

MEDICAL COLLEGE OF GEORGIA FOUNDATION (MCGF), INC.

USER MANUAL

1.0 MEDICAL COLLEGE OF GEORGIA FOUNDATION, INC./INTRODUCTION

The Medical College of Georgia Foundation, Inc. was founded October 19, 1954, as a non-profit corporation separate from the Medical College of Georgia. The Foundation is an independent tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC). It is not a "private foundation" as defined under IRC Section 509(a), and gifts are deductible under IRC Section 170(b). Contributions from generous alumni and friends are used entirely for the purpose specified by the donor in support of the Medical College of Georgia and MCG Health, Inc., its students, faculty, and staff and patients.

Because of its mission to support the activity of the Medical College of Georgia and MCG Health, Inc. which is a recognized tax exempt purpose, the Foundation is considered a public charity. It, thus, qualifies under the above IRC sections 509(a)(1) and 170(b)(1)(A)(iv). An essential element in attaining and retaining any tax-exempt status is that no part of the organization's assets be used for anything other than tax exempt purposes. The use of Foundation assets to benefit an individual in a personal manner is prohibited. It would jeopardize the Foundation's tax-exempt status and breach its fiduciary responsibility to donors to use contributed assets in any other way. The loss of its 501(c)(3) status would diminish the Foundation's ability to accept new funds and would greatly reduce the amount of funds available to distribute for University/Health System purposes.

This *Handbook* supersedes the Foundation's previous *Policies*. As tax requirements and their applicability to the Foundation change from time to time, the *Handbook* will be updated. The *Handbook* and templates for each form referenced are also accessible electronically in the *Policy and Procedure – Handbook* link in the Foundation's Web Page. Please do not consider the *Handbook* to be authoritative legal or tax information for your personal tax situation. For this, you should consult your own advisors.

The Foundation also manages funds for 501(c)(3) entities that are controlled or directly related to the university, such as for the Alumni Associations and medical practices, etc. Any references in this *Handbook* to the Medical College of Georgia or MCG Health, Inc, including any tax reporting responsibility, generally apply to related entities as well.

The Foundation is not exempt from paying sales tax on items or services purchased in Georgia that are related to its mission of supporting the Medical College of Georgia and MCG Health, Inc.

We ask your help to ensure that the use of Foundation funds is for the best benefit possible for the Medical College of Georgia and MCG Health, Inc. When you are considering a purchase that may be questionable in this regard, please feel free to contact our staff for guidance **before you commit Foundation funds**. The Accounting Department of the Foundation was established to assist with these types of inquiries, but feel free to contact any of the Foundation staff listed in Section 7.0 of this *Handbook*.

The Foundation exists to support work that you and your colleagues perform, so your recommendations about use, as an informed Fund Account Representative, are very important to us. It is, however, the responsibility of the Foundation to ensure that our disbursements comply with tax requirements and that they achieve donor intent.

As you read through this *Handbook*, you will notice that the following three (3) issues are pervasive:

- Use of Foundation funds for the exclusive benefit of the Medical College of Georgia and MCG Health, Inc;
- Funds are to be used as intended by our donors;
- Procedures are established to effectively and accurately comply with tax requirements.

If these three objectives can be followed and sufficiently documented, resources contributed by generous donors will be used as effectively as possible. We hope the remaining sections of this manual (that explain how to achieve these objectives) will be helpful to you. We appreciate your assistance.

2.0 FUND TYPES AND FUND ADMINISTRATION

Foundation records are maintained in accordance with the principles and practices of "fund accounting". Each fund account (or "fund") is a separate accounting entity; however, funds may be grouped together for accounting, investing, and reporting purposes.

Foundation gifts that cannot be deposited into an existing fund in the Medical College of Georgia Foundation, Inc. are generally used to establish a new fund. In order to ensure compliance with donor restrictions on uses of their gifts, the Foundation maintains over 900 separate funds. Each restricted fund is assigned an Account Administrator and a Chairman, Dean, or Vice President in the department, university, or unit. The Account Administrator, in conjunction with his or her supervising Chairman, Dean, or Vice President is responsible for disbursing monies consistent with the purpose intended by the donor.

A new fund in the Foundation may be established for any purpose within the Foundation's mandate to further the mission of the Medical College of Georgia and its affiliates. Each new fund requires a fund agreement and the type of agreement depends on the purpose of the fund. There are two primary types of funds at the Foundation, endowed (\$10,000 minimum) and non-endowed (\$2,500 minimum).

1. Endowed Funds – The purpose of an endowed fund is to continue in perpetuity. The contribution (principal) in an endowed fund cannot be disbursed. The income, however, (as determined by the Foundation Board of Directors – 3.6% of a three-year running average) is transferred annually to a non-endowed fund, which then becomes available for current or future use.
2. Non-endowed Funds – The purpose of a non-endowed fund allows the spending of current contributions. There is no income associated with non-endowed funds and no distinction between principal and income. Provisions of the agreement stipulate who is authorized to approve expenditures.

Fund account numbers are assigned at the time of new fund establishment. Fund account numbers are used to track contributions in the donor giving system and to designate future contributions. Fund account numbers are assigned to track earnings, contributions, gains or losses, other income, transfers, and expenditures.

New agreements are routed to the Foundation President/CEO for signature and if applicable, the donor then signs the agreement. Afterwards, they are signed by the Medical College of Georgia Foundation, Inc. Board Chairman.

Fund accounts are invested under guidelines established by the Foundation Investment Committee in professionally managed investment pools maintained by the Foundation.

A new endowment must grow by eight percent before distributions can be made. Distributions from the endowment are made during the first month of the fiscal year (July). The distribution calculation is the past three year average, including the current fiscal year end, times 3.6%.

Financial information about specific fund accounts is made available only to donors, to those persons serving as University/Health System representatives for the subject fund account and to persons who are legally entitled to receive information, such as federal or state auditors. This helps to ensure the effectiveness of donor gifts by providing incremental resources, over and above the required State funding and to encourage excellence in the Medical College of Georgia/MCG Health, Inc programs that donors wish to support.

Fund Balance and Transaction Statements are available on the COOL system monthly. Special requests for reports may be produced approximately (5) five days after receipt of the request. It is important for appropriate university faculty and staff to review these reports to ensure the accuracy of the transactions.

Whenever special bank service charges are incurred (other than traditional check processing services), such as wire transfers, stop payments, or credit card processing fees, the fees will be charged to the associated fund account.

Donors contribute resources to the Foundation to help the Medical College of Georgia and MCG Health, Inc. achieve its goals in education, research, and patient service. An obvious, but critical, element in the success of this system is the *expenditure* of the contributed resources. Although a significant majority of Foundation expendable resources are sufficiently used for the exact purpose specified by the donor, some funds may be under-utilized, or may even become dormant (dormant is defined as no activity for two years). In such cases, the Foundation may contact the donor and/or university/health system representative for the fund account to determine appropriate alternative steps to ensure the use of the fund as expected by the donor.

A Note About Scholarship Funds

The need for scholarship resources is so great that scholarship funds are very high-profile funds. Special attention is focused to ensure that these funds are used as effectively as possible. Although the Office of Student Financial Aid technically serves as Fund Account Representative for nearly all endowment scholarship funds, persons responsible for the selection of scholarship recipients at the school, division, or department level should also be proactive in contacting the Foundation whenever a scholarship fund is too restrictive to be effectively used.

3.0 **FUND ACCOUNT REPRESENTATIVES**

Overview/Identification Process

The Foundation formally identifies appropriate University employees who are authorized to recommend disbursements from Foundation funds. These persons are referred to as Fund Account Representatives. This responsibility is usually assigned through discussions with the appropriate Foundation staff and the President, Vice President, Chairman, or Dean. Generally, the Fund Account Representative should be an active employee of the University (defined as being on the University payroll as a full-time employee).

Foundation philosophy in identifying the Fund Account Representative is to assign this responsibility to the faculty member or professional (unclassified) staff member who is closest to the specific work to be supported from the gift and who is also responsible for the entire unit that could reasonably benefit from the gift. For example, a department chair would likely be identified as the Fund Account Representative for a fund to benefit a specific department, and a dean would probably be identified as the representative for a fund to benefit a school.

When it is no longer appropriate for a person to serve as a Fund Account Representative, such as in the case of a retiring department chair, the retiring Fund Account Representative should complete a change in signatory form (**link to form**) and submit it to the Foundation Accounting Department.

Responsibilities/Requirements

The most important responsibility of the Fund Account Representative is to submit expenditure requests for their related Foundation fund that are consistent with the donor's intent for use of the fund and that benefits the Medical College of Georgia and MCG Health, Inc. as best they can. In order to fulfill this responsibility, Fund Account Representatives should be knowledgeable of the purpose of the Foundation fund and familiar with Foundation policies and procedures outlined in this *Handbook*. Through its review procedures, the Foundation will assist Fund Account Representatives as best it can to appropriately utilize donor contributions. Fund Representatives, however, are encouraged to contact appropriate Foundation personnel whenever questions arise.

Although a significant majority of Foundation spendable resources are appropriately used for the exact purpose specified by the donor, there are occasional instances where Foundation funds are underutilized, or may have become dormant. Usually, there are valid reasons for such inactivity, such as temporary moratoriums on spending in order to save for the acquisition of an expensive capital item, or excessively restrictive donor guidelines, etc. The Foundation will review its funds from time to time to ensure that funds are being used satisfactorily as intended by the donor.

