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SECTION 1: POLICY STATEMENT AND PURPOSE

Restricted Operating Funds (ROF) were formerly known as “2-Book funds” because the entire general ledger account group begins with the number two (2). These funds include both restricted income and related, restricted spending. The purpose of these funds is to keep restricted revenue segregated from unrestricted, budgeted revenue, to ensure the restrictions are honored and trackable for potential donor reporting.

This policy describes the types of funds included in this segment of the General Ledger (GL); possible restrictions on the funds; usage of the funds; and required recordkeeping, segregation, and reporting duties for the funds.

This policy applies to all University employees.

SECTION 2: FUND CLASSIFICATIONS

- A. ROFs are created through various funding sources, each fund having a unique internal or external restriction.
- B. Funds are subdivided into three broad classifications:
 - 1. Externally Restricted Operating Fund
 - 2. Internally Restricted Operating Fund
 - 3. University Enterprises, Institutes, and Supporting Organizations
- C. Each of the fund types above may also include Endowment Distribution Funds.

SECTION 3: EXTERNALLY RESTRICTED OPERATING FUNDS

- A. Externally Restricted Operating Funds (ERF) are funded with monies that have external, third-party restrictions on their usage.
 - 1. An external restriction creates both a legal and Generally Accepted Accounting Principles (GAAP) requirement for the University and its agents to use the funds for the sole purpose designated and understood by the external provider of the funds.
 - 2. Funding sources may include:
 - a. Individual or corporate donors
 - b. Governments or foundations providing grant and/or program funding
 - c. Specific student-paid fees
 - d. Other providers of revenue designated for a specific use
- B. Requirements for ERFs:
 - 1. Revenue sources for the same externally restricted program, event, or activity must remain separate from each other in order to demonstrate to the revenue provider that his/her gift, grant, or fee was spent according to the restriction. Therefore, a project with multiple types of revenue streams must have a separate fund for each type of revenue, unless the restriction of all the types is identical.
 - a. Example: *A summer camp receives a grant for \$25,000 to promote the goals of the camp and the camp also collects tuition from the campers of \$10,000. In this case, two accounts must be established for each type of revenue so that spending from the restricted source (\$25K) is kept separate from spending from the unrestricted camp tuition (\$10K). This allows for transparent reporting to the donor on how the grant was used.*

2. Funds with multiple small gifts or fees with the same intended restriction may be combined in one ERF because the multiple donors have no expectation for exactly how their gift was spent.
 - a. Example: *The golf team sends letters to friends and families of the team requesting \$100 donations to help cover team expenses. They also hold a fundraising golf tournament with proceeds going to cover team expenses. Monies from both of the above listed fundraising activities will go into their own revenue account within the Golf Team's Externally Restricted Operating Fund. The team also charges each member of the team a \$250 fee to cover team expenses. The fees will go into their own revenue account (separate from the donation revenue account) within the Golf Team's Externally Restricted Operating Fund. Each of these revenue sources must be kept in separate fund revenue accounts within the same Golf Team Externally Restricted Operating Fund since generally there is no expectation of expense reporting to each donor or player. Even if a large gift was made for the same purpose of covering team expenses, there is no need for a separate fund unless the donor of the large gift has expectations of specific reporting or restrictions on their gift.*
3. Funds for a specifically named program, chair, activity, or scholarship require a unique ERF for each restricted activity.
 - a. Example: *If the children of Bob Smith commit to donate \$10,000 annually to create the Bob Smith History Scholarship and the Annual Bob Smith History Day Celebration, two funds would be established for the two unique spending restrictions with revenue and spending being tracked and reported as needed.*

C. Externally Restricted Operating Fund Categories

1. Scholarships

- a. All scholarship revenue and expense, whether funded annually from a donor or perpetually from an endowment fund, must flow through an Externally Restricted Scholarship Fund.
- b. Scholarship annual funds and campaigns are solicited, collected, and documented through University Advancement.
- c. Scholarship monies may be awarded only by Financial Aid. While other University employees may have input, final approval is reserved for Financial Aid. See policy 313.001P: Financial Aid.
- d. Scholarships may be awarded only from fully funded/collected gifts. Under no circumstances may scholarships be awarded based on a pledge without written permission from the Chief Financial Officer.
- e. Depending on the scholarship, a list of names and amounts awarded to specific students must be sent to University Advancement so that donors may be notified.
- f. Not all funded scholarships need be named. A generally-funded scholarship fund may be established to provide scholarships for students as determined by the Financial Aid office, but with no other restriction other than the funds be awarded as a scholarship.
- g. NOTE: Any expenditures in excess of the cost of attendance, as determined by Financial Aid, must not be covered by University discount (i.e., unfunded scholarships). These expenditures are required to be paid from the related department's ROF.

