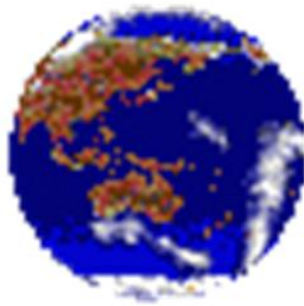


USMFOUNDATION



Policies & Procedures

University System of Maryland Foundation, Inc.
Policy and Procedure Manual

June 2004

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Introduction

The University of Maryland Foundation, Inc.:

The University of Maryland Foundation, Inc. (UMF) was founded in 1979, as a not-for-profit corporation separate from the University System of Maryland (the System). UMF is an independent tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC). UMF's purpose is to receive, hold, invest, manage, use, dispose of and administer property of all kinds, whether given absolutely or in trust, or by way of agency or otherwise. Contributions are used entirely for the purpose specified by the donor in support of one or more of the following System institutions:

- (1) University of Maryland, Baltimore
- (2) University of Maryland, Baltimore County
- (3) University of Maryland, College Park
- (4) University of Maryland Eastern Shore
- (5) University of Maryland University College
- (6) University of Maryland Biotechnology Institute
- (7) University of Maryland Center for Environmental Studies

In order to ensure the safeguarding of assets and the reliability of financial records, this manual documents the UMF policies and procedures for guaranteeing that funds are used for the exclusive benefit of the above institution(s) and in accordance with university policies, as intended by the donors, and in compliance with federal and state rules and regulations.

❖ dba University System of Maryland Foundation, Inc.:

On June 25, 2004, the UMF Board of Directors approved use of the name *University System of Maryland Foundation, Inc.* (USM Foundation) as the name under which UMF will continue to do business. As part of this approved change, UMBC, UMES, and UMUC may include the word "Foundation" after the name of their institution when soliciting funds for the USM Foundation.

THIS VERSION OF THE MANUAL SUPERSEDES THE EDITION PUBLISHED IN SEPTEMBER 2000.

REPORTING IRREGULARITIES OR FRAUDULENT ACTIVITIES

USM Foundation management encourages and requires all persons who have dealings with the USM Foundation to notify the USM Foundation if and when they suspect or become aware of financial irregularities or fraudulent activities. Such information should be reported to the USM Foundation President or Chief Audit Executive via e-mail or phone.

Should the Chief Audit Executive, President or other Officer or Director of the USM Foundation receive information regarding alleged illegal or unethical conduct in connection with the finances or other aspect of operations, that person shall inform the USM Foundation Executive Committee. The Executive Committee shall investigate all credible allegations. At all times respecting the privacy and reputation of individuals involved, the Executive Committee shall inform the Board of Directors if any material allegation is confirmed, or if the Committee otherwise believes that the Board of Directors should be made aware of the situation.

There will be no punishment or other retaliation for reporting of conduct pursuant to this policy. If the person providing the information requests anonymity, this request will be respected to the extent that doing so does not impede any investigation.

(see the USM Foundation website for contact information)
www.usmd.edu/umf

FUND TYPES

All activity through the USM Foundation is maintained through Funds. Each fund is managed as a separate account. However, accounts may be grouped together for accounting, investing and reporting purposes.

The USM Foundation Investment Committee sets investment policy.

Information about specific funds is made available only to donors, to those persons serving as account administrators, to Deans, and to persons who are legally entitled to receive information, such as federal or System auditors.

Account Administrators: receive monthly statements and Spendable Income Reports.

Deans: may receive monthly statements and account balance information. They may also receive market value and Spendable Income information.

Donors: may be provided with information on market values, Spendable Income, names of scholarship recipients or information on the program funded and/or the performance results of endowment funds.

*** OPERATING FUNDS**

Donors may specify that their gifts be spent entirely for a designated objective or program. In addition, departments sell merchandise, sponsor conferences and seminars, and hold special fund raising events to support their activities. This money is deposited in expendable accounts and used for current operations.

*** ENDOWMENT FUNDS**

Donors may specify that their gifts be endowed, which means that the principal is retained “in perpetuity”. Only the Spendable Income is available for the program or activity they have designated.

(See section on POLICY – ENDOWMENT SPENDING on page 52 for more information on Spendable Income)

*** QUASI-ENDOWED FUNDS - DONOR DESIGNATED**

Quasi-endowed funds are administered under the same policies and guidelines as endowed funds. Donors may stipulate that Spendable Income be used to support a designated activity or program. However, if the Spendable Income is insufficient, the corpus of their gift may be used.

✳ ***QUASI-ENDOWED FUNDS - DEPARTMENT DESIGNATED***

The Account Administrator may request that a fund be administered like an endowed fund for an indefinite period of time even though the donor did not so restrict the gift. In such cases only income is spent.

Note: Quasi-endowed funds must maintain a \$10,000 balance or the monies will be transferred to the operating portfolio. If a decision is made to change the nature of the fund from a quasi-endowed fund to an operating fund, the USM Foundation must be given 3 months notice.

✳ ***AGENCY FUNDS***

The USM Foundation may manage and administer funds for other University System of Maryland affiliated foundations. In these circumstances, the affiliated foundation retains ownership of its fund assets and The USM Foundation has no fiduciary responsibility for expenditures. Affiliated foundation funds are invested with the endowment funds or the operating funds as appropriate.

Note: Due to the long-term investment philosophy for endowment funds, the USM Foundation requires notice to withdraw agency funds. The required time for notice is specified in the contract signed between the USM Foundation and the affiliated foundation.

FUND INVESTMENT VEHICLES AND FEES

Funds managed by the USM Foundation are invested according to the investment policy approved by the USM Foundation Investment Committee.

*** OPERATING FUNDS**

Investment Policy:

Operating funds are invested in a pool designed for liquidity, preservation of capital and return. Currently the asset allocation of the portfolio is 70% in fixed income products and 30% in *absolute return strategies*. There is no guarantee on the rate of return to the accounts that are eligible to receive earnings.

Administration Fee and Earnings:

The USM Foundation does not charge an administrative fee on Operating Funds. Earnings, which are distributed at year-end, are allocated as follows:

- ☞ The Offices of Institutional Advancement receive the first 2% earned on the funds. The balance is distributed to the individual accounts.
- ☞ UMCP receives a distribution equivalent to 6 month's interest on all new gifts made during the fiscal year to accounts held for the benefit of UMCP. Because this distribution is made, the earnings posted to each of those UMCP accounts are reduced by the amount of the distribution.

*** ENDOWMENT, QUASI-ENDOWMENT AND AGENCY FUNDS**

Investment Policy:

Funds in this category are invested for the long-term in a diversified portfolio managed by investment firms selected by the USM Foundation Investment Committee for their expertise and experience. The Committee selects an asset mix with the objective of earning a total return which will be sufficient to cover both spending and inflation. The objectives and guidelines for investing are detailed in the USM Foundation Investment Policy, which was last updated on April 30, 2004. The Policy is reviewed and updated by the Investment Committee as appropriate.

The current asset allocation is as shown below:

Style	Approved Target	Range or Other Attributes
Fixed Income	10%	7.5% - 10%
Equity	42.5%	40% - 45% 20% Long only 22.5% Long/Short no more than 20% International
Private Capital	10%	7.5% - 15%
Real Assets	17.5%	12.5% - 20%
Absolute Return	20%	20% - 30%

Administration Fee and Earnings:

- ☞ The USM Foundation assesses a .04% administrative fee annually using the 03/31 market value of each fund. The fee is charged to accounts in October.
- ☞ An additional 1.6% assessment is computed using the 03/31 market value of the endowment accounts specific to each institution. The assessment is distributed to the Development Offices of those institutions, to be used for their fund-raising programs. The distribution is made in October.

Note: The Board voted to discontinue the assessment on “underwater” endowments for FY 03 and FY 04.

- ☞ Each fund receives a quarterly distribution of net earnings (*interest, dividends and realized gains, less investment manager fees*) based on the units owned.

FUND ACCOUNTS - ESTABLISHMENT REQUIREMENTS

All activity through the USM Foundation is maintained through accounts. An account must be established before contributions or any other form of revenue will be accepted. Unrestricted donations can be commingled in one fund; however, if a donor places a restriction on the use of a contribution, a separate fund must be established.

Minimum Requirements:

- ◆ A minimum of \$100 is required to open an account.
- ◆ Operating accounts that remain below \$100 for a period of three months will be closed and merged into a general unrestricted account unless special arrangements are made.
- ◆ Endowment accounts must reach \$10,000 market value before Spendable Income is available, but may be opened with any amount and a Memorandum of Understanding on file.

Account Agreement Form:

A completed ACCOUNT AGREEMENT FORM (*see Appendix page A-1*) is required to establish an account. The form provides the USM Foundation with important information for the ongoing management of the account. That information is as follows:

- (1) Institution and dept/program within that institution for which the account is being established.
- (2) Account type being established. An account is categorized as one of the following:
 - ★ UNRESTRICTED (*for general use of a department, program, center, fund-raising, etc.*)
 - ★ RESTRICTED (*given by a donor for a specific project, scholarship, research, grant, or conference*)
Restricted funds cannot be deposited in an account designated as unrestricted.
 - ★ PERMANENTLY RESTRICTED (*given by a donor for an endowment*)
An endowed account must have a signed Memorandum of Understanding (MOU).
(*see MOU - SAMPLE on Appendix page A-18*).
- (3) Account name and purpose for which the funds will be used (*i.e., support a lectureship, provide for general operations etc.*)
This section is important and must not be left blank.
- (4) Account Administrator (*person at the institution responsible for stewardship of the account*).
He/she receives the monthly statements and is responsible for reconciling account transactions.
- (5) Authorized signers (*the persons who have authority to approve requests for disbursements*).
At least two (2) persons must be identified.
The person with stewardship responsibility (the Account Administrator) may not be one of those persons.

*****THE DEAN OR DEPARTMENT CHAIR MUST INITIAL THE ACCOUNT AGREEMENT*****

The ACCOUNT AGREEMENT should be reviewed annually and updated whenever there is a change in the person(s) who has stewardship or signature authority. The USM Foundation has the right to return a Disbursement Request if the person who approves the request is not identified on the Account Agreement Form.

Account Administrators:

Appropriate university employees are identified as administrators for the accounts that are established. The administrators receive monthly statements on the accounts they oversee. They are responsible for reviewing the statements and ensuring that receipts and disbursements have been posted correctly. The following rules apply with regard to the person selected for this responsibility:

- ◆ The Administrator must be an active employee of the institution.
- ◆ An employee whose family member contributes more than \$1,000 of the total contributions to an account may NOT serve as administrator or have signature authority to disburse funds from that account. In such cases that employee's supervisor usually serves either as the administrator or as the person with signature authority.

The business activities of an employee who falls under this category may still be supported from the account, but all expenditures for those activities must be approved by the person with signature authority on the account.

ALERT!

☆ CONTRIBUTIONS FROM FACULTY OR STAFF ARE TAX DEDUCTIBLE ONLY IF THEY ARE MADE TO A PROGRAM OVER WHICH THAT FACULTY OR STAFF MEMBER HAS NO CONTROL OR SPENDING AUTHORITY.

- ◆ An employee who has signature authority on an account cannot approve his/her own reimbursement or a payment made on his/her behalf. Approval in such cases must be made by another person who has signature authority on that account or by a supervisor (usually the Department Chair or Dean).

ALERT!

☆ THE *TAXPAYER BILL OF RIGHTS 2 LAW* PROVIDES CERTAIN PENALTIES THAT MAY BE CHARGED TO "FUND MANAGERS" AS WELL AS TO RECIPIENTS OF THE FUNDS WHEN PAYMENTS FROM 501(C)(3) ENTITIES PROVIDE EXCESSIVE COMPENSATION TO THE PAYEE. IT IS POSSIBLE THAT THE IRS MAY CONSIDER INSTITUTION EMPLOYEES WHO RECOMMEND DISBURSEMENT OF FUNDS TO BE INCLUDED WITHIN THE DEFINITION OF "FUND MANAGERS". THE PENALTIES CAN BE SEVERE.

REVENUES - CONTRIBUTIONS AND OTHER KINDS OF RECEIPTS

Control Objective:

To ensure that all receipts are promptly deposited, properly recorded, reconciled, kept under adequate security, and to ensure compliance with any and all donor restrictions.

Return of Contributions:

The USM Foundation will not return contributions received. While we are aware that some charities will return charitable gifts, doing so is a technical violation of the 501(c)(3) rules. A 501(c)(3) organization is required to use its assets solely and exclusively to advance its 501(c)(3) purposes. Since a gift to the USM Foundation is a completed gift, the USM Foundation is then under an obligation to use the funds to advance its 501(c)(3) purposes. Transfer of those funds to a private individual, even if that individual is the donor, violates the obligation imposed by the 501(c)(3) rules.

Sources of Revenue:

The major source of revenue received is from individual and corporate contributions and grants to the USM Foundation. Revenue is also received from special fund-raising events, sales of merchandise, fees for conferences and seminars, industrial affiliates programs, fees for performance, etc.

Forms of Acceptable Revenue:

The USM Foundation accepts monies via cash, EFT, check, stocks, bonds, or credit card.

