

Complete Policy Title:  Operational Policy and Procedures for Trust and Endowed Fund Management	Policy Number (if applicable):
Approved by:  President (November 6, 1998)  Board of Governors(June 14, 1990)	Date of Most Recent Approval:  Trust Fund Management Committee(March 15, 2000-titles/language); Board of Governors (April 28,2005-delegated future approvals to (President); PVP (Sept 2006, Dec 2008, June 2010 – General Updates)
Date of Original Approval(s): <b>June 14, 1990</b>	Supersedes/Amends Policy dated: Revised – titles/language only October 25, 1995 December 14, 1999 April 14, 2005 April 2006 December 2008 June 2010
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## I. SCOPE

The policy and procedures apply to all trust funds, as well as internally- funded and restricted endowments.

## II. DEFINITIONS

### Trust funds

A category of account which holds donations or bequests received by the University that have conditions and/or legal requirements for use agreed upon by the donor and the University, or terms for use established by the University, as outlined in the *Charitable Giving Policy and Procedural Guidelines* at <http://www.mcmaster.ca/policy/advancement/CharitableGivingPolicy.pdf> These are also referred to as externally restricted funds. A trust fund may have the following components: non-expendable (including preservation of capital) and expendable; or, it may have expendable only.

### General Perpetual Trust

Externally-restricted, endowed trust funds where the donation or bequest is non-expendable and from which only income earned may be expended. This is the most common trust fund.

### General Long-term Trust

Externally-restricted, unendowed trust funds from which both the income earned and the capital may be expended.

### Specific Trust

Externally-restricted, unendowed short-term trust funds which, normally, are to be spent in the current year for the purpose expressed in the terms.

### Non-expendable funds

Defines the status of all or part of donated funds, as designated by the donor at the time of the gift, that may not ever be expended. Earns annual investment return based on investment pool returns.

### Expendable funds

The accumulation of unspent income and funds designated for expenditure.

### Preservation of capital

The component of a trust fund that absorbs increases and decreases between actual income earned and the amount of expenditure permitted each year from each fund in accordance with the *Expenditure Policy: General Trust Funds (Externally-restricted Endowments)* at [http://www.mcmaster.ca/policy/General/Financial/Expenditure\\_Policy\\_General\\_Trust\\_Funds-Externally\\_Restricted\\_Endowments-2011.pdf](http://www.mcmaster.ca/policy/General/Financial/Expenditure_Policy_General_Trust_Funds-Externally_Restricted_Endowments-2011.pdf), and is non-expendable. Only General Perpetual Trusts have a Preservation of Capital component.

### Internally-restricted funds

- (a) Externally-funded endowments derived from donations and bequests not restricted by the donor, such as the Hooker Endowment and General Endowment. The Pension Surplus Endowment is also included in this category.
- (b) Internally-funded endowments are deemed to be internally restricted by the Board of Governors when created by transfer from internal reserves according to the *Expenditure Policy: Internally-restricted Endowments* at <http://www.mcmaster.ca/policy/General/Financial/ExpenditurePolicy-InternallyRestrictedEndow.pdf>

