

## **Gift Policies**

The university's gift accounting policies and procedures are in accordance with generally accepted accounting principles (GAAP) as prescribed by the Financial Accounting Standards Board and other GAAP hierarchy and specifically cited in Statements of Financial Accounting Standards No. 116 and No. 117.

## **Donative Restrictions**

It is university policy not to accept gifts with reversionary interests under any but the most unusual circumstances. If during the negotiation for a gift, it appears that the donor is specifying a reversionary interest, the details should be reviewed with the President or the appropriate Senior Vice President prior to accepting the gift.

Acceptance of gifts with certain other donative restrictions also requires approval by the President or the appropriate Senior Vice President. These would include all gifts with life estate interests, any gifts that require the establishment of a new office or program, any gifts that establish naming rights, any gifts that specify a time schedule or other conditions that are not under the direct control of the accepting dean or director, any gifts for endowment which specify that the gift is to be invested other than in the Endowment Pool, any gifts for student aid that have discriminatory restrictions, any gifts for current purposes or plant that require payment of investment income prior to spending, or gift real estate.

## **Life Estate Interests**

Gifts of property with residence life estate interests will be recorded at appraised value as of the date of gift as an Annuity and Living Trust. When such a gift matures (i.e., when the life estate interest is satisfied), any gain or (loss) on the sale of the property less accrued expenses associated with maintaining and ultimately selling the property will be recorded. The net proceeds will then be transferred to the account consistent with the original purpose restriction on the gift, and all policies for cash gifts with that particular purpose restriction will apply.

Gifts with income life estate interests are recorded at their appraised (market) value as of the date of gift as an Annuity and Living Trust. Income is paid to the owner(s) of the life estate in accordance with the commitment made at the time of the gift. When the gift matures, the gain or (loss) and any accrued holding expenses will be recorded. The net proceeds will then be transferred to an account consistent with the original purpose restriction on the gift, and all policies for cash gifts with that particular purpose restriction will apply.

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### **Non-Cash Gifts**

All non-cash gifts with donative restrictions for purposes other than endowment will be recorded at appraised (market) value at the date of gift in an account corresponding to the nature of the donative restriction. When the limitations on sale, if any, are removed and a gift is sold, any gains (or losses) on the sale and any accrued holding expenses will be recorded against the value of the gift. The policies appropriate for cash gifts with that particular purpose restriction will then apply.

Non-cash gifts for endowment will be recorded at appraised (market) value in a specific endowment account. The current endowment income overhead charge will be assessed on all earned income. When the limitations on sale are removed, the assets will be sold and the net proceeds will be invested in the Endowment Pool where the applicable policies for cash gifts for endowment will apply.

Some gifts for endowment are never transmitted to the university, but rather are held in trust and managed by others. Such gifts are recorded as Assets Held in Trust by Others and the income, when transmitted, is made available for spending for its specified purpose. The endowment income overhead charge applies to such income when transmitted.

### **Cash Gifts**

All cash gifts will be treated as follows:

- 1) Cash gifts for current purposes with no donative restrictions will be counted as unrestricted gift income to the university and employed to support the highest priority purposes of the university.
- 2) Cash gifts from university support groups for current purposes with donative restrictions only to a School or other Revenue Center, but not to a purpose within that Revenue Center, will be credited to the unrestricted income of that Revenue Center and employed to support the Revenue Center's highest priority purposes.
- 3) Cash gifts with donative restrictions for specific current purposes will be accounted for and spent consistent with the purpose restrictions. Gift overhead will be charged against the spending of these gifts. The full proceeds of this overhead charge will be credited to the unrestricted income of the Revenue Center.
- 4) Income earned on all cash gifts for current purposes will be employed for university priorities through the Subvention Pool.

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- 5) Cash gifts for endowment will be invested in the Endowment Pool. Income is distributed for spending based on the classification of the endowment. The budgeting policies of the university determine when income is available for spending. If the endowment is unrestricted, the income is distributed for spending the year it is earned. If the endowment is restricted, and is not considered a scholarship, then the income is distributed across two fiscal years—the year it is earned and the subsequent year. Fifteen percent (15%) of the income is distributed the year it is earned and is credited to the unrestricted income of the Revenue Center. The remaining eighty-five percent (85%) is distributed the following fiscal year. One hundred percent (100%) of the restricted scholarship endowment income is distributed in the following fiscal year.
- 6) Cash gifts for capital projects will be recorded in a specific account to allow for capitalization and earn investment income.