2. Academic Programs

- a. Donations often are solicited and provided to help fund the needs – both in and out of the classroom – of various academic programs. Generally, gifts are made for the unspecified use of a particular department.
- b. Even if general in nature, the gift or grant revenue and expenses must flow through an Externally Restricted Academic Program Fund to provide tracking and reporting for those donors who require it.

- c. Academic Program funds are solicited, collected, and documented through University Advancement.
 - d. Gifts for specific program purposes must be honored in a timely fashion as outlined in the gift documentation.
3. Athletic Programs
- a. Donations often are solicited and provided to help fund the needs of various athletic programs. Generally, gifts are made for the unspecified use of a particular sport.
 - b. Even if general in nature, the gift revenue and expenses must flow through an Externally Restricted Athletic Program Fund to provide tracking and reporting for those donors who require it.
 - c. Athletic Program funds are solicited, collected, and documented through a combined effort between the University's athletic division and University Advancement.
 - 1) Fundraising in Athletics takes place at both an overall divisional level and at a specific sport level.
 - d. Athletic programs that receive multiple small gifts with the same intended restriction may be combined in one fund because the donor has placed no specific restriction on the fund other than that it be used to support the department/sport.
 - e. Gifts for specific program purposes must be honored in a timely fashion as outlined in the gift documentation.
 - f. The intended program or sport will be provided with an annual listing of available funds.
 - g. Financial Services must monitor each Externally Restricted Athletic Program Fund to ensure funds are handled according to donor restrictions.
4. Student Fees
- a. The University collects three categories of student fees:
 - 1) Universal fees billed to all students (e.g., Health Center Fee, Technology Fee)
 - 2) Fees billed to specific students for a specific purpose (e.g., architecture student fee, ceramics class fee)
 - 3) Fees billed to specific students to cover the University's expenses related to the students' participation in a program, project, or trip (e.g., Study Abroad)
 - b. In all of these cases, fee revenue and the related expenditures must flow through an Externally Restricted Fee Fund to provide tracking and reporting to ensure that the funds are used for the purpose for which the student paid them.
 - c. Funds collected from student fees must be used in a timely fashion for the purpose they were paid.
 - d. Student fees collected for use in the operating budget will be budgeted by their respective departmental budget administrators during the annual budgeting process. Any residual fees at the end of the fiscal year must be transferred into their respective ERF in order to ensure that the fees are spent in accordance with their restrictions.
 - e. Any excess funds collected for a specific Study Abroad trip must be refunded to the students in a timely fashion once all program expenses are reconciled.
 - f. The MBA Study Abroad trip requires each student to pay a specific dollar amount per credit hour in addition to their regular tuition per credit hour rate. These funds are accumulated in an Externally Restricted Operating Fund specific to the trip year.
 - 1) Any residual funds from a previous year's trip will be held in reserve in an amount not to exceed 50% of the total cost of the last completed trip. These held funds will serve as expense buffers for future years' trips, due to necessary cost approximation for each trip. Any reserve funds over the 50% threshold will be transferred to the University's budget as tuition revenue.

5. Outside Grants
 - a. Outside grants are provided to the University after an employee applies for the grant and receives an award.
 - b. There are two general types of grants:
 - 1) A grant that provides funds up front, which are then spent according to the grant restrictions.
 - 2) A grant that requires spending according to the grant restrictions and then reimburses the University.
 - c. Outside grant funds are applied for by an employee involved in the program that would qualify to receive the grant funds.
 - d. It is required that the employee applying for the grant work communicate with the Manager of Corporate & Foundation Relations in University Advancement to avoid duplication of applications and/or competition for the same grant among university departments, and to adhere to best practices for grant application.
 - e. Once the grant is approved, the University may begin spending the funds as specified by the grant, regardless of the type of grant.
 - f. The employee who applied for the grant is responsible for working with Financial Services to ensure that all funds are accounted for and reported correctly.
 - g. The University often is allowed a specific, sometimes significant, percentage of allowable grant spending to apply towards indirect costs of the grant (e.g., accounting, facility maintenance, etc.). These indirect cost reimbursements are allocated to various departments throughout the University to relieve the burden on their budget associated with the grant work according to policy 406.202P: Indirect Cost Allocation.