An individual who personally contributes more than one-third of the total contributions to a Foundation fund, or is responsible for directing more than one-third of the contributions to a fund, may not serve as the Fund Account Representative regardless of whether or not he/she otherwise meets the above requirements. Generally, the supervisor of this individual will serve in that capacity. In such a case, however, the business activities of the staff member/donor *may still be supported* from the fund.

When questions arise about the propriety of a requested transaction, Foundation staff may involve the requestor's supervisor or other appropriate Medical College of Georgia/MCG Health,

Inc. personnel, for the subject transaction only, as necessary to handle the question appropriately.

IRS Penalties

The Taxpayer Bill of Rights 2 law (<http://www.irs.gov/pub/irs-utl/doc7394.pdf>) provides for certain penalties that may be charged to "fund managers," as well as the 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 the Medical College of Georgia/MCG Health Inc. employees who recommend disbursement of endowment funds – the Fund Account Representatives – to be included within the definition of fund managers. The penalties can be severe. Additionally, payments that are reported on a 1099, but that the IRS later determines should have been taxed as a W-2 employee compensation to the recipient, cannot be reclassified as employee compensation to avoid the penalty.

Control Approval

Additional approval will be required when a reimbursement is requested for the Fund Account Representative of the Foundation fund that will bear the expense. For example, if the highest ranking individual in the unit is the person who has executed the expenditure then his supervisor must be the approving signature on the second line. Payments to third parties, such as when an airline or hotel bill is paid for the benefit of the Fund Account Representative to attend a conference/seminar, may also require the additional approval. This control approval will be the supervisor of the Fund Account Representative. The control approval person need not be a formal Fund Account Representative for the Foundation fund; the control signature is simply intended to indicate supervisory knowledge of the appropriateness of the expenditure activity. The Foundation will ensure the purpose of the expenditure request is within the designated purpose of the specific fund account and that there is sufficient cash in the fund account to cover the request. When a control approval is required, however, the Fund Account Representative must still also sign the request as a way for the Foundation to ensure communication with and approval of the Fund Account Representative.

Signatories on Check Request

All Foundation check requests require three signatures for approval. The first signature (Account Administrator) should be the individual responsible and knowledgeable about the disbursement, typically the person who made the expenditure and/or the department business manager. This verifies that the purchase occurred and who in the University/Health System actually received the items/service purchased. The second signature (Recommendation line) should be highest ranking individual of the unit requesting the disbursement. This individual is responsible for acknowledging and approving the transaction. These individuals must be the Chairpersons, Vice Presidents, Deans and the Presidents. Any exception to this policy must be approved by the President/CEO of the Foundation. It should be noted when the reimbursement specifically benefits The Chairpersons, Vice Presidents, Deans and the Presidents, the individual they report to should approve their check request. The third signature is the President/CEO of the Foundation.

4.0 **ADDITIONS TO FUNDS**

Contributions, Deposits, and Other Payments Received

The purpose of the Medical College of Georgia Foundation, Inc. is to encourage and administer **contributions and bequests** for the Medical College of Georgia and MCG Health, Inc., its students, faculty, patients and staff. The Foundation is responsible for providing appropriate documentation to substantiate donor tax-deductible contributions, usually in the form of a tax receipt, in accordance with IRS requirements.

Payments that are either too restrictive or have other "strings" attached by the donor, or payments in which the payor receives equal benefits back from the University, are generally not considered contributions. Such payments generally should not be deposited at the Foundation.

Payments to be Deposited in State Accounts

State statutes that govern the deposit of funds for the Medical College of Georgia/MCG Health, Inc. require that all payments for tuition, fees, and other charges must be deposited into State (University) accounts. Likewise, payments that represent a reimbursement or refund or refund of previously expended State funds also cannot be deposited at the Foundation.

Conferences that are hosted at the Medical College of Georgia, but are conducted on behalf of another institution, such as a professional society, should be processed through the Division of Continuing Education.

Government grants do not qualify for deposit with the Foundation. It is also generally not appropriate to deposit other grants and contracts with the Foundation where overhead is involved, where confidentiality is essential, and where human experimentation may be involved. Exceptions to these rules on accepting grants must be approved by the Foundation.

Quid Pro Quo Contributions

A *quid pro quo* contribution is a contribution where the donor receives a benefit from the University unit, or related entity, in response to making the contribution. An example of this situation is when a particular University unit organizes a concert, dinner, or other activity as a fundraising event. Typically, an admission fee is charged in these situations in excess of the actual value of the benefits received by the persons attending the event. In these cases, the amount of the payment received from the donor that exceeds the value of *the quid pro quo* benefit (meal/entertainment, etc.) provided to the donor should be considered a tax deductible contribution.

Quid pro quo contributions may be deposited into a Foundation fund as other income. Because the cost of the return benefit to the donor does not always equal the non-deductible portion of the payment/contribution, the university's development staff shall be involved to properly determine the tax-deductible (contribution) portion of the payment as differentiated from the non-deductible portion of the benefits received by the attendee/donor (i.e. ticket sales to events).

In order to ensure good donor relations, this disclosure of the tax-deductible/non-deductible components of the contribution should be provided to the prospective donor as part of the gift solicitation materials. Additionally, the University unit should then clearly specify the deductible

portion and the non-deductible portion on the *Gift/Deposit Transmittal Form*, ([link to form](#)) so the Foundation's receipt to the donor can properly comply with tax reporting requirements.

Payments where the payor receives an equal or larger benefit back from the University unit than the amounts paid are not tax-deductible contributions. Additionally, Foundation accounts should not be utilized for events that are not sanctioned by the Medical College of Georgia or MCG Health, Inc.

Pledges

A pledge is a donor's unconditional promise to give cash or other property to the Foundation at some time in the future. The donor should complete a Declaration of Gift Intent form ([link to form](#)) and the Development Office should deliver it to the Foundation Accounting Office.

A pledge must meet all of the following criteria in order to be recognized on the Foundation's General Ledger:

1. The pledge must include the donor's full name, address and phone number
2. The total amount of the pledge must be stated
3. The period over which the donor will make the gift must not exceed five (5) years from the date of the pledge, and this term must be stated in the pledge
4. The pledge must state the fund name and number
5. The pledge must be signed by the donor and dated
6. The pledge can only be fulfilled by the donor

Credit Card Contributions

VISA, MasterCard, American Express, and Discover credit card contribution payments are accepted at the Foundation. You must provide complete information about the credit card contribution transaction for it to be properly recorded.

To properly account for the cost of the credit card receipt program, the receiving fund will be charged its respective share of the monthly bank processing expense for all credit card transactions. Effective July 1, 2006, the expense rate averages approximately 3.0%. This fee will only be charged to funds actually having credit card receipt activity, and will be allocated based on the actual dollars received.

Contributions of Non-Cash Assets

The Foundation is also the appropriate entity to receive certain contributions of non-cash assets, such as securities and real estate. However, because of potential tax and administrative issues for these types of gifts, always encourage the prospective donor to discuss the gift with the appropriate Development Officer and Foundation staff members to ensure that the gift can be accepted as the intended by the donor.

Gifts of *tangible personal property*, such as works of art, books, scientific equipment, are *Gifts-in-Kind* and should be given to the University through the Foundation for use by the appropriate museum, library, university school or department. The donor may be able to claim an income tax charitable deduction for the full fair market value of the tangible property, as determined by a qualified appraisal, if the gift is given to the University in this way – for a use related to the University's educational mission. The Foundation, however, cannot provide tax advice and donors should consult with their own financial advisors about their specific situation. Foundation

staff members are also available to assist in the coordination of these gifts for the best possible benefit of the donor and the University. **(link to form)**

Gifts of *real property* (also called real estate) such as land, its natural resources, and any buildings should be counted at values placed by qualified independent appraisers (as required by the IRS for valuing non-cash contributions). **(link to form)** The Foundation has in place additional procedures that are required before real estate gifts can be accepted. You should consult with the Foundation when potential real estate gifts are proposed.

Gifts of *stocks and bonds* are valued as the average price between the highest and lowest quoted selling prices on the valuation date. Ordinarily, the date of the contribution of stocks and bonds is the date that the transfer of property takes place. **(link to form)**

All donors of non-cash gifts should consult with their personal financial advisor regarding the completion of IRS Form 8283, which requires filing for all non-cash gifts more than \$500. The Foundation requests that the donor provide a completed copy of Form 8283. If the donor is required to complete Section B, Foundation policy states that Parts I and III must be completed by the donor and the donor's appraiser before the Foundation office completes Part IV. The appraised value is used by the Foundation to establish the internal accounting value of the gift.

Life Income Gifts

Life income gifts include charitable remainder trusts (either annuity trust or unitrusts) in which the Foundation agrees to serve as Trustee of the trust, and charitable gift annuities. In a *charitable remainder trust*, an individual (the "Grantor" or "settler") transfers cash or other property to a trust either for a term of years or for the lives of named individuals. The trust is a legal arrangement that creates a fiduciary relationship in which the legal owner of the property, the trustee, holds and manages the property of the trust for the use and benefit of the noncharitable beneficiary during the term of the trust. The property (or the proceeds from the sale thereof) is invested by the trustee, and a specified amount in the trust is paid annually to the noncharitable life beneficiary (usually the grantor) for the term of the trust. At the end of the trust term, any amount remaining is distributed to the Foundation for the specific purpose outlined by the grantor either in the trust agreement or a separate gift agreement.

