

**The Foundation is in the process of updating and improving the Campus Accounting Policy Manual. In the meantime, we want to provide some guidance in the areas that have caused confusion. We have looked at situations where there are recurring questions and used a number of examples in order to provide better explanation.**

**This “Frequently Asked Questions” document is not meant to replace the Policy and Procedures Manual, but as a “quick” reference tool. The accounting policy manual that was effective on July 1, 2008 continues to be in use.**

**The updated Campus accounting manual and new Forms are currently in the review process. We will be asking for input from Campus users to ensure that we are providing information that is understandable and improves efficiencies. Once the new manual and forms are finalized, they will replace the information that is available on the website.**

**You can provide any questions or comments directly to Christy Scott, KSU Foundation Compliance Officer, at [christys@found.ksu.edu](mailto:christys@found.ksu.edu) or 532-7567.**

## Frequently Asked Questions

**There are four basic criteria that determine the legitimate use of Foundation funds.**

- a. The use must be reasonable and benefit KSU.**
- b. The use must fall within the donor's intent for the gift.**
- c. The use must not jeopardize the Foundation's tax-exempt status.**
- d. The use must comply with all applicable statutes and regulations.**

**Q1. When can a spouse/partner's expenses associated with attendance at a KSU-sponsored function or travel be reimbursed from Foundation funds?**

**A1.** With regards to travel expenses the IRS states that if a spouse/partner, dependent or other individual goes with you on a business trip or to a business convention, you generally cannot deduct his or her travel expenses. Exceptions to this are if the "other person" is your employee or has a bona fide business purpose for the travel. A bona fide business purpose exists if you can prove a real business purpose for the individual's presence. Incidental services, such as typing notes or assisting in entertaining customers are not enough to make the expenses deductible. With regards to entertainment expenses the IRS further states..."You generally cannot deduct the cost of entertainment for your spouse/partner or the spouse/partner of a customer. However, you can deduct these costs if you can show that you had a clear business purpose, rather than a personal or social purpose, for providing the entertainment." There is not a single definition that determines "clear business purpose." You have to look at the "facts and circumstances" of each situation and determine whether a reasonable person would agree that a clear business purpose exists.

We will use the following examples for explanatory purposes:

**Example 1:** A member of the faculty entertains, at a business dinner, a donor and spouse/partner for philanthropic purposes. The IRS in section 1.274-2(4) specifically provides that it is reasonable and appropriate for the faculty member's spouse/partner to join the event. (Note: it is not required that the faculty member's spouse/partner join the meeting, but it is allowable). The entertainment expenses for all parties will be reimbursable.

**Example 2:** A member of the faculty entertains a donor, but not their spouse/partner, for philanthropic purposes. If the faculty member includes his/her spouse/partner at the event, the spouse/partner's expenses are **not** reimbursable because there was generally no business purpose for including the spouse/partner.

**Example 3:** The Dean, his/her spouse/partner (who is accompanying for personal reasons), and the Development Officer are traveling out of town for purposes of meeting with donors. A donor and spouse/partner are invited to attend a business dinner with the Dean, the Dean's spouse/partner and the Development Officer. In this situation the expenses related solely to the dinner may be reimbursed for the Dean's spouse/partner, because the donor's spouse/partner is included. However, if the facts are changed and at the last minute the Donor and spouse/partner are unable to make the dinner or only the Donor attends the meeting, the expenses associated with the Dean's spouse/partner cannot be reimbursed by the Foundation and should be paid for by the Dean.

**Example 4:** A member of the faculty is attending a business conference in Florida and his/her spouse/partner travels with the faculty member. The conference does not have any meetings where other attendees' spouse/partners are included. No expenses for the spouse/partner are reimbursable. With regards to the hotel expenses, you will be reimbursed at the Hotel's SINGLE

occupancy rate only. If the hotel does not have a SINGLE occupancy rate, you need to provide documentation to that effect from the hotel.

**Example 5:** A member of the faculty and an associate member of the faculty entertain a prospective employee and spouse/partner during the interview process. The entertainment expenses for all parties will be reimbursable.

**Example 6:** Whether or not a spouse/partner's expenses associated with attending a banquet are reimbursable depends upon the "facts and circumstances" surrounding the banquet and whether or not the spouse/partner's attendance provides a business purpose.