(See section on REVENUES – MONETARY METHODS OF GIVING on page 18 for more detailed instructions)

Checks may be accepted for processing if they are made payable to:

University System of Maryland Foundation, Inc.

or

to one of the institutions, as specified below:

UMBC Fund/Foundation

UMES Fund/Foundation

UMBI Fund/Foundation

UMUC Fund/Foundation

UMCES Fund/Foundation

CHECKS NOT MADE PAYABLE AS SPECIFIED ABOVE CANNOT BE PROCESSED
EXCEPT AS NOTED IN THE SECTION UNDER *General Contributions - Procedure for Processing*)

Board of Regents Policy re Solicitations:

Board of Regents Policy requires that all solicitations for contributions, conferences and seminars, special fund raising events, grants or other such activities where the funds are to be deposited in a USM Foundation account **MUST** be identified as USM Foundation activities.

*** Suggested Wording for Solicitation Literature:**

Board of Regents' policy stipulates that "all correspondence...shall be clearly identified as an activity of that foundation...." Samples of suggested wording that would be appropriate are noted below:

"This (*Program / Event / Activity*) is an activity of the University System of Maryland Foundation, Inc. Please make your check payable to the University System of Maryland Foundation, Inc."

OR

"The funds raised will be administered by the University System of Maryland Foundation, Inc. for the benefit of (*Program or University*). Please make your check payable to the University System of Maryland Foundation, Inc."

OR

"This event is an activity of the University System of Maryland Foundation, Inc. (USM Foundation). Funds earned will be managed by the USM Foundation for the benefit of (*particular program*). Please make your check payable to the University System of Maryland Foundation, Inc."

GENERAL CONTRIBUTIONS

Contributions may be received by a USM Institution, School, Department, or directly at the USM Foundation Business Office. Upon receipt of a contribution the procedures are as follows:

Procedure for Processing:

****** Review checks as to payee and restrictively endorse them for deposit to the USM Foundation.

NOTE: If the check received from a donor in payment of a pledge is made payable to an institutional program or to the institution itself, and the check is for a program/activity for which the USM Foundation has an account, the USM Foundation can accept the check for deposit IF one of the following is provided:

- ➔ A copy of the pledge card **signed by the donor**, which includes the statement “***Make check payable to the University System of Maryland Foundation, Inc.***”
(The signed pledge card serves to confirm it was the donor's intent that the check be deposited in the USM Foundation)

OR

- ➔ If no pledge card exists and the check is from an individual, a letter signed by the check signer stating that it is his/her intention to have the funds deposited in the USM Foundation.

If no pledge card exists and the check is from a company / business, a letter signed by the same person who signed the check stating that it is the company's intention to have the funds deposited in the USM Foundation. Additionally, the tax ID # and name of the payee in the company's records must be that of the USM Foundation.

THIS PROCEDURE IS ACCEPTABLE FOR ONLY THE INITIAL PAYMENT FROM THE COMPANY.
ANY SUBSEQUENT CHECK WITH AN INCORRECT PAYEE WILL NOT BE ACCEPTED.

OR

- ➔ A signed Memorandum of Understanding is on file.

****** Forward funds to be deposited to the appropriate Office of Institutional Advancement (OIA) with the transmittal form required by the institution.

(OIA enters all contributions to ensure the institution's fund-raising totals are complete.)

⇒ Include the name and number of the account to which each contribution is to be deposited.

⇒ Attach documentation that verifies the contributive nature and purpose of the gift, unless funds are for an already established endowment or a payment on an already recorded pledge

Note: USM Foundation personnel can post contributions that are received by the USM Foundation Business Office, provided they are not designated for a specific USM institution, and provided documentation supporting the gift is included.

****** Process all funds within 48 hours of receipt, unless there is a problem, (i.e. not knowing the purpose of the contribution, payee incorrect, etc.).

Retain unprocessed funds in a locked file. If problems are not resolved within 10 business days, checks should be returned to the donor or deposited in a university account.

- ** Separately batch contributions to the USM Foundation from those to the institution.
- ** File supporting documentation (*i.e., a letter from the donor and/or a copy of the check*) with the Batch Detail Report at each OIA.
- ** Remit checks and two copies of the Batch Detail Report to the USM Foundation.
- ** When received, the USM Foundation Accounting Associate does the following:
 - ⇒ Signs the Batch Detail Report, indicating receipt of the checks, subject to verification;
 - ⇒ Returns the signed copy to OIA;
 - ⇒ Reconciles the checks to the transmittal documentation;
 - ⇒ Prepares the deposit ticket and the USM Foundation deposit form;
 - ⇒ Closes the batch on BSR. This action releases the "gift receipts" (*they are now ready for printing*) and automatically transfers the records to the USM Foundation's accounting software, using the prefix of CR9 for cash or checks and the prefix CR7 for credit card charges;
 - ⇒ Reconciles the reports from the accounting system to the Batch Detail Report;
 - ⇒ Prepares the bank deposit;
 - ⇒ Sends the deposit to the independent custodian of the USM Foundation funds (*currently Mercantile-Safe Deposit & Trust Company*)

Gift Receipts:

- ** Gift Receipts are printed and mailed to the donors by the OIA office that entered the gift.

The Revenue Reconciliation Act of 1993 requires that all donors who wish to take a deduction for charitable contributions of \$250 or more have receipts, and those receipts must indicate whether the donor received any goods or services in exchange for that "gift". IRS policy **suggests** the following language, which we recommend:

✱ **"The amount of your contribution that is deductible for Federal income tax purposes is limited to the excess of the amount contributed by you over the value of the goods and services that you receive. We estimate the value of those goods and services to be \$ _____ and therefore you may deduct any contribution in excess of that amount".**

Note: The USM Foundation usually prints and mails Gift Receipts for contributions received from USM Foundation Board members and for contributions of \$1,000 or more that are specifically designated for USM, University-wide or USM Foundation purposes. These gift receipts are reviewed by the Vice President for Finance and then given to the President of the USM Foundation, who sends the receipt to the donor along with a personal letter.

- ** Each USM institution has its own procedures for stewardship of its large donors.

MATCHING GIFTS CONTRIBUTIONS

The USM Foundation Business Office processes only those matching gift forms that relate to contributions in the BSR database.

Procedure for Processing:

**** Forward matching gifts forms with the Batch Detail Report and checks to the Accounting Associate.**

**** The Accounting Associate who processes matching gifts:**

⇒ Reviews all matching gift requests to ensure compliance with individual company policy as to eligible gift, donor, purpose, and recipient institution/organization;

FORMS WILL NOT BE PROCESSED IF THEY DO MEET COMPANY POLICY. THOSE THAT DO NOT QUALIFY WILL BE RETURNED TO THE APPROPRIATE OIA.

⇒ Reviews the donor's record to confirm that the donor and the specific gift are recorded and the donor is linked with the matching Gift Company;

⇒ Links the gift to the matching gift company;

⇒ Completes the form, including signature by the VP for Finance, and mails it to the company matching the gift;

⇒ Files a copy of the form under the company name;

⇒ Enters the matching gift in BSR when it received.

Gift Receipts:

The USM Foundation prints and mails Gift Receipts for matching gifts it has received and processed.

Authorized signers - Corporate Matching Gift Forms:

For matching gifts that are to be processed by or through the USM Foundation:

UNIVERSITY SYSTEM OF MARYLAND FOUNDATION, INC.

Susan C. Schwab, President

or

Joyce Romanoff Marx, V P for Finance

For matching gifts that are not to be processed by or through the USM Foundation:

THE UNIVERSITY SYSTEM OF MARYLAND

V P for Institutional Advancement

(at the appropriate USM institution)

REVENUES THAT ARE NOT CONTRIBUTIONS

Revenue from sources such as those identified below are not identified as contributions. They may be received by a USM Institution, School, Department, or directly at the USM Foundation Business Office.

- Auctions
- Conferences & Seminars
- Part Gift / Part Non-Gift
- Raffles
- Sales
- Special Fund Raising Events

All literature **MUST** identify the University System of Maryland Foundation, Inc. (*in accordance with guidelines established by the Board of Regents*) and must be reviewed by the USM Foundation **PRIOR** to the activity or event. The USM Foundation reserves the right to refuse deposits where the literature has not been submitted for review.

Note: Event literature is maintained in a binder for the applicable fiscal year, filed by account number.

Procedure for Processing:

- ** Submit all literature advertising events to the attention of the USM Foundation Staff Accountant and Grant Administrator for review PRIOR to printing the literature** or it may be impossible for the USM Foundation to accept and deposit the funds. He/she will inform the department as to whether the literature is OK as submitted or needs to be modified.
- ** Forward checks, supporting documentation and the NON-GIFT DEPOSIT FORM** (*see Appendix page A-10*) directly to the USM Foundation Business Office for processing. Before remitting, be sure that all of the following information is included on/with the form:
 - ✓ Revenue code
 - ✓ Purpose stated
 - ✓ **Legible** signature
 - ✓ Check has been made payable to the USM Foundation or to the Account Name
 - ✓ Supporting documentation is attached (i.e. event literature)
- ** After the USM Foundation receives the check, the paperwork is processed as outlined in the GENERAL CONTRIBUTION section of this manual.**

► Auctions:

Auctions provide persons the opportunity to bid openly or silently for one or more items. The revenue from auctions is tax deductible to the extent that payment for the item exceeds the value of the item.

The purchaser must be informed of the value of the item PRIOR to the bidding.

- ** Submit all literature advertising the event to the attention of the USM Foundation Staff Accountant and Grant Administrator for review PRIOR to printing the literature** or it may be impossible for the USM Foundation to accept and deposit the funds. He/she will inform the department as to whether the literature is OK as submitted or needs to be modified.

** Send a copy of the list detailing the fair market value of the items to the USM Foundation Business Office.

** Send revenue from this kind of fundraiser to the USM Foundation Business Office.

(See REVENUE CODES-2 on Appendix page A-3 for the list of codes and detail as to what to post to that code)

► **Conferences and Seminars:**

The USM Foundation may administer funds for conferences and seminars.

** Submit all literature advertising the event to the attention of the USM Foundation Staff Accountant and Grant Administrator for review **PRIOR** to printing the literature or it may be impossible for the USM Foundation to accept and deposit the funds. He/she will inform the department as to whether the literature is OK as submitted or needs to be modified.

ONLY REVENUES RELATING TO CONFERENCES WHERE THE CORRESPONDING EXPENDITURES ARE TO BE DISBURSED THROUGH THE USM FOUNDATION WILL BE ACCEPTED.

► **Part Gift/Part Non-Gift:**

If a contributor received a benefit in exchange for part of his/her contribution, a NON-GIFT DEPOSIT FORM must be completed for the non-gift portion (*see Appendix page A-10*).

** Send the completed non-gift deposit form to the OIA along with the corresponding gift transmittal form and the check or cash. The OIA must send the NON-GIFT DEPOSIT FORM with the gift batch detail report.

► **Raffles:**

A raffle is an appeal for money consisting of three parts (1) a prize, (2) the element of chance and (3) consideration or payment for the right to participate. The cost of a raffle ticket is not tax deductible; therefore it must be classified as non-gift revenue. The IRS notes that the only amount eligible for deduction purposes is the difference between the gift and the total of all the prizes offered in the raffle, whether the raffle is won or not.

** Submit all literature advertising the event to the attention of the USM Foundation Staff Accountant and Grant Administrator for review **PRIOR** to printing the literature or it may be impossible for the USM Foundation to accept and deposit the funds. He/she will inform the department as to whether the literature is OK as submitted or needs to be modified.

✦ Raffle activities are regulated by state law. The USM Foundation is registered in the State of Maryland and any appeal for money to Maryland residents is covered under that registration. However, there may be local regulations to be addressed.

✦ The value of prizes received by the winner must be included in calculating the winner's gross income. If the prize is in the form of goods and/or services, the fair market value of those good and/or services must be included.

- ✦ The USM Foundation must be informed of the value of the prize, and the name, address and social security number of the winner(s). That information is reported on a Form W-9, subject to the following guidelines:

- ➔ If the single prize has a value of \$600 or less, the USM Foundation is not required to report or withhold.
- ➔ If the single prize has a value of \$600 or more, but not more than \$5,000, the USM Foundation must withhold 31% backup withholding IF a W-9 is not completed.
- ➔ If the value is \$5,000 or more, the USM Foundation must withhold 28%.

Note: Withholding is required even if the prize is not cash. The prize can be grossed up so that the tax can be paid **or** the winner can remit the amount to be withheld to the USM Foundation. The USM Foundation must withhold the prize if there is no way to pay the taxes.

➤ **Sales:**

The USM Foundation may accept the proceeds from sales of tangible merchandise, books, tapes, wreaths, sweatshirts, etc. The USM Foundation must be notified **PRIOR** to the sale.

Note:

- ✦ All sales within the state of Maryland are subject to 5% sales tax, and may additionally be subject to Unrelated Business Income Tax (UBIT).
- ✦ Sales tax is paid as required by law and charged to each account accordingly.
- ✦ When the item(s) to be sold is purchased and the Disbursement Request is submitted for payment, use the **Code 0497** (*Cost of Goods Sold*) on the request form.

➤ **Special Fund Raising Events:**

Special fund raising events are activities such as dinners, theater programs, golf tournaments, etc., where the attendee is provided with a benefit in exchange for a contribution.

- ** Submit all literature advertising the event to the attention of the USM Foundation Staff Accountant and Grant Administrator for review **PRIOR** to printing the literature or it may be impossible for the USM Foundation to accept and deposit the funds. He/she will inform the department as to whether the literature is OK as submitted or needs to be modified.
- ** **Provide donors who attend with information regarding what portion of their payment is tax deductible when the total amount paid by them is \$75 or more** (*per the Revenue Reconciliation Act of 1993*). This is not per attendee, but the total amount of the check.