In a *gift annuity*, the donor transfers cash or other property to the Foundation in exchange for which the Foundation promises to pay to a noncharitable beneficiary (usually the donor) a fixed annual payment for life. In essence, the transfer is part charitable gift and part purchase of an annuity. In contrast to a charitable remainder trust, the Foundation takes immediate ownership of the donated property. At the end of the annuity agreement, any remaining funds belong to the Foundation for the purpose specified by the donor in the annuity agreement.

Acceptance, Processing, and Administration of Life Income Gifts

All life income gifts shall be administered by the office of the CEO/President of the Foundation. The Foundation shall maintain records concerning trust/annuity agreements, life income payment schedules and recipient, investment statements and tax documents. The donor and/or donor's advisor are responsible for submitting the life income gift agreement. The Foundation is responsible for establishing the trust/annuity account and continuing donor communications/relations, to include acknowledgement of the donor's gift and forwarding of life income checks and tax documents to life income recipients.

Prior to acceptance, the terms of all life income gifts must be reviewed by Foundation legal counsel and approved by the President/CEO of the Medical College of Georgia Foundation, Inc. Once approved, such gifts will be processed utilizing the following procedures.

1. All original gift documentation will be filed and retained in the Foundation office.
2. The Foundation will establish a trust/annuity account with a financial institution.
3. The Foundation will transfer the life income gift to the trust/annuity account.
4. Unless otherwise approved by the President/CEO of the Foundation, property other than cash will be liquidated and proceeds will be invested by the financial institution in Foundation-approved investments.
5. The Foundation shall ensure dissemination of checks and tax documents to the trust/annuity life income recipients.
6. As trustee/issuer of the annuity, the Foundation will perform due diligence and adhere to its fiduciary responsibility in concert with the financial institution managing the trust/annuity accounts.
7. When a life income gift matures and in the case of a charitable remainder trust, proceeds are received, the President/CEO of the Foundation will ensure that the Foundation donor records system is updated to reflect the trust/annuity's maturation and receipt of proceeds.

Life Insurance Gifts

A donor may name the Medical College of Georgia Foundation, Inc. (MCGF) owner and beneficiary of an existing fully funded insurance policy or an insurance policy in which the donor pays premiums during the life of the policy. If the policy is not fully funded, additional premiums will be gifted to MCGF which, in turn, will submit premium payments to the insurance company. Instructions regarding the processing of gifts of life insurance follow:

1. Types of Life Insurance Accepted - MCGF accepts gifts of whole life and universal life insurance policies that meet the following criteria:
 - (a) The policy insures only the life of the donor and/or the donor's spouse
 - (b) If the policy is not paid up at the date of the gift, the policy and gift shall:
 - (1) Have a minimum face value of \$25,000.
 - (2) Have a premium payment schedule that is projected to not exceed five (5) years (enabling the institution to count all anticipated payments within a comprehensive campaign.)
 - (3) Include the donor's separate pledge agreement to pay MCGF any additional premiums that may be required as they become due.
2. Procedures – The following procedures apply to all gifts of life insurance:
 - (a) MCGF is irrevocably designated as owner and beneficiary of all policies.
 - (b) Each donor has the opportunity to designate how the death benefit from his/her policy is to be used by MCGF consistent with the needs of the Medical College of Georgia and MCG Health, Inc. These benefits may be unrestricted, restricted for a particular purpose, or directed to a new or existing endowment fund.
3. Administration – All insurance policy gifts are administered by MCGF. The Foundation maintains records concerning all donor policies, contribution schedules, total insurance in force, and donor designation of death benefits. MCGF is responsible for gift acknowledgements and pledge/premium reminders. MCGF is responsible for premium payments and will not pay a premium until the corresponding donation has been received from the donor.

4. Effective Date – This gifting policy is effective and supersedes all existing policies concerning gifts of life insurance.
5. Note – Prior to acceptance, all gifts of life insurance must be approved by the President/CEO of the Medical College of Georgia Foundation, Inc.

Other Contributions/Payments

Funds raised for the purchase of personal gifts should not be deposited at the Foundation, even if the provider does not intend the payment to qualify as a charitable contribution. It would be pointless to use the Foundation in this way since *disbursements* for personal items, such as baby/wedding gifts, or flowers, etc. clearly have no direct Medical College of Georgia/MCG Health, Inc. related purpose. These will not be paid. In contrast, funds raised to honor or memorialize individuals by the establishment of an endowment fund related to the MCG's mission, such as for a scholarship fund, are considered charitable contributions and are entirely appropriate for the Foundation to receive and administer.

An honorarium received by an MCG employee that is subsequently endorsed over to the Foundation is considered a charitable contribution from the individual who has the authority to redirect the honorarium. A contribution receipt will be provided to the employee donor. The honorarium remains taxable income to the MCG employee who redirects the payment to the Foundation.

Completion of the *Gift/Deposit Transmittal Form*

All funds to be deposited at the Foundation must be accompanied by a Foundation *Gift/Deposit Transmittal Form*. **(link to form)** For non-deductible deposits, the item(s) must be described in detail before the funds may be accepted or deposited to a Foundation account. Deposits of refund or expense reimbursements shall identify when (provide the date) the Foundation fund that is receiving the deposit had previously incurred the expense.

Quid pro quo contributions may be reported on one form by properly denoting the tax-deductible versus non-deductible elements of the payment on the form. When completing the form for *quid pro quo* contributions, please contact the Foundation accounting office to ensure that we understand your intent.

It is important for the Foundation to appropriately recognize our donors. Your help in completing the *Gift/Deposit Transmittal Form* as accurately as possible is an important first step in recording the value of their gift in the Foundation donor records system.

Fund Account Establishment Requirements

The purpose of new fund accounts must be to benefit the Medical College of Georgia and MCG Health, Inc., its students, faculty, patients, and staff. Any donor solicitations, regardless of whether a new endowment fund is established, must be coordinated with appropriate University Advancement and Foundation staff.

The minimum amount required to establish a separate fund account is \$10,000 for endowed funds and \$2,500 for expendable funds. The Foundation will accept a pledge for 5 years (\$2,000 per year) to establish an endowment. Recommended levels to establish a new fund account for a particular purpose, such as lectureships, professorships, chairs, etc., were established through

the Board of Regents. For more specific fundraising questions, please contact the Medical College of Georgia development staff. ([link to website](#))

New funds that commit the University to establish a new program will not be accepted by the Foundation without approval of the President/CEO of the Foundation and President of the Medical College of Georgia. Any receipts that appear to raise questions about the propriety of the Foundation's acceptance will be reviewed with Foundation staff and management, as appropriate, before acceptance.

Scholarship contributions for an individual that are specifically identified by a donor will usually not be accepted by the Foundation. These payments should be directed to the Medical College of Georgia Office of Student Financial Aid.

All new fund accounts must have written documentation (letter of gift, will, or other estate/trust documents, memoranda from appropriate staff, etc.) that clearly specifies donor/depositor intent for use of the funds and Foundation intent to accept management of the funds. The originating documentation will also identify the Medical College of Georgia representative responsible for recommending expenditures to the Foundation for approval and payment.

Fund Change

When funds are identified as being either underutilized or contain overly narrow donor guidelines, the Foundation will endeavor to broaden allowable use of the fund (either through direct communication with the donors, or perhaps by invoking alternate use provisions which are present in most fund establishment documentation.) The *Fund Change Request Form* ([link to form](#)) is available to initiate any fund change. If the major donors are not available, the Foundation Board of Directors may be required to vote on any significant change.

Forward

To ensure a uniform understanding of gifts, grants, and contracts, the following definitions are provided. Based on MCG/MCGF Affiliation Agreement all gifts should be received by the MCG Foundation. All contracts and grants should be received by the MCG Office of Grants and Contracts.

Gift – A gift is personal property (cash, securities, books, equipment) and real property provided by a donor without exception of tangible or economic (except tax) benefit. A gift to the foundation implies no responsibility to deliver to the donor a product, service, technical or scientific report, or intellectual property rights. Providing the donor a stewardship report or names of recipients of scholarships, awards, etc., or providing a summary of how the funds were expended does not necessarily prevent the contribution from being considered a gift. The donor may specify the use of the fund or it may be an unrestricted gift for use in meeting needs identified in a gift agreement between the foundation and donor.

Grant – In some cases, the terms “grants” and “gifts” are used synonymously and can be confusing. However, unlike a gift, a grant is normally a written agreement to carry out a specified project or “deliverable” and may entail a tangible product, usually a technical report. It is a legal instrument with administrative terms and conditions for the use of the funds and may include provisions for intellectual property, reporting and publication rights. A grant can be the result of a solicited or an unsolicited proposal from the institution and is subject to negotiation. A grant normally requires performance on the part of the University (faculty, staff, graduate

students). The grant may supplement original research and can be in instruction, extension, or other educational activities.

Contract – A contract is an agreement often subject to negotiation between the institution and the provider and is enforceable by law. An institution's responsibility under a contract normally involves the generation of some "deliverable" of a tangible product or service (such as a report of research or activity), may contain provisions for the exclusive or proprietary use of results by the donor, is subject to certain standards of performance on the part of the University, and carries a significant level of accountability. The contract would normally supplement original research activity, but could be in instruction, extension, or other educational activities.