### III. GENERAL RULES

- All deposits to trust funds are processed through University Advancement.
- All trust funds are to be opened according to established criteria. (See Section V)
- Income will be assigned only to funds residing in the General Long-term Trust or General Perpetual Trust accounts. Specific Trust accounts will not receive any income allocations. Income is distributed to the trust fund accounts in accordance with the *Expenditure Policy: General Trust Funds (Externally-restricted Endowments.)* at [http://www.mcmaster.ca/policy/General/Financial/Expenditure\\_Policy\\_General\\_Trust\\_Funds-Externally\\_Restricted\\_Endowments-2011.pdf](http://www.mcmaster.ca/policy/General/Financial/Expenditure_Policy_General_Trust_Funds-Externally_Restricted_Endowments-2011.pdf)
- The non-expendable portion of trust funds, except those for which the donor has stipulated the securities are to be retained, or for which other special arrangements may be made, is invested by the external managers under the *Statement of Investment Policies and Objectives Investment Pool* at <http://www.mcmaster.ca/policy/General/Financial/InvestmentPool.pdf> approved by the Board of Governors and amended from time to time.
- The expendable portion of trust funds is invested under the *Statement of Investment Policies and Guidelines – Working Capital*; see <http://www.mcmaster.ca/policy/General/Financial/Investment-Cash-ShortTerm.pdf>
- Internal funds should not be transferred into trust funds, other than memorial donations not to exceed \$50 each. If the request to transfer internal funds is a result of exceptional circumstances, the Chair of the Trust Fund Operations Committee (TFOC) may request approval from the Trust Fund Management Committee (TFMC), the President, the Provost and Vice-President, Academic, and the Vice-President, Administration. See *Expenditure Policy: Internally-restricted Endowments.* at <http://www.mcmaster.ca/policy/General/Financial/ExpenditurePolicy-InternallyRestrictedEndow.pdf>
- *Requests for policy exceptions should be in writing to the Chair of the Trust Fund Operations Committee.*

### IV. PURPOSES OF TRUST FUNDS

#### 1. Undergraduate and Graduate Awards

Trust funds for all awards are the responsibility of the Director, Student Financial Aid & Scholarships or the Graduate Registrar, both of whom may delegate the administration of certain Faculty or departmental awards subject to a written agreement between the Faculty/department and the two central offices. Only awards approved by Undergraduate Council or Graduate Council will be listed in the University Calendars, appear on the student's transcript and be recognized at Convocation ceremonies.

##### a. Scholarships and Student Fellowships

Scholarships and student fellowships are monetary awards based on general academic excellence and, in some cases, other forms of earned merit. Scholarships have a specified value in terms of monetary benefit to the recipient.

##### b. Prizes

Prizes are monetary awards and/or awards of monetary worth (e.g. book, medal) normally granted for academic excellence in a particular academic area and, in some cases, other forms of earned merit. Prizes have a specified value in terms of monetary benefit to the recipient.

c. Bursaries

Bursaries are monetary awards based on financial need as determined by the University and may also include a minimum expectation of academic achievement and/or other miscellaneous criteria.

d. Academic Grants

These are granted to students based on academic excellence and demonstrated financial need as determined by the Office of Student Financial Aid & Scholarships in accordance with established criteria. The grants have a specified value in terms of monetary benefit to the recipient.

e. Faculty/Departmental Awards

Faculty/Departmental awards are those provided by specific University offices/departments which have established processes and administer their own trust funds. These awards should contain the words “Faculty” or “Departmental” respectively in their names and the fund administrator designated by the University to administer the award must ensure that the following minimum conditions are met in order to receive administrative support:

- The purpose of support must not violate Canadian law.
- The purpose of support must be consistent with the goals of McMaster University.
- The Faculty/Departmental gift must be deposited to either a General Perpetual Trust, or a Specific Trust with a commitment from the donor to provide a minimum monetary amount for a five-year period.
- The trust must be opened according to established University criteria. (See Appendix IV.)

Refer to the [Undergraduate Award Policy](#) and [Graduate Award Policy](#) (under review) for terms and conditions.

2. Chairs, Professorships and Faculty Fellowships

Trust funds may be used to contribute to the research and employment expenses of University Faculty through chairs and professorships. These are governed by the [McMaster University Policy Guidelines for Establishing Named Chairs and Professorships](#) at <http://www.mcmaster.ca/policy/AdminAcad/AcadAdmin/named%20chairs%20and%20professorships-estab.pdf>

3. Other

Trust funds may also be used to provide support for operations such as the Library, Art Gallery and Athletics and Recreation, and for expenditures such as Art Gallery acquisitions.

