

Complete Policy Title: Operational Policy and Procedures for Trust and Endowed Fund Management	Policy Number (if applicable):
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Responsible Executive: Assistant Vice-President(Administration) & CFO	Enquiries: <u>AVP Administration & CFO</u>
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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

The definitions below apply to a financial account (i.e. project/chartfield in Mosaic) that holds donations or bequests received by the University whereby conditions and/or legal requirements exist for usage defined 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>.

The types of trust funds are as follows:

a. 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. Principal invested in the Long Term Pool.

b. General Long-term Trust

Externally restricted, unendowed trust funds from which both the income earned and the capital will be expended. Principal invested in the Short Term Pool.

c. Spend Down Trust

Externally restricted, unendowed trust fund from which both the income earned and capital will be expended. Principal invested in the Long Term Pool. This type of trust is suitable for original capital balances greater than \$100,000.

d. 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. No investment income is credited and no administration fees are charged to specific trusts.

A trust fund may have the following components: non-expendable (including preservation of capital) and expendable; or, it may have expendable only. The various components are defined as follows:

a. 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 be expended. Earns annual investment return based on investment pool returns.

b. Expendable funds

The accumulation of unspent income and funds designated for expenditure.

c. 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_Externally_Restricted_Endow.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 that are 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 donations to trust funds are processed through University Advancement.
- Naming provides meaningful opportunities for the recognition of outstanding contributions by those who serve as inspiration for future generations of students, graduates and members of the McMaster community. All trust funds must abide by the University's Naming Policies and Procedures (<http://www.mcmaster.ca/policy/General/Misc/NamingPolicy-Procedures.pdf>).
- All trust funds are to be opened with approved terms of reference and according to established criteria (See Section V). Generally, trust funds supporting aid and awards for students must be opened with one set of approved terms and must not cross purposes (e.g. in addition to an undergraduate in-course scholarship, the trust fund supports an undergraduate student bursary and/or a graduating student award and/or an administrative function, etc.).
- Income will be assigned only to funds residing in the General Long-term Trust, General Perpetual Trust, or Spend Down trusts. Specific Trusts will not receive any income allocations. Income is distributed to the trust fund projects in accordance with the *Expenditure Policy: General Trust Funds (Externally-restricted Endowments)* (http://www.mcmaster.ca/policy/General/Financial/Expenditure_Policy_General_Externally_Restricted_Endow.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 have been made, is invested by the external managers under the *Statement of Investment Policies and Objectives Investment Pool* (<http://www.mcmaster.ca/policy/General/Financial/InvestmentPool.pdf>) as 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 – Cash and Short Term Investments* (<http://www.mcmaster.ca/policy/General/Financial/Investment-Cash-ShortTerm.pdf>).
- No disbursements will be made from trust funds until the minimum has been received.
- Trust fund administrators, in reviewing expendable amounts, may determine that a disbursement is not possible in cases where the donor's payment schedule does not permit an award at stated value, or disbursement will be less than \$100 or interest earned is insufficient to cover a disbursement at the time expendable balances are reviewed. In exceptional circumstances, and with the prior written approval of both the Director of Stewardship and Donor Relations and the Director of Finance, disbursements may be made in advance of the gift being received.
- Trust fund administrators must consider the trust fund's spending criteria instructions as noted in the gift documentation in determining expendable amounts.
- Except for memorial donations of up to \$1,000, operating funds from the budget allocation framework cannot be transferred into trust funds. If a request to transfer funds is the 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 & CFO. Please see the Internal Transfer Rules Application & Interpretation Memo for details (http://www.mcmaster.ca/bms/pdf/int_trsf.pdf).
- Requests for policy exceptions must be made in writing to the Chair of the Trust Fund Operations Committee.

IV. PURPOSES OF TRUST FUNDS

1. Aid and Awards

Trust funds for all aid and awards are the responsibility of the Senior Associate Registrar, Student Financial Aid & Scholarships or the Director of Graduate Studies, 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 University aid and awards approved by Senate will be included in official University Calendars. Only Senate approved awards may be noted on University transcripts. Only Senate approved graduating student awards will be included in convocation publications, and of these, only the top University and Faculty awards will be recognized at University Convocations.

a. Awards

Awards are allocated to students on the basis of 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 academic awards with a monetary value of \$100 or less and/or no disbursed monetary value (e.g. books, medals, letters of recognition, etc.).

c. Bursaries

Bursaries are non-repayable grants allocated on the basis of demonstrated 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

Academic grants are hybrid awards that recognize academic excellence, and in some cases other forms of earned merit, and demonstrated financial need. As determined by the University. Academic grants have a specified value in terms of monetary benefit to the recipient.

e. Departmental Financial Awards (including those administered by Faculties, Departments and Athletics and Recreation)

Departmental financial awards support students in a manner consistent with the goals of the University, but do not meet all of the approved regulations through which University-established aid and award programs are administered (e.g. assessment of financial need or merit). Departmental financial awards are administered by designated representatives at the University (e.g. Athletics and Recreation) that have established their own processes for identifying recipients. Financial awards do not have “University” or “McMaster University” in the name of the award and contain words such as “Faculty of xxx Financial Award” or “Department of xxx Financial Award” or “Athletic Financial Award”. Departmental financial awards are not Senate approved awards and thus are not included on University transcripts, in University Calendars or recognized at University Convocations. Administrators of financial awards must contact the Office of Student Financial Aid & Scholarships (undergraduate awards) or the School of Graduate Studies (graduate awards) to request configuration of an item type to facilitate both trust payments, through Mosaic Financial Aid to a student’s account, and generation of T4As (where applicable). Trust administrators must contact SFAS or SGS to request financial award payments, as journal entries are not permitted.