5.0 **DISBURSEMENT ISSUES**

General

All disbursements from Foundation funds must: 1) provide a direct benefit to the Medical College of Georgia or MCG Health, Inc.; 2) be properly reported for tax purposes, as appropriate; and 3) be used in compliance within acceptable limitations of the donor. These issues must be considered when completing and paying every check request or transferring funds between Foundation accounts. The Foundation check/transfer request forms (**link to form**) will help comply with these requirements and must be submitted whenever a disbursement is requested. Please feel free to access these forms on the Foundation web page for completion, printing, and transmission (in paper form) to the Foundation.

Each field requested, question asked, and statement made on the check request form is important and must be completed before processing by the Foundation. It is vital for Fund Account Representatives to understand that their signatures serve as a certification of the propriety of the requested expenditure in furthering the mission of the Medical College of Georgia/MCG Health, Inc. to the best of their knowledge and belief.

IRS Accountable Plan Rules

The concept of an "accountable plan" was developed by the IRS to set forth rules that define legitimate expense reimbursements. The components of a qualified accountable plan require all expenditures to 1) have a bona fide business purpose; 2) be properly substantiated; and 3) be accounted for on a timely basis. These three elements are further explained in the following paragraphs, and are consistent throughout the rest of Section 5.0 of this *Handbook*.

The IRS requires that Foundation payments to or on behalf of the Medical College of Georgia or MCG Health, Inc. employees **that do not qualify as accountable plan payments be included in the employee's W-2 wages**. These non-accountable plan payments are essentially treated like compensation for services. The Foundation will not pay the check request if any of the three elements of an accountable plan are missing from the check request.

Documenting Business Purpose

The IRS may view a disbursement as providing a personal benefit if there is any doubt concerning business purpose. The importance of properly documenting the business purpose of the expenditure as proof of its propriety cannot be overstated. Even though in some cases the business purpose may be implied, it must be specifically documented to pass IRS scrutiny. This will be a continuing theme throughout the rest of Section 5.0.

Documenting the business purpose is usually not too burdensome (except for foreign or lengthy travel). For example, the purpose of computer software should include a statement that it is used solely for purposes of the Medical College of Georgia/MCG Health Inc. even though this may be implied by an invoice showing delivery to the Medical College of Georgia/MCG Health Inc. offices. Examples of documentation for other commonly encountered types of expenses are included in the following sections of this *Handbook*. The Table of Contents is helpful in locating the discussion about specific kinds of expenses.

Receipt Substantiation

The Foundation requires original itemized receipts and/or invoices to substantiate expenses.

Credit card statements and credit card signature receipts that show only total items purchased are not sufficiently detailed to provide adequate supporting documentation for a reimbursement request. Receipts that itemize credit card purchases are obtainable from the vendor and should always be attached to the check request. The Foundation does not reimburse for late charges.

Even in cases where a "ticketless" system is used in air travel or other travel methods, a receipt, the boarding pass, and confirmation statement, etc. noting the cost of the travel can be obtained from the carrier or travel agent and will be required for reimbursement.

Original Invoices Unavailable

Should only copies or carbons of original itemized invoice be available, the supporting documentation must be noted as "***certified as original, and has not nor will be reimbursed by any other source,***" and signed and dated by the Department Chair/Chief. There should be a notation as to why the original invoice is not available.

Lost Invoice/Receipts for Reimbursement

If an individual is being reimbursed for an expense, an ***itemized*** receipt is required. If the receipt has been lost, a signed memo must accompany the request certifying, "**The receipt cannot be found, no personal items are being reimbursed, and the reimbursement has not been submitted for payment to any other source**". In these instances, the payee must not be reimbursed for a sum larger than \$25.00 per receipt, without Foundation approval. If the lost receipt pertains to a meal, only per diem rates can be reimbursed.

Tip: Lost receipts on purchases with cash/checks can result in delay or rejection. To ensure timely reimbursement, use a credit card instead of cash or check. If checks are used provide a copy of the front and back for reimbursement. There is still documentation of the purchase, even with lost receipts.

Rush Requests

Requests for rush payments interrupt the plans and procedures established by the Foundation and **should be avoided whenever possible**. Payment requests must be planned in advance and presented to the Foundation within an allowable time frame for normal processing. Any rush payment request must include a memo from the responsible party with a justification describing why the payment is urgent. The Foundation will monitor departments with habitual rush requests that are due to a lack of planning. Please note that payments over \$500 require

Foundation staff to obtain additional signatures that may prevent speedy payment of a rush request.

The IRS generally allows persons to reconstruct certain records when the original documentation has been lost or destroyed through circumstances beyond the taxpayer's control. Examples of these situations are destruction by fire, flood, or earthquake. However, loss of records in the course of moving between offices or residences is specifically not the type of casualty that will excuse failure to substantiate expenses. Clearly, the IRS considers the substantiation of expenses to be extremely important. There may be cases where the Foundation will reimburse an employee for bona fide business expenses when receipts have been lost, but the reimbursement will generally be included as taxable compensation through the Medical College of Georgia and/or MCG Health, Inc. Payroll Office.

To be considered as being timely, the request for reimbursement of expenses must be provided to the Foundation within 60 days from the day in which the expense was incurred or the travel concluded.

Paying or reimbursing for "lavish" or "extravagant" expenses is unacceptable. These terms are used in IRC Section 162 and are repeatedly used in IRS documents, usually with a following statement that these expenses are non-deductible. At its sole discretion and as a tax-exempt organization, the Foundation will determine whether to pay/reimburse or to reduce payment requests for expenses that are unreasonable.

The Fund Account Representative, or formally authorized designee, must provide an original signature on the check request form as their certification of the appropriateness of the expenditure request. This is an important financial control feature to help protect the Foundation fund from unauthorized and potentially inappropriate uses that are unknown to the Fund Account Representative. Signature stamps, electronic signatures, or unauthorized persons signing for the Medical College of Georgia/MCG Health Inc. representative will not be accepted as evidence of the representative's approval.

It is also helpful to spell out the names of professional societies or other groups that may be referenced on check requests. Although the preparer may know the meaning of a particular acronym, Foundation staff may not have such knowledge and the payment may be delayed as the name and business relationship of the subject organization to the Medical College of Georgia/MCG Health, Inc. is confirmed. Please do not hesitate to contact Foundation staff in questionable situations before Foundation funds are disbursed.

Check requests received by Friday noon will be ready the following Friday and departments will be notified as soon as possible of any problems. If you have questions, please contact the Foundation prior to submitting any check request.

Employee vs. Independent Contractor Defined

The complex and ever-changing Internal Revenue Code and IRS rules, regulations, and procedures cause the distinction between employee status and independent contractor status to be difficult to determine and is often subjective in nature.

Payments for services provided by non-employees (independent contractors) are reported to the recipient on IRS Form 1099. Compensatory payments to employees are reported on a W-2 form that provide the IRS more assurance in receiving income tax payments through income taxes

withheld, FICA, Medicare tax payments, and compliance with funding requirements for employee benefit plans, like retirement plans.

As a practical matter, completion of a W-9 and the MCG *Contractual Services* (www.mcg.edu/comptroller/SARForm.pdf) form will normally provide the required documentation to make this determination. It must be included whenever services are being provided and the payment is for an individual or a non-incorporated entity, such as a sole proprietorship or a partnership. Omission of *the Contractual Services* form in these cases will delay check processing.

The IRS considers payments to a Medical College of Georgia/MCG Health, Inc. employee for services to be W-2 taxable wages. As such, payments to employees should be processed by the Payroll Office and the Foundation will reimburse the Medical College of Georgia/MCG Health, Inc. for these expenses. If there is a question, please contact the Foundation.

Travel and subsistence expenses related to the work of an independent contractor, such as travel and meal expenses to bring a visiting lecturer to the campus/university, are generally not taxable to the recipient as long as the expenditures comply with accountable plan rules.

Awards to Employees

Awards to employees of the Medical College of Georgia/MCG Health, Inc. are considered employee compensation and must be included in the recipient's W-2. In order to ensure proper tax reporting, cash awards must be processed through the payroll system of the applicable entity that employs the award recipient. The Foundation will reimburse the paying organization for the award amount plus any associated payroll taxes and fringe benefits.

When an employee is eligible to receive a cash award that will be reimbursed by a Foundation fund, the department must contact the Controller who will instruct Financial Accounting to create a unique Project Number. After this account has been established, the department must complete the appropriate pay form that, in turn, is sent to the Payroll Office for approval and payment. The Medical College of Georgia/MCG Health, Inc. Payroll Office will include the cash award in a subsequent State payroll check to the specified employee and request reimbursement from the appropriate Foundation fund.

Student Awards

How an award is processed for a person who is both a student and an employee depends on the reason the person is receiving the payment. If the award is due solely to academic achievement as a student, then the payment is not considered compensation for services and can be paid directly by the Foundation. Academic awards, however, are taxable and reportable to the IRS if the total received by the student exceeds \$600 for the year (W-9 require even if less than \$600). If the award is associated with the individual's employment position, the payment is considered compensation for services and must be processed through the payroll system of the entity that employs the recipient. The substance of the transaction will determine the appropriate tax report.