- The college is hosting a banquet to recognize their "honor scholars." The event is open to the general public including faculty members, students, parents, non-staff members, etc. In this circumstance, it is appropriate to include faculty spouse/partners and the Foundation would reimburse the cost of attendance.
- The college is hosting a banquet to recognize their "honor scholars." The event is open only to faculty members and students. In this circumstance, if a faculty member includes their spouse/partner it is **not** a reimbursable expense.
- The attendees to the banquet include visiting dignitaries and their spouse/partners or guests. The inclusion of faculty spouse/partner is an appropriate business expense and therefore would be reimbursable.
- The attendees to the banquet include visiting dignitaries but not their spouse/partners. The inclusion of faculty spouse/partner is **not** an appropriate business expense and therefore would **not** be reimbursable.

**Example 7:** Expenses associated with a departmental retreat should only include department faculty and staff. Spouse/partner expenses will not be reimbursed.

**Example 8:** Expenses associated with a departmental holiday party or departmental picnic including families will be reimbursed.

**Example 9:** With the exception of an event that includes all staff and family members, expenses associated for children to attend a business meal or entertainment are not reimbursable.

## **Q2. Why do I have to include names and titles of all persons in attendance at an event?**

**A2.** The IRS requires the establishment of the business relationship of the persons for whom expenditures have been incurred. Their literature states that persons' occupations and other information such as names, titles or other designations must be provided to establish the business relationship to the organization; for example, donor, contractor, speaker, company representative, or VP for Human Resources for XYZ company. Additionally, due to the large number of people associated with KSU, we require the title information (i.e. Dean, Professor of XYZ College, student, graduate assistant, etc.) for KSU employees or students be provided in order for the documentation to be clear and complete.

- **EXCEPTIONS**
  - If the event is open to the public no list is required, however a brochure or flyer should be provided as documentation to that effect.
  - If the event has more than 20 people in attendance you should provide a general description of who is invited, (i.e. open to all students and faculty) as well as a description of the event. You don't need to provide a list of who actually attended.

**Q3. What is required to document the “business purpose” for expenditures?**

**A3.** Substantiation rules under IRS §274 require every disbursement request must provide documentation justifying the business purpose of the expense. In addition to the **original** receipt, all disbursement requests are required to contain the following information:

- Who—This is the name of the person or entity that is being reimbursed (i.e. who the check is made out to)
  - If a vendor, the vendor’s name and address is required
  - If the expenditure is for services, the vendor’s Tax Identification Number is required so that an IRS form 1099 can be filed. The preparation of IRS Form W-9 is useful. This form can be found at <http://www.irs.gov/pub/irs-pdf/fw9.pdf>
  - If a KSU employee, the employee’s name and title is required.
- What--Describe what was purchased, i.e. office supplies, equipment, business meal.
- Where--List the name of underlying service provider. (i.e. Applebees, Manhattan, KS)
- When--Date of the expenditure
- Why---This is where you should explain how the expenditure benefits KSU.
  - Purchased a computer does not explain why you purchased the computer. This would be included in the “WHAT” part of the explanation. The WHY would go on to explain that the computer was purchased for use in the Student Computer Lab.
  - When the expenditure is for a Business Meal, the description should also include the type of business discussed, and list all of the people in attendance at the meal plus their business title.

**Example 1:** Dean John Doe entertained two donors at a business luncheon. The following information should be provided in his request for reimbursement from the Dean’s discretionary foundation fund.

Please reimburse \$37.07 from Fund number A12345

Who: Please reimburse Dean John Doe, College of XYZ

What: Business Luncheon in the amount of \$37.07

Where: The Chef Café, Manhattan, KS

When: 03/25/2010

Why: Meeting to finalize donation to College of XYZ

John Doe, Dean of College of XYZ

Mr. Smith, KSU alumnae

Mrs. Smith, KSU alumnae

The attached invoice should also be provided. Note that for meal reimbursements, the **DETAIL** receipt showing a listing of the food and beverages purchased should be attached in addition to the credit card receipt.

THE CHEF CAFE  
 111 S FOURTH ST  
 MANHATTAN, KS 66502  
 785-243-2493

Merchant ID: 0000000019  
 Term ID: 0000000019 Ref No: 0000  
 Error ID: 00

Sale

\*\*\*\*\*1216  
 VISA Entry Method: Swiped

Amount: \$ 32.07  
 Tip: 5.00  
 Total: 37.07

5/32.07 = 16%

**Total receipt is \$37.07  
 (\$32.07 + \$5 tip)**

03/25/10 11:52AM  
 Inv #: 000027 Appr Code: 005178  
 Approved: Online Batch#: 000049