**V. CRITERIA TO OPEN A TRUST FUND**

The following criteria must be used in establishing a trust fund:

- a. A gift agreement, will or statement of gift form signed by the donor and/or appropriate University representative shall be required prior to opening a new General or Specific trust fund.
- b. A minimum of \$10,000 is required to open a General Perpetual or General Long-term trust fund.
- c. The minimum may be comprised of cash or a gift agreement /statement of gift form outlining the payment schedule to reach the minimum.
- d. In the event that the required minimum principal is not realized according to the agreed upon payment schedule, University Advancement will contact the donor to arrange a revised schedule. If, after six months

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from that time, the donor has not resumed payments or indicated an intention to revise the payment schedule, McMaster University, with the approval of University Advancement and in consultation with the donor, where possible, is authorized to transfer realized installments to the University's General Endowment Fund.

- e. No disbursements will be made from the trust fund until the minimum has been received and adequate interest earned.
- f. The Trust Fund Operations Committee will review the minimum every three years.
- g. The standard gift agreement shall contain a "power to vary purpose" clause directing the University in the event that the original terms of the agreement cannot be fulfilled.

"The University assures that donations and all forms of charitable gifts are used effectively for the purposes as specified by the donor, or, where such purposes are no longer practicable or appropriate, the University promises to use the gift in a manner consonant with the intention of the donor and the spirit in which the gift was given."

- h. In the event that the Trust Fund Operations Committee determines that a gift agreement has been requested which deviates from the standard, it will be reviewed by the Assistant Vice-President, Administration and the Vice-President, University Advancement.

## VI. ANNUAL ATTESTATION

Each year, trust fund administrators are required to properly complete and sign an attestation noting that the trust funds for which they are responsible have been administered in compliance with the *Operational Policy and Procedures for Trust and Endowed Fund Management* and established donor terms. The Assistant Vice-President Administration will confirm this to the Finance Committee and it will then be communicated to the Board of Governors.

## **APPENDIX I: ROLES & RESPONSIBILITIES re TRUST FUND ADMINISTRATION**

### **University Advancement**

University Advancement solicits monetary and other gifts. All gifts are processed through Advancement Services, a division of University Advancement.

University Advancement is responsible for:

- a. handling incoming calls and inquiries related to donations
- b. discussing with donors and potential donors the terms and conditions related to the donation, in co-operation with the appropriate trust fund administrator
- c. approaching the donor regarding revisions to the original terms of the donation as requested by the trust fund administrator
- d. recording and acknowledging receipt of all donations, regardless of the original contact, with appropriate letters to the donors or next-of-kin as indicated
- e. corresponding with Treasury Operations regarding donations including specie distributions from estates
  - e.g. share certificates, etc., specifically:
    - i. recording donations forwarded from Treasury Operations, producing a tax receipt and forwarding the tax receipt to Treasury Operations for disbursement to the appropriate person
    - ii. providing the Treasurer with all relevant documents, correspondence, etc. regarding bequests
    - iii. maintaining an up-to-date record of bequests received and expected
    - iv. handling incoming calls and correspondence related to estate planning

- f. obtaining appraised values for gifts-in-kind
- g. issuing receipts for income tax purposes
- h. providing information regarding amounts received and, in some instances, transferring the funds to the appropriate fund administrator
- i. in conjunction with the appropriate fund administrator, ensuring the donor is appropriately recognized in the awarding or expenditure of the funds
- j. co-ordinating ongoing reporting of trust fund income and expenditures to the donor

### **Treasury Operations**

Treasury Operations is responsible for:

- a. handling incoming calls, correspondence, cheques and securities
- b. remitting cheques to University Advancement
- c. arranging for proper receipt of specie distributions e.g. share certificates, etc.
- d. arranging for tax receipts for all distributions from estates and gifts of securities
- e. determining if the University has been named as a beneficiary of an estate, insurance policy or trust fund
- f. maintaining original documents and correspondence received from University Advancement as the permanent record about the donation and its terms
- g. supplying copies of wills and pertinent documents to the Accounting Assistant, Trust Funds for centralized files and to the trust fund administrator
- h. recording pertinent information in a log including donor name, notification date, payment date, amount and remarks
- i. reporting on the receipt of bequests and their terms to Senior Management, the Board of Governors and the fund administrator
- j. advising University Advancement and the fund administrator when additional amounts are received from outstanding bequests and gifts of securities
- k. investing funds as they are received
- l. periodically reviewing all outstanding bequests and following up as to their collection
- m. maintaining regular contact with the estate's executors, trustees and lawyers about matters such as the transfer of funds to the University, court audits, etc.
- n. obtaining legal advice, if required

### **Accounting Assistant, Trust Funds (Financial Services)**

The Accounting Assistant, Trust Funds is responsible for:

- a. assigning account numbers for trust fund donations and informing the fund administrator and University Advancement
- b. providing monthly reports on the status of the accounts and sending these reports to the fund administrators and other users
- c. with proper approval, capitalizing accrued income
- d. ensuring non-expendable capital remains intact; taking appropriate action to rectify overdrawn trust funds
- e. providing the Trust Fund Operations Committee with a monthly list (Trust Funds in Need of Attention) which records unassigned trust funds for which terms and conditions are unknown or not yet developed, or where other relevant information is incorrect or incomplete
- f. maintaining a hard copy file of all relevant documentation for each assigned trust fund
- g. identifying projects requiring trusts and ensuring that trust funds are established
- h. on a monthly basis and using the Designated Donation Report, investigating unidentified funds and generating journal entries to transfer funds from University Advancement revenue

- accounts to established trust fund account. Refer to [Charitable Giving Policy and Procedural Guidelines](http://www.mcmaster.ca/policy/advancement/CharitableGivingPolicy.pdf) at <http://www.mcmaster.ca/policy/advancement/CharitableGivingPolicy.pdf>
- i. reviewing the Summary of Trust Fund Statements to identify errors and ensuring corrections are made
  - j. providing secretarial support to the Trust Fund Operations Committee
  - k. assisting fund administrators by providing information e.g. total amount of donations received for a particular fund, etc.
  - l. maintaining the Trust Fund Accounting Information System (TFAIS) including security, training and support for users
  - m. calculating unitized values for externally-managed funds and distribution of realized and unrealized income/gains(losses) at year-end based on the unitized value of the funds
  - n. preparing annual endowment statements for chairs and professorships for fund administrators to issue to donors
  - o. preparing and administering the trust fund annual review and attestation process for submission to the Trust Fund Operations Committee

### **Trust Fund Administrators**

Student awards will be administered by the Graduate Registrar or the Director, Student Financial Aid & Scholarships or by an individual delegated by one of these. In most other cases, the appropriate Vice-President or Dean, or their delegate, will select the administrator. The administrator may delegate these responsibilities, however the administrator is ultimately responsible and must implement sufficient oversight procedures.

Fund Administrators are responsible for:

1. Establishment of trust funds
  - a. providing University Advancement with advice regarding terms and conditions for proposed donations
  - b. obtaining final approvals re terms from appropriate University committees
  - c. obtaining from University Advancement a signed Gift Agreement or Statement of gift with details regarding the donation payment schedule
  - d. submitting the request to the Trust Fund Accounting Assistant to open a new trust fund account, when appropriate, with information required re type of trust fund, designation code, etc.
  - e. promoting the award or other gift in the appropriate University Calendar or publication
2. Administration of trust funds
  - a. managing the trust according to approved terms and conditions
  - b. serving as principal signing authority for assigned trust fund accounts including changes to any aspect of the account and closures
  - c. ensuring appropriate allocation of funds in a timely way
  - d. identifying and rectifying errors, deficits and lack of expenditure within trust funds
  - e. updating TFAIS and/or the Accounting Assistant, Trust Funds with recipient and other relevant data
  - f. maintaining complete hardcopy donor files with relevant correspondence (e.g. wills, insurance policies, letters of undertaking, donor letters, gift agreements, etc.) and ensuring that copies are forwarded to the central files maintained by the Accounting Assistant, Trust Funds
3. Stewardship of donors

