

RESTRICTED ACCOUNT POLICY

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INDIANA UNIVERSITY FOUNDATION

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TITLE: Restricted Accounts

DIVISION: IUF Account Managers and Supervisors

DEPARTMENT: Administration

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RATIONALE: This document sets forth policies and procedures governing the use of restricted accounts maintained by the Indiana University Foundation (IUF) for the benefit of Indiana University (IU). Restricted accounts are generally created for the use and benefit of specific IU units (i.e., academic departments and administrative offices). Trust accounts maintained by IUF on behalf of IU are generally administered by IUF personnel and are not considered restricted accounts for purposes of this document.

This document is concerned with the deposit and disbursement of funds from such accounts. Persons needing additional information on policies regarding establishing accounts or investing funds should consult IUF Account Services or the policies listed in the reference section of this document.

**POLICY/
PROCEDURE:** I. **FUNDING SOURCES**

A. INCOME

1. Restricted accounts in the IUF are intended to receive and hold contribution and investment income. They are generally not intended to receive other types of income which more appropriately belong in accounts at IU, or at commercial banks.

- a. MasterCard and Visa credit cards are accepted by the IUF as another means of receiving contributions from donors. (See the IUF policy for the Receipt of Contributions by Credit Card for further detail.)
2. The following types of income may be deposited into IUF accounts:
 - a. Contributions where the check is payable to the IUF or the IUF account name.
 - b. Investment income.
 - c. Royalty payments generated by IUF owned property.
 - d. IUF event proceeds for the benefit of IU.
 - e. Non-federal and non-state research contracts and grants which are unsolicited and do not have any reporting requirements.
 - f. Fees charged for conferences.
 - g. Practice plan revenue.
 3. The following types of income should not be deposited into IUF accounts:
 - a. Federal and state research contracts and grants where proposals and reporting are required.
 - b. Proceeds from the sale of IU assets.
 - c. Any funds of a personal nature or an outside business activity not specifically generated for the benefit of IU.
 - d. Funds collected from faculty and staff for retirement gifts.
 4. The IUF can only process contribution checks intended for IU accounts; **NOT** other income checks.
 - a. Check intended for an IU Account must be payable to IU, the School, the IU account name or a Department of IU.

- b. A completed IUF gift deposit slip must accompany the check indicating the IU account number to which the donor wishes to direct their contribution.
- c. Contributions deposited directly to the IU Bursar instead of IUF need to be recorded on the donor's record. To do so, please send a copy of the cash receipts voucher (CRV) or FIS screen print confirming the deposit and income classification along with a copy of the check and any correspondence to the IUF Depositor. This enables the IUF to maintain complete donor records and ensures proper receipting to the donor for tax purposes.

B. HONORARIUMS

- 1. Honorariums are payments made for services rendered and they should be made payable to the individual who performed the service.
 - a. If the honorarium is made payable to the individual who performed the service, the check can be endorsed over to the IUF.
 - i. The payment will be recorded as gift income. A gift receipt will be issued to the person who performed the service.
 - b. If the honorarium is made payable to the IUF, the check will be recorded as other income and no gift receipt will be issued in either of the following cases.
 - i. The department requires the faculty or staff member to provide this type of service as an incident of their normal duties (to be determined by the IU department).
 - ii. The faculty or staff member has earned income for a service rendered.
 - d. If the honorarium is made payable to the IUF, IUF will only issue gift credit to the faculty or staff member if the IUF receives proof from the third party that they will be issuing a 1099 to the person who rendered the service.

C. ROYALTIES

1. Royalties are payments made for copyright services performed or for the use of an invention and they should be made payable to the individual who performed the service.
 - a. If the royalty is made payable to the individual who performed the service, the check can be endorsed over to the IUF.
 - i. The payment will be recorded as gift income. A gift receipt will be issued to the person who earned the royalty.
 - b. If the royalty is made payable to the IUF, the check will be recorded as other income and no gift receipt will be issued in either of the following cases.
 - i. All rights to the property that has generated the royalty have been assigned to IU or IUF.
 - ii. Royalties that are generated from work made for hire. Work made for hire includes “a work prepared by an employee or group of employees within the scope of his or her employment”.
 - c. If the royalty is made payable to the IUF, IUF will only issue gift credit to the faculty or staff member if the IUF receives proof from the third party that they will be issuing a 1099 to the person who earned the royalty.