SECTION 4: INTERNALLY RESTRICTED OPERATING FUNDS

- A. Internally Restricted Operating Funds (IRF) are funded with monies that have internal restrictions created by the University's Senior Leadership Team or Board of Trustees for a specific or general purpose. The Chief Financial Officer has final approval regarding the creation of IRFs in the General Ledger.
 1. These funds generally are established in one of two ways:
 - a. By an unrestricted operating surplus, either from budgeted program or department savings or an overall budget surplus of the university, or
 - b. Through unrestricted revenue from a gift, fee, sponsorship, or other source.
 2. As internal restrictions are not legally binding restrictions, GAAP considers these funds technically to be unrestricted in nature.
- B. Requirements for IRFs
 1. Revenue sources for the same program, event, or activity must remain separate from each other in order to show the revenue provider that his/her gift, grant, or fee was spent according to the restriction. Therefore, a project with multiple types of revenue streams must have a separate fund for each type of revenue, unless the restriction of all the types is identical.
- C. Internally Restricted Operating Fund Categories
 1. Programs/Departments
 - a. Specific programs or departments occasionally will determine that funds need to be segregated and saved for a specific purpose. Less frequently, the University may determine that funds should be set aside for a specific program or department outside of the budget.

- b. Because these funds are segregated for a specific purpose, all related revenue and expenses must flow through an IRF to provide tracking and reporting to ensure that the funds were used for the purpose the University intended.
2. Camps/Events
 - a. The University intends all University-related camps/events hosted to be self-supporting, requiring that any University-related camp/event have its own internally restricted fund.
 - 1) Program revenues – including all outside donations – must be sufficient to cover all camp/event expenses).
 - b. The amount of funds available for payroll payments in excess of base salary to University employees and internal charges for facilities usage are required to conform to policy 404.005P: University Camps & Events.
 3. Sponsorships
 - a. A sponsorship is established when an external party chooses to buy advertising space in a University venue (arenas, stadiums, vehicles, classrooms, etc.) or publication (concert program, *The Mirror*, etc.).
 - b. Typically, these funds are given to the University with no external restrictions.
 - c. These monies are placed in an IRF for the use of the department(s) responsible for the applicable University venue and/or the department responsible for securing the sponsorship.
 - d. Sponsorships are unique in that the funds received from external parties are not tax deductible to those parties. It is vital that the RI for any sponsorship informs the sponsor that any funds given as a sponsorship will not be tax deductible.
 4. Insurance Claims
 - a. Due to the unforeseeable nature of insurance incidents, it is not reasonable to include them in the Operating Budget.
 - b. Each major insurance incident requires a unique IRF.
 - c. Any claim received that exceeds the actual amount of the related expenditures will be transferred to the University Insurance Deductible Fund.
 - d. In the event that expenditures related to the claim exceed the actual amount of the claim received, the difference must be resolved through another University funding source.
 5. University Reserve Fund
 - a. When budgeted revenues exceed expenses and principal payments, the first \$500,000 in excess funds will be booked to the University Reserve Fund. An additional \$200,000 of surplus is to be booked into a quasi-endowed reserve fund. Any surplus over the first \$700,000 will be booked to the University's operating budget.
 - b. Per policy 405.002: Development of the University Budget, surplus funds must be booked to the appropriate reserve accounts until the University Reserve Fund reaches the intended balance. Once this balance is reached, additional University savings must be booked directly into a quasi-endowed reserve fund.
 - c. The University Reserve Fund is intended to be used only in emergency situations (e.g., when violation of a debt covenant cannot be avoided any other way, emergency repairs not covered by insurance and not provided for in the University's budget).
 - 1) Any use of the University Reserve Fund requires approval by the Board.
 - 2) The Board will decide what repayment terms, if any, will apply to use of University Reserve Funds.
 - d. All withdrawals from University Reserve Funds must be approved in advance by the Board of Trustees.

SECTION 5: UNIVERSITY ENTERPRISES, INSTITUTES, AND SUPPORTING ORGANIZATIONS

- A. University Enterprises, Institutes, and Supporting Organizations (UEISO) are unique entities that have a focused, specific mission that furthers the University's overall mission.
- B. Due to their complexity, UEISOs are addressed separately in policy 405.001P6: University Enterprises, Institutes, and Supporting Organizations.