### **Gifts of Securities (Stock Valuation)**

The acceptance of gifts to the university must be approved in writing by the President or a Senior Vice President. As that policy relates to the acceptance of stock gifts, the following policy also must be adhered to.

The Treasurer's Office should be notified of all gifts of securities prior to their acceptance. Once the acceptance of the securities has been approved, the Treasurer's Office will determine the classification of the stock and a date of gift, and forward this information to Restricted Fund Accounting (RFA) for gift processing. The university identifies two classifications of securities:

- 1) easily marketable stocks -- includes most stocks traded that have no restrictions as to their sale; and
- 2) special handling stocks -- those stocks that fall under SEC Rule 144, Legend Stock or Bonds, Thinly Traded Stock or stocks being held for sale by the request of a donor.

In most instances (easily marketable stocks), RFA will calculate the value of the gift by using an average of the high and low trading price on the date of gift.

An immediate valuation may not be possible on special handling stocks because of their restrictive nature. Gifts of stock of this nature will be booked at \$1.00, and a final gift value will be based on the selling price of the security. The Treasurer's Office makes

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every effort to sell these securities as soon as it is prudently possible in order to ensure sufficient value in the discretion of the university after taking all factors into consideration.

A donor may not be given a value for a gift of securities until the Treasurer's Office has reviewed the stock to determine marketability and RFA has determined how to book the gift. The relationship between the university and its donors may be jeopardized when gift values are given without the approval of the appropriate university offices. It is important that all parties involved in these transactions give the donor accurate information, both for internal gift recording purposes and because these gift valuations will be used by the donor for IRS reporting.

### **Wills, Trusts and Employees Serving as Executors, Administrators, or Trustees where USC is a Beneficiary of the Estate**

All employees of the university, including those employees involved in development efforts, are to avoid acts of actual impropriety, as well as acts which create the appearance of impropriety. The standard of conduct required of such employees demands strict adherence to the conduct outlined below. Questions as to matters which do not fall squarely within these guidelines should be raised with the Senior Vice President for University Advancement and the University's General Counsel.

No university employee may serve as the executor, administrator or trustee of any will or trust in which the university is named as a legatee or beneficiary regardless of the date of the dispositive document.

### **Drafting Wills Where USC is the Beneficiary**

California law prohibits persons other than active members of the Bar from engaging in the practice of law. Consistent with this requirement, as well as with university policy, all university employees are prohibited from drafting wills naming the university as a legatee, whether or not such employees are admitted to the practice of law in California or elsewhere.

University employed attorneys and development officers are encouraged to work with the testamentary donors and their attorneys, provide them with suggested language and, if the donor has no attorney, refer them to outside counsel for the preparation of the will. Any such reference shall be made to not less than three independent counsel on a rotating basis so that no single counsel is perceived to be favored.

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University employees are also prohibited from being present at the execution of a will, or acting as a witness to a will, in which USC is named as a legatee or a beneficiary.

Written exceptions to this policy may be authorized under limited special circumstances only by the concurrence of the Senior Vice President for University Advancement and the University's General Counsel. Nothing in this policy shall prohibit an employee from drafting their own will, or drafting or witnessing a will prepared for a member of their immediate family naming the university as a legatee.

#### **Drafting of Trustee Agreements When USC is Named as a Beneficiary**

The same policies and procedures outlined above shall also apply in situations involving the drafting of trust agreements when the university is named as a beneficiary.

University employees are prohibited from drafting trusts for university donors whether or not such employees are admitted to the practice of law in California or elsewhere.

Because many prospective donors' attorneys are not familiar with charitable remainder trusts, university employees may provide either the donor or the donor's counsel, or both, with suggested language for such instruments.

#### **Employees Serving as Executor**

University employees (including but not limited to university attorneys) shall not serve as the executor or administrator of any will which names the university as a beneficiary. It is considered inappropriate for a university employee to serve as a personal representative in a will which names the university as beneficiary.