D. GRANTS

1. Any private grant funds, nonfederal or non-state, received to enhance a faculty members research will be deposited into an IUF account as other income. These funds should be in a separate research account segregated from gift funds.
2. Any disposition of these funds will need to be in accordance with IU policies and procedures.

E. CONTRIBUTIONS BY ACCOUNT ADMINISTRATORS

1. In order to preserve the tax deductibility of the gift, the amount given must:
 - a. Be contributed voluntarily.
 - b. The account administrator must not be able to derive any direct benefit from the contribution. If the account administrator receives a payment from the account he or she has contributed to and it is deemed to be a “private benefit” the gift will be disqualified (per Internal Revenue Code Section 170(c)(2)(C)).
2. The Account Administrator cannot be the major donor to an account for which they are an authorized signer.

F. UNDOCUMENTED GIFTS

1. For gift checks which come directly to the IUF with no supporting documentation indicating the donor intent and where the donor is flagged as being part of the Relationship Management Program (RMP) on Benefactor, the assigned Development Officer will be contacted to determine the appropriate account.
2. For gift checks which come directly to the IUF with no supporting documentation indicating donor intent the following procedures will be followed:
 - a. For checks payable to the IUF, the gift will be deposited into the IUF unrestricted account, Indiana Futures. A receipt will be sent to the donor acknowledging their unrestricted gift to IUF.
 - b. For checks payable to IU, the gift will be deposited into the IU unrestricted account, Undesignated Gifts (#23-10087). A receipt will be sent to the donor acknowledging their unrestricted gift to IU.

G. RETURNED CHECKS

1. Gift checks sent to the IUF for deposit and returned by the IUF bank (due to insufficient funds, the payor’s account being closed, etc.), will be returned to the department’s Development Officer.

2. Other income checks sent to the IUF for deposit and returned by the IUF bank (due to insufficient funds, the payor's account being closed, etc.), will be returned to the Account Manager.
3. The departmental account will be charged for the returned check. The Account Manager will be notified of all returned check charges. It is the responsibility of the Account Manager to notify the Account Supervisor of these charges.
4. It is the responsibility of the Account Manager and/or the department's Development Officer to decide whether or not to approach the payor to have the check reissued.

II. DISBURSING FUNDS

A. DOCUMENTATION

1. In order to be processed, disbursement requests must be supported by a clear business purpose indicating that the request for payment is in compliance with the account restrictions and an original invoice or receipt, or an explanation as to why no receipt is available.
 - a. Foreign travel receipts must be accompanied by a conversion rate receipt. If a receipt is unattainable, the requested exchange rate will be compared to the current exchange rate for reasonableness.
 - b. Check request forms for a transfer of funds to IU must have a clear explanation of the intended use of the funds and any documentation you may have supporting the amount being requested in order for the IUF to determine if this transfer meets the account restrictions.
2. For all representation and entertainment expenses the following must be documented on the request for payment:
 - a. Date, place and nature of the function (the business purpose).

- b. Names, titles and associations of persons attending the function. For large gatherings, the number of persons attending and the general character of the group will suffice.

B. GENERAL DISBURSEMENT STANDARDS

It is the responsibility of an Account Supervisor to review each expenditure from their account to ensure that it meets the following standards:

1. Account Restrictions

Account Managers and Supervisors are required to retain copies of gift or account agreements. Copies may be obtained from the IUF Office of Gift Administration. It is the responsibility of these account administrators to know the restrictions and to request expenditures which are consistent with these restrictions, as established by the donor. The IUF retains the right to refuse to process any disbursement which appears to violate an account's restrictions. (See Section IV Compliance with Donor Intent in the Account Authorization Policy.)