SECTION 6: ENDOWMENT DISTRIBUTION FUNDS

- A. Endowment Distribution Funds (EDF) are funded by income from the annual budgeted endowment draw.
- B. Monies in EDFs may be unrestricted, internally restricted, or externally restricted.
- C. The corpus of such funds must remain in the endowment pool, while the income received on the funds may be spent according to a specific restriction.
- D. Income to unrestricted EDFs will be transferred to the University's Operating Budget.
- E. Income to externally restricted EDFs will be transferred to the appropriate Externally Restricted Operating Fund initially to avoid being counted as revenue twice. Once the original disbursement has taken place, the funds will then be transferred into the University's Operating Budget. See policy 405.001P4: Endowment Fund for more information.
- F. Gifts and endowments are most useful to the long-term health of the school as budget-relieving sources of revenue as opposed to budget-enhancing.
 - 1. To this end, distributions from endowed funds will be used to relieve a department's budget to the extent that doing so is appropriate for that endowment's restrictions.
 - a. Distributions from endowed funds that exceed a department's regular budgeted expenses will allow that department to increase their budget until the budgeted expenses reach the level of their distributions from endowed funds.
 - b. Should an endowment fund have a restriction that is so specific that it must be used as a budget-enhancing fund, the distribution from endowed funds will remain in the appropriate ERF, rather than being transferred back to the University's Operating Budget.

SECTION 7: FUND CREATION

- A. ROFs are created in the General Ledger only upon receipt of form 405.001F1: Gift Restriction Summary & Request for Creation of Funds or form 405.001F2: Request for Internally Restricted Operating Fund.

SECTION 8: FUND MANAGEMENT & OVERSIGHT

- A. All ROFs require the appointment of a "Responsible Individual" (RI) or Program Director who is responsible for management of the fund(s). This individual:
 - 1. Must be a full-time University employee (temporary or permanent).
 - 2. Must work with his/her supervising dean or vice president/executive director to complete form 405.001F1: Gift Restriction Summary & Request for Creation of Funds or form 405.001F2: Request for Internally Restricted Operating Fund to initiate the creation of funds.
 - 3. Must meet with the supervising dean or vice president/executive director of the fund during the annual budgeting process to review spending and plan for future use of the fund.

- a. As part of this process, form 405.001F3: Annual Proposal for Spending of Restricted Operating Funds must be completed. This form, which establishes plans for the appropriate usage of the fund, must be reviewed and approved by the dean or vice president/executive director most closely associated with the fund prior to the expenditure of any monies from the fund
- 4. Must coordinate with Financial Services to resolve any overspending from a restricted operating fund.
 - a. While the RI will coordinate with a Financial Services Accountant to resolve an overspending error, the Chief Financial Officer has ultimate authority in deciding which option is most appropriate in a given situation.
- 5. Is responsible for completion of any non-University documentation required by an external funding source.
- B. Financial Services staff are responsible for:
 - 1. Providing annually to all supervising deans and vice presidents/executive directors a list of ROFs under their supervision and the available balance in each fund.
 - 2. Ensuring that form 405.001F3 is completed annually for each ROF as part of the budgeting process.
 - 3. Monitoring each ROF to ensure funds are handled according to the restricted intent.

SECTION 9: FUND BOOKKEEPING

- A. In order that the University may uphold its standards of financial transparency and fulfill its responsibilities to fund providers, care and meticulous documentation are required upon the establishment and throughout the life of an ROF.
 - 1. All fund types (scholarships, grants, student fees, etc.) require formal, written documentation detailing the restricted use of the funds, expectations regarding spending (timing, etc.), and reporting requirements (if any).
 - 2. No ROFs will be created in the General Ledger until all required documentation is completed and received by Financial Services, including:
 - a. Form 405.001F1: Gift Restriction Summary & Request for Creation of Funds or 405.001F2: Request for Internally Restricted Funds
 - b. All necessary paperwork required by University Advancement to accept and document the donation.
 - 3. All documentation related to an ROF will be stored on the designated network drive shared by and restricted to University Advancement and Financial Services.
 - 4. Documentation will be stored according to policy 404.003: Document Retention.

SECTION 10: FUND SPENDING

- A. All spending of ROF funds must comply with the restrictions set forth in the fund restriction documents.
- B. Use of ERFs/IRFs for Operational Overages
 - 1. In circumstances in which a department overspends its operating budget, the department is obligated to transfer enough funds from its Externally or Internally Restricted Operating Fund to cover the budget overage, provided that the Externally or Internally Restricted Operating Fund's restrictions match the need.
 - 2. Deans or vice presidents/executive directors who supervise multiple departments may adjust budgets or externally restricted funds as needed to cover overages, but restricted funds may be transferred only to a department that satisfies the requirements of the fund restriction.

SECTION 11: REPORTING

- A. Staff will present to the Board of Trustees Financial Affairs Committee an update on Restricted Operating Fund activity alongside the audited financial statements at each fall meeting of the full Board.
- B. ROFs are included in the Operating Funds column on the GAAP Statement of Financial Position.