Gifts to State Employees

The practice of offering "gifts" to employees is coming under increasing scrutiny from the State regarding ethics issues, and from the IRS regarding tax issues. Unfortunately, ethics rules governing such gifts have not always been clear or well understood, but the State has taken a

strict view regarding enforcement of the ethics law. (See Georgia statute O.C.G.A. 45-10.20. Code of Ethics for Government Service). Gifts from outside organizations, including the Foundation, fall under State ethics laws. State Ethics Commission guidelines for gifts to State employees provide for severe penalties to the employee (See website http://www.legis.state.ga.us/cgi-bin/gl_codes_detail.pl?code=45.10.28.) As a general rule, it is prohibited to accept or solicit gifts, discounts, loans, or other economic opportunities in connection with an employee's official position.

Additionally, whether permitted under Georgia ethics law or not, the IRS considers a gift to an employee to be an award or bonus that is generally taxable as discussed in the previous section, *Faculty and Staff Awards*.

Employee gifts, volunteer gifts, and gifts to others in the form of gift certificates in any dollar amount are considered a cash equivalent and will not be reimbursed by the Foundation. Because the Medical College of Georgia/MCG Health, Inc. have a policy disallowing gift certificates to employees, no Foundation funds may be used to pay or reimburse for gift certificates given to the Medical College of Georgia/MCG Health, Inc. employees.

None of the foregoing, however, precludes employees from taking up voluntary collections among themselves to purchase farewell or other gifts for fellow employees, including gift certificates. Supervisors are cautioned, however, that donations from subordinates, in terms of amount and the decision to contribute, should be truly voluntary. When questions arise about whether a payment represents a gift to a State employee, the Medical College of Georgia/MCG Health, Inc. General Counsel shall be consulted for guidance.

The Foundation does allow the purchase of flowers when it is intended as an expression of sympathy or a get well wish. As long as the amount is reasonable, Foundation funds may be utilized to send flowers as a memorial or a get well wish for an employee and his/her spouse, lineal descendants, adopted children, stepchildren, ancestors, siblings, and members of the immediate household of the employee. A \$75 limit is generally adequate to provide a thoughtful remembrance. In lieu of flowers, memorial contributions to other charitable entities are also acceptable in keeping with the above guidelines.

Because the Foundation is tax exempt under IRC 501(c)(3), it may use its funds only for its tax-exempt purpose of benefiting the Medical College of Georgia/MCG Health, Inc. If Foundation funds are used to provide a "personal benefit", both the Foundation and person authorizing the expenditures from the Foundation may be subject to sanctions from the Internal Revenue Service. Under the Internal Revenue Code and IRS regulations, Foundation funds cannot be used to purchase non-business meals or other personal gifts, such as those for Administrative Professionals Day, National Boss Day, new baby, baby and wedding showers, weddings, etc. These items provide a personal benefit to the recipient with very little benefit to the Medical College of Georgia/MCG Health, Inc, if any. As such, the expenditures are not made for a business purpose as defined by the Internal Revenue Code and IRS regulations and, consequently, will not be paid. However, this does not preclude the use of Foundation resources for bona fide staff meetings and luncheons in a public location (staff meetings, retreats, receptions and luncheons may not be held in a person's home) or for employee recognition awards as discussed above.

Payments to Others (Non-Employees)

If a cash payment (such as an honorarium) is provided to a non-employee, a W-9 is required. Regarding a visiting lecturer, a Form 1099 must be reported to the IRS.

Paying for personal gifts is clearly contrary to the mission of the Foundation and such requests will not be paid.

Employee Fringe Benefit Payments

Background

As a 501(c)(3) tax exempt organization, the tax law imposes limitations upon the types of payments that can be processed. Specifically, all payments must be related to the purpose for which the organization is incorporated. Payments by the Foundation must support the mission of the Medical College of Georgia/MCG Health, Inc. In addition, any payment of unreasonable compensation is prohibited.

Any payment to or on behalf of an employee of the Medical College of Georgia/MCG Health, Inc. must be included in the employee's W-2 wages unless such payment is made in accordance with the rules of an *accountable plan*. In order to be considered within the scope of an accountable plan, 1) the payment must have a business purpose; 2) the payment must be properly substantiated; and 3) the expense reimbursement must be accounted for on a timely basis.

Occasionally, payments could still be classified as taxable compensation to an individual even though such payments meet the criteria of an accountable plan. For example, a cash award to a faculty member clearly meets the above requirements, but still constitutes taxable wages to the recipient. When a payment confers personal benefit to an individual, such payment is considered to be a *fringe benefit*. As a general rule, any fringe benefit provided to an employee must be included in the employee's W-2 wages unless such benefit is specifically excluded by the tax laws. For example, reimbursable moving expenses that are not exempted under the tax laws must be included in the employee's W-2.

One excludable fringe benefit provided under tax laws is a "working condition fringe benefit". This clause excludes from an employee's income any fringe benefit that would be deductible by the employee as an ordinary and necessary business expense if the employee had paid for such an expense. In other words, there must be a valid business connection to the reimbursement. Examples of such expenses include mileage reimbursement and airfare for business trips, business meals, membership dues in a professional association, etc., even though there may be an element of personal benefit associated with these payments. Since the primary objective of the payment is connected to business and not personal gain, these types of payments are excludable from the employee's income.

An employee achievement award is an item of tangible personal property awarded to an employee because of length-of-service/retirement achievement or safety achievement. (Code Sec. 274(j)(3)). Tangible personal property does not include cash or any gift certificate other than a non-negotiable gift certificate conferring only the right to receive tangible personal property.

A length-of-service award will not qualify if given during an employee's first five years of employment or if a length-of-service award was given to the same employee during the same year or any of the earlier four years.

Safety achievement awards do not qualify if given to managerial, administrative, professional, or clerical employees, or if such awards previously have been given to more than 10% of other employees during the year.

Professional Liability Insurance - Insurance must be a condition of employment and the coverage must be limited to covering any potential liability accruing from job responsibilities related to the individual's employment with the Medical College of Georgia/MCG Health, Inc.

Club Dues - The Foundation will not pay dues for country clubs, airline travel clubs, or similar social club expenses. This policy does not apply to membership dues in professional associations and civic organizations such as the Chamber of Commerce, Rotary, Kiwanis, etc., provided there is a connection between the membership and member responsibilities for the Medical College of Georgia/MCG Health, Inc.. The Foundation will not pay additional contributions to members regarding civic and professional organization-related foundations.

Cell Phones – The Foundation follows the *University System of Georgia Policy*: <http://www.usg.edu/fiscal-affairs/bus-svcs/procedures/forms/telecom-policy.pdf>.

Meals – Reimbursement of employee meals may be considered taxable fringe benefits in certain circumstances. See the *Meals and Entertainment* and *Travel* for more details.

Other Mixed-Use Expenses – A common theme of examples listed in the previous paragraphs is that the items or services purchased can be used for personal use as well as business use. The process described for payment in each case is designed to comply with IRS rules that prohibit tax-exempt entities like the Foundation from providing a personal benefit to an individual employee, while still allowing the Foundation to effectively assist the Medical College of Georgia/MCG Health, Inc. activities on behalf of the Medical College of Georgia/MCG Health, Inc. When requests for other items or services that have the potential for personal use combined with business use are presented to the Foundation for payment, the Foundation will review facts and circumstances of the situation and obtain all of the information necessary from the requestor to make an appropriate payment determination. A statement from the requestor explaining the business portion of the expense is required to adequately support such payments from Foundation funds.

Meals and Entertainment Payments to Employees

General

Non-excessive employee reimbursements received under an *accountable plan* for meals and entertainment expenses incurred in the performance of employee duties for the Medical College of Georgia/MCG Health, Inc. generally need not be reported in the employee's taxable income. To be excluded from income, expenses must be necessary within the usual operation and mission of the Medical College of Georgia/MCG Health, Inc.'s and directly related to that mission.

Entertainment is generally defined to include attendance at restaurants, theaters, sporting events, etc., as well as the furnishing of food and beverages or hotel accommodations. Meals are defined as other persons joining the employee at the expense of the Foundation fund. Meals for employee travel are reimbursed per diem on the travel expense statement and are not considered entertainment.

In order to comply with the rules of an accountable plan, the payment must:

- 1) have a bona fide business purpose;
- 2) be sufficiently substantiated;
- 3) be accounted for on a timely basis.

The elements required to provide the legitimacy of entertainment expenditures are:

- 1) the amount of each separate expenditure;
- 2) the date of the activity;
- 3) the place and description of the entertainment, such as dinner or theater, if not apparent from the name of the establishment;
- 4) the business purpose of the expenditure (i.e., how the mission of the university is advanced by incurring the expense);
- 5) the name and title of other persons in attendance to support how the benefit required in number 4 above will be derived.

In general, business must be discussed during the meal or other activity and every person whose expense is paid for by the Foundation must have a business connection to the activity. Even though in some cases the business purpose is implied, it must be specifically documented to receive favorable tax treatment. The Foundation form is designed to assist Medical College of Georgia/MCG Health, Inc. employees meet IRS substantiation requirements (Attachment A) (**link to form**). The attachment, however, does not require a great deal of explanation. In many cases, a short description will suffice (e.g. discussed new research project, conducted departmental staff meeting to review goals, etc.) The Foundation will refuse payment for any meal or other entertainment expense for which the business purpose has not been **sufficiently documented on Attachment A**. In addition, the Foundation will refuse payment for any meal that is lavish or extravagant.

