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Policies & Procedures

2 Custodial Funds

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2.1 Policies for Managing Custodial Funds

To ensure compliance with GASB Statement 84, the term "**Agency Funds**" has now been changed to "**Custodial Funds**."

If a unit needs to act as a custodian to hold non-University of Illinois System funds for an external entity (called the "owner"), the unit may need to create a custodial fund. The chart below provides examples:

Fund Type	Nature of Owner/Activity	Typical Status of Fund Owner
9A	Payroll/benefit withholding, sales tax holding, financial aid, other clearing	Governments, charities, health care providers, pension funds
9D	Consortia, university-related organizations	Governments, not-for-profit and for-profit corporations
	Hosted conferences	Not-for-profit and for-profit corporations
	Athletic booster clubs	Not-for-profit corporations
	Academic associations	Unincorporated associations
	Study abroad students	Individuals
9G	Student organizations (includes some staff and similar organizations)	Not-for-profit corporations, unincorporated associations

Custodial Fund

between the
System and the
Owner of a
Custodial Fund

2.7 Return
Custodial Funds
to the Owner

A custodial fund is a fund held by the system in a purely custodial capacity as a fiscal agent for the owner of the money.

Money Held for Individuals

The system will not hold personal funds of individuals in a fund type 9D custodial fund, unless the individuals are students participating in a study abroad program as outlined in [22 Self-Supporting/Revenue Generating Activities—Account for Study Abroad and Unique Instructional Activities](#).

The system will hold funds on behalf of groups of individuals in fund type 9D custodial funds only when they have formalized their relationship through articles of association, bylaws, partnership agreements, or a similar document that establishes the group's decision-making protocol and defines the purpose of the group.

Groups of individuals within the system community (primarily faculty, staff, students, or their immediate families) must become either a registered organization or a registered student organization in order for the system to hold their money in a custodial fund. The system will administer the organization's money as a fund type 9G registered organization fund.

Owner

External entity for whom the system creates and manages a custodial fund.

Role of the University of Illinois System

The system acts as a fiscal agent to hold non-system funds for the owner. The custodial fund money is not owned by the system. Owner activities recorded in custodial funds must be consistent with the system's mission of instruction, research, public service, and economic development. If used in collaboration with system programs, custodial funds must record only the financial activity of the owner, not the system. Unless separately contracted, the system performs only these basic bookkeeping functions for owners:

- Deposits money in a system bank account
- Maintains a record of transactions and balances in the Banner general ledger system
- Processes cash receipts, disbursements, and journal entries as directed by the owner
- Reports transactions and balances to the fund owner
- Issues an IRS Form 1099 for disbursements to external parties paid from the custodial fund as required by the IRS. The system is not responsible for issuing 1099s to external parties from any other funds held by the owner.

- Reports to the IRS disbursements paid from the custodial fund to non-resident aliens

The system does not pay interest on money held in custodial funds. Additional services may be provided by the system in its discretion and pursuant to an agreement between the unit and the custodial fund owner. For additional information, contact UAFR at uas@uillinois.edu.

Inactive or abandoned balances in custodial funds will be treated as unclaimed property in compliance with State of Illinois requirements.

Role of a Unit

Before a custodial fund can be established, a system unit must agree to act as liaison between the system and the owner. As liaison, the unit may not assume liability or responsibility for the owner's actions on the part of the system. For additional information on the responsibilities of the unit, consult [2.4 Comply with Liaison Responsibilities for an Custodial Fund](#).

Role of the Owner

The owner is ultimately responsible for the management of the financial activity accounted for by the custodial fund. Owners must:

- Perform regular reconciliation of Banner monthly financial reports.
- When asked, provide copies of the reconciliation to the unit.
- Supply supporting documentation requested by the system to process transactions.
- Maintain a positive cash balance.
- File required sales and other tax returns not prepared by the system.
- Maintain organizational documentation, such as income and sales tax exempt status.
- Ensure the organization does not implicitly or explicitly represent itself as a part of the system in publications, through logo use, through use of the system's tax-exempt status, etc.
- Sign an agreement indicating they understand their responsibilities and agree to follow the system's terms for holding money as an agent.

Termination of a Custodial Fund Relationship

The system may terminate the custodial fund relationship at any time.

Resolution of Overdrafts

The system may bill the owner for overdrafts. Owners who repeatedly incur or fail to resolve overdrafts may have their custodial fund relationship with the system terminated.

Fees and Penalties

The system may charge owners for system services provided, overdrafts incurred, or otherwise violating terms and conditions of the custodial fund relationship.

Related Policies and Procedures

- [2.2 Determine the Need for a Custodial Fund](#)
- [2.3 Request Approval for a Custodial Fund](#)
- [2.4 Comply with Liaison Responsibilities for a Custodial Fund](#)
- [10 Obtain Approval as a Cash Handling Unit](#)
- [22 Self-Supporting/Revenue Generating Activities—Account for Study Abroad and Unique Instructional Activities](#)

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