2. University Benefit

Restricted accounts in the IUF are created for the benefit of IU. Each check request must state and document the purpose of the expenditure to indicate clearly the benefit to IU.

3. Reasonableness

All expenditures must be reasonable in amount and be commensurate with the expected benefit to IU.

4. Appearance

The propriety of expenditures is the responsibility of the account administrators. In addition, sensitivity to the appearance of proper use is expected.

C. PAYMENTS TO IU EMPLOYEES

1. The following payments cannot be made directly to IU employees through IUF accounts. Funds held by the IUF for these purposes should be transferred, as needed, to an appropriate account at IU and paid to the employee through the IU payroll system.

- a. Expense allowances where no substantiation or accounting of expenses is required prior to the payment.
- b. Merit awards and prizes for outstanding performance or achievement.
- c. Fellowship grants, stipends, and awards if any of the following conditions exist:
 - i. The payment is provided as part of general compensation.
 - ii. IU has the right to direct or control the activities for which the payment is made.
 - iii. The payment serves as support for the recipient's teaching or administrative functions.
- d. Moving or relocation expenses reimbursement.
- e. Compensation for services benefiting IU.
- f. Wages to individuals who meet the IRS criteria for employees. Any individual who will be working for a unit and does not qualify as an independent contractor should be added to IU's payroll system before they begin working. Units having questions regarding a person's employment status should contact IU's payroll department.

2. The following payments may be made directly to IU employees through IUF accounts:

- a. Certain fellowships, grants, or awards for research when all of the IRS prescribed conditions (see attachment B, Scholarship/Award Form), are met.

D. PAYMENTS FOR SCHOLARSHIPS, FELLOWSHIPS AND EQUIPMENT

- 1. In addition to the payments listed in section II. C. above, the following expenditures should also be made through accounts at IU whenever possible.

- a. All payments for scholarships and fellowships must be paid to the IU Bursar Office and not directly to the recipient. This will ensure a student is not over-awarded and that there are no tax consequences to the recipient. When donor restrictions require that the scholarship be paid directly by the IUF, IUF will notify the IU Scholarship Office prior to processing the request and transferring of the funds.
 - i. All scholarship payments going through IU's scholarship office may be eligible for a match of additional funds through IU.
- b. Equipment and furniture items of \$1,000 or more should generally be purchased through IU's purchasing system. Any purchases made directly from IUF accounts, not accompanied by an IU Purchase Order, will be routinely reported to IU's Accounting Department for inventory and insurance purposes.

E. DISBURSEMENT STANDARDS FOR DISCRETIONARY ACCOUNTS

- 1. Discretionary accounts are intended to be used for any purpose which benefits the unit. Although disbursements from these accounts are not subject to donor imposed restrictions, they are subject to the following guidelines for discretionary accounts, as well as internal policies of the unit and the general disbursement guidelines outlined in II. B. above.
- 2. Discretionary accounts may be used to pay for:
 - a. Employee goodwill expenses (e.g., holiday parties,) including the cost of appropriate recognitions and awards, and food and refreshments provided at the time of presenting such recognitions and awards.
 - i. Employee goodwill excludes gifts of cash and gift certificates. The IRS deems gift certificates to be convertible to cash and therefore view them as additional employee compensation that must be taxed and reported on the employees Form W-2 regardless of the amount.

- b. Travel expenses incurred while conducting IU related business, excluding IU per diem. Mileage will be reimbursed at the current IU rate.
 - c. Membership dues in country clubs and other civic and social clubs used to conduct IU related business. These membership dues must be preapproved by IU officials.
 - d. Meals with students, employees, and guests where the purpose of the meal is to provide an environment conducive to conducting IU business. Reimbursement for meals will be made provided actual receipts accompany the request. No reimbursement will be made for meals based on a per diem.
 - e. Modest gifts to visitors, students, alumni, and other supporters of IU in recognition of their support of IU.
3. Discretionary accounts may not be used for:
- a. Loans and advances to individuals except loans to students from pre-established loan accounts.
 - b. Expenses of an employee's spouse.
 - c. Amenities at an employee's place of work which do not conform to IU standards and practice.
 - d. The cost of entertaining when there is no business purpose.
 - e. Contributions to local fund drives and civic groups and similar goodwill gestures of a personal nature.
 - f. IU travel per diem.
 - g. Third party payments. An IUF account cannot be used for reimbursement of expenses paid by a third party for taxable services (i.e. catering, photography, musicians, etc.) rendered. Taxable payments such as those listed above must be paid directly to the person who performed the service.