In certain circumstances, the donor may wish to specify that a certain university employee serve as personal representative for the estate. In such instances, any employee who is so requested must obtain the joint written approval of the Senior Vice President for University Advancement and the University's General Counsel to act. Approval will be conditioned on the agreement of the individual so named to waive all fees and any other payments for services as a personal representative, and the university will require bond even if specifically waived in the will.

The same procedure shall be required when an employee is named as the personal representative of an estate without his/her knowledge. Specifically, the employee shall be required to obtain written approval prior to so serving and shall also be required to post bond and waive all fees for all such services.

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## **USC Serving as Trustee**

The university may serve as a trustee of charitable remainder trusts when the university is named as a beneficiary of the trust only in those circumstances where the university is at least a 51% beneficiary of such trust and, unless the university is named as a 100% beneficiary, only with the prior written agreement of all of the other beneficiaries.

## **USC Employees Serving as Trustee**

University employees (including, but not limited to university attorneys) may serve as a trustee of charitable remainder trusts in which the university is named as beneficiary of the trust only with the prior written agreement of all of the other beneficiaries. In addition, the individual so named shall be required to waive all fees and any other payments for services. The university may require bond if deemed appropriate in the sole discretion of the university.

Nothing contained in this section shall preclude a university employee from acting as the trustee for any trust which may name USC as a beneficiary when the trustee is the relative of the employee.

Questions about these procedures should be directed to Restricted Fund Accounting in the Comptroller's Office at (213) 821-1900.

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## Gift Processing Procedures

The following procedures address the various types of gifts the university may receive, each of which has special processing considerations. Gifts can be given to the university in the form of cash (check), marketable securities, gifts-in-kind (tangible real and personal property) and wire transfers. All cash gifts should be restrictively endorsed upon receipt and deposited with the USC Cashier's Office within 24 hours of receipt. For all types of giving, copies of documentation (gift transmittals, original yellow g-receipt, donor and departmental correspondence and check copies) should be forwarded to:

### Restricted Funding Accounting (RFA)

Cash  
Marketable Securities  
Real Property  
Personal Property  
Wire Transfers

### Alumni Donor Relations (ADR)

Cash (support groups and lockbox gifts only)

If a gift did not originate in the school's development office, a copy of all correspondence should be forwarded to them.

If a unit receives a gift that does not belong to it but rather belongs to another school/department, the check should be deposited in the receiving department's gift clearing account (29-8096-xxxx) and the yellow g-receipt and all original documents forwarded to the correct school/department.

## Description of the Different Types of Gifts that Could Be Received by the University and Relevant Procedures

**Cash:** Checks, money orders, cash and bank drafts should be deposited at the Cashiers' Office within 24 hours of receipt. Gift deposits should go directly into the school/department's Undistributed Gift Clearing Account (29-8096-xxxx). Within five days, a copy of all accompanying documentation, gift transmittal form and the yellow g-receipt copy should be forwarded to the appropriate gift processing office: Restricted Fund Accounting or Alumni Donor Records. Acceptable forms of documentation are: copy of the donor's letter, university solicitation letter and copy of check. If there is no written documentation other than a copy of the check, the department should forward a memo to that effect. If a department/school is submitting a group of gifts in support of a fund

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raising event, copies of the checks (several on a page), the fundraising brochure and a memo from the Department indicating account designation will suffice instead of individual gift transmittal forms. If there is no existing restricted account to satisfy the donor's designation, a new account form should be submitted with the gift.

**Marketable Securities.** The Treasurer's Office should be contacted before gifts of securities are accepted by the university. The department should forward all documentation to the Treasurer's office who in turn will forward a transmittal letter to RFA providing gift valuation information. All donor questions relating to stock transfers should be directed to the Treasurer's Office at (213) 740-6426.

**Real Property:** Property Management should be contacted at (213) 740-7667 before gifts of land and/or buildings are accepted by the university to determine if the real estate is acceptable for receipt. A "qualified appraiser" must appraise all properties valued over \$5,000. It is the donor's responsibility to secure, arrange and pay for appraisals of gift property. The donor must also submit an IRS Form 8283 (Noncash Charitable Contributions). The Manager of Restricted Fund Accounting will sign the form acknowledging receipt of gift.

