

Auburn University is located in Auburn, Alabama. It was chartered on February 1, 1856 and formally opened its doors on October 1, 1859 as the East Alabama Male College. The Methodist Church took over the sponsorship of the college two months later. Classes were suspended in 1861 during the Civil War and reopened in 1866.

In 1872, the college became a public state institution. It became the first land-grant college in the South to be created separate from a state university. With federal funding from the Morrill Act of 1862, the Alabama Legislature accepted the institution from the Methodist Church and changed its name to the Agricultural and Mechanical College of Alabama.

In 1899, the Legislature renamed the college to Alabama Polytechnic Institute in recognition of the expanding academic program. The name was officially changed in 1960 to Auburn University.

The Interim President is William F. Walker with Donald L. Large, Jr. serving as the Executive Vice President. Marcie C. Smith is the Assistant Vice President and Controller.

In the fall of 2001, Auburn University, a doctoral/research university, had a full time equivalent enrollment of 22,285.

Treasury Services, in conjunction with the department of Information Technology, developed on the IBM AS400 an automated, interactive system of three databases, which are account number driven. These consist of cash pool, pool shares and the earnings distribution databases. Both the Auburn University and the Auburn University Foundation endowment pools are managed using this system.

Prior to the system created using the IBM AS400, data on approximately 1,000 endowment accounts were stored in a personal computer. A Lotus spreadsheet was used to calculate cash pool earnings, annual endowment earnings, and the quarterly purchases of pool

shares. Manually prepared double side journal entries of approximately 900 lines of information were required for the annual distribution and an average of 200 to 300 lines for the quarterly purchases of pool shares.

Concern for the integrity of the data and the amount of time required for processing transactions demanded that other options be pursued.

We turned to our auditing firm to see what options others colleges in our region used in this process. We were advised there were variety of methods used, created mostly in-house and adapted to their own special situations. A decision was made to design our own system.

ENDOWMENT CASH POOL:

All endowments participate in the cash pool until the funds are invested in the endowment pool. Thus when an endowment is established, the process begins with the data pertaining to the endowment being inputted into the cash pool database. This includes the endowment account number, the name of the endowment, the designated college(s) or school(s) and the related revenue-expenditure account(s). This data is protected and cannot be corrupted accidentally. A feature that is built into the system allows changes, when necessary.

The data establishing an endowment account is keyed once. The information applicable to the pool shares database and the earnings distribution database flows into each one respectively from the cash pool database.

After an endowment account has been established, the changes in the cash balance, if any, are inputted monthly. When the annual earnings for the endowments are distributed, the annual yield rate for the endowment cash pool is inputted in a default screen and the cash pool

earnings for each endowment is calculated. This earnings data flows into their account in the earnings distribution database.

Cash pool reports are generated by account numbers and by account names. These reports list the history of cash transactions associated with each endowment account.

ENDOWMENT POOL SHARES :

Endowment cash that has accumulated at the end of each month is sent to one or more endowment pool managers for investment. Endowment accounts with ending cash balances buy pool shares as of the first day of each month based on closing unit market value at the end of the prior month i.e., January 1 buys are based on December 31 market value unit price.

The pool shares database has a default screen for each of the 12 months. The beginning market value unit price defaults to each endowment account and is used to purchase pool shares for those accounts with ending cash balances. The ending market value unit price defaults to each endowment account and calculates the ending market value for that month.

Each endowment pool shares account reflects the account number and name as inputted in the cash pool database. There is a beginning pool shares total and investment balance as well as a history of any pool shares activity for that month, plus the cumulative totals for pool shares held and the investment balance. The month end market value unit price as well as the total market value is also reflected in this history.

An electronic journal entry is created with the purchase of pool shares each month. A transaction journal is generated to verify accuracy of the data inputted. The electronic journal entry eliminates manual preparation, errors associated with the preparation, and possible keying errors into the financial accounting system.