ALL SOLICITATION MATERIALS MUST INCLUDE THIS INFORMATION, PER IRS RULES.

- ** **All solicitation and/or receipt literature MUST identify the gift and non-gift portion.** The non-gift portion represents the fair market value of any goods or services received by the person

attending the event, not the cost. All benefits have a fair market value, even if the event costs the sponsoring department nothing (*i.e., a donor is contributing all the food, entertainment, etc.*)

The fair market is determined by what it would cost an individual to purchase the item. In order to determine the fair market value of the benefit, the following items should be considered and a fair market value determined, when appropriate:

(See *FAIR MARKET VALUE WORKSHEET* on Appendix page A-12)

Meal	\$ _____
Entertainment	\$ _____
Favor/Gift	\$ _____
Activity (<i>Golf/Tennis etc.</i>)	\$ _____
Speaker	\$ _____

IRS policy **suggests** the following language for your solicitation / receipt, which we recommend:

* **"The amount of your contribution that is deductible for Federal income tax purposes is limited to the excess of the amount contributed by you over the value of the goods and services that you receive. We estimate the value of those goods and services to be\$ _____ and, therefore you may deduct any contribution in excess of that amount".**

✧ When submitting requests to pay for expenses associated with a special fund-raising event, use GL code **0753**.

✧ All literature regarding these events must indicate that the program, activity, or event is administered through, or an activity of the USM Foundation, per Board of Regents Policy.
(See *Suggested Wording for Solicitation Literature* on page 8 in the section on Board of Regents Policy re Solicitations)

GRANTS AND CONTRACTS

The USM Foundation administers grants that are philanthropic in nature. Under special circumstances the USM Foundation may administer government grants and contracts, as well as other contracts

- ◆ All University guidelines must be followed before the USM Foundation can accept a grant or contract, including compliance with policies on faculty consulting, patent policy, human subjects, affirmative action, conflicts of interest, and any other such policy governing grant and contract activities.
- ◆ The appropriate academic administrators and the Office of Sponsored Programs (or its counterpart) must review and approve all proposals before submission to the USM Foundation for processing.
- ◆ **Grants/Contracts to be administered by the USM Foundation must explicitly name the University System of Maryland Foundation, Inc. as the administrative agent.**

Submitting the Proposal:

** Prepare and send the paperwork identified below to the USM Foundation:

- ✓ Letter of approval from the Office of Sponsored Programs or equivalent department;
- ✓ Proposal – one (1) copy for the USM Foundation
 ___ (?) copies required by the perspective Grantor/Contractor (*the funding agency*).

** When the above are received, a transmittal letter, signed by an officer of the USM Foundation, will be prepared. The USM Foundation will forward the letter and the proposal to the funding agency **or** return the packet to the department for submission, depending on the agreed upon arrangements between the parties involved.

** Upon notice of acceptance of the proposal from the funding agency, the USM Foundation will inform the Office of Sponsored Programs or equivalent department.

Follow-up to Notification of Acceptance from the funding agency:

** The USM Foundation establishes a separate account for each grant/contract to assure that financial reports can be prepared and that grant/contract funds are not co-mingled with other funds.

** The USM Foundation maintains a separate file for each grant/contract administered by the USM Foundation. Each file includes the following:

- A check list to keep track of reporting requirements;
- The grant/contract proposal paperwork (*see items listed under **Submitting the Proposal** above*);
- Documentation supporting receipts from the funding agency;
- Documentation supporting disbursements;
- Confirmation that the principal investigator has filed reports or other documentation indicating the narrative reports;

- Copy of financial reports filed with the funding agency. These reports are prepared by the department, but must be submitted to the USM Foundation for review PRIOR to submission;
- Copy of the transmittal letter that accompanies technical reports prepared and submitted to the funding agency by the principal investigator for the grant/contract.

Grant backs:

The USM Foundation has the ability to sub-grant a portion of the grant to an institution. This enables the department to use university employees and to purchase goods and services using university funds and provides assurance to the university that those expenditures will be reimbursed.

** Requests for grant backs are submitted to the Grants Administrator and must include the following information:

- ✓ USM Foundation account number
- ✓ Campus account number
- ✓ \$ amount requested
- ✓ Person requesting the grant back

Disbursements for Grants/Contracts:

(See sections on CASH DISBURSEMENTS, which begin on page 26 for information related to this area)

Fees:

There is currently no overhead charged to grants.

REVENUES - MONETARY METHODS OF GIVING

The USM Foundation accepts monies via cash, check, credit card wire transfers, payroll deductions, third party, or stocks and bonds.

**** PAYMENT BY CHECK**

Checks must be made payable to:

University System of Maryland Foundation, Inc.

or

to one of the institutions, as specified below:

UMBC Fund/Foundation

UMES Fund/Foundation

UMBI Fund/Foundation

UMUC Fund/Foundation

UMCES Fund/Foundation

- ➔ Checks not made payable as specified above cannot be processed, except as noted in the section under *General Contributions - Procedure for Processing*. See that section for instructions on how to proceed.
- ➔ In limited circumstances a check made payable to the Account name may be accepted for deposit. When and if that occurs, contact the USM Foundation Business Office for clarification.

**** METHODS OF PAYMENT FOR DONATIONS OTHER THAN CASH OR CHECK**

➤ Credit Card:

Use of a credit card is usually for CONTRIBUTIONS. Credit card transactions are identified with the Batch Code **CR7**.)

NOTE: CREDIT CARDS ARE NOT TO BE USED FOR CONFERENCE REVENUE, SALES, OR ANY REVENUE OTHER THAN CONTRIBUTIONS UNLESS PRIOR APPROVAL HAS BEEN OBTAINED. CONTACT THE USM FOUNDATION BUSINESS OFFICE IF YOU HAVE ANY QUESTIONS.

** Obtain and print the following information on the charge slip or on a form such as the pledge payment slips:

- Name and address of the account holder
- Account number
- Card expiration date
- \$ amount of the contribution
- Type of card (*VISA/MasterCard/American Express*)

** Send the paperwork to the appropriate person at the USM Foundation Business Office to have the charge authorized.

DO NOT ENTER THE INFORMATION IN BSR UNTIL THE TRANSACTION IS AUTHORIZED.

** Send the charge slip or other documentation with the above information to the USM Foundation Business Office with the *Batch Detail Report*. If the USM Foundation enters the credit card transaction, wait until it is authorized to enter the gift in BSR.

** Funds related to credit card charges are transferred monthly by check to the appropriate Operating or Endowment account. This is done when the bank accounts are reconciled.

► **Wire Transfers:**

Funds may be transferred via wire. Obtain the necessary instructions from the USM Foundation Senior Accountant. He/she is listed in the Business Office Personnel Directory on the USM Foundation website.

** Send the following information to the Senior Accountant PRIOR to the transfer of funds:

- ✓ Payer name
- ✓ \$ amount of transfer
- ✓ Date expected (if known)
- ✓ Account number to which the transfer is to be applied
- ✓ Purpose of the transfer
- ✓ A letter from the company on its stationary to confirm the purpose of the wire transfer
(**The letter must be received before funds can be entered in the accounting system**)

WIRE TRANSFERS MAY BE **RETURNED** IF THIS INFORMATION IS NOT RECEIVED IN ADVANCE

► **Payroll Deductions:**

The USM Foundation processes contributions from state employees received through payroll deduction. Each USM institution is responsible for securing the appropriate documentation from their employees and entering the pledge information in BSR.

** Forward Payroll Deduction Cards to the USM Foundation Business Office.

** Upon receipt of the above, USM Foundation personnel will:

- ⇒ Photocopy the originals and file the copy alphabetically by institution;
- ⇒ Send the originals to the Central Payroll office in Annapolis.

** Bimonthly checks, representing funds withheld, are received from the State payroll department and are posted to a USM Foundation holding account.

** Monthly checks, representing withheld funds that have been received from the State payroll department, are written from the USM Foundation holding account to the participating USM institutions that have their own foundations.

(Participating institutions with their own foundations are currently Bowie, Frostburg, Salisbury, Towson, UMB and UMCP)

- ** Semi-annually, for participating institutions that are affiliated with the USM Foundation (those not listed above), a report is prepared that identifies each participating employee and the total amount of his/her deductions within that reporting period. The USM Foundation posts those totals in BSR, either as a pledge payment or as an outright gift, if there is no pledge on record.
- ** After the above posting, the balance in the holding account is adjusted as the totals that were reported are allocated to the accounts the employee donors had designated.

► **Maryland Charities Campaign AND Combined Federal Campaign:**

The USM Foundation participates in the *Maryland Charities Campaign* (MCC) and the *Combined Federal Campaign* (CFC).

*** **Maryland Charities Campaign** (MCC):

- ** A report is received from MCC for each institution. It details the donor name, address and amount donated for those donors who gave permission to the release their name. All other donors are listed on the report as "Anonymous Giver" with the \$ amount of their gift noted.
- ** A copy of the MCC report is forwarded to each institutional OIA. The gift processing office uses this report to enter a pledge for each donor whose name is on the list. The pledge is posted to an endowment account designated by the donor, if applicable, or to the institution's MCC account.

Contributions from all donors who did not choose to be identified are posted as a lump sum pledge to the institution's MCC account.
- ** Distributions, representing these designated and undesignated funds, less the MCC administrative fee, are received and deposited to a USM Foundation holding account.
- ** Semi-annually, the balance in the holding account is adjusted as funds are allocated to the institutional accounts that were designated by the donors.

*** **Combined Federal Campaign** (CFC):

- ** A report is received from CFC. If a donor has given permission to the release of his/her name, the report details the donor name and address.

Note: If a donor has informed the USM Foundation in writing of the amount of their contribution and the institution it is to benefit, that information is kept on file and the funds are distributed to that institution when received.
- ** Distributions, representing these designated and undesignated funds, less the CFC administrative fee, are received and are deposited to a USM Foundation holding account.
- ** The balance in the holding account is adjusted as funds are allocated to the institutional accounts that were designated by the donors, if applicable, or to the USM Office Scholarship Program.

➤ **Stocks and Bonds:**

When a gift of stock or bonds is intended, notify the Senior Accountant at the USM Foundation Business Office in writing (e-mail is acceptable).

** Send the following information:

- ✓ Donor name
- ✓ Name of the stock/bond and the # of shares to be gifted
- ✓ Name of the firm that will transfer the stock/bond
- ✓ Expected date of transfer (if known)
- ✓ Account number to which the gift is to be applied

** Transfer stocks/bonds through one of these procedures:

- ◆ DTC transfer, **OR**
- ◆ Send the Certificate along with a completed Stock/Bond Power Form, **OR**
- ◆ Transferring the stock/bond to an account at a brokerage firm --- the least preferred.

(See instructions detailed below for each of these options)

⇔ **DTC TRANSFER**

DTC transfer is the easiest method when a third party (*not the donor*) holds the Certificate. Contact the USM Foundation Senior Accountant for information and instructions on using this method.

NOTE: IF A DTC TRANSFER IS INITIATED AND THE USM FOUNDATION HAS NO INFORMATION, THE STOCK/BOND MUST BE RETURNED.

When a DTC transfer of a stock/bond Certificate is received:

- ✦ The USM Foundation Senior Accountant informs the institution of the \$ value of the stock/bond;
(The dollar value of the gift is the average of the high and low value of the security on the day the gift is given.)
- ✦ OIA enters the gift information in BSR, as outlined in the *BSR Gift Policy and Procedures Manual*;
- ✦ The USM Foundation enters the gift information in BSR if the stock gift is to benefit UMBI or UMCES.

⇔ **SEND A STOCK/BOND CERTIFICATE**

If the donor has the Certificate, do one of the following:

- (1) Endorse the back of the certificate; **OR**
- (2) Use a separate Stock/Bond Power Form as the endorsement vehicle and send the paperwork to the institution or to ATTN: Senior Accountant, the USM Foundation; **OR**
- (3) Have the stock/bond reissued in the USM Foundation name by sending the Certificate to the Transfer Agent along with the USM Foundation name, address and tax id number. The

Transfer Agent will send the reissued certificate to the USM Foundation.

NOTE: IF THE USM FOUNDATION RECEIVES A STOCK OR BOND CERTIFICATE ABOUT WHICH NO PRIOR INFORMATION HAS BEEN PROVIDED, THE DONOR, IF IDENTIFIED, WILL BE CONTACTED. IF DONOR IDENTIFICATION IS NOT AVAILABLE, THE USM FOUNDATION WILL CONTACT THE INSTITUTIONS.

If the Certificate is received by the institution, do the following:

- ✦ OIA forwards the certificate and any information regarding the donor and the donor's designation(s) and/or restriction(s) to the USM Foundation Business Office.
- ✦ The USM Foundation Senior Accountant informs the institution of the \$ value of the stock/bond; *(The dollar value of the gift is the average of the high and low value of the security on the day the gift is given.)*
- ✦ OIA enters the gift information in BSR, as outlined in the BSR Gift Policy and Procedures Manual;

If the stock gift is to benefit UMBI or UMCES, the USM Foundation enters the gift information in BSR.
- ✦ The stock Certificate is forwarded to the USM Foundation custodian.
(Corporate Resolution Forms needed to complete the transaction are on file with the USM Foundation custodian).

⇔ **TRANSFER THE STOCK/BOND TO AN ACCOUNT AT A BROKERAGE FIRM**

Contact the Senior Accountant at the USM Foundation Business Office for instructions on how this method works.