**Personal Property Gifts** – This category includes equipment, personal collections, books, paintings, and other personal property deemed acceptable by the Department/School. An inventory of the items received should be forwarded to Restricted Fund Accounting along with an independent appraisal provided by the donor for used items. For new merchandise, a company invoice stating value as purchase cost is required. Federal Form 8283 is required on all personal property gifts valued at \$5,000 or more.

**Wire Transfers :** All donors should be directed to the Treasurer's Office at (213) 740-6426 if they wish to make a wire transfer contribution. This will insure that the donor has the current wire instructions. The department should then furnish RFA with the required documentation.

Questions about these procedures should be directed to Restricted Fund Accounting in the Comptroller's Office at (213) 821-1900.

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**Gift Policies**  
**Addendum Regarding Gift and Donor Restrictions**

Generally speaking, the language that has become accepted practice, as Generally Accepted Accounting Principles for the accounting standards implemented in 1996 is that ‘the most restricted dollar is spent first’. What that means is that if a dollar is spent which satisfies the restrictions of a donor’s gift then that dollar now becomes ‘unrestricted’ and increases unrestricted net assets.

Specifically, Statement of Financial Accounting Standards No. 117, “Financial Statements of Not-for-Profit Organizations”, paragraph 21 states, “... donor-restricted contributions whose restrictions are met in the same reporting period may be reported as unrestricted support provided that an organization reports consistently period to period and discloses its accounting policy.” USC does this and the disclosure is in footnote #1 of our general-purpose published financial statements.

In addition the American Institute of Certified Public Accountants, Audit and Accounting Guide for Not-for-Profit Organizations, Paragraph 5.31 further states “The expiration of donor imposed restrictions on contributions should be reported in the period ...in which b) a donor-stipulated purpose for which the contribution was restricted has been fulfilled ...(for example, the restriction on a contribution to acquire operating supplies expires when those supplies are acquired by the organization).”

At USC it is a Provost’s policy that no school is authorized to bring an operating (unrestricted budget) deficit to the bottom line if they have gifts that can be used to reduce that deficit to zero.

When these situations occur, the school should inform the Comptroller’s Office and the Provost’s office immediately. The school informs their Comptroller’s Office representative of which gifts they would like to use and how much from each gift. The actual gift files are then reviewed for the donor restrictions. If the donors’ restrictions were met by virtue of expenditures, which took place in the normal operating budget of the school, the transfer will be allowed. A very typical example, other than completely unrestricted gift money, that most schools have is ‘scholarship’ gifts. Many have no restrictions other than that they be used for scholarships. As long as the school spent at least that much money in the operating budget for scholarships, the transfer would be approved.

The use of gift funds to satisfy a year-end operating budget deficit should always be done as a nonmandatory transfer from the departmentally designated accounts to an unrestricted expense account.

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**Gift Policies**  
**Addendum Regarding Changes in Gift Restrictions**

A copy of the “G’ receipt’ and all other documentation for the gift should be sent to Restricted Fund Accounting with a request for where the gift should be credited. The development office of each school should also be informed of the gift if it was not received directly by the development office, as well as the Senior Business Officer (SBO) of the school. All documentation includes: every solicitation letter, proposal, request for funds, letters from the university to the donor and all donor correspondence, wills, pledges (whether FASB or CASE). All of this documentation is required to protect the interests of the donor and their IRS charitable deduction.

Restricted Fund accounting will determine where the proper designation is for the gift and if it differs from the school’s request the development office will be notified and the situation explained. In addition a weekly gift report is distributed to the schools.

If a school ever makes a gift more restrictive than the donor did – e.g. states that an otherwise unrestricted gift for scholarships will be used exclusively for one department, or one set of students, this additional designation must first be approved, in writing, by the dean of the school and all information provided to Restricted Fund Accounting to be sure the gift is appropriately credited and restricted.

A donor cannot make a request of the university to change the designation of his gift once it is donated, because once the donation is made the donor relinquishes control of the assets. Occasionally situations arise where it is necessary or desirable to change a restriction. When those situations occur, all changes must be done through the Office of the General Counsel and the university must make the request of the donor with the explanation as to why this use of his gift has greater application than when originally donated. The Office of the General Counsel will work with the school on approaching the donor in the proper manner. No individual school should go directly to the donor without consulting with the Office of the General Counsel first. If these changes do occur all documentation to update the gift restriction should be sent to Restricted Fund Accounting to update the gift designation and use.

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