Various pool shares reports are generated at the end of each month. All of the reports have a beginning year investment balance and pool shares total for each endowment account as well as the current month's investment balance, pool shares holdings and the current market value. This data is expanded in other reports by indicating the endowments with fund that were invested in the endowment pool that month, the amount of pool shares purchased and the total funds the account has added to the pool in the current year and the total amount of pool shares purchased in the current year.

The above reports are also sorted by the designation entered in the cash pool at the time the endowment is established. These reports are mailed monthly to colleges, schools, departments, development personnel and other interested parties of the endowments to keep them current on the endowments in which they have an interest.

ENDOWMENT DISTRIBUTION :

The account number, name, designated college(s)/school(s) and the revenue-expenditures accounts flow directly to the distribution database from the data entered in the cash pool database.

The endowment spending policy is to spend a pre-specified percentage, spending rate, of a moving average of market values. This includes market values averages of three years, two years and one to four quarters for endowments held one year or less.

At the end of the endowment year, the market value(s) for an endowment account, which has been calculated in the endowment pool shares database, flows directly to their distribution account. For the endowments that are held for one year or less, their quarterly market values for the date of the quarters held are shown. For endowments that have three (3) years of market

values, the oldest year is dropped and replaced with the ending market value for the current year. The endowments that had market values of 1 year or less in the previous year now have two years of market values in the current year. The ending quarter market value in the previous year, 12/31/00, automatically becomes an annual market value with the ending market value for the current year, 12/31/01, making up the two years.

The board approved spending rate is entered and defaults to each endowment. This rate is used in the automatic calculation of the pool shares earnings. The accounts reflect these earnings and any cash pool earnings.

Earnings are distributed according to the endowment agreement. Flexibility has been designed into the system so that it can accommodate a variety of distribution instructions. These instructions can be changed with ease should the need arise.

A part of the distribution system is a memorandum or comment page that is attached to each account. This feature is used to list any unique information about the account that requires monitoring. A report with account numbers, names and comments is reviewed periodically and updated as needed.

The distribution of earnings is made by an electronic journal entry using the data received from the cash pool and pool shares databases. A transaction journal and an exception report, which identifies incorrect account numbers, are created at this time. Any required changes can be made before the data is transmitted.

Various earnings distribution reports are generated. These include a summary report for the total amount to be distributed from each fund group. Also generated are reports by endowment account numbers and one by alpha last names. These reports list the endowment account number and account name, associated revenue-expenditure account number(s), amount

of earnings from cash pool and pool shares, total earnings, and the amount distributed to each account.

The distribution report generated by account numbers is further sorted as to the designation(s) assigned to it when the account was established in the cash pool. These reports are sent to same interested parties that receive the market value monthly reports.

SUMMARY:

The implementation of this system has been a work-in-progress over several years. The cash pool and the pool shares databases were first designed and implemented. The distribution database that pulls together the data generated in the cash pool and pool shares databases was added in 1999. However, the journal entries for the purchase of pool shares and the distribution of earnings were still being prepared manually. The process of creating electronics journal entries was implemented in the year 2000.

No additional personnel were added for this project so no additional cost was involved.

This system has unlimited growth potential while maintaining the integrity of the data. A new and separate endowment pool was added in 2001. There are now three pools being managed using this system. Also, a major campaign will soon begin to raise new endowment funds. The pool(s) can expand with a limitless amount of new endowments with no difficulty.

The automation of journal entries to purchase pool shares and to distribute endowment earnings has been productive in two ways; the tremendous amount of time saved and the accuracy of data.

New endowment funds are now sent to our investment managers monthly rather than quarterly. This gives the managers more investment flexibility. The pool shares database was modified in 2001 to accommodate this change.

With the implementation of this system, we have been able to generate reports that are useful to deans, department heads, the scholarship office, development personnel and other areas of campus.

We have begun our next project of further sorting the endowments as to their purpose i.e., scholarship, fellowships, professorships, funds for excellence, etc. This information can be utilized in a variety of ways by many people campus wide.