Customer Copy  
 CHECKS: 0000 00000000

The Chef Cafe  
 111 S Fourth Street  
 Manhattan, KS

Date: 03/25/2010 11:52AM 0001  
 APT - SOUP/SAL - ENTREE - VE 0000000000

Item	Qty	Description	Price
1		***PRAL	80.00
2	1	SODA/T	1.50
3	1	COFFEE	1.75
4	1	PREP BEER	43.00
5	1	CHEF	187.50
6	1	SPEC	188.00
7	1	SPEC	188.00
8	1	SAL FND	120.75
9	1	HOUSE ST	120.75
10	1	TAX1	52.02
11	1	TAX2	90.90
12		***TOTAL	\$32.07

Thank you for spending part of your day with us  
 thechefcafe.com

Guest Receipt  
 Date: Amount: Guests: 352273

**Example 2:** Dean John Doe and Asst Dean Jane Smith from the College of XYZ meet for lunch at the Aggieville Café to discuss curriculum changes. Even though there is a business purpose for the luncheon meeting, it is the policy of KSU and the Foundation to **not** reimburse meals when the parties are from the same College. See further discussion below in **Q11**.

**EXCEPTION:** Expenses associated with the occasional and infrequent department wide staff meeting or retreat will be reimbursed. A listing of all attendees, their titles and an agenda for the meeting **must** be provided with the documentation

**Q4. What is the policy regarding reimbursement for tips?**

**A4.** The current policy provides for a tip of no more than 20% of the value of the meal or service being provided. If the tip exceeds 20%, the reimbursement request will be adjusted downward to reflect a 20% tip. It is however, allowable to round up to the next whole dollar.

- **Example:** A business meal cost \$50.32. The exact amount of a 20% tip would be \$10.06 (for a total of \$60.38). If you round up the payment to \$61.00 this would be permissible.

**Q5. What are the rules regarding promotional items or gifts that are given to a donor as a thank-you or acknowledgement of their donation to the Foundation?**

**A5.** There are several different IRS rules that could apply to gifts that you provide.

1. With regards to gifts given that are as a result of a donation received, the IRS allows that if a promotional item is considered a “low-cost” item then no additional reporting on the donor’s gift receipt is required. A low-cost item is described as something that bears the organization’s name or logo (e.g. calendars, mugs, or posters), and the cost is \$9.90 (this amount is adjusted annually for inflation) or less. For this rule to apply, the donation received must be at least \$49.50 (this amount is adjusted annually for inflation).
2. There is a “token exemption” if you provide a gift whose value or “quid pro quo” does not exceed the lesser of 2% of the payment or \$99 (this amount is adjusted annually for inflation).

**3. EXAMPLES:**

- a. **Example 1:** A donor makes a \$4,950 gift. You may provide a gift valued up to \$99.00 and his entire donation will be deductible. ( $\$4,950 \times 2\% = \$99.00$ ).
- b. **Example 2:** A donor makes a \$4,950 gift. You provided a gift valued at \$100. The token exemption does not apply. The Foundation would need to report on the tax receipt a donation of \$4,950 with benefits received of \$100, therefore a tax deductible gift of \$4,850.
- c. **Example 3:** A donor makes a gift of \$5,000. You provided a gift valued at \$100 ( $\$5,000 \times 2\%$ ). Even though the gift did not exceed 2% of the donation, it does exceed the maximum allowed of \$99; therefore the Foundation would need to report on the tax receipt a donation of \$5,000 with benefits received of \$100, thus a tax deductible gift of \$4,900.
- d. **Example 4:** A donor makes a \$49.50 gift. You may provide a token gift of up to \$9.90 without impact on the donor’s deductibility
- e. **Example 5:** A donor makes a \$30.00 gift. You may provide a token gift of only .60 cents ( $\$30 \times 2\%$ ). The token exemption **does not** apply because the donation payment was less than \$49.50.

**This Table provides the Calculations and Explanations for the Examples discussed above.**

Item	Total Donated	Token Value	Quid Pro Quo Value	Tax Deductible Gift	Explanation For Calendar Year 2012
EX 1	\$4,950.00	\$0.00	\$99.00	\$4,950.00	The value received was less than \$99.00 and no more than 2% of the donation so the entire donation is deductible.
EX 2	\$4,950.00	\$0.00	\$100.00	\$4,850.00	No Token exemption. The value received was more than 2% of the donation, the deductible gift is the Donation minus the value received.
EX 3	\$5,000.00	\$0.00	\$100.00	\$4,900.00	No Token exemption. Since the value of the QPQ was more than \$99.00 the tax deductible gift is the donation minus value received.
EX 4	\$49.50	\$9.90		\$49.50	Since the Donation was \$49.50 or more, and the Token items were not more than \$9.90, the full donation is allowed.
EX 5	\$30.00	\$0.60		\$30.00	The value received was less than \$99.00 and no more than 2% of the donation so the entire donation is deductible.

