Accounting for Venture Development Funds

Section: Accounting and Financial Reporting
Title: Accounting for Venture Development Funds
Number: 05.736

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POLICY

100 POLICY STATEMENT

The following policy provides for the uniform and consistent accounting and reporting of the university venture development funds described in Oregon Administrative Rule (OAR) 580-043. The policy also serves as a reference for answering questions.

110 POLICY RATIONALE

NEED AND OBJECTIVE

To have a uniform and consistent methodology among OUS institutions to account for the financial activity and balances of each university’s venture development fund.
To comply with annual legislative reporting requirements, university records pertaining to the venture development fund must track the following:

a. The amount of donations received for the fund,
b. the amount of income received from the fund,
c. the amount of disbursements and grants paid from the fund,
d. the amount of income and royalties received from disbursements from the fund, and e. the amount of moneys transferred from the fund to the General Fund.

System administrative rules (OAR 580-043-0090) also contain additional reporting requirements related to tax credit certificates issued. For current reporting requirements, please refer to the administrative rule.

.120 AUTHORITY

- ORS 315.521 - University Venture Development Fund Contributions
- ORS 351.085 - Duties and Powers of Chancellor
- ORS 351.090 - Standardization of accounts and Records; Preparation of Budget; Allocation of Funds
- ORS 351.692 - Venture Grant Program; Applicant Requirements
- ORS 351.695 - University Venture Development Funds; Deposit Use; Fee
- ORS 351.697 - Purpose of Funds; Disbursement; Assessment; Report
- OAR 580-040-0005 - Delegation and Assignment of Responsibility
- OAR 580-043-0060 to 580-043-0100 - University Venture Development Funds
- IMD 6.001 - Finance and Business Affairs Accounting Policies - Assignment of Responsibility

.130 APPROVAL AND EFFECTIVE DATE OF POLICY

Approved by the Associate Vice Chancellor for Finance and Administration/Controller on September 3, 2008.

.140 KNOWLEDGE OF THIS POLICY

All institutional, affiliated foundation, and Chancellor's Office personnel with accounting and financial reporting related responsibilities should be knowledgeable of this policy.

.150 DEFINITIONS

Refer to OAR 580-043-0060 for definitions that pertain to the university venture development funds.

.160 RESPONSIBILITIES

Chancellor's Office and university responsibilities related to the accounting and reporting of the university venture development funds include the following:

CONTROLLER'S DIVISION RESPONSIBILITIES:
UNIVERSITY RESPONSIBILITIES:

- Developing institutional accounting policies related to the university venture development funds.
- Maintaining accounting records of the financial activity and balances of the university venture development funds.
- Preparing financial reports of the financial activity and end-of-year balances of the university’s venture development funds.

.210 GENERAL DESCRIPTION OF UNIVERSITY VENTURE DEVELOPMENT FUND

University Venture Development Funds are authorized under ORS 351.697 with additional instruction given in ORS 351.692 and ORS 351-695. The Oregon University System has also provided direction for these funds in OAR 580-043-0060 to 0100. By statute, the purposes of the University Venture Development Funds are to provide:

- Capital for university entrepreneurial programs,
- Opportunities for students to gain experience in applying research to commercial activities,
- Proof-of-concept funding for transforming research and development concepts into commercially viable products and services,
- Entrepreneurial opportunities for persons interested in transforming research into viable commercial ventures that create jobs in this state, and
- Tax credits for contributors to university research commercialization activities.

.310 MAXIMUM TAX CREDIT CERTIFICATES

ORS 351.697 (3)(c) states that each university shall issue tax credit certificates to contributors in the amount of the contributions. Additionally, ORS 315.521 (2) says that the total amount of the tax credit allowed to a taxpayer shall equal 60 percent of the amount stated on the tax credit certificates.

For purposes of this policy, it is important to keep the terms “tax credit certificate” and “tax credit” separate.

