

PROCEDURE NUMBER: FINA 1.20 Procedure
SECTION: Administration and Finance
SUBJECT: Custodial Funds (Z funds)
DATE: April 1, 2024
REVISION: July 1, 2025
Procedure for: All Campuses
Authorized by: Mandy Kibler
Issued by: Administration and Finance – Controller’s Office

Procedure

The following procedure outlines the required steps to establish, maintain, monitor, and deactivate a custodial (Z) fund account. Refer to **FINA 1.20 – Custodial Funds (Z funds)** policy to determine the criteria needed to be classified as a custodial (Z) fund.

A. Establishing Z Fund Accounts

Organizations seeking to establish a Custodial fund must complete the [Chartfield Request Form](#) and [Custodial Fund Questionnaire Form](#), which the Controller’s Office will review on a case-by-case basis.

Agreements should contain complete information on the terms and conditions of the custodial relationship, including, but not limited to the following:

1. The business reason for the custodial fund.
2. The nature of activity that will be processed through the fund.
3. The legal/corporate status of the organization (e.g. 501(c)(3), corporation, etc.).
4. The Federal Tax ID number of the organization, if applicable.
5. The affiliation of the organization with the University.
6. The sponsoring University department.
7. The person(s) authorized to request expenditures from the fund.
8. The term of the custodial agreement.
9. The disposition of any remaining funds at the end of the agreement.

The Controller’s Office will review the request to determine if the use of a custodial fund account is appropriate and the University Controller or designee will approve.

- If the unit’s request for a custodial fund account is approved, the Controller’s Office will create the needed chartfields within the financial systems of the

University and will notify the parties when the account has been established.

- If the Controller's Office determines that the activity does not meet custodial fund criteria, the Controller's Office will contact the requestor to discuss alternatives.

B. Use of Custodial Funds and Terms:

Once a custodial fund is established, the fund must be used in accordance with the following terms:

1. Amounts deposited in custodial funds are not considered tax-deductible gifts to the University.
2. Custodial fund expenditures are subject to sales tax unless the custodial fund administrator can provide documentation proving sales tax exemption.
3. As a general rule, custodial funds may not be over-expended. The custodial fund's administrator will be notified if there is a deficit. If the deficit balance has not been resolved within 30 days, an interest charge may be assessed on the deficit amount. This fee will be charged to the sponsoring University department. In addition, if the deficit is not resolved, the entire amount will be invoiced to the outside organization. The only exception to this rule is if the Controller's Office has approved for the custodial fund to operate on a reimbursement basis with the organization.

C. Accounting Principles for Revenues and Expenses:

Once a custodial fund is established, the following accounting principles must be followed:

1. Custodial transactions may use University established revenue and expense account codes for day-to-day transactions. However, because the custodial fund represents amounts held for external parties and activity that is not part of the University, revenues and expenses will not be included in the University's Statement of Revenues, Expenses, and Change in Net Position Statement.
2. The University's Statement of Net Position Financial Statement will report assets and liabilities for custodial funds using "Funds Held For Others" and "Funds Due From Others".

History of Revisions:

DATE OF REVISION	REASON FOR REVISION
April 1, 2024	New Procedure
July 1, 2025	Revised terminology from "Agency" to "Custodial" account and added History of Revisions section