If business and non-business individuals are entertained at the same event, the Foundation will only reimburse for business persons at the event. If expenses for the business individual are not specifically identifiable, it is permissible to allocate the total bill on a pro rata basis for the business persons. Obviously, unique occasions such as paying for meals of family/guests of a new distinguished professor at the professor's inaugural lecture need not be allocated.

The business purpose for the meeting must not be incidental. To prove the expense is directly related to the mission of the Medical College of Georgia/MCG Health, Inc., an employee must be present at the business meal or other entertainment activity. Proper completion of an Attachment A form will guide the user through IRS rules to properly substantiate meals and entertainment expenses. A form like Attachment A is specifically required by the Foundation to reimburse these expenses and it is important for the requestor to document each element of a legitimate expense.

Spouses

The Foundation may reimburse meal or entertainment costs for an employee's spouse when there is a clear business purpose, rather than a personal or social purpose, for the spouse's attendance. For example, when a visiting lecturer travels to the University to make a presentation, University employees may wish to continue business discussions over a meal during the lecturer's stay on campus. As previously discussed, reimbursement for these meals is generally allowable. If the lecturer is accompanied by a spouse, the cost of the spouse's meal may also be reimbursed and it would be appropriate for the employee's spouse to join the meal as well. In this case, meal reimbursement for either spouse would not be included in taxable income for the employee.

Another commonly encountered situation for spousal expense reimbursement occurs during faculty/staff recruiting meetings. If the spouse of the person being recruited is attending a meal

meeting, it is appropriate for the spouse of the host employee of the Medical College of Georgia/MCG Health, Inc. to join the meeting and to qualify for reimbursement (assuming the expense is sufficiently documented and is reasonable in cost.)

It is generally not appropriate, however, for spouses to join in business meals or other entertainment activities when the other attendees of the function are all University employees.

Retreats

Faculty and staff retreats may be bona fide business activities, but reimbursement for spousal attendance or recreational and entertainment activities during the retreat are not allowable. To ensure that requested expenditures can be paid, please confirm the appropriateness of any plans for spousal involvement in retreats with Foundation Accounting staff before Foundation funds are committed.

Travel for University/Health System Employees

The Foundation follows The Medical College of Georgia guidelines and forms for travel reimbursement. The following is an explanation of rules and guidelines for employee travel.

Allowable Expenses

When an employee is traveling from his/her home campus on Medical College of Georgia/MCG Health, Inc. business, the Foundation can pay for costs associated with *subsistence* (e.g., per diem meals, lodging, and local transportation expenses) and *transportation* to and from the destination. Any other expense (e.g., seminar fees, copying business related materials, etc.) must have a documented business purpose in order to be reimbursed from Foundation accounts. For individuals on sabbatical leave, the Foundation will reimburse only the agreed expenses in the contractual arrangement between the traveler and the Medical College of Georgia/MCG Health, Inc. The Foundation will not pay for lavish or extravagant expenses, first-class travel, or trips or conferences aboard luxury cruise ships.

Mileage Reimbursements

Transportation costs include mileage reimbursements. When a University employee uses his/her car for travel on Medical College of Georgia/MCG Health, Inc. business, IRS regulations allow reimbursement to be based upon a standard mileage rate. Effective mileage for 2009 is \$0.55 cents per *allowable mile*. If the employee drives from his/her home directly to a business location that is not the employee's primary place of business, then the *allowable miles* are equal to the total actual miles driven minus the distance between the employee's residence and the employee's primary place of business (e.g., University office). Every mileage reimbursement request must be accompanied by a *Travel Expense Report* form (**link to form**) as a mileage log showing the date, point of origin and destination, miles driven, and business purpose for the trip. This form will help you provide information required by the IRS.

Allowable Travelers for Reimbursement

The Foundation can only pay the expenses for those individuals who have a valid business relationship for traveling. Costs for persons with no valid business relationship for traveling will not be reimbursed from Foundation funds. The Foundation will only pay for spousal travel when a bona fide business reason for the spouse to accompany the employee on the trip has been thoroughly documented. Since IRS rules on spousal travel are very restrictive, the amount of

documentation required to support the business purpose for the spouse will be substantially more than that required for just the employee. If a spouse accompanies an employee on a business trip, any incremental cost for the spouse will not be reimbursable unless there is a valid business purpose for the spouse's travel. To qualify as a valid business purpose, the spouse's business involvement must meet the tests in the Internal Revenue Code and regulations with respect to spousal travel. (For example, see IRS Publication 463[not a part of this *Handbook*]).

Business Purpose

The Foundation can only pay for trips that have a documented valid business purpose. Before any expenses can be reimbursed from Foundation funds, a complete description of the business purpose of the trip must be provided. If an individual is attending a conference, a copy of the conference brochure, along with a statement by the traveler that she/he has attended the event, must be submitted. For research trips, the traveler must submit documentation to validate the research nature of the trip. Examples of acceptable documentation for a research trip include correspondence with colleagues, a copy of a published article or a summary of a formal research proposal.

In some situations, appropriate documentation validating the business relationship of the trip may be difficult to obtain. When confronted with such circumstances, please contact us before the trip so that we can work with you in securing the needed documentation. In some cases, an inquiry to the traveler's supervisor may be needed to document the authenticity of the business nature of the trip in compliance with IRS guidelines. As such and in some circumstances, the Foundation must request that the traveler's supervisor confirm the business purpose of the trip. The intent of such an inquiry is limited solely to confirming the business requirement of the travel.

Personal days within a business will not necessarily defeat the business nature of the trip, provided that the overall purpose of the trip is business related. To ascertain the nature of a trip, each day must be classified as either business or personal. Days spent traveling to and from the destination where Medical College of Georgia/MCG Health, Inc. business will be conducted are business days. As a general rule, any non-travel day where at least four hours are spent on Medical College of Georgia/MCG Health, Inc. business is considered a business day. All other days are considered personal.

If the overall cost of a trip would be less if the traveler were to stay a day or two longer and travel on a cheaper flight (often the case on domestic travel with a Saturday night included), the Foundation can pay for the additional day's subsistence expenses (i.e., lodging, per diem, meals, rental car). Reimbursement of an additional day cannot exceed savings on the airfare. For this exception to apply, the traveler must provide the Foundation with documentation from a travel agency, obtained at the time the travel is ticketed, to verify that the savings from the reduced cost of airfare when including the extended day (as compared to traveling immediately before and after the business activity) exceeds the subsistence expenses incurred for the additional days. If this exception applies, these additional days will be considered business days for both calculations as to the length of the trip and the percentage of personal days to total days.

Seminars/Conferences That Do Not Meet at Least Four Hours Per Day

The IRS has questioned the appropriateness of certain expenditures for out-of-town seminars that continue for more than one day, but do not include full day meetings. For instance, this would not include meetings that meet for less than a full day on the first and/or last day, but otherwise meet full days. When a program does not meet for full days throughout its duration,

there may be an appearance of significant personal time in connection with the trip. In addition to normal documentation, reporting requirements for programs that do not meet for at least four hours each day will include additional detailed documentation to support the business purpose of the trip. For these days to be classified as business days, additional documentation should include a narrative during the time outside of the seminar and its relationship to furthering the purpose of the Medical College of Georgia/MCG Health, Inc.

In determining which travel expenses can be paid by the Foundation, trips are categorized into two types (foreign and domestic) and two time frames (seven days or less and eight days or more). Foreign travel constitutes international trips outside of the United States while domestic travel constitutes trips within the United States. The United States includes all fifty (50) states and excludes U.S. territories. If a trip is part domestic and part foreign, the entire trip will be considered a foreign trip in applying the travel expense rules.

Trip Duration of Seven Days or Less

When part of the trip includes personal days, IRS regulations state that traveling expenses are deductible by the taxpayer as business expenses when the trip is primarily business in nature. Further, if the trip is primarily personal in nature, traveling expenses are not deductible. Because of strict rules concerning IRC Sec. 501(c)(3) tax exempt status, the Foundation will interpret these regulations as follows: For both domestic and foreign travel where the trip lasts seven days or less, if the percentage of personal days to total days is less than 50%, all of the transportation costs to and from the destination can be paid by the Foundation. If the percentage of personal days to total days is equal to or greater than 50%, none of the transportation costs can be paid by the Foundation.

Regardless of the 50% rule for transportation expenses, the Foundation can pay the subsistence cost (i.e., lodging, meals, local transportation costs while at location) only for those days classified as business.

Trip Duration of Eight Days or More

When a trip lasts for eight or more days, a detailed itinerary of activities for each day must be submitted to properly substantiate the business nature of the trip. On a daily basis, the traveler should maintain a chronological listing of significant business related activities during each day and provide a description of the business reason and its relationship to the Medical College of Georgia/MCG Health, Inc. Any day that is not sufficiently documented with such an itinerary will be considered a personal day. The daily itinerary is required in addition to the standard business purpose description required for all trips. If the percentage of personal days total days is 25% or less, for both foreign and domestic travel, 100% of both the transportation and subsistence costs are reimbursable for the entire trip.

If the percentage of personal days to total days is between 25% and 50%, for both foreign and domestic travel, the subsistence expense reimbursement is limited to days classified as business while transportation expense reimbursement depends upon whether the trip is foreign or domestic. Transportation expense reimbursement for foreign travel is limited to a percentage based on business days to total days of the trip and transportation expense reimbursement for domestic travel is 100% reimbursable. If the percentage of personal days to total days is 50% or more, for both foreign and domestic travel, subsistence expense reimbursement is limited to those days classified as business and none of the transportation cost will be reimbursed.