**Q6. What are the rules regarding gifts that are given to a donor that is not related to a contribution received from the donor?**

**A6.** The IRS allows for the deduction of expenses for “business gifts” that do not exceed \$25.00 in a calendar year. This would be a gift that was not associated with a donation received from donor. This type of gift would have no impact on the recipient.

**Q7. What are the rules regarding gifts to KSU employees?**

**A7.** There are several different IRS rules that apply to gifts depending on the “facts and circumstances” surrounding the gift. This is a very complex area, so if you have any questions, please contact the Foundation accounting department or the KSU Human Resources department **before** you provide a gift or award to your employees.

1. Items that meet the de minimis fringe benefit rules may be purchased with Foundation funds and provided without being taxable to the employees. For example:
  - a. Occasional snacks, coffee, doughnuts, etc.
  - b. Holiday gifts, other than cash, with a low fair market value.
  - c. Occasional tickets for theater or sporting events
  - d. Occasional parties or picnics for employees and their guests.
2. Gifts to Unclassified employees:
  - a. A gift of cash, gift card or gift certificate of **ANY** amount requires that the recipient’s name and tax identification number be provided to the Foundation. The Foundation is then required to provide the information to the Human Resources department for inclusion in the recipients’ taxable income.
  - b. As a general rule non-cash gifts valued at \$25 or less will not be submitted to the KSU Human Resources department for taxation to the employee.
3. Gifts to Classified employees:
  - a. Cash gifts **MAY NOT** be given to Classified employees. Any additional compensation to a classified employee is governed by Kansas Civil Service compensation rules. The Foundation can not reimburse for a gift made to a classified employee. Any reimbursement requests must be denied.
  - b. Additionally, as a general rule non-cash gifts of any value, other than the de minimis examples listed in #1 above are not allowed..
4. The State of Kansas provides guidelines for developing award and recognition programs. If Kansas State University has established an award or recognition program, then payments or reimbursements for these awards may be made from Foundation funds. See information at the following website: <http://www.k-state.edu/hr/ped/classified-award-guidelines.html>
5. Retirement, length of service and honoraria gifts can qualify for non-taxable treatment if certain guidelines are met. Please refer to the **Retirement and Achievement Awards** section in the Foundation accounting manual and the KSU Policy and Procedures Manual (PPM) for a complete discussion of the rules. See the following document; <http://www.k-state.edu/policies/ppm/4812.html>
6. In addition to IRS rules regarding gifts, employees of the State of Kansas must also be mindful of the requirements set out by the Kansas Ethics Commission. These rules are available at <http://www.kansas.gov/ethics/>

**Q8. What steps are needed when prizes are given at a fundraising event?**

**A8.** There are different IRS rules that govern prizes. It is common practice to provide various cash or non-cash prizes at auctions and golf tournaments that are held as fundraising events. Prizes are

reportable as taxable income by the recipient. The income is reportable regardless of whether the prize is given in the form of cash, gift card (which is the same as cash), or merchandise. The Foundation is required to report these types of income to the recipient at the end of the year on IRS Form 1099 if the **accumulated** amount of income during the calendar year is \$600 or more.

- **Example:** Your College hosts an annual golf tournament. One of the events in the tournament is a “Closest to the Hole” contest. The winner will receive a golf bag valued at \$100, or cash prize of \$100, or a gift card for \$100. You should provide the winner’s name, address and tax payer identification number to the Foundation accounting department. The use of IRS Form W-9 is helpful in collecting this information <http://www.irs.gov/pub/irs-pdf/fw9.pdf>. This information must be collected even though the winning amount is less than \$600. This same person could go on to win a \$500 prize in another KSU fundraising event during the same year. If that occurs the Foundation would be **required by law** to provide Form 1099 to the individual. The income is reportable regardless of whether the prize is given in the form of cash, gift card (which is the same as cash), or merchandise.
- **NOTE:** If an employee of KSU wins a prize at a fundraising event, the value of that prize (whether cash or merchandise) must be reported on the employee’s W-2 regardless of the amount of the prize.

**Q9. What are the rules that apply when a donor makes a payment that is partly contribution and partly for quid pro quo, goods and services (hereinafter “Benefits received”)?**

**A9.** The Foundation must furnish a written disclosure statement if a donor makes a payment that is more than \$75 and is partly a contribution and partly *benefits received*. The statement must tell the donor that he/she can deduct only the amount of the payment that is more than the value of the goods or services received. The Foundation must also give the donor a good faith estimate of the value of the goods or services.