F. GRANTS, PRIZES AND AWARDS

Grants, prizes and awards are payments reportable to the Internal Revenue Service (IRS) by the IUF. In order to process these payments, an IUF Scholarship/Award Form must accompany the check request with the pertinent tax information of the recipient.

G. TRANSFERS BETWEEN IUF ACCOUNTS

1. Appropriate documentation should be attached to the transfer request supporting the amount requested and the purpose.
2. All transfers will be reviewed by IUF in order to determine if they are in compliance with donor intent before they are processed.
3. No transfers will be allowed to move funds from the "income" to the "principal" side of a "37" endowment account unless directed by the donor.
4. Transfer forms should NOT be used to correct gift deposits or check requests. If you need to correct a gift deposit previously submitted, please send a memo detailing what happened to Account Services. An adjustment of the original transaction will be processed and will appear on the Benefactor Giving Report. If you need to correct a check request previously submitted, please send a memo detailing what happened to the Manager of Accounts Payable and a correcting entry will be made.

H. PETTY CASH

1. The IUF will be addressing the issuance of Petty Cash and external bank accounts in a separate policy.
2. The IUF offers a departmental credit card to fund expenditures where numerous items under \$100 are purchased. (See the IUF Policy and Procedure for Credit Cards, External Use for further detail.)

I. FORMS NEEDED TO REQUEST DISBURSEMENTS

1. All disbursement requests must be made on an original IUF Check Request Form. Each account manager will be provided a supply of these pre-numbered forms at the time an account is opened. As more forms are needed, they will be provided to the Account Manager upon request. It is the responsibility of the Account Manager to control access to their supply of Check Request Forms.
2. In addition to the Check Request Form, an Independent Contractor Form is required when paying independent contractors, including IU employees, for services rendered. This form provides the IUF with the necessary information to complete a Form 1099MISC at the end of the calendar year. These forms are not pre-numbered and may be photocopied.
 - a. A new IUF Independent Contractor form must be completed each calendar year in order to have the most current information for tax purposes.
3. The IUF Scholarship/Award Form, is required when a scholarship, fellowship, prize, grant or award is paid directly to the recipient from the IUF. This form provides the IUF with the necessary information to complete a Form 1099MISC where applicable. These forms are not pre-numbered and may be photocopied.
 - a. A new IUF Scholarship/Award form must be completed each calendar year in order to have the most current information for tax purposes.
4. Form 8233- Exemption from Withholding on Compensation for Independent Personal Services of a Nonresident Alien Individual. This federal form is used by a nonresident alien to claim exemption from backup withholding for personal services by means of an existing tax treaty between their country of residence and the United States. (See the IUF policy for Payments to Nonresident Alien Individuals.)

5. Form 1001-Ownership, Exemption, or Reduced Rate Certificate. This form is used by a nonresident alien individual to claim exemption or reduced rate of backup withholding for scholarship and fellowship payments by means of an existing tax treaty between their country of residence and the United States. (See the IUF policy for Payments to Nonresident Alien Individuals.)

J. PROCESSING GUIDELINES

1. In order for a Check Request to be processed, it must:
 - a. Be completed in full.
 - b. Be properly authorized (signed) by the Account Manager and Supervisor or appropriate alternate signers. This must be an original signature of each account administrator.
 - c. Have sufficient original supporting documentation attached to it.
2. Since all original supporting documentation will be retained by the IUF, it will be necessary for the Account Manager to forward an additional photocopy of any paperwork which is to be mailed with the check to the payee. Those requests submitted without proper authorization or documentation will be returned to the Account Manager or check request preparer for completion.