Travel as a Form of Education

IRS regulations do not allow a business deduction for travel expenses when the travel itself is the education. Since these expenses are not deductible by the employee, these expenses cannot be paid from Foundation accounts. Tax literature pertaining to this subject, Internal Revenue Service Publication 970 for 2004, states the following:

“You cannot deduct the cost of travel as a form of education even if it is directly related to your duties in your work or business. Deductions may not be claimed for travel that is a form of education. Deductions for travel expenses that pertain to obtaining an education may be claimed. For example, travel deductions may not be claimed by a French teacher who travels to France in order to maintain a general familiarity with the French language and culture. However, if a scholar of French literature travels to Paris in order to do specific research, the travel expenses may be claimed as educational expenses, provided that the general requirements for deductibility are satisfied.”

“Approval of a travel program by an employer, or the fact that the travel is accepted by the employer in fulfillment of its requirements for retention of rate of compensation, status or employment, does not determine the existence of the required relationship between the travel involved and the duties of the individual in his particular position.”

“No deduction is allowed for the expenses of travel that would be deductible only on the basis that the travel itself constitutes a form of education.”

Payments to or for the Benefit of Students

Terminology

There are many names used at the Medical College of Georgia Foundation for payments to or for the benefit of students – scholarships, fellowships, awards, stipends, wages, and expense reimbursements. The IRS requires the provider of any of these payments to follow tax reporting and/or withholding rules based on the *reason for the payment*, regardless of the terminology used to describe it. Except for student loan payments, all Foundation payments to or for students can generally be categorized into one of the following two *tax* categories:

- Scholarships or other payments that are designed to assist in retaining students at the Medical College of Georgia and with no other benefit expected by the University (e.g., no employee relationship.)
- Awards and other payments that are designated to recognize a past academic achievement, are not based on any employment relationship to the University, and do not tie future studies of the recipient to the Medical College of Georgia.

Tax Background

Under Internal Revenue Code (IRC) Section 117, scholarships for tuition, books, and fees are not taxable. Any scholarship amount in excess of tuition, books, and fees (such as for room and board) are taxable. Any payment for services that benefit the University, regardless of whether it is called a scholarship, is considered employment compensation and must be included on the employee's form W-2. For example, even payments for tuition and books will be taxable if they are provided to compensate for research or teaching services. All scholarships that are unrelated to services performed, except those for non-resident aliens, are not reportable to the IRS

although the student must include the portion of the amount received in excess of tuition, books, and fees as taxable income.

In general, under IRC Section 74, prizes and awards are includable in gross income. These amounts are reportable on a form 1099. As such, all student awards are taxable and those amounts that exceed \$600 (when aggregated with other reportable payments) must be reported on a 1099. Please note that taxable awards may include payments made directly to a student or those made indirectly on a student's behalf (e.g., payments made to a bookstore for books purchased on behalf of a specific student).

Through Revenue Rulings, the Service has provided some guidance to assist in differentiating an academic award from a scholarship. The general rule is that a prize or award is primarily related to past activities of the recipient, while a scholarship is prospective in its objective to keep the student enrolled. However, a scholarship recipient may be based upon past academic performance. If a payment that advances a student's academic program has elements of both past activities and prospective activities, it is presumed to be a scholarship unless facts of the specific situation dictate that the payment is clearly a student award or compensation for services.

Payments for/to Students – Scholarships and Expense Reimbursements

To qualify as a scholarship payment, the student must be enrolled at the University at the time the payment is made. According to IRC Sec. 117(c), the definition of a qualifying scholarship excludes payments by the Foundation (even if for tuition, fees, and books) if the payment requires teaching, research or other services to be performed by the student as a condition for receiving the payment. These employment-related tuition payments are compensation and must be reported on the recipient employee's W-2.

Traditional scholarships for tuition, books, or fees are provided at the beginning of each semester. All traditional scholarships are administered through the Office of Student Financial Aid on the Medical College of Georgia campus. When a traditional scholarship is intended to be paid from Foundation funds, the Office of Student Financial Aid draws the scholarship amount from the applicable Foundation fund.

NOTE: As the person most knowledgeable of the student's specific situation, the Fund Account Representative must make a determination of the correct classification between a scholarship and award payment when the payment has elements of both scholarships and awards. Student award processing procedures are outlined below. Please note that if a student-related check request is submitted to the Foundation that has elements of both a scholarship and an award (but that clearly does not qualify as an accountable plan expense reimbursement or as employment-related compensation), the Foundation will presume the Fund Account Representative signing the check request has determined the payment to be a student award. Foundation staff will verify the appropriateness of paying a student award from the requested fund account, make the payment, and consider it to be a 1099 payment.

Payments to/for Students – Awards and Employment-Related Compensation

Award payments recognizing academic achievement are paid directly by the Foundation to the students and are considered taxable payments and reportable on IRS 1099 Forms. (Please note that award payments to non-resident aliens are exceptions to the rule. These payments should be submitted to Medical College of Georgia Payroll Office.)

If payment to the student is for services performed as an independent contractor, the *Contractual Services Form* should also be completed and submitted with the standard check request.

Equipment/Book/Furnishing Purchases

Assets purchased with Foundation funds must benefit the Medical College of Georgia/MCG Health, Inc. and become Medical College of Georgia/MCG Health, Inc. property when acquired. In order to help alleviate IRS concerns regarding any personal benefit being provided by Foundation funds, complete Attachment B (**link to form**). For the Medical College of Georgia and MCG Health, Inc., equipment purchased from \$1,000 to \$4,999.99 must be reported as small value equipment. \$5,000 and above must be reported as capital equipment to Kevin Doyle (MCG), Asset Management (721-4851) and Wendy Stephens (MCG Health, Inc.), Corporate Assets (721-9439). Please deliver one copy of Attachment B to Kevin Doyle and/or Wendy Stephens.

Due to the difficulty in controlling Medical College of Georgia assets, the Foundation will not accept expenditure requests for books or equipment that are not clearly delivered to a Medical College of Georgia/MCG Health, Inc. location. (Likewise, requests for repairs or maintenance of equipment not located at and billed to a Medical College of Georgia/MCG Health, Inc. location will not be paid.)

Retired Employees/Volunteers/Adjunct Faculty

As with all other types of expenditures, payments to or for the benefit of retired or emeritus employees must have a documented business purpose that benefits the Medical College of Georgia/MCG Health, Inc. The fact that these persons are no longer on the active payroll need not exclude supporting their activities as long as the activities directly benefit the Medical College of Georgia/MCG Health, Inc. and the Medical College of Georgia/MCG Health, Inc. benefit is sufficiently documented.

Generally, volunteers and adjunct faculty fall into the same category. Payments or reimbursements to support their work at the Medical College of Georgia/MCG Health, Inc. are entirely appropriate as long as these expenses provide a direct benefit to the Medical College of Georgia/MCG Health, Inc. and the value of the services provided exceeds the cost of the expenses being reimbursed.

From a tax standpoint, payments to retired or emeritus faculty, adjunct faculty, and volunteers that must be considered taxable will be reported as either an independent contractor (on Form 1099) or an employee (included in the Medical College of Georgia/MCG Health, Inc. payroll), depending on the fact of each payment. The *Contractual Services* form is required for payments to these persons to help Foundation staff determine the appropriate tax reporting process.

Loans to Faculty/Staff/Students

General

Providing personal loans to faculty and staff from Foundation funds is prohibited.

Student Loans

The Foundation operates a student loan program that offers resources designated by generous contributors for loan use. The program is not designed to provide enough resources to fully fund a student's educational experience at the Medical College of Georgia, but based on the level of loan activity, these funds do provide important assistance for students to continue their studies.

More information about the student loan program is available at the Foundation Accounting Office.

Payments Processed through the University/Health System to be Reimbursed by Foundation Funds

Medical College of Georgia and MCG Health, Inc. Employee Salaries Underwritten by Foundation Funds

It is permissible to use Foundation funds to support specific Medical College of Georgia/MCG Health, Inc. faculty or staff positions as long as this use is within Foundation fund guidelines, the use is approved by the appropriate Foundation Fund Account Representative, and appropriate Medical College of Georgia/MCG Health, Inc. staff members approve the employee position.

To initiate a Medical College of Georgia/MCG Health, Inc. employee salary being funded by a Foundation account, the appropriate State payroll form should be submitted to the Medical College of Georgia/MCG Health, Inc. Payroll Office with the Foundation fund account number noted. The Payroll Office will process a State payroll check to the specified employee and will request reimbursement from the appropriate Foundation fund. The Foundation will then reimburse the Medical College of Georgia/MCG Health, Inc.

After reimbursement has been made to the Medical College of Georgia/MCG Health, Inc., summarized payroll transactions in the Foundation fund account can be reviewed in the fund *Transaction Statement* that is available on "COOL" monthly.

Please note that the Foundation will not process reimbursement if the fund does not have sufficient resources or if the request does not fit Foundation fund guidelines. Should the Foundation be unable to reimburse the Medical College of Georgia/MCG Health, Inc., Foundation staff will notify appropriate campus administrators to resolve the situation.

