classification:

Agency Fund Operating Accounts - Student Deposits

b. **Fund Type:**

XX-861-XXXX

Cash Account:

0090

Account Classification:

Agency Fund Operating Accounts - Organizations

c. **Fund Type:**

XX-864-XXXX

Cash Account:

0090

Account Classification:

Agency Fund Operating Accounts - Other Agency Funds

[3] **Deposit Trust Fund**

This fund contains deposits held by ODHE to offset potential obligations of the payer. Such deposits are held for breakage, non-payment of bills, lost keys and library books, room reservations, various fines, etc. Remaining deposit balances, after all obligations are met, are returned to the payer. Investment earnings on the deposit balances accumulate and are distributed monthly to institutions. The following fund types and cash accounts participate in the investment program:

a. **Fund Type:**

XX-023-XXXX

Cash Account:

0091

Account Classification:

Current General Fund Liabilities - Deposits

b. **Fund Type:**

XX-123-XXXX

Cash Account:

0091

Account Classification:

Current Auxiliary Enterprise Fund Liabilities - Deposits

[4] **Disposition of Investment Earnings**

Each month the State Treasurer reports to the Controller's Division the amount of interest earned on student deposit and agency funds. The Controller's Division determines the amount to be distributed to each institution based on the institution's participating account balances in each of the funds. Interest earned is credited to incidental fee clearing or undistributed income accounts for subsequent internal allocation. The interest earnings are treated as institutional income and must be expended through the Current Auxiliary Fund.

L **HIGHER EDUCATION STUDENT LOAN FUND**

[1] **General**

The Higher Education Student Loan Fund is composed of state appropriations (after transfer as state matching funds) for Perkins Loans and funds from the Federal Government. Funds from the Federal government apply to the National Defense Education Act of 1959, Health Profession Act of 1963, the Nurses Training Act of 1964, and any amendments to the preceding acts.

The Higher Education Student Loan Fund shall also consist of:

- Repayments on loans made under the specified acts.
- Interest earned on loans made under the specified acts.
- Earnings on investments of any excess funds of the Student Loan Fund.

[2] **Earnings of the Student Loan Fund**

Any interest earned by the Student Loan Fund will be distributed to the accounts that participate in the funds. Interest will be distributed annually and should appear on the List 12 General Ledger Statement of Accounts.