REVENUES - NON-MONETARY METHODS OF GIVING

The USM Foundation accepts non-monetary gifts in the form of gifts-in-kind, life insurance, trusts and annuities.

► Gifts-In-Kind:

Gifts-in-Kind are non-cash contributions such as real estate, equipment, and art. Gifts of this nature are usually processed by the OIA of the USM institution that will benefit from the gift, with the exception of UMBI and UMCES, whose gifts in this form are processed by the USM Foundation Business Office.

ONLY CONTRIBUTIONS THAT ARE OF DIRECT BENEFIT TO AN INSTITUTIONAL PROGRAM OR TO THE USM FOUNDATION, OR WHICH CAN BE IMMEDIATELY SOLD WILL BE ACCEPTED.

- ** OIA or the Accounting Associate at the USM Foundation Business Office enters the gift information in BSR, as outlined in the BSR Gift Policy and Procedures Manual.
- ** Forward the Batch Report and copies of the documentation related to each gift (i.e., appraisals, deed of gift etc.) to the USM Foundation Business Office. Include an Inventory Control Form for all property where ownership is to be through the USM Foundation.
- ** The Accounting Associate changes the GL code in the Batch Report, from a cash account to the appropriate asset account.

Note: Gifts with a value over \$1,000 are recorded as assets. Gifts with a value under \$1,000 are expended in the year they are received.

- ** IRS Form 8283: Donors who contribute non-cash gifts with a total value greater than \$500 must file this form with their tax return. If the donor cannot obtain the form, the USM Foundation Business Office can provide a copy.
 - The donor must complete the appropriate sections of the form, including the appraisal section, which details information regarding the value of the item(s) donated.
 - >> For those items with a value under \$500, the donor's estimate is acceptable.
 - >> For those items with a value between \$500 and \$5,000, an internal "expert" can value the property.
 - >> For those with a value of over \$5,000 an independent qualified appraiser must sign the form or provide the information on their letterhead.
 - The donor must forward the completed form to the USM Foundation Business Office for review and signature.
 - The USM Foundation mails the form back to the donor after it is signed.
- ** IRS Form 8282: The USM Foundation must file this form with the IRS if the property is sold within two years of the date of the gift.

► **Real Estate Gifts:**

(See *POLICY - REAL ESTATE* on page 59 and *PROCEDURES - REAL ESTATE* on page 60 for information about this area)

► **Life Insurance:**

A donor may make a gift of life insurance, designating the USM Foundation as the owner and beneficiary. Payment of the premiums is made through the USM Foundation once that occurs and continues until the donor dies or the policy is surrendered. The USM Foundation Accounting Associate oversees the payment process as follows:

- ⇒ A schedule listing the due dates for the premium payments is maintained;
- ⇒ Two months prior to the date the premium is due for payment, the Accounting Associate prepares a reminder notice of payment due and sends it to the donor;
- ⇒ The mailing date of the reminder notice is noted on the payment schedule;
- ⇒ Premium payments are not remitted until the appropriate payment has been received from the donor;
- ⇒ The account is reconciled monthly to reflect any premium payments received from the donor and sent to the insurance carrier;
- ⇒ The Office of Planned Giving and/or the Development Office at the appropriate USM institution is notified when a problem occurs.

NOTE: Premium payments made by the donor are tax deductible contributions, whether paid directly by the donor or by the donor through the USM Foundation.

► **Trusts and Annuities:**

A donor may purchase an annuity contract or establish a trust with the USM Foundation. A portion of the annuity / trust is a gift and should be receipted as such. The remainder is recorded as a liability on the USM Foundation's records.

- ** The Office of Planned Giving (PG) coordinates the establishment of the annuity contract or trust.
- ** PG should notify the USM Foundation Business Office when documents for establishing an annuity or trust are prepared and sent to the prospective donor. This enables the USM Foundation to identify the donor and/or purpose of paperwork that is sometimes received while establishment of the annuity or trust is still in process.
- ** PG forwards the signed annuity contract, the annuity / trust information and the *Gift Information Form* to the USM Foundation Business Office when necessary paperwork has been completed.
- ** The USM Foundation creates a sub-account for each annuity contract or trust.
- ** Payments due to the donor are disbursed via a USM Foundation check or via direct deposit.

**** Tax Forms:**

- ☆ The USM Foundation Business Office submits the required SS-4 Form to the IRS for all trusts established.
- ☆ 1099 Tax Forms are prepared annually by the USM Foundation and sent to each annuitant.
- ☆ Tax Returns for all Trusts administered by the USM Foundation are prepared for each donor by USM Foundation accountants.

CASH DISBURSEMENTS - OBJECTIVES AND GUIDELINES

Control Objectives:

To ensure that cash is disbursed only upon proper authorization and that the request for payment is supported by the appropriate documentation, is for valid business purposes, and is properly recorded.

All disbursements must

- ◆ Provide a direct benefit to an institution
- ◆ Be properly reported for tax purposes
- ◆ Be used in compliance with any donor restrictions

Accountable Plan:

The USM Foundation has an "Accountable Plan". The term "Accountable Plan", developed by the IRS to set forth rules, defines legitimate expense reimbursements and requires submission of original documentation.

A qualified Accountable Plan requires all expenditures to:

1) Have a bona-fide business purpose

The IRS may view a disbursement as providing a personal benefit if there is any doubt concerning its business purpose. Even though in some cases the business purpose may be implied, it must be specifically documented to pass IRS scrutiny.

Paying or reimbursing for "lavish" or "extravagant" expenses is unacceptable. These terms are used in IRC Sec 162 and are repeatedly used in IRS documentation, usually with a statement that such expenses are non-deductible. The USM Foundation will determine, at its sole discretion, either not to pay or reimburse or to reduce payment requests for expenses which are considered "lavish or extravagant". If you feel there is justification for a reimbursement which might be deemed lavish, please provide your reasoning when submitting the request.

NOTE: The USM Foundation Board established the maximum allowable reimbursement for lunch and dinner entertainment, which is \$25 for lunch and \$75 for dinner.

As a reminder, first class airline travel has always been considered non reimbursable.

2) Be properly substantiated

The USM Foundation will not reimburse for expenses if original receipts are not provided.

★★ Exceptions to receipt requirement:

- ◇ Business use of a personal car at the standard mileage rate
- ◇ Expenditures under \$25 (*per item*)
- ◇ Per Diem based on U.S. State Department rate

(See section on CASH DISBURSEMENTS - TRAVEL REQUESTS on page 33 for more information)

★ ★ Partial Reimbursement from University sources:

If an employee is reimbursed for a portion of his/her expenses from University sources, a copy of the receipt and the State reimbursement form will be accepted.

★ ★ Credit cards:

Credit card statements do not provide adequate supporting documentation. Original receipts for credit card purchases are obtainable from the vendor and should always be attached to the check request.

Reconstruction of records is allowable if originals have been lost through circumstances beyond the person's control, such as fire, flood, etc. There may be some cases in which the USM Foundation will reimburse a person for bona fide business expenses when receipts have been lost, but the reimbursement will generally be included as taxable compensation.

THE IRS REQUIRES THAT PAYMENTS TO INDIVIDUALS WHICH DO NOT QUALIFY AS PART OF AN "ACCOUNTABLE PLAN" BE INCLUDED IN THE PERSON'S INCOME, EITHER ON A W-2 FORM OR ON A FORM 1099.

3) Be accounted for on a timely basis

The USM Foundation will not reimburse for expenditures more than six (6) months old.

IRS guidelines are more stringent with regard to TRAVEL ADVANCES. **All travel advances must be accounted for within 60 days.**

(See IRS section references on Travel Reimbursement procedures below).

- ☆ Under *Reg. 1.62-2 (f)* an "Accountable Plan" must require persons to return within a reasonable period of time the amounts reimbursed that exceeded substantiated business expenses (*advances*).
- ☆ *Reg. 1.62 (h)* states that if a company has an "Accountable Plan" but the person does not return excess amounts within reasonable time, the amount, which is taxable, is reported as compensation to the person.

CASH DISBURSEMENTS - DISBURSEMENT REQUESTS

Expenses that cannot be paid by the USM Foundation:

- × Personal expenses (i.e. meals, room, travel for a spouse or family, or when not for a bona-fide business purpose);
- × Payments for flowers or gifts for weddings or birth of a child congratulations, as this is considered personal;
- × Purchase and/or maintenance of equipment located at a home or other off-site location;
- × Political contributions;
- × Questionable items (i.e., those not in compliance with policies and grant requirements established by USM, the grantor, or the USM Foundation, or those that may give the perception of misuse of charitable funds);
- × First class airline tickets or Business class airline tickets for domestic travel (unless they been pre-approved because of extenuating circumstances).
- × Loans to university employees, other than students, as part of a financial aid package;
- × Payments of fines (i.e. parking tickets), penalties or finance charges;
- × Reimbursement for parking at the employee's main place of work;
- × Donations to other charitable organizations, unless it is a deminimis (under \$50) amount given as an expression of condolence or sympathy;
- × "Lavish or extravagant" costs for meals or other entertainment expenses. The USM Foundation has set limits on expenditures for meals. Requests for reimbursement should not exceed \$25 per person for lunch and \$75 per person for dinner. Requests that exceed this limit may not be processed.

Procedure - General:

**** Submit all requests for disbursements on a USM FOUNDATION DISBURSEMENT REQUEST FORM (*see Appendix page A-11*). The form **must be completed in its entirety** and should include the following information:**

➔ Purpose:

Provide an explanation of the purpose for which funds are to be used (i.e., how any materials purchased will be used / reason for a meeting with list of persons and their affiliation who attended etc.).

(See section on ACCOUNTABLE PLAN on page 26 for information related to travel and other types of reimbursements)

➔ Documentation:

Attach **ORIGINAL** supporting documentation

(i.e., detailed invoices or receipts for all expenses over \$25; a copy of an approved Out-of-State Travel authorization for university employees) **BALANCE DUE STATEMENTS ARE NOT ACCEPTABLE.**

➔ **Signatures:**

The form must be signed by two (2) persons --- the requestor and the approver. The approver must be one of the two persons listed on the ACCOUNT AGREEMENT FORM as having signature authority.

If the check is to be made payable to the requestor or the approver, that person's supervisor must sign the form. IT IS VITAL TO UNDERSTAND THAT THE SIGNATURE SERVES AS CERTIFICATION OF THE PROPRIETY OF THE REQUESTED EXPENDITURE.

Note: Changes made to any of the information on the DISBURSEMENT REQUEST FORM must be initialed by the person who signs the form to confirm his/her approval; otherwise the form will be returned to the sender.

➔ **Envelope:**

Provide an envelope with the originating office's address if the check is to be returned to that office, **OR** write "MAIL DIRECTLY TO PAYEE" on the form if the check is to be mailed directly to the payee. Make sure you have provided a complete mailing address for the payee!

Note: The USM Foundation prefers to mail checks directly to vendors or payees, but cannot return a copy of the check to the department.

If the department elects to mail the checks to vendors or payees, then for internal control purposes, that person should not be the requestor or the one who reconciles the account.

>> If the DISBURSEMENT REQUEST FORM is incomplete or is missing supporting documentation, the missing information will be identified and all paperwork will be returned to the sender.

>> DISBURSEMENT REQUEST FORMS received at the USM Foundation Business Office **by 1:30 P.M. Thursday** will usually be available the following Tuesday. Because all requests are reviewed prior to being processed, requests will be handled in the order received. This may result in some of the later arrivals being delayed until the following week.

**** The Accounts Payable Associate:**

⇒ Reviews all DISBURSEMENT REQUEST FORMS to ensure:

- Correct account number, account name and GL expense code
- Original and appropriate supporting documentation (as described above) is attached
- Explanation of business purpose is provided
- Compliance with 501(c)(3) regulations, IRS regulations, federal government regulations, Secretary of State regulations, Board of Regents regulations

Questionable requests are given to the Controller or the Vice President for Finance to review and determine appropriate follow-up.

⇒ Designates activity code (program, general and administrative or fundraising)

⇒ Enters data to the accounting system

⇒ Generates the preliminary check register

⇒ Forwards the preliminary check register to the Accounting Associate for proofing against the DISBURSEMENT REQUEST FORMS.

** The Accounting Associate proofs the information and returns the records to the Accounts Payable Associate to make corrections to the records, if needed.

** The Accounts Payable Associate generates the final Proof Report to give to the Accountant, to initiate printing of the checks. The DISBURSEMENT REQUEST FORMS are given to the person who coordinates mailing of the checks.

** The Accountant generates the checks and gives them to the Accounting Associate to process through the signature machine.

Note: Check requests for over \$1,000 require a second signature. They are reviewed by the Controller who signs as second signatore, then gives them to the Vice President for Finance for final review before mailing. In the absence of the Controller, the President signs.

** The signed checks are mailed directly to the vendor or are picked up by/mailed to the requesting department in accordance with the instructions received with the DISBURSEMENT REQUEST FORM.

► **Petty Cash:**

Departments can request an advance of up to \$100 for petty cash. This enables small disbursements (\$25 and under) to be paid from petty cash. Petty cash receipts should be submitted with a Disbursement Request Form in order to replenish petty cash funds, but PLEASE DO NOT SUBMIT DISBURSEMENT REQUESTS FOR LESS THAN \$10.