The amount of outstanding tax credits issued by the Oregon University System is limited by ORS 351.692 (3), which also gives the System authority to limit the amount of tax credit certificates an institution may issue. The Board has allocated the following amounts of tax credit certificates:
<table>
<thead>
<tr>
<th>Institution</th>
<th>Maximum Total of Tax Credit Certificates</th>
<th>Maximum Total of Tax Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>EOU, OIT, SOU, WOU Combined</td>
<td>$ 500,000</td>
<td>$ 300,000</td>
</tr>
<tr>
<td>OSU</td>
<td>5,350,000</td>
<td>3,210,000</td>
</tr>
<tr>
<td>PSU</td>
<td>880,000</td>
<td>528,000</td>
</tr>
<tr>
<td>UO</td>
<td>3,270,000</td>
<td>1,962,000</td>
</tr>
<tr>
<td>Total - Oregon University System (OUS)</td>
<td>$ 10,000,000</td>
<td>$ 6,000,000</td>
</tr>
</tbody>
</table>

**OAR 580-043-0070 (3)** sets aside authority to issue $500,000 of tax credit certificates for EOU, OIT, SOU, and WOU combined. The rule states that the Board, by order or resolution, shall allocate this authority among these four institutions.

By statute, the institutions are expected to repay the state general fund for the amount of tax credits issued. **ORS 351.697 (6)** specifies that 20 percent of the income realized from the grants made under this program be transferred to the state general fund, up to the amount of tax credits issued. Immediately upon deposit of the transferred amount into the state general fund, the institution may issue new tax credits to equal the transferred amount.

Under **OAR 580-043-0075**, the Board reserves the right to reallocate the authority to issue tax credit certificates among the institutions.

**.410 RECEIPT OF DONATIONS**

Donations to the university venture development fund may be received directly by the institutions or through an affiliated foundation, as directed by the institution. If an institution chooses to accept donations through a foundation, the institution must have assurance that the foundation maintains adequate internal controls over the donations and that the financial records are adequate to support accurate and timely reporting of the activity of the program.

The accounting records must record and report the following:

- Donations received
- Interest earnings revenue on cash balances of donations received

Donations received must be placed in an interest bearing fund and all interest earnings are credited to the venture development fund.
The fund(s) created in *Banner* FIS must be clearly identified as university venture development fund(s), and the financial activity of the venture development fund(s) may not be commingled with other university funds.

Gifts received directly by the institution could be from individual or corporate taxpayers. Those from individuals should be recorded in one or more funds that roll up to fund code 405000 (Individual Gift) and in account 03611 (Private Individuals Gift). Corporate gifts should be in one or more funds that roll to fund code 415000 (Commercial Gift) and use account 03621 (Commercial Business Gift).

Gifts passed through an affiliated foundation should be recorded in one or more funds that roll to fund code 435000 (Affiliated Foundations Gifts) and use account 03631 (Foundations Assoc & Societies Gift).

### 420 ISSUANCE OF TAX CREDIT CERTIFICATES

Tax credit certificates are issued by the institution. The institution maintains a record outside of Banner FIS of all tax credit certificates issued.

ORS 351.697 (3)(a) and OAR 580-43-0065(a) require that the institutions notify the Oregon Department of Revenue when a Venture Development Fund is established.

ORS 351.697 (3)(c) and OAR 580-43-0070 authorize the institutions to issue tax credit certificates to donors subject to limits established by the Board. Institutions that have established a Venture Development Fund are responsible for developing and maintaining the records necessary for financial and tax reporting. Since OUS does not recognize a liability when the tax credit certificates are issued, there is no record of the tax credits in the Banner Finance system. Institutions will need a supplemental system to track the following information:

- Copies of all tax certificates issued
- Details for each certificate issued including the date, name of donor and the donation amount
- Details for each repayment to the State General Fund including the date and amount
- Balance of the remaining tax certificate authority

OAR 580-043-0085 provides direction for the issuance of tax credit certificates.

### 430 DISBURSEMENT OF VENTURE DEVELOPMENT FUNDS

The use of University Venture Development Fund monies is covered in ORS 351.697, ORS 351.695 (2), and OAR 580-043-0065. Generally, these state that the money in the Venture Development Funds may be used for grants and limited administrative costs.

