

ADMINISTRATIVE DIVISION FINA Administration and Finance		POLICY NUMBER FINA 1.20
POLICY TITLE Custodial Funds (Z Funds)		
SCOPE OF POLICY USC System		DATE OF REVISION July 21, 2025
RESPONSIBLE OFFICER Executive Vice President for Administration and Finance and Chief Financial Officer		ADMINISTRATIVE OFFICE University Finance – Controller’s Office

PURPOSE

This policy establishes the guidelines and procedures for requesting and using custodial funds. The establishment of an agency fund on behalf of an entity must be evaluated to ensure proper treatment and accounting, as well as to facilitate effective stewardship of the funds for which the University has a fiduciary responsibility.

DEFINITIONS AND ACRONYMS

Custodial Funds (Z funds): Established to account for funds not owned by the University. The University acts as a custodian to receive, hold, and disburse resources for other recognized organizations that have an affiliation with the University. The University commonly refers to these as Z funds.

POLICY STATEMENT

The Controller’s Office will review all requests to establish Custodial or Z funds for appropriateness and discuss alternatives if the organization does not meet the necessary Z fund criteria as outlined in this policy and accompanying procedures. The Controller’s Office will perform reviews of all Z funds to ensure continued custodial (Z fund) treatment is prudent and appropriate.

A. CUSTODIAL FUND (Z FUND) CRITERIA:

For the University to agree to serve as a custodian for an organization, the following criteria are considered:

1. Is the fund being established for an outside entity with its own EIN?
2. Is the establishment of a custodial fund appropriate according to the reporting and accounting principles involved?
3. Are the terms of the agreement governing the custodial relationship acceptable?

The approval and establishment of a custodial fund does not:

1. Automatically entitle the organization to the use of University services,

2. Make the University liable for any of the custodial fund debts, liabilities, or actions, or
3. Allow the custodial fund to continue indefinitely.

Custodial status is contingent on adherence to University policies, contractual agreements, and applicable laws. The University has the right to inactivate a custodial fund at its discretion consistent with contractual agreements between the custodial fund, outside entities, and the University, after providing reasonable notice to the custodial fund administrator.

B. CUSTODIAL FUND GROUPS:

Based on the intended purposes for the funds received, custodial funds will typically belong in one of the following groups:

1. Outside Conferences

These funds are established on a temporary basis for professional organizations where University faculty or staff are members and conferences or workshops are sponsored by those faculty or staff groups. These accounts will be closed within three months of the end of the activity.

2. Activities between the University and Other Entities

These funds are held on behalf of closely related organization, such as University Foundations, meeting the University's custodial fund relationship criteria.

Custodial funds of this type must have an agreement that has been reviewed by General Counsel and kept on file with the Controller's Office.

Funds in these accounts will be distributed to or collected from the component units every three months.

C. FUND REVIEW:

It is imperative that custodial funds are reviewed because they must represent activity that is related but not fundamental to the University's primary mission. It is important to ensure that custodial funds are not associated with activities that are a normal and continuing part of the University's mission. Ongoing accountability and oversight for custodial funds are established to minimize the University's financial risk exposure. The following will be considered during the evaluation:

1. Any changes to the nature of activities and functions of the organization that may deem Custodial fund status as no longer appropriate.
2. Deficit balances that are not remedied timely.

3. Failure to adhere to University policy and procedures.
4. Inactive or zero-dollar fund balances of 18 months or longer.
5. The judgement of University administration that suspension or revocation is in the best interest of the University.

PROCEDURES

The procedure for this policy provides details on the administration and management of Custodial (Z) funds for the University. The procedure can be found here:

https://sc.edu/about/offices_and_divisions/controller/toolbox/policies_and_procedures/index.php

RELATED UNIVERSITY, STATE, AND FEDERAL POLICIES

[FINA 1.00 Chart of Accounts](#)

[FINA 2.12 Accounts Payable](#)

[FINA 2.14 Acquisition and Payment of Goods and Services](#)

HISTORY OF REVISIONS

DATE OF REVISION	REASON FOR REVISION
October 3, 2017	Policy creation
April 18, 2022	Policy updates and renumbering
September 20, 2024	Minor language updates
July 21, 2025	Revise terminology from Agency Fund to Custodial Fund