The department is responsible for safeguarding its petty cash. At all times the amount of cash on hand plus receipts must total the amount advanced for petty cash. **Petty cash funds are subject to cash counts by a USM Foundation representative at any time without prior notification.**

► **Emergency Checks / Hand Checks:**

The Controller has authority to approve or deny requests for emergency checks / hand checks. The request and its supporting documentation is reviewed. If the decision is affirmative, the Accounts Payable Associate does the following:

- ⇒ Asks the Accountant to retrieve the next available unused check from the locked cabinet
- ⇒ Types the entries
- ⇒ Logs the check on the weekly list
- ⇒ Gives the check to the Vice President for Finance and the Controller to sign, if two signatures are required
- ⇒ Notifies the requester that the check is ready
- ⇒ Gives the paperwork to the Accountant for posting to the accounting records
- ⇒ Leaves the check copy and its related paperwork for filing

► **Purchase Orders:**

Purchase orders are sometimes needed when ordering equipment or purchasing services. If and when they are needed, they are available through the Accounts Payable Associate.

If the equipment or service cost is \$1,000 or greater, the USM Foundation must countersign the Purchase Order in order to ensure that funds are available.

► **Equipment Purchases:**

(See section on PURCHASES OF EQUIPMENT/FURNISHINGS on page 49 and section on FIXED ASSETS on page 50 for information related to such purchases)

► **Entertainment and Meals:**

“Entertainment” refers to and includes expenses associated with attendance at theaters and sporting events as well as the furnishing of food and beverages (meals) at restaurants or other such places or hotel accommodations. These kinds of expenses are reimbursable when they are incurred for business purposes.

“Meals” expenses are reimbursable when food and/or beverages are provided for other persons for business purposes, other than those occasions when an employee is traveling on business. Requests for reimbursement should not exceed \$25 per person for lunch and \$75 per person for dinner.

Reimbursement for meals while not on travel is allowed. However, the tax court has disallowed a deduction for everyday such occurrences; therefore, requests for reimbursement for activities in the metropolitan area cannot be routine.

Note: The USM Foundation will refuse payment for any meal or other entertainment expense for which the business purpose has not been sufficiently documented.

The USM Foundation will refuse payment for any meal considered "lavish" or "extravagant" (more than the \$25 for lunch and \$75 for dinner limit) unless additional explanation or documentation to justify the excess is provided.

A request for reimbursement for entertainment or meals expenses must include the following:

- ✓ amount of each separate expenditure
- ✓ date of the activity
- ✓ place and description of the entertainment (if not apparent from the name of the establishment)
- ✓ business purpose for the expense, which **cannot be incidental** (a short description such as, “discussed XYZ research project, conducted departmental staff meeting”, etc. is acceptable)
- ✓ name and affiliation of the other person(s) in attendance

Note: Receipts submitted for lunch/dinner expenses that exceed the per person limit of \$25 / \$75 must include an itemized listing of what was ordered to be considered for payment.

➤ **Expenses for Spouses: (non-travel)**

Generally, meals for a spouse will not be reimbursed unless there is a legitimate business purpose for his/her presence (i.e., entertaining a donor whose spouse accompanies him/her or when the presence of the employee's spouse is considered helpful to the fundraising effort).

CASH DISBURSEMENTS -TRAVEL REQUESTS

APPROVAL POLICY:

IN ORDER TO ENSURE THAT TRAVEL IS APPROVED IN AN IMPARTIAL MANNER, TRAVELERS MAY NOT APPROVE THE REIMBURSEMENT OF THEIR OWN TRAVEL EXPENSES. IN ADDITION, AN EMPLOYEE SHALL NOT APPROVE THE TRAVEL EXPENSES OF AN INDIVIDUAL TO WHOM HE OR SHE REPORTS EITHER DIRECTLY OR INDIRECTLY. AN EMPLOYEE ALSO MAY NOT APPROVE THE TRAVEL OF A NEAR RELATIVE.

Procedure:

- ** An itinerary with a brief description of the business activity for each day must be provided along with the DISBURSEMENT REQUEST FORM. If the reimbursement request relates to attending a conference, a copy of the brochure with a note stating the traveler attended the event is acceptable.
- ** If a Travel Advance was issued and the actual expenses exceed the amount of the advance, deduct the amount advanced from the request for reimbursement.

If a Travel Advance was issued and the actual expenses are less than the amount of the advance, remit a check made payable to the USM Foundation along with a completed NON-GIFT DEPOSIT form and all of the documentation required to substantiate the disbursement as noted below

► Itemization of the expenses:

- ★ **Hotel** – the receipt must be a folio that itemizes the charges. If the charges on the hotel folio are for other than room and tax those items must be identified for and explained separately.
- ★ **Meals** – the Per Diem rate or actual costs (with receipts) may be used for meals
 - **Domestic Travel:** use the U.S. State Department domestic per diem rate
www.state.gov/www/perdiems.html
 - **Foreign Travel:** use the U.S. State Department foreign per diem rate
www.state.gov/www/perdiems.html
 - **Actual meal expenses:** if billing for actual meal expenses, include a receipt for all meals. Amounts exceeding the per diem rate may be questioned.
 - **Meal reimbursements that include others:** the name and affiliation of the other person(s), and the business reason for their inclusion in the expense must be provided.
- ★ **Mileage** - a standard mileage rate must be used when requesting reimbursement for business use of a personal automobile. The rate used is that established by the IRS.

Note: The USM Foundation does NOT reimburse for gasoline purchases unless it is a USM Foundation owned vehicle.

The USM Foundation does NOT reimburse any expenses associated with a university owned vehicle.

- ★ **Airline travel** – submit the boarding passes that verify use of the ticket, even when the cost has been charged through Omega or Travel-On and billed directly to the USM Foundation. Also include the original travel agent invoice or airline invoice that documents the amount paid for the fare, if the purchase was made directly and not through Omega or Travel-On.
- ★ **Currency** - convert foreign travel expenses to US dollars using one of the following guidelines:
 - ✧ based on the historical exchange rate on the date incurred or on the date US currency was exchanged for the currency of the foreign country
www.oanda.com/convert/fxhistory
 - ✧ based on the amount posted to your credit card statement, if paid via credit card
- ★ **Expenses of a spouse** – payment for a spouse who accompanies the employee when traveling is not allowed unless the spouse is an employee and along for a bona fide business purpose. To qualify as a valid business purpose, the spouse's business involvement must meet the tests in the IRS Code and regulations with respect to spousal travel (*See IRS Publication 463*). The IRS rules are such that most spousal travel is not considered to be a bona fide business expense.

Note: Reimbursement for spousal attendance at retreats is NOT allowed.

► **Travel in the United States:**

- ✧ ✧ Trip Primarily for Business: If your trip was primarily for business, the USM Foundation will reimburse the travel cost of getting to and from the business location and any business-related expenses at the business location.
- ✧ ✧ Trip Primarily for Personal Reasons: If your trip was primarily for personal reasons, none of the travel cost can be reimbursed. However, the USM Foundation can reimburse any expenses that were directly related to the business activity.

► **Travel Outside the United States:**

- ✧ ✧ Travel Entirely for Business or Considered Entirely for Business: The USM Foundation can reimburse all of the travel cost of getting to and from the business location if the trip is entirely for business or considered entirely for business. Travel is considered entirely for business if some of the activity is personal but you meet at least one of the following four exceptions:
 - 1) You have no substantial control over arranging the trip. Employees have no substantial control if the travel arrangement is subject to the approval of a supervisor.
 - 2) You were outside the United States no more than one week.
 - 3) Less than 25% of the time was personal activities.
 - 4) You can prove that vacation was not a major consideration for the trip.
- ✧ ✧ Travel Primarily for Business: If you cannot meet one of the above four exceptions then the cost of getting to and from the business location must be allocated between business and personal activity and only the business portion can be reimbursed.

- ✧ ✧ Trip Primarily for Personal Reasons: If your trip was primarily for personal reasons, none of the travel cost can be reimbursed. However, the USM Foundation can reimburse any expenses that were directly related to the business activity.

For more information (and examples), see IRS publication 463 available at
<http://www.irs.ustreas.gov/formspubs/index.html>

➤ **Travel Advances:**

A travel advance can be provided for extended trips. Submit the following:

- ✓ a completed Disbursement Request Form.
- ✓ a copy of the approved Travel Authorization
- ✓ an explanation of the reason for the advance.

- ☆ A Form 1099 will be issued for the amount of the advance if substantiation is not received within a reasonable period of time. (Per *IRS Reg 1.2-2(g)*, "within 60 days" after the expense was paid or incurred constitutes a reasonable period of time.)

THE USM FOUNDATION HAS THE RIGHT TO REFUSE ANY REQUEST FOR AN ADVANCE THAT IS NOT CONSIDERED REASONABLE OR IS IN VIOLATION OF REGULATIONS GOVERNING 501(C)(3) ORGANIZATIONS, STATE ETHICS LAWS, OR IRS REGULATIONS.

➤ **Travel while at a temporary work location:**

The need for travel while at a temporary work location, though infrequent, does occur. If a person is assigned to a work location outside his home area and that assignment is one year or less, that person can be reimbursed for many expenses including transportation, meals and housing costs. Please contact the USM Foundation Business office when this occurs.

- ☆ (*IRS Revenue Ruling 99-7* defines the circumstances which qualify as a temporary work location.)

CASH DISBURSEMENTS – STATE EMPLOYEES AND INDEPENDENT CONTRACTORS

The complex and ever-changing Internal Revenue Code and IRS rules, regulations and procedures sometimes make it difficult to make the distinction between employee status and independent contractor status and is often subjective in nature. **Contact the USM Foundation before making a commitment, if you need to pay an individual for personal services and it is not through a corporate entity.**

GUIDELINES RE INDEPENDENT CONTRACTORS

- ◆ The following persons can be treated as independent contractors, IF they are U.S. citizens:
 - Guest Lecturers (e.g. a person who lectures at a conference or workshop)
 - A person who provides the same or similar services to other entities or to the general public as part of a trade or business
- ◆ If it is determined that the person is a **non-resident alien**, it might be impossible for the USM Foundation to compensate the person. (*See section on CASH DISBURSEMENTS - FOREIGN NATIONALS on page 40 for more information*)
- * **Required Documentation:**
 - ✓ Copy of Independent Contractor Agreement (*The USM Foundation has a standard form that is recommended*) or copy of the invitation to lecture (if appropriate)
 - ✓ Invoice from the contractor (*not required if person is a guest lecturer*)
 - ✓ Completed Form W-9 (*Request for Taxpayer Identification Number and Certification*) (*see Appendix page A-26*)

PAYMENT TO THE INDIVIDUAL CANNOT BE PROCESSED UNTIL A COMPLETED W-9 FORM IS RECEIVED.

* **Tax Issues:**

- ☆ A completed Form W-9 (*Request for Taxpayer Identification Number and Certification*) must be executed for each person to be paid as an independent contractor. The person's social security number, home address and signature must be included on the form.
- ☆ Payments for services by non-employees (independent contractors) are reported to the recipient and to the IRS on a Form 1099.

IF THE PERSON FOR WHOM PAYMENT FOR PERSONAL SERVICES IS REQUESTED CANNOT BE CLASSIFIED AS AN INDEPENDENT CONTRACTOR, THEY MUST BE PAID AS AN EMPLOYEE. CONTACT THE PAYROLL ADMINISTRATOR FOR ASSISTANCE.

GUIDELINES RE PAYMENTS TO STATE EMPLOYEES

► **Faculty and Staff Awards, Bonuses, etc.:**

Payments made to university employees as bonuses, awards or for services in excess of their usual duties must be included on the employee's Form W-2. All such payments must therefore be made through the University payroll system, after which the USM Foundation can be asked to reimburse the University from the appropriate account.

► **Employee Gifts/Achievement Awards:**

Gifts to employees are generally discouraged and may violate state ethics laws. USM Foundation policy allows for reimbursement of tangible (non-cash which does not include gift certificates) employee gifts of a de minimis amount (valued at \$25 or less per employee). Those reimbursements will not be included in the recipient's taxable income.

Note: This policy is based on current tax law, which states that \$25 is the maximum amount an employee can deduct and that he/she does not need to report that payment as income. In addition, it is the amount the Maryland State Ethics Commission considers allowable for an employee to receive as a gift without requiring reporting.

Flowers, plaques, T-shirts, etc. given to employees as an appreciation gift or award fall under this rule.

★ ★ **Flowers / Memorial Contributions:**

The limit on flowers and memorial contributions is \$50, including delivery and any taxes or other charges.

Flowers may be sent, when intended as an expression of sympathy or concern related to the hospitalization of or a memorial for an employee, his/her spouse, lineal descendants, adopted children, stepchildren, ancestors, siblings and members of the immediate household, as long as the cost does not exceed the above-noted limit. In-laws are not included. Congratulatory notices or flowers for the birth of a child are not included.

Memorial contributions to charitable entities or other appropriate expressions of sympathy, in lieu of flowers, are acceptable, subject to the same restrictions.

★ ★ **Gift Certificates:**

Gift certificates are considered cash equivalents and therefore become taxable income to the employee. The USM Foundation cannot pay for cash equivalents. Requests for payment will be returned.

★ ★ **Personal Gifts:**

USM Foundation funds should not be used to purchase personal gifts, such as those for Secretary's Day, Boss's Day, a new baby, weddings, etc. These items provide a personal benefit to the recipient. As such, the expenditures are not made for a business purpose, as defined by IRS regulations.

If USM Foundation funds are used to provide a "personal benefit", both the USM Foundation and the person authorizing the expenditure may be subject to "intermediate sanctions" from the IRS.