Other Payments Underwritten by Endowment Funds

This section pertains to all payments (other than those related to payroll) that are to be ultimately underwritten by Foundation accounts, but that must be paid to the end recipient through state accounts before being reimbursed from the Foundation account. These payments are usually processed through the Medical College of Georgia/MCG Health, Inc. Central Accounting Office and charged (and ultimately reimbursed by the Foundation fund) to the Department's account.

In order to protect the specific Foundation fund account from unauthorized charges in reimbursing these types of expenses, yet process appropriate payments through the Medical College of Georgia/MCG Health, Inc. Central Accounting Office as expeditiously as possible, an invoice must be accompanied by a detailed Department PeopleSoft transaction log.

The purpose of the Foundation reimbursing the Medical College of Georgia/MCG Health, Inc., must still be consistent with the allowable use of Foundation funds as specified by the fund

donor, etc. Foundation staff will follow up with the Fund Account Representatives if there are any questions that may be required to ensure timely handling of the requested payment.

Payments to Non-Resident Aliens

There are several issues surrounding the taxability of payments to non-resident alien individuals that make the tax law in this area extremely complicated and confusing. The first issue to resolve is whether the payment is to or for the personal benefit of a non-resident alien individual.

The non-resident alien visa type is another important factor in the determination of what payments can be made to or on behalf of this person. To ensure that the payments you want to make are appropriate for the recipient's specific visa type, please contact the Medical College of Georgia Foundation Accounting Office before committing Foundation resources to benefit a non-resident alien person.

Payment requests from Foundation funds to or for the benefit of non-resident aliens should be processed through the Foundation, including reimbursement for approved travel or other substantiated business expense payments.

In certain situations, the type of visa held by the non-resident alien may override payment rules that would prevent either the Foundation or the Medical College of Georgia from making payments of any kind to the visa holder. It is imperative to communicate with the Foundation *before* committing resources to benefit non-resident alien persons in order to ensure that the payments can be paid as you wish.

For the record, the general tax rule for handling most payments to non-resident aliens, excluding the substantiated business expense reimbursement exception described in the preceding paragraph, is that the Foundation will withhold and report to the IRS *14% of taxable scholarship payments to students and 30% for all other payments*. These withholding requirements apply to all compensation for services, such as honoraria to visiting lecturers, etc. and payments to third parties. After discussion with Foundation tax counsel and appropriate Medical College of Georgia staff, the following alternatives are suggested to resolve this situation when negotiating with non-resident alien service providers.

1. Agree to increase the base payment to include a tax withholding amount at the appropriate rate, 30 or 14%, or
2. Inform the non-resident alien individual that all income payments, such as honoraria, etc. may be reduced by the 30% or 14% withholding requirement.

To be clear on the effect that these two tax withholding options may have on Foundation funds from which the services are paid, some non-resident alien individuals who have taxes withheld may be able to receive a refund of the withheld amount if they file a U.S. tax return. If this is the case and Option 1 to "gross up" the payments has been elected, the Foundation fund will be paying the bill for an expense that is recoverable by the non-resident alien when he/she files his/her tax return.

IRS Publication 519 U.S. Tax Guide for Aliens

This page is not available on-line. Please refer to the IRS website for a copy (<http://www.irs.gov/pub/irs-pdf/p519.pdf>).

Tuition Reimbursement Policy

The Medical College of Georgia's tuition reimbursement program is an accountable plan. An accountable plan provides the employer will not include the reimbursement on the employee's W-2 if the employee follows all IRS rules and regulations regarding the receipt of tuition reimbursement benefits. The MCG Foundation will provide the employee with a description of the documentation the employee must keep to comply with IRS rules and regulations.

Employees who work twenty (20) hours or more per week on an ongoing basis and have completed their probationary period may be eligible for tuition reimbursement. Resignation or termination of the employee automatically terminates their eligibility for education assistance benefits.

Education assistance will be give for courses offered by technical institutes, trade schools or accredited colleges or universities. The classes chosen must be related to the employee's development in their current position. Under this plan, an employee will be reimbursed a maximum of \$5,250 per year according to the IRS. **THE FOUNDATION DOES NOT PROVIDE FUNDING FOR TUITION REIMBURSEMENT.** Funding must come from existing funds that allow for such expenditure, not to include scholarship funds for MCG students.

Approval of reimbursement must be granted in advance of enrollment in the course. An employee should complete an application for tuition reimbursement and submit it to their Department Head. The Department Head must acknowledge 1) the education is required by MCG to keep your present position (salary, status or job) and serves a bona fide business purpose of MCG, or 2) the education maintains or improves skills needed in your present work. The Department Head will forward the application to the MCG Foundation.

Upon satisfactory completion of the course, the employee will submit reimbursement documentation including a receipt of payment and a certificate of participation or credit earned before reimbursement will be paid. Reimbursement will not be given when an employee has not satisfactorily completed a course or received a failing grade.

Qualifying Work-Related Education

Qualifying work-related education must meet at least one of the following two tests.

- The education is required by your employer or the law to keep your present salary, status, or job. The required education must serve a bona fide business purpose of your employer.
- The education maintains improves skills needed in you present work.

However, even of the education meets one or both of the above tests, it is not qualifying work-related education if it:

- Is needed to meet the minimum educational requirements of your present trade or business, or
- Is part of a program of study that will qualify you for a new trade or business.

Education Required by Employer or by Law

Once you have met the minimum educational requirements for your job, your employer or the law may require you to get more education. This additional education is qualifying work-related education if all three of the following requirements are met.

- salary, status, or job, It is required for you to keep your present
- your employer, and The requirement serves a business purpose of
- qualify you for a new trade or business. The education is not part of a program that will

Education to Meet Minimum Requirements

Education you need to meet the minimum educational requirement for your present trade or business is not qualifying work-related education. The minimum educational requirements are determined by:

- Laws and regulations
- Standards of your profession, trade, or business,
- and
- Your employer

Once you have met the minimum educational requirements that were in effect when you were hired, you do not have to meet any new minimum educational requirements. This means that if the minimum requirements change after you were hired, any education you need to meet the new requirements can be qualifying education.

MCG Foundtion, Inc. Accountable Plan

Any employee requesting tuition reimbursement must meet all three of the following rules:

- Your expenses must have a business connection, that is, your expenses must be deductible under the rules for qualifying work-related education explained earlier.
- You must adequately account to your supervisor and the Foundation for your expense within a reasonable period of time (no longer than 60 after end of semester).
- You must return any reimbursement in excess of the expenses accounted for within a reasonable period of time (this is not applicable since the Foundation reimburse only for paid tuition receipts after successful completion of a course).

6.0 FUND ACCOUNT FINANCIAL REPORTS

Reports of fund balances and transaction statements are provided monthly on the University's COOL system.

The *Fund Balance and Transaction Statement* provides the detail of all account transactions in a specific Foundation fund account within the selected date range. The following field definitions are listed below:

Specially requested reports may be expected to be produced approximately five (5) days after receipt of the request.

- 1) Balance Forward - This amount is the beginning balance for the Foundation fund and represents the balance brought forward from the end of the previous accounting period.
- 2) Interest and Dividends - This amount represents the interest and dividends on Foundation endowed funds. Interest and dividends are posted quarterly for the endowed funds.
- 3) Contributions - This amount represents contributions from donors received for a specific Foundation fund.
- 4) Other Income (I) - This amount represents income other than donor contributions.
- 5) Transfer In - This amount represents amounts transferred into the fund from other Foundation funds.
- 6) Transfer Out - This amount represents amounts transferred out of the fund to other Foundation funds.
- 7) Disbursements - This amount represents check requests presented for payment by the Account Representative for the Foundation fund.
- 8) Closing Balance - This is the closing balance in a Foundation fund.

Electronic Inquiry Instructions

Financial information about Foundation funds can be accessed electronically by Primary Fund Account Representatives and other persons authorized by the Primary Fund Account Representative. Through these inquiry capabilities, you will be able to access fund balance and transaction information that summarize activity for Foundation funds.

The benefit of electronic information is that you can access up-to-date information.

HOW TO REACH US

Medical College of Georgia Foundation, Inc.

Office Hours:	8:00 a.m. – 5:00 p.m.
Monday – Friday	
Mailing Address:	1021 15 th Street Suite 6 Augusta, Georgia 30901
Telephone:	706-823-5500 (Office of the President & CEO) 706-823-5508 (Accounting Department) 706-823-5506 (Accounting Department)
Fax Number:	706-828-3397 (Office of the President & CEO) 706-828-3109 (Accounting Office)
Website Address:	www.mcgfoundation.org

The Foundation office will be closed to observe the following holidays:

- New Years Day
- Martin Luther King Day
- Memorial Day
- Independence Day
- Labor Day
- Thanksgiving Day
- Friday after Thanksgiving
- Christmas Eve
- Christmas Day

WHO TO CONTACT

<u>NAME</u>	<u>TITLE</u>	<u>PHONE NUMBER</u>
James B. Osborne, Sr., Ed.D.	President & CEO	706-828-5500
Angie Lanier	Executive Assistant to the President & CEO	706-823-5502
Brian J. Nozolino, CPA	Chief Financial Officer	706-823-5504
Kathryn G. Warr, CPA	Controller	706-823-5506
Danyelee Gorka	Accountant	706-823-5508
Ian S. Mercier	Systems Analyst/Database Manager	706-823-5505

MEDICAL COLLEGE OF GEORGIA FOUNDATION ORGANIZATIONAL CHART

(This page is not available on line. Please refer to your hard copy in the *Handbook*)

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