K. PROCESSING TIMELINES

1. For the Colleague accounts, check requests (white) received by the IUF Accounts Payable Department before 5:00 p.m. on Tuesday will be printed and mailed on Thursday the same week. Check requests received after 5:00 p.m. on Tuesday will be processed the following week.
2. For the Endowment Trust Accounting (ETA) accounts, check requests (pink) are processed on a daily basis. Potentially, a problem-free check request could be processed, a check printed and mailed within 48 hours upon receipt in the IUF Accounts Payable Department.

3. All payments to IU, including requests to reimburse IU bank accounts are accumulated throughout the week and forwarded to IU via bank wire at the end of the week. The bank wire is followed by a detailed listing of the individual transfers. Bank accounts used for IU business must be approved by the IU Treasurer.

L. STOP PAYMENTS

1. If a check has not been received by the payee within 30 days, the Account Manager and Supervisor may request in writing, the IUF do one of the following:
 - a. Issue a stop payment on the outstanding check and reissue a replacement check. With this option, the bank fee for the stop payment will be charged to the departmental account requesting this service.
 - b. Void the outstanding check and reissue a replacement check. With this option, the departmental account will only be charged if the first check clears the bank.
2. If reissuance of a check occurs within the same fiscal year no other documentation other than a memo is needed. If reissuance of a check crosses a fiscal year a new check request and supporting documentation is needed.

III. ACCOUNT OVERDRAFTS

- A. Units are expected to manage their accounts so that their expenditure and investment transactions do not exceed the available cash in their accounts. The IUF Investment Department and Account Services are available to assist account administrators in analyzing their cash flow to avoid overdrafts.
- B. The IUF retains the right to sell investments in an overdrawn account to clear an overdraft.
- C. The IUF also assesses an interest charge to an account which becomes overdrawn. Generally, this charge will bear interest at prime rate as published in the Wall Street Journal. The interest calculation will be a variable rate, monthly, set the first day of each month, with simple interest based upon an actual/365 day basis.

1. The IUF will notify the Account Manager monthly of any interest assessed to the account. It is the responsibility of the Account Manager to notify the Account Supervisor of all charges assessed.

IV. PROJECT FINANCING

All requests for project financing through the IUF must be approved in advance by the appropriate Campus Chancellor, the IU Vice President for Administration, and the IU Vice President and Chief Financial Officer. These approved requests will then be forwarded to the IUF Vice President of Finance and CFO.

V. REPORTING OF ACCOUNT INFORMATION

A. ANNUAL ACCOUNT LISTING

On or about June 30th of each year, the IUF will send to each Account Supervisor a listing of their IUF accounts. The IUF will ask the Account Supervisor to review the listing of accounts and verify each account title, account number, and authorized signers.

B. STATEMENT OF ACCOUNTS

A Statement of Account will be sent directly to the Account Manager and Supervisor on a predetermined frequency as stated in the Account Authorization policy. The statement should be reviewed for accuracy. Any missing or unauthorized transactions appearing on the statement should be discussed between the Account Manager and Supervisor and reported to IUF Account Services within 30 days of the statement date.

VI. AUDIT OF ACCOUNTS

It is the responsibility of the IUF Internal Audit Department to conduct periodic audits of IUF restricted accounts to test compliance with these policies and procedures as well as donor intent. The Internal Audit findings and recommendations will be reported to IUF's General Counsel and the IUF Audit Committee. Findings and recommendations will be reported to the University as set forth in the Gift Funds Project agreement.

VII. EXCEPTIONS

Responsibility for authorizing exceptions to this policy rests with the IUF Vice President of Finance and CFO.

DEFINITIONS:

REFERENCE: Account Authorization policy (DCN #5200-10-0002)
Receipt of Contributions by Credit Card policy(DCN #-5500-10-0006)
Credit Card-External Use policy (DCN #5300-10-0001)
Payments to Nonresident Alien Individuals policy (DCN #5310-10-0003)

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