Trust Fund Administrators support University Advancement in the stewardship of donors through the following activities:

- a. corresponding with the donor(s) (or relatives or executors as appropriate) regarding recipient data and other matters relevant to the use of the gift

- b. assisting in donor recognition as appropriate (e.g. listing awards in University Calendars, award ceremony publications, forwarding student thank-you letters)
- c. recommending action that University Advancement might take when revisions are required to the original terms of the donation

## **APPENDIX II – THE TRUST FUND MANAGEMENT COMMITTEE**

### **Terms of Reference**

1. Recommend to Senior Management, policies and procedural guidelines pertaining to the management of trust funds held by the University. Ensure that trust fund policies and procedural guidelines are communicated to relevant personnel on campus.
2. Review annually the results of the Trust Fund Review and Attestation and obtain explanations from the Chair of the Trust Fund Operations Committee about steps taken to assign unassigned trust accounts, eliminate deficit balances and activate accounts with little or no activity. Work with fund administrators to resolve any issues of compliance identified in the attestation process.
3. Review annually the Trust Fund Accounting Information System (TFAIS) reports and obtain a status report from the Chair of the Trust Fund Operations Committee.
4. Review annually the Designated Donation Reports for the various campaigns and obtain explanations from the Director, Advancement Services on steps taken to transfer untransferred money.
5. Recommend further actions to be taken by the Trust Fund Operations Committee when performing steps 2. to 4.
6. Review the Annual Trust and Endowment Funds Report prepared for submission to the Finance Committee.

### **Membership**

Vice-President, University Advancement – Co-Chair  
Assistant Vice-President (Administration) – Co-Chair  
Chief Internal Auditor (observer)  
Chair, Trust Fund Operations Committee  
Director, Advancement Services  
Director, Stewardship and Donor Relations

Vice-President, University Advancement and Assistant Vice-President (Administration) hold the Chair in alternate years.

## **APPENDIX III – THE TRUST FUND OPERATIONS COMMITTEE**

### **Terms of Reference**

1. Develop and recommend to the Trust Fund Management Committee, policies and procedural guidelines pertaining to the management of trust funds held by the University and ensure compliance with these policies and procedures.
2. Review the results of the Trust Fund Annual Review and Attestation process and take steps to have unassigned trust accounts assigned, deficit balances eliminated and accounts with little or no activity to become active.
3. Review and oversee the Trust Fund Accounting Information System (TFAIS.)
4. Ensure centralized trust fund files are maintained and ensure security and safety of such files.
5. Approve opening of trust fund accounts.
6. Review and recommend to the Trust Fund Management Committee, policies about distribution of income/capital gains and how they should be expended/capitalized.
7. Receive and review in order to understand the calculation of the annual rate of return before issuance of the annual Endowment Fund and Chair Statements to donors.

8. Resolve issues relating to trust funds as they arise as identified on the “Trust Funds in Need of Attention” report.
9. Act as a forum to keep communications open between the various administrators involved with trust funds and sponsor workshops to ensure all parties are up-to-date and knowledgeable about the policies and procedures.
10. The Chair will be responsible for calling a meeting of the Trust Fund Operations Committee once a month and for preparing or co-ordinating reports to be presented to the Trust Fund Management Committee on a quarterly basis.

### **Membership**

Director, Finance – Chair

Director, Advancement Services

Treasurer

Director, Student Financial Aid & Scholarships

Director, Administration, Faculty of Business

Executive Director, Graduate Studies

Manager, Health Sciences Finance

Manager, Accounting and Financial Reporting, Financial Services

Manager, Major Gifts, Faculty of Health Sciences

Development Officer, University Advancement

Accounting Assistant, Trust Funds – Secretary