► **Staff Meetings, Luncheons, etc.:**

USM Foundation funds may be used to pay expenses for bona fide staff meetings, luncheons, etc.

► **Fringe Benefits Payments:**

As a general rule, any Fringe Benefit is taxable unless specifically excluded by the tax laws.

- ☆ The USM Foundation can reimburse a university state account or pay an individual directly for only those Fringe Benefits that are exempt under tax laws, such as some moving expenses (*see section on **Moving Expenses** below*) or business related expenses.
- ☆ Fringe Benefits paid by the employer that are not exempt from tax laws must be included in the employee's Form W-2 Form.

Be aware of the following:

- ☞ Payment of business related expenses to or on behalf of an employee of the university is taxable, unless it is made in accordance with the rules of an Accountable Plan (*see section on **Accountable Plan** on page 26 for more information*). However, even when payment is made under the rules of an Accountable Plan, if the payment confers benefit to the individual, such payment is considered to be a taxable "Fringe Benefit".
- ☞ Payments to university employees in the form of Fringe Benefits may or may not be taxable income.
- ☞ Payments made by the USM Foundation in the form of Fringe Benefits must support the mission of the university.

★ ★ **Moving Expenses:**

The USM Foundation can reimburse the university for moving expenses they have paid on behalf of a university employee.

Whether the USM Foundation can directly reimburse a university employee or pay his/her moving expenses directly is determined by tax laws (is the expense exempt or not exempt?), as detailed below:

EXEMPT: The following moving expenses **are exempt** under tax laws IF the new main job location is at least 50 miles farther from the former home than the old main job location:

- ➔ Moving your household goods and personal effects (including in-transit or foreign move storage expenses)
 - ➔ Travel expenses for yourself and members of your household (including lodging but not meals) to get to the new home. This should be done using the shortest route.
 - ➔ Auto expenses, if you use your car to take yourself, members of your household or personal effects to your new home. Reimbursement can be for either **actual expenses** or **10 cents a mile**.
- ☆ Moving expenses which are **exempt** under tax laws can be paid directly, or reimbursed to the university employee directly, or reimbursed to the university.

NOT EXEMPT EXPENSES: The following moving expenses are **not exempt** under tax laws:

- ✧ Pre-move house hunting trips
- ✧ Temporary living expenses
- ✧ Meal expenses while moving or while occupying temporary quarters
- ✧ Expenses of buying or selling a home
- ✧ Qualified residence sale, purchase, or lease expenses
- ✧ Car tags, driver's license

☆ Moving expenses which are **not exempt** under tax laws may only be reimbursed to the university. The university must include that reimbursement in the employee's W-2 Form.

☆☆**Business related benefits:**

Fringe benefits paid for valid business purposes are exempt from tax laws (i.e., business trips, business meals, yearly membership dues, etc.)

THE USM FOUNDATION DOES NOT PAY FOR LIFETIME MEMBERSHIP DUES, AS A BUSINESS CONNECTION CEASES UPON TERMINATION OF EMPLOYMENT.

- **Club dues:** - The IRS has ruled that payments for certain types of club dues paid on behalf of an individual are usually not business related. Payment requests for dues paid to airline travel clubs or similar social clubs will be thoroughly reviewed.

☆ **If approved, the amount paid will be taxable income to the person whose dues are being paid.**

- **Mobile phone costs:** - The USM Foundation will not purchase mobile phones for any university employee, but will reimburse for business calls made on them. Business calls must be identified on the paperwork submitted with the DISBURSEMENT REQUEST FORM. A completed CELLULAR PHONE USAGE FORM (*see Appendix page A-15*) must accompany the request.

CASH DISBURSEMENTS - FOREIGN NATIONALS

GUIDELINES RE PAYMENT:

Payment to foreign nationals (also known as "nonresident aliens"), whether it is for employment, honoraria, reimbursement of expenses, or some other university-related purpose, is subject to many requirements and restrictions and requires special documentation.

***** CONTACT THE USM FOUNDATION BUSINESS OFFICE *****
BEFORE PROMISING PAYMENT TO A FOREIGN NATIONAL

General Documents Required by U.S. Immigration:

The Immigration and Naturalization Service (INS) requires the USM Foundation to have copies of the following unexpired documents on file and available for inspection by an auditor when payment to a foreign national/nonresident alien is required for services/activities performed or reimbursement of expenses needs to be made:

- ☞ **Visa:** copy of the information page / picture page of the document (optional for Visa Waiver Countries and Canada)
- ☞ **I-94 Card:** copy of the front and back of the card or, in the case of Visa Waiver countries, a copy of the Passport page with the I-94 stamp.

ALERT! Generally the classification written on the Visa agrees with the I-94 entry status. If they differ, it is the I-94, not the Visa, that governs the admission of the foreign national and defines what kinds of income/reimbursement are allowed.

ALERT! Immigration generally staples the I-94 card to the US Visa upon entry to the U.S. and removes the I-94 card upon departure. Make sure you get a copy of the card before the foreign national departs, as the USM Foundation cannot process a payment to him/her without it.
- ☞ **Passport:** copy of the information page with picture
- ☞ **Form I-20:** (required if on F-1 Visa)
- ☞ **Form IAP66 / DS2019:** (required if on J-1 Visa)

ALERT! Prior written authorization signed by the "Responsible Officer" is required to authorize payment to the foreign national if he/she is sponsored by an institution/organization that is not part of the University System of Maryland.
- ☞ **"Notice of Approval" of H-1B petition:** (required if on H-B1)

***** OBTAIN ALL NEEDED DOCUMENTS *****
BEFORE THE FOREIGN VISITOR DEPARTS

★ **Visa types and Immigration entry – is the payment legal?**

A variety of Visa types are issued to foreign nationals. The classification types identified below are the ones seen and processed most frequently by the USM Foundation with regard to foreign nationals, who upon admission to the U.S., are associated with a USM institution:

a) **B-1 or B-2 entry status**

A nonresident alien with B-1 or B-2 entry status can generally receive reimbursement for travel expenses under “Accountable Plan” rules. Honoraria payments may be made, **under very specific circumstances.**

Prior to any payment being made, the USM Foundation must have on file a statement signed by the non-resident alien, which attests to their VISA classification status and any other circumstances which are required to validate their eligibility for payment. CONTACT THE USM FOUNDATION FOR THE REQUIRED FORM.

b) **F-1 entry status**

Persons with this entry status generally can be paid income **if** the F VISA is sponsored by the USM institution that is requesting the payment and **if** other required documentation is supplied to the USM Foundation.

c) **J-1 entry status**

Persons with this entry status generally can be paid income **if** the J VISA is sponsored by the USM institution that is requesting the payment and **if** other required documentation is supplied to the USM Foundation. If sponsored by an institution not part of USM, income may be paid, provided that prior written authorization from the “Responsible Officer” of their designated program had been secured.

★ **Taxation – is the payment taxable?**

The general rule for taxation of payments to non-resident aliens (except for business expense reimbursements) is to withhold 14% of scholarship payments and to withhold 30% of all other payments. These requirements apply to all compensation for independent personal services, such as honoraria to visiting lecturers, consultants and independent contractors.

Compensation for dependent personal services (employee/employer relationship) is taxed using the U.S. withholding rates.

☆ To receive the compensation/income payment on U.S. source income, the foreign national must already have (or obtain) a U.S. social security number or ITIN number, regardless of I-94 entry status.

☆ U.S. social security numbers are only provided if the foreign national is acting in the capacity of an employee.

☆ **The USM Foundation is a certified acceptance agent by the IRS for the issuance of ITIN numbers. Contact the USM Foundation well in advance for necessary documents to obtain an ITIN number, as it may take several weeks for the IRS to process the form.**

☆ To claim a tax treaty benefit a foreign national must already have (or obtain) a U.S. social security number or ITIN number, regardless of VISA status. Prizes and awards are not addressed by tax treaties and are therefore subject to the 30% federal withholding.

☆ The USM Foundation must prepare and file by 03/15 the IRS Form 1042-S that is required for foreign nationals who received either foreign source income (non-taxable) or U.S. source income (not

reimbursement), including income that was exempt under a U.S. tax treaty. A copy of the completed Form is provided to the foreign national.

*** Compensation for Independent Personal Services Rendered:**

Honorariums, consulting fees, independent contractor services, stipends, etc. are Independent Personal Services. Compensation to a foreign national for such services requires the following documents / information be provided:

- ☛ Copies of documents required by U.S. Immigration (identified above) must be on file with the USM Foundation;
- ☛ Copy of the letter/invitation/agreement from the campus department to the foreign national specifying what the payment is for;
- ☛ SS # or ITIN #.

If an individual does not possess a SS or ITIN #, the USM Foundation is able to coordinate issue of the ITIN # if requested to do so.

- The USM Foundation representative will fax a Form W-7 (application for Individual Taxpayer Identification Number) to the applicant to complete.
- Applicant returns the completed Form W-7, along with a certified (notarized) copy of his/her foreign passport and/or US Visa.
- The USM Foundation submits the Form W-7, with attachments and additional statement to the IRS.
- IRS returns the ITIN card with assigned number to the USM Foundation
- The USM Foundation copies and forwards the original to the applicant

NOTE: Plan ahead and allow sufficient time --- it can take up to 6 weeks to receive the ITIN

*** Reimbursements for qualified business expenses:**

To reimburse a foreign national for qualified business expenses, the following guidelines apply:

- ★ Copies of documents required by U.S. Immigration (identified above) must be on file with the USM Foundation
- ★ All original receipts must be submitted
- ★ Accountable Plan rules apply
- × No SS or ITIN # is needed
- × Not subject to IRS withholding

CASH DISBURSEMENTS - ALL UNDERGRADUATE AND GRADUATE STUDENTS

Payments to and for the benefit of students can be for scholarships, awards, employment-related, or for reimbursement of expenses. The USM Foundation includes a reference to IRS Publication 970 with each check that is sent directly to a student.

SCHOLARSHIPS:

Scholarships are payments made to assist in retaining students, with no benefit expected.

► Required information:

Required information regarding the recipient(s) which must accompany the DISBURSEMENT REQUEST FORM includes:

- ✓ Name
- ✓ SS #
- ✓ Academic year
- ✓ Award notification letter to the student or other official documentation such as the Financial Aid verification report.

► Taxability:

- ☆ Under *IRC Section 117*, scholarships for tuition, books and fees are not taxable. Any amount in excess of tuition, books and fees is taxable.
- ☆ Any payment given for services rendered, even if it is called a scholarship, is compensation and must be reported on a Form W-2.
- ☆ Scholarships that are not compensation or are not given to foreign nationals are not reportable. However, the student **must include the portion in excess of tuition, books and fees as income on his/her tax return.**

► Expenses reimbursement:

There are occasions when a student receives notice of a scholarship award after he/she has already paid some or all of the costs that are covered by the scholarship. In those circumstances, upon receipt of the required information and documentation to confirm the award, the USM Foundation can reimburse the student directly for those pre-paid expenses.

► Procedures for reimbursement:

Each institution has its own procedures for determining scholarship awards and coordinating the payments associated with those awards:

UMCP: USM Foundation checks are issued payable to the University. Information on scholarships must be communicated to the Office of Financial Aid (OFA). OFA provides the departments with reports confirming the award(s) made. A copy of the report is submitted to the USM Foundation with the Disbursement Request Form and provides the required information detailed above.

UMB: USM Foundation checks can be issued payable to the student directly or to the University. When requests are for payments directly to the student, the formal letter notifying the student of the award must accompany the Disbursement Request Form. In all other cases, required information regarding the recipient(s) must be included with the Disbursement Request Form.

UMBC: USM Foundation checks can be issued payable to the student directly, or to the University. Information on scholarships must be communicated to the Office of Financial Aid (OFA) using a five-part form they supply. One part of the form must be sent to OFA and one part must be submitted with the Disbursement Request Form.

UMES: USM Foundation checks can be issued payable to the student directly or to the University. Scholarships are coordinated through various departments at the University. Required information regarding the recipient(s) must accompany the Disbursement Request Form.

UMUC: USM Foundation checks can be issued payable to the student directly or to the University. Scholarships are coordinated through various departments at the University. Required information regarding the recipient(s) must accompany the Disbursement Request Form.

AWARDS:

Awards are designed to recognize achievement. Awards to recognize academic achievement may be paid directly to the student. An *IRS Form W-9* as well as the notification letter must accompany the Disbursement Request Form.

- ☆ Awards paid to students are considered taxable and are reportable on Form 1099 under *IRC Section 74*.

EMPLOYMENT RELATED PAYMENTS:

If a student is given funds for which he/she must work (i.e., teaching assistant), that student must be considered and processed as an employee.

Employment can either be handled through the University's payroll system, in which case the USM Foundation can reimburse the University from the appropriate account, OR employment can be arranged through the USM Foundation payroll system. (*See section on PAYROLL on page 45 for information on placing a person on the USM Foundation payroll.*)

- ☆ Any payment given for services rendered, even if it is called a scholarship, is compensation and must be reported on a Form W-2.

TRAVEL RELATED PAYMENTS:

Travel related payments to students fall into two categories:

- (1) when the student is representing the University, such as when the debate team travels;
- (2) when travel is for activities related to the student's academic program, such as when a student participates in a research trip.

For payments under category (1) the student is treated as an employee and any payment must comply with the "Accountable Plan" rules. These payments are not reportable as taxable income.