**Grants**

ORS 351.692 allows the Board to adopt policy covering the disbursement of funds for program
grants. **OAR 580-043-0065 (2) (d)** gives the institutions the authority to establish the grant program subject to eligibility requirements in **OAR 580-043-0080**.

**Administrative Costs**

A university or its affiliated foundation may charge its customary administrative assessment to manage its university venture development fund in an amount not to exceed three percent of the fund’s average balance during the fiscal year of the university or affiliated foundation. The administrative assessment may be paid from the assets of the fund. Except as authorized by law, no other fees or indirect costs shall be charged against the university venture development fund or any associated grants or other disbursements from the fund. The State Treasurer is also allowed to deduct a fee as payment for expenses. For reporting purposes, administrative costs are included in "Disbursements and grants paid from the fund," not as a reduction of "Donations received for the fund."

If the university’s venture development fund will fund multiple grants, the institution must create a separate roll-up fund to separately identify the group of grant funds funded by venture development funds.

**.440 ROYALTY REVENUE ATTRIBUTABLE TO UNIVERSITY VENTURE DEVELOPMENT FUNDS**

**ORS 351.697 (6)** requires the institutions to identify the income realized by the university as the result of the use of the grants and to transfer 20 percent of the income, up to the amount of tax credits issued, to the State General Fund. The statute defines income as cash realized from royalties, milestone and license fee payments and cash from the sale of equity.

This type of income should be recorded in the Designated Operating Funds rolling up to fund code 065000. To receive investment income, the fund(s) should be tied to the Higher Education Donation Fund using bank code “SF” "SB - Higher Education Invention Fund". Account code 05150 (Royalties Income) should be used for program income and account code 38170 (Tfr to: Treasury Dept) should be used to record the transfers to the State General Fund. The transfers to the State General Fund should be processed at least annually before the close of the fiscal year.

**.450 OTHER UNIVERSITY DEVELOPMENT FUND REVENUE**

An institution may receive money for its Venture Development Funds outside of the items specified above. For example, investment income and repayments from grant recipients that leave the state before the five year period specified in the grant eligibility requirements. These receipts should be recorded in the University Venture Development Funds in a manner that allows them to be separately identified from other types of receipts.

The funds to be used for this activity would be the ones identified in section .410 and the account codes to be used should be appropriate for the type of receipt.

**.510 ANNUAL REPORTS OF UNIVERSITY VENTURE DEVELOPMENT FUND**
Institutions prepare the following annual report of their venture development fund, and a cross-walk of the amounts reported to the venture development fund(s) recorded in Banner FIS:

**Institution's Name**

**UNIVERSITY DEVELOPMENT FUND REPORT**

FOR THE *period ENDED month day, year*

**Information Required by ORS 351.697 (7):**
- Donations received for the fund $ 
- Income received for the fund $ 
- Disbursements and grants paid from the fund $ 
- Income and royalties received from disbursements from the fund $ 
- Moneys transferred from the fund to the State General Fund $ 

**Additional Information Required by OAR 580-043-0090 (2):**
- Current tax credit certificate authority $ 
- Remaining unused tax credit certificate authority $ 
- Number of tax credit certificates issued since last report 
- Funds raised by the institution since last report $ 
- Transfers to the State General Fund since last report $ 

**Written Summary of Grants Made Under This Program:**

This section will contain a written summary of the grants and describe how they serve the goals of the act and the administrative rules.

**.690 CONTACT INFORMATION**

Direct questions about this policy to the following offices:

<table>
<thead>
<tr>
<th>Subject</th>
<th>Contact</th>
</tr>
</thead>
<tbody>
<tr>
<td>General questions from institutional personnel</td>
<td>Institution Office of Business Affairs</td>
</tr>
<tr>
<td>General questions from institutional central administration and Chancellor's Office personnel</td>
<td>Chancellor's Office Controller's Division</td>
</tr>
</tbody>
</table>
.695  HISTORY

09/03/08 - Approved

10/27/08 - Updated