A penalty is imposed on charities that do not meet the written disclosure requirement. The penalty is \$10 per contribution, not to exceed \$5,000 per fundraising event or mailing. An organization may avoid the penalty if it can show that failure to meet the requirements was due to reasonable cause.

- **Example 1:** Your College hosts an annual gala dinner and auction. The admission to the event is \$100 per person. The brochure advertising the event informs the potential attendees that the value of the dinner is \$40, and \$60 is tax deductible. This notification meets the rule for the written statement.
- **Example 2:** Your College hosts an annual gala dinner and auction. A catalog of the items to be auctioned provides the fair market value of each item to be auctioned. This catalog is available to attendees prior to the event. A donor subsequently purchases an item at the auction for \$500 that had a fair market value of \$200. The donor may report a \$300 charitable contribution in his income tax return. The Foundation is required to provide the donor with a written statement that shows the payment received and the value of the *benefits received* that the donor received.
- **Example 3:** Your College hosts an annual gala dinner and auction. A catalog of the items to be auctioned is provided, but **no** fair market value is provided, or all items were listed as “**PRICELESS.**” A donor subsequently purchases an item at the auction for \$500. The donor may **NOT** report the item as a contribution and the Foundation cannot provide a gift receipt.

**Q10. When the Dean hosts an event at his or her home, which meets the ‘business purpose’ test what expenses are reimbursable?**

**A10.** The following expenses are reimbursable

- Catering charges
- Food purchases (for the event)
- Beverages (for the event)
- Clean-up after the event (only rooms used for the event)
- Flowers, table decorations (for the event)
- Paper goods

The following expenses are not reimbursable

- Pre-event cleaning
- Decorative items that would be retained by the host (i.e. cloth tablecloth)
- Babysitting services for the host

**Q11. When will the Foundation reimburse for meals provided for KSU employees?**

**A11.** Please refer to the Campus Accounting Manual- Reimbursement of Meals for an in-depth discussion of the IRS rules regarding meal reimbursement. In the normal course of a business day, employees are responsible for their own meals. In order for a meal that includes only KSU employees to qualify for reimbursement, you must show that there is substantial business discussion or meet the De Minimis rules, or provide the meal on your business premises.

We will use the following examples for explanatory purposes:

**Example 1:** The Dean of the College of Arts and Sciences has a meal with the Department Heads from Biology, Mathematics and Art to discuss an upcoming collaboration. The Dean has prepared an agenda of talking points and the meal was scheduled weeks in advance due to everyone’s busy schedule. The meal is ordered in and the Dean and Department Heads meet in a conference room on campus. The Foundation will reimburse for this expenditure because the employees are from different departments, it was a planned event, and documentation regarding the business purpose was provided.

**Example 2:** The Department Head of Chemistry has just been awarded a multi-million dollar research grant. This grant is the largest one ever awarded to the Chemistry department and it will assist KSU in its mission to become a premier research institute. The Department Head invites the professors, graduate students and administrative support staff that had an integral role in obtaining this grant to lunch to celebrate. The Foundation will reimburse for this expenditure because it is occasional in nature and the invitation was open to all persons involved in the project.

**Example 3:** Professor Smith, Professor Doe, Professor Ryan and Professor Taylor, all Art Department employees entertain a prospective employee. Dinner is at a five star restaurant and the bill is in excess of \$2,000. The Foundation will ask for additional approvals before reimbursement. While the purpose of the meal, i.e. recruiting a new employee, meets business purpose rules, the amount of the expenditure appears to be extravagant. The department should provide sufficient information to document why the expenditure was “ordinary and necessary.”

**Example 4:** The College of Vet Medicine hosts an annual holiday party for its employees and their guests. The Foundation will reimburse for this expenditure because it is occasional in nature and meets the IRS’s De Minimis rules.

**Example 5:** Professor Mike takes his graduate students out for pizza to celebrate their first place win at the regional Architecture competition. The Foundation will reimburse for this expenditure. Mentoring students and celebrating student accomplishments supports the Foundation’s mission.

**Example 6:** Professors George, Jim and Jane, all from the Department of Civil Engineering, decide to go lunch. During the meal, they discuss what they can do to bring notable speakers to campus for presentations to students. The Foundation will **not** reimburse for this expenditure. While there was some business discussed during the meal, nothing indicates that this was the primary purpose for the meal. There was no pre-planning, no agenda provided, nor reasons provided as to why this could not have been discussed at one of the professors offices.