A payment under category (2) is considered a scholarship and is subject to the rules for scholarship payments. The payment may therefore be taxable to the recipient.

(*See IRS Publication 970, Tax Benefits for Education, for more information*)
<http://www.irs.gov/pub/irs-pdf/p970.pdf> or call 1-800-829-3676

PAYROLL

Control Objectives:

To ensure that payroll disbursements are made only upon proper authorization of management to bona fide employees, that payroll disbursements are properly recorded, and that related legal requirements (such as payroll taxes) are complied with.

Employee Categories:

All employees paid through the USM Foundation receive the same benefits --- they can be classified as a full-time or a part-time employee, exempt or non-exempt (exempt means they are entitled to overtime). Labor laws are specific as to what constitutes exempt so check with the USM Foundation payroll administrator to ascertain into which category the employee falls.

Employee Personnel Files:

► Required documents:

Before an employee can be paid, the following documents submitted by the department must be on file at the USM Foundation:

(1) Employment Data Form

(specifies employment status, salary and eligible benefit; identifies the department, account number employee supervisor, and person with signature authority)

(2) Signed form confirming the employee has received a copy of the USM Foundation personnel manual

(3) IRS Form W-4

(see additional tax information re Resident and Nonresident Aliens on page 47)

(4) IRS Form I-9

(5) Nonresident Aliens (also known as Foreign Nationals) require the following additional documents in their file at the USM Foundation for U.S. income tax purposes:

☞ Copy of their Visa with a valid I-94 card / stamp

☞ Copy of a valid passport

☞ Form I-20 **or** Form IAP 66 (whichever is applicable)

☞ Copy of Social Security card

☞ Completed *Substantial Presence Test*

(used to determine whether person is a Nonresident Alien or a Resident Alien for U.S. income tax purposes) The form is available through the USM Foundation payroll office.

► Employment Agreements:

An Employment Agreement may be included in the personnel file when and if an employee has been hired for a specific time period and the employer wants to document that arrangement for the record. In those cases, the person with signature authority should submit a letter to the USM Foundation that

documents the arrangement. The USM Foundation President will also sign the letter if the parties involved want the document to reflect the signatures of both the employer and the USM Foundation.

Procedure - General:

** The Payroll Administrator maintains the personnel files. He/she confirms that all required documents are completed and on file for each employee.

** Time Sheets

Original bi-weekly time sheets signed by immediate supervisor(s) must be submitted. This record is used to compute pay for hourly employees and maintain leave records for salaried employees.

Hourly employees will only be paid upon submission of a time sheet. The timesheet must be received by noon on the Monday after the pay period ends. If it is received late, payment will be deferred to the next pay period.

Salaried employees must submit a time sheet for every two week period.

** Annual Leave

The record of annual leave accrued and used by the employee is maintained by the USM Foundation Payroll Administrator, using information submitted on the bi-weekly time sheets. When an employee resigns or is terminated, accrued annual leave will be paid only to the extent that the information has been provided to the USM Foundation for its payroll records.

** Payroll Registers

Account administrators or supervisors receive a copy of the payroll register for their unit each pay period. The register should be reviewed promptly and any inaccuracies reported immediately to the USM Foundation Vice President for Finance.

Procedure – Payment of salary, taxes, etc.:

A separate bank account is maintained for payroll. Funds are transferred bi-weekly (corresponding to the pay date) before the checks and/or direct deposits are distributed.

** The Payroll Administrator maintains the employee records and prepares the payroll register, which is reviewed by the V P.

** The Accounting Clerk prints and distributes the checks.

** The V P transfers the funds and posts to the general ledger.

** The Senior Accountant performs the bank reconciliation.

** The Payroll Administrator calculates and remits tax payments, insurance premiums and other required assessments according to the schedule indicated below:

BI-WEEKLY	MONTHLY	QUARTERLY	ANNUALLY	ON REQUEST
<ul style="list-style-type: none">• Federal payroll taxes• Retirement plan deposits• SRA deposits• Parking fee withholding• State payroll taxes - MD	<ul style="list-style-type: none">• Health ins premiums• State payroll taxes - DC and VA	<ul style="list-style-type: none">• SUTA taxes• Form 941	<ul style="list-style-type: none">• Form W-2 (by 01/31 to the employee, by 2/28 to the govmt)• Form 5500	<ul style="list-style-type: none">• Flex Plan reimbursements

** The Payroll Administrator prepares the W-2 and Form 941 which is reviewed by the Vice President for Finance before filing and issuing.

Tax Information:

★ RESIDENT ALIENS:

For U.S. Income Tax purposes persons in this category are treated as U.S. citizens

★ NONRESIDENT ALIENS:

Specific tax rules and requirements apply, per Internal Revenue Code

☆ For U.S. income tax purposes, F-1, J-1, M-1 and Q-1 Visa holders who are classified as Nonresident Aliens are exempt from FICA and Medicare.

Form W-4

☆ For U. S. income tax purposes the law requires an additional federal withholding each pay period for all persons classified as Nonresident Aliens (currently \$15.30 per biweekly pay period, subject to change)

☆ Nonresident Aliens may never claim exemption from federal withholding and must complete Form W-4 as follows:

- Filing Status - Single (even if marital status is not single)
- Number of exemptions claimed must be 1 or 0
- Additional federal withholding must be shown

Note: State tax rules and requirements follow the federal guidelines.

LOANS / ADVANCES

As a 501(c)(3) organization, the USM Foundation may not make loans / advances, with or without interest, that would be used for the private inurement of any individual.

Loans through the USM Foundation are made only to students and only under bona fide loan programs wherein the funds were donated for that purpose.

NO OTHER LOANS WILL BE MADE

PURCHASES OF EQUIPMENT / FURNISHINGS

Control Objective:

To ensure that purchases of tangible property are appropriately safeguarded and properly recorded.

Assets purchased with USM Foundation funds must benefit the University and usually become University property when acquired. The USM Foundation reports all purchases to the appropriate USM University office so the item(s) can be inventoried.

THE USM FOUNDATION WILL NOT PAY FOR REPAIR OR MAINTENANCE TO EQUIPMENT OR FURNISHINGS THAT ARE NOT PHYSICALLY LOCATED ON UNIVERSITY PROPERTY.

Procedure:

- ** A completed and signed INVENTORY CONTROL FORM (*see Appendix page A-17*) must be submitted along with the DISBURSEMENT REQUEST FORM (*see Appendix page A-11*) for all equipment / furnishing purchases over \$1,000 and for all purchases of computers, regardless of the cost. No check will be issued without this document.
- ** Receipt of the INVENTORY CONTROL FORM is noted on the DISBURSEMENT REQUEST FORM.
- ** The INVENTORY CONTROL FORM is sent with a letter of transmittal to the appropriate USM institution inventory department, noting transfer of ownership to that USM institution.
- ** A copy of the form and transmittal letter is filed chronologically at the USM Foundation Business Office.

Note: There are occasional unique circumstances when ownership of equipment/furnishings is retained by the USM Foundation. In such cases the equipment is tagged by the USM Foundation, with insurance and maintenance provided under the USM Foundation policy. Equipment / furnishings owned by the USM Foundation is reviewed annually.

Call the USM Foundation Controller if you have questions or believe the circumstances that require your purchase of equipment/furnishings should be considered unique.

FIXED ASSETS

Control Objective:

To ensure that acquisition or disposal of fixed assets is properly authorized, and that those assets are adequately safeguarded and properly recorded.

Procedure:

**** Recording:**

➔ Purchased Assets:

Assets are recorded as an expense and transferred to University ownership.

➔ Contributed Assets:

- ✦ Fair Market Value: A contributed asset that will be used and not sold is recorded, using the fair market value as of the date of donation.
- ✦ Documentation: Supporting documentation for all assets contributed to the USM Foundation must be forwarded to the Vice President for Finance.

**** Disbursement Requests:**

Assets acquired with USM Foundation funds for the use of a constituent institution are subject to cash disbursement procedures.

EXCEPTION: When equipment to be purchased costs over \$25,000, quotes from at least 2 vendors should be obtained and submitted with the DISBURSEMENT REQUEST FORM. If only 1 price quote is submitted, an explanation as to why this is a sole source purchase must be provided.

**** Capitalization and Depreciation:**

Assets acquired by the USM Foundation for the purposes of conducting its business are capitalized and depreciated over the following number of years using the ½ year convention.

- Automobiles- 5 years
- Computers- 5 years
- Other equipment- 5 years

**** Review of Assets:**

- Assets are reviewed periodically by the USM Foundation Board.
- Insurance coverage related to assets is reviewed annually.
- Assets are appraised when determined appropriate.

**** Sale of Assets:**

When an asset is sold a gain or loss is recorded.

POLICIES

THE UNIVERSITY OF MARYLAND FOUNDATION, INC.

POLICY - ENDOWMENT SPENDING

The Endowment Spending Policy was established in order to preserve purchasing power of the assets, to protect against erosion of nominal principal, and to promote stability and predictability of annual budgeting.

1. The UMF spending policy represents an attempt to preserve the purchasing power of the fund's assets over time while providing a stable, predictable and growing stream of income to the Foundation's beneficiaries. In so doing, the policy seeks to ensure that your gift will be managed to serve equally, the interests of the present as well as future beneficiaries.
2. A base dollar amount of distribution equal to approximately 5.5% of market value was initially established, to be subsequently increased each year by the long-term rate of inflation expected by the University. This calculation is intended to provide stability and predictability to the UMF grant-making process.
3. In addition, a ceiling and a floor have been set in relation to the total market value in order to ensure that the amount distributed stays at what may be regarded as a prudent percentage of the fund's value, without being excessively sensitive to fluctuations in the market value of the UMF assets.

CALCULATIONS:**PRESENT:**

The spending rate effective July 1, 1988:

Based on 5.41% of the average quarterly market value of an endowment unit over a six-quarter moving average period.

	<u>Unit Value</u>
09/30/86	\$10.65
12/31/86	\$10.65
03/31/87	\$11.46
06/30/87	\$11.46
09/30/87	\$11.51
12/31/87	\$10.77

Average Unit Value = \$11.09

\$11.09 at 5.41% is \$.5999 per unit

The same quarters will be used for all academic years.

FUTURE:

Unless the limits described below apply, spending per endowment unit shall increase each fiscal year by 4.5% (expected long-term inflation rate)

1. If, following a substantial decline in market value and based on this calculation, the per share distribution will exceed 6% of the six-quarter average per share market value, the spending per unit for the fiscal year will be frozen at the prior year's level. In no case shall the per share distribution exceed 6.5% of the market value.
2. If, following a substantial increase in the market value and based on this calculation, the per share distribution will fall below 4.5% of the six-quarter average per share market value, the per share distribution is increased to 5.0% of the market value.
3. In the event of a protracted market decline leading to a loss of 40% or more of the portfolio in a two year period, the USM Foundation Investment Committee will review the spending policy, giving consideration to actual reduction in the amount of annual distribution.

**Approved by the Finance Committee
May 15, 1987**

- 05/24/96:** Updated to apply the formula to the prior twenty quarters average unit market value (in place of six quarters), as computed by the Fund custodian.
- 06/05/97:** Updated to start using the CPI as the inflation adjustment, with a minimum adjustment of 2.5% and a maximum adjustment of 5%.
- 09/29/03:** Updated to reduce the spending rate range from 4.5% - 6% to 4.5% - 5%. This change creates a 5% cap on the spending rate versus the previous 6% cap.

► TERMINOLOGY

POOLED FUND	Consolidation of all the UMF endowment funds for investment purposes.
MARKET VALUE	The current market price of a security, as indicated by the latest trade record. The value of the total fund includes receipts, disbursements, interest, dividends, realized gains or losses and unrealized gains or losses.
UNIT VALUE	The standard of measurement for the endowment fund. The value of one unit was established in 1985 at \$10.00. Current unit value is calculated by dividing the total market value by the number of outstanding units. New Funds and earnings deposited in the account purchase units. Therefore each fund owns a specific number of units. All disbursements are based on unit value.

► **CALCULATIONS FOR DETERMINING SPENDABLE INCOME**

- I. Determine the desired Spendable Income per unit based on a standard percentage increase (4.5%) over prior year's amount (see EXAMPLE below).

Multiply the previous year's Spendable Income amount per unit by 104.5%.

EXAMPLE: $\$.60 \times 1.045 = \$.62/\text{unit}$

- II. Determine allowed Spendable Income per unit based on fluctuations in market value per unit.

Obtain the market value per unit for the end of each of the twenty quarters preceding December 31. Average those twenty figures to derive the market value per unit. Multiply the average market value per unit, to determine the "floor" (4.5%), "ceiling" (6.0%), and "higher ceiling" (6.5%) amounts.

EXAMPLE: $(\$9,10,11,12,8,10) / 6 = \10 (average market value per unit).

$10 \times 4.5\% = \$.45$ Floor
 $10 \times 6.0\% = \$.60$ Ceiling
 $10 \times 6.5\% = \$.65$ Higher Ceiling

- A. Using the above scenario, the computed Spendable Income per unit (\$.62) is greater than the Ceiling; therefore the allowed Spendable Income would revert to the one used in the prior year.

- B. If the average market value per unit was \$20 rather than \$10, the Floor would be:

$\$20 \times 4.5\% = \$.90$ Floor

Given this scenario, the computed Spendable Income per unit (\$.62) is less than the Floor; therefore the allowed Spendable Income would increase to the Floor.

- C. If the market value per unit was \$11 rather than \$10, the Floor and Ceiling would be:

$\$11 \times 4.5\% = \$.49$ Floor
 $\$11 \times 6.0\% = \$.66$ Ceiling

Given this scenario, the computed Spendable Income per unit (\$.62) is between the Floor and the Ceiling; therefore the allowed Spendable Income would be the computed amount.

- D. If the market value per unit was \$5 rather than \$10, the Higher Ceiling would be:

$\$5 \times 6.5\% = \$.32$ Higher Ceiling

Given this scenario, the computed Spendable Income per unit is greater than the Higher Ceiling; therefore the allowed Spendable Income would be the Higher Ceiling amount.

The following summarizes the above:

	<u>Market Value per unit</u>	<u>Allowed Spendable Income per unit</u>
FAVORABLE MARKET	\$20	\$.90 Floor
	\$11	\$.62 Computed Amt
UNFAVORABLE MARKET	\$10	\$.60 Ceiling
	\$ 5	\$.32 Higher Ceiling

THE UNIVERSITY OF MARYLAND FOUNDATION, INC.

07/19/99

POLICY - INSTITUTIONAL ADVANCEMENT FUNDS

managed by The University of Maryland Foundation, Inc.

The University of Maryland Foundation, Inc. (UMF) manages a limited number of campus based accounts. These accounts are funded through unrestricted donations. Receipts and disbursements are under the stewardship of UMF. Disbursements require the signature of the appropriate President or his/her designee.

UMF possesses the fiduciary responsibility for the management of these funds. Therefore, UMF has established certain policies and procedures to assure that all funds are utilized for the enhancement of the educational purposes of the University System of Maryland. As UMF is organized for the benefit of the University System of Maryland, expenditures should conform to policies established by the University System of Maryland. In compliance with the Board of Regents' Policy, the Institutional Advancement Fund is subject to an annual audit and auditor's opinion.

A completed ACCOUNT AGREEMENT FORM must be on file for each account in the UMF Business Office. The form must be reviewed annually and updated as appropriate. The person responsible for monitoring the account and receiving reports must be so designated. In addition, persons (at least two) who have authority to request expenditures must be so identified and append their signatures to the Agreement.

All disbursements from this account must be requested using the UMF DISBURSEMENT REQUEST FORM. This form must be accompanied by the original documents supporting the expenditure, (i.e. invoices, charge receipts). In addition, an explanation of the purpose of the expenditure must be included in the appropriate section or the request will be rejected. The form must be signed by at least one of the authorized persons. However, if the funds are to be received directly by one of the authorized signers, the person certifying the disbursement and the person receiving the funds cannot be the same.

It is critical to include the purpose for the expenditure, as payment for certain expenses is not permissible or there are specific guidelines which must be followed.

Expenditures for the following purposes are not permitted:

- 1) Personal expenses, including those relating to families (includes baby-sitting), non-business related travel for the employee and spouse, automobile commuting and personal household costs. These expenses are considered by the IRS to be prohibited private inurement and would jeopardize UMF's 501(c)(3) status unless handled appropriately.
- 2) Payments for participation or intervention in any political campaign on behalf of or in opposition to any candidate for public office.
- 3) Loans or advances to related parties.

POLICY - Institutional Advancement Funds (continued)

Page 2

- 4) Purchase of products or services from anyone affiliated with UMF or the University System of Maryland that could create a conflict of interest or the appearance of conflict of interest.
- 5) Purchase of products or services from anyone related to the person certifying the disbursement.

The Vice President for Finance will review all disbursement requests from these accounts. UMF reserves the right to ask for additional documentation or deny the request, based on policies and regulations governing appropriate expenditures from UMF.

THE UNIVERSITY OF MARYLAND FOUNDATION, INC.

01/23/2004

POLICY - OFFICER'S TRAVEL AND ENTERTAINMENT EXPENDITURES

The following revised policy was approved by unanimous vote of the Executive Committee of The University of Maryland Foundation, Inc. at a meeting in executive session on January 23, 2004.

Background:

The University of Maryland Foundation, Inc. (UMF) provides a budget allowance for the President for business related expenses associated with the fulfillment of responsibilities for the University System of Maryland (USM) and the UMF. In addition, USM institution Presidents and Vice Presidents forward expense statements for similar purposes to UMF for payment.

- All travel and entertainment expenditures of the UMF President will be approved by either the UMF Chairman of the Board or the USM Chancellor.
- All travel and entertainment expenditures of the USM institution Presidents will be approved by the USM Chancellor.
- All travel and entertainment expenditures of the USM institution Vice Presidents who are officers of UMF will be approved by their respective Presidents.

All documentation submitted with the requests for travel and entertainment reimbursement must meet the requirements outlined in the UMF Policy and Procedure Manual.

THE UNIVERSITY OF MARYLAND FOUNDATION, INC.

07/01/94

POLICY - NEPOTISM**EMPLOYMENT OF MEMBERS OF THE SAME FAMILY (NEPOTISM)
FOR CLASSIFIED AND ADMINISTRATIVE PERSONNEL****I. Purpose and Applicability:**

To establish a policy for employees of The University of Maryland Foundation, Inc. (UMF) and/or for any individuals paid by UMF for services rendered, which permits members of the same family to be employed by or paid by UMF.

II. General:

Members of the same family are eligible for employment by UMF and/or for payment by UMF for services rendered. However, a supervisor or subordinate relationship shall not exist between family members, nor shall one member of a family assume for the other the role of advocate or judge with respect to conditions of employment or promotion or remuneration.

III. Definition of a Family Member:

For purposes of this policy, "family member" means spouse, children, parent of employee or spouse, brother or sister of employee or spouse, aunts and uncles of employee or spouse, nephews and nieces of employee or spouse, brother-in-law and sister-in-law of employee or spouse, sons-in-law and daughters-in-law of employee or spouse.

IV. Family members Recommended to Work for the Same Supervisor:

When members of the same family are recommended to work for the same supervisor, the arrangement shall be approved in advance by the President of UMF or his/her designee. No appointment of a family member may be made without such prior approval.

V. Development of a Supervisor or Subordinate Relationship after Employment:

If a supervisor or subordinate relationship between family members develops during employment or in a payment for services rendered arrangement, family members must notify UMF Payroll Administrator immediately. Upon such notification UMF must take action to ensure that the supervisor or subordinate relationship does not continue to exist. Such action may include transfer, reassignment or removal of one or more family members from the UMF payroll.

VI. This policy does not apply to appointments and promotions made, or to family relationships, which existed prior to the effective date of this policy.

THE UNIVERSITY OF MARYLAND FOUNDATION, INC.

POLICY – REAL ESTATE
FOR ACCEPTANCE OF REAL PROPERTY

- I. Real property may be accepted as a gift or acquired by other means agreed upon by The University of Maryland Foundation, Inc. (UMF) so long as it conforms to UMF policies for solicitations and contributions, and so long as it meets the following criteria and requirements:

A. System-related Property:

(Property that will be held and/or developed for the benefit of the University System of Maryland.)

All expenses that UMF incurs in holding such property shall be reimbursed according to the terms of an agreement with the System.

B. Investment Property:

(Property that will be held or developed in order to provide income to UMF.)

UMF may retain ownership of the land, and will participate in the profits of its development in conjunction with experienced private sector development companies. Proposals for the development of any investment property shall be approved by the Enterprise Committee and the Executive Committee before submission to the Board of Directors for final approval.

C. Other Property:

(Property that does not lend itself to profitable development or use by the System or UMF.)

Normally, the minimum value of real property UMF will accept, but neither uses or develops, shall be \$25,000, as based upon a current appraisal provided by the prospective donor at the time of the proffer of the property.

The minimum value of real property given to a charitable remainder unitrust shall be \$50,000, as based upon a current appraisal provided by the prospective donor at the time of the proffer of the gift.

Upon acceptance, UMF may either immediately place this property for sale or hold for future appreciation, at UMF's option.

UMF will generally not accept the following types of real property:

- time share units;
- distressed property (*property that would require UMF to make major repairs, or to provide for renovation or remodeling to be considered salable*); mortgaged property, (*except in the most exceptional of circumstances*);
- obsolete property (*property on which a zoning change or use has seriously and detrimentally affected the value of the property to such an extent that it can no longer be profitably used*);
- environmentally damaged property.

- II. UMF may contract for the provision of real estate services (e.g., real estate brokerage services) for its benefit, or for that of the System, if approved by the UMF Board of Directors.

THE UNIVERSITY OF MARYLAND FOUNDATION INC.

PROCEDURES – REAL ESTATE
FOR REAL PROPERTY GIFTS

1. Information required to evaluate a proposed real property gift:
 - a) Donor must indicate a clear donative intent when offering real property as a gift.
 - b) Donor must provide a current appraisal performed by a certified appraiser familiar with that type of property. (The appraisal should be done within 60 days of the date of the gift.) The appraiser should be informed that the appraisal will be used to determine the value of a gift for IRS purposes, and the appraisal must be conducted under those auspices. The latest copy of the tax assessment notice is not sufficient to determine the market value of the property. The IRS recently ruled that the donor may deduct the cost of the appraisal as an expense paid in connection with the determination of the donor's income tax liability.
 - c) Donor must provide a current title examination showing the proffered property is free and clear of liens, encumbrances, etc., and that it is not currently the subject of any litigation. The title report may also qualify as a deduction as an expense paid in connection with the determination of the donor's income tax liability. (The donor is encouraged to consult with his tax accountant to confirm this.) In addition, all real property taxes that are due for the year in which the property gift is given to UMF must be paid by the donor.
 - d) The property must meet the criteria of UMF Real Property Gift Acceptance Standards for current value and use.
 - e) A member of the UMF staff must be given an opportunity to inspect the proffered gift, and have an inspection, if it is determined to be necessary.
 - f) If UMF determines it is necessary, UMF may have an environmental assessment of the proposed gift performed prior to a decision to accept or refuse the gift. An environmental assessment must be performed prior to acceptance of any commercial property. The donor may or may not be requested to pay for, or assist in paying for, the assessment.
2. The Development Officer must explain these following requirements to the Donor, and must be sure that the Donor understands them, before the real property gift may be accepted by UMF:
 - a) The Internal Revenue Service requires the donor to fully relinquish custody and control over the property. Real property gifts must be placed under the control of and for the exclusive use of UMF in order to qualify for the charitable tax deduction.
 - b) The development officer working with the donor must carefully explain that UMF policy for real property gifts is to sell such gifts as soon as possible, except in the most exceptional circumstances.

Policies and Procedures for Real Property Gifts – (continued)

- c) If the donor claims the appraised price as his tax deduction and UMF sells the property for less during the first two years following the gift, the donor may be required to amend his tax return to reflect the lower purchase price. After the initial two years, the donor is not required to amend his tax return if the gifted property sells for less than the appraised price.

THESE POLICIES APPLY WHETHER THE PROFFERED REAL PROPERTY GIFT
IS AN OUTRIGHT GIFT OR IS A PLANNED GIFT.

PROCEDURES
ENDOWMENT MEMORANDUM OF UNDERSTANDING

UNIVERSITY SYSTEM OF MARYLAND FOUNDATION, INC.

PROCEDURES - ENDOWMENT MEMORANDUM OF UNDERSTANDING

Policy requires a signed Memorandum of Understanding (MOU) be on file for every endowment fund held by the University System of Maryland Foundation Inc. (USM Foundation).

OUTRIGHT GIFTS / PLANNED GIFTS

The USM Foundation Business Office is the office of record for MOUs representing endowment funds established by outright gifts.

- 1) The Development Officer or his/her designee at the appropriate institution coordinates production of a rough draft of the MOU (*see MOU SAMPLE format and MOU WORKSHEET on Appendix pages A-18 and A-22*)
Questions about the content detail/wording of the draft should be discussed with the USM Foundation. Calls or e-mails can be directed to the Assistant to the USM Foundation V P for Finance.
- 2) Revision suggestions and/or clarifications are gathered by circulating the draft to the donor and appropriate university officials, such as the Dean and faculty chair in the department or school designated as the recipient.
- 3) A copy of the draft must be sent to the USM Foundation for review and approval by the USM Foundation V P for Finance before a final copy is produced. If it is to be established through a Planned Gift, the USM Office of Planned Giving reviews the MOU.

A completed ACCOUNT AGREEMENT FORM, (*see Appendix page A-1*) must accompany the draft.

- 4) When all revisions to a draft have been approved, three (3) original copies of the final version of the MOU are produced and routed for signature to the donor, then to the institutional president and other designated institutional principles, and finally to the USM Foundation President.

Note: Since endowment funds represent sizeable gifts, good quality bond paper should be used for these final copies to symbolize the value of the gift and to enhance the appearance of the finished product.

- 5) The USM Foundation mounts the donor copy of the MOU in a burgundy cover once the documents have been signed by the USM Foundation President.

EXCEPTION: UMCP provides their own cover and will mount the donor copy themselves.

- 6) If a completed Account Agreement Form is on file at the USM Foundation, the signed MOUs are approved for release.

The USM Foundation will forward the donor copy and the copy for the institutional president to the appropriate Development Office for delivery. The third original is retained by the USM Foundation in a secure location, with a photocopy on file in the Business Office.

The Development Office may photocopy the signed document to provide copies for additional persons as appropriate.

- 7) **Planned Gift Endowments** remain inactive until such time as the defined terms of the gift are met. A completed ACCOUNT AGREEMENT FORM (*see Appendix page A-1*) must accompany notification to the USM Foundation when it is ready to be transitioned to an active account.

APPENDIX