In establishing financial awards, administrators must ensure they are held in externally-restricted trust funds opened according to established University criteria (see Section V)

f. Work Programs

Work programs are aid programs providing on-campus employment opportunities for students. Part-time opportunities are available during the fall and winter terms, while both part-time and full-time opportunities are available during the summer term. Students earn at least minimum wage. Work programs provide partial reimbursement of an approved student's salary to employers who hired students into approved work program positions.

Refer to the University Aid and Awards Policy to view the framework through which all University-established aid and award programs must be approved and administered (http://www.mcmaster.ca/policy/Students-AcademicStudies/Aid_and_Awards.pdf).

2. Chairs and Professorships

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

3. Other

- a. Fellowships are monetary awards reserved for Post Doctoral Fellows (PDF). Please see policy on Postdoctoral Fellows (<http://www.mcmaster.ca/policy/faculty/Appointments/PostdocFellows.pdf>).
- b. Trust funds may also be used to provide support for initiatives related to the Library, Art Gallery, research projects, lectureships and Athletics and Recreation.

V. CRITERIA TO OPEN A TRUST FUND

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

- a. Appropriate gift documentation signed by the donor and/or appropriate University representative shall be required prior to opening a new trust fund.
- b. Minimums are required to open trust funds. Examples are:
 - i. \$100,000 to open a Spend Down trust fund;
 - ii. \$10,000 to open a General Perpetual or General Long-term trust fund; and
 - iii. \$1,000/year for 3 years to open a Specific trust fund.

The Trust Fund Operations Committee reviews these minimums every three years. Exceptions to the minimums noted above are in the Guidelines for Naming with Private Gifts (please contact University Advancement for details).

- c. Aid and award trust funds have additional minimum requirements. Examples for General Perpetual trust funds include:
 - i. \$20,000 for Undergraduate Scholarships and Academic Grants;
 - ii. \$62,500 for Undergraduate Awards by Application (e.g. travel awards); and
 - iii. \$20,000 for Graduate Awards.

An example for Specific trust funds is:

- i. \$2,500/year for 3 years for Graduate Awards.

Refer to University Aid and Awards Policy at http://www.mcmaster.ca/policy/Students-AcademicStudies/Aid_and_Awards.pdf

for the complete policy. Should minimums noted above vary from the University Aid and Awards Policy, the University Aid and Awards Policy will prevail.

- d. The minimum may be comprised of cash or appropriate gift documentation outlining the payment schedule to reach the minimum, with the exception of class gifts which will not have a defined fundraising period.
- e. 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 from that time, the donor has not resumed payments or indicated an intention to revise the payment

- schedule, McMaster, 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.
- f. The standard gift documentation shall contain a "power to vary purpose" clause, directing the University in the event that the original terms of the agreement cannot be fulfilled. University Advancement is to be contacted for the most current documentation templates.
 - g. In the event that the Trust Fund Operations Committee determines that gift documentation has been requested which deviates from the standard, it will be reviewed by the Assistant Vice-President, Administration & CFO 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 & CFO, as chair of the Trust Fund Management Committee, will confirm this to the University's Planning and Resources Committee and it will then be communicated to the Board of Governors.

APPENDIX I : ROLES & RESPONSIBILITIES REGARDING 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 funds
- j. coordinating 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 Financial Analyst, 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. advising University Advancement and the fund administrator when additional amounts are received from outstanding bequests and gifts of securities
- j. investing funds as they are received
- k. periodically reviewing all outstanding bequests and following up as to their collection
- l. 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.
- m. obtaining legal advice, if required

Financial Analyst, Trust Funds (Financial Affairs)

The Financial Analyst, Trust Funds is responsible for:

- a. assigning project numbers for trust fund donations and informing the fund administrator and University Advancement
- b. with proper approval, capitalizing accrued income
- c. ensuring non-expendable capital remains intact; taking appropriate action to rectify overdrawn trust funds
- d. 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
- e. maintaining a hard copy file of all relevant documentation for each assigned trust fund
- f. identifying projects requiring trusts and ensuring that trust funds are established
- g. on a monthly basis and using the Designated Donation Report, investigating unidentified funds and generating journal entries to transfer funds from University Advancement revenue chartstrings to established trust funds . Refer to the Charitable Giving Policy and Procedural Guidelines (<http://www.mcmaster.ca/policy/advancement/CharitableGivingPolicy.pdf>).
- h. reviewing the Summary of Trust Fund Statements to identify errors and ensuring corrections are made
- i. providing secretarial support to the Trust Fund Operations Committee
- j. assisting fund administrators by providing information (i.e. total amount of donations received for a particular fund, etc.)
- k. maintaining the Trust Fund Project Costing module within Mosaic, including security, training and support for users
- l. 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
- m. preparing annual endowment statements for chairs and professorships for fund administrators to issue to donors
- n. preparing and administering the trust fund annual review and attestation process for submission to the Trust Fund Operations Committee

Trust Fund Administrators

Student aid and awards will be administered by the Director of Finance, Graduate Studies or the Senior Associate Registrar, Student Financial Aid & Scholarships or by an individual delegated by one of these. For non-student awards, 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. ensuring funds are sustainable (e.g. a sufficient pool of students will continue to exist to meet the terms of the student award fund) and able to be administered according to the donor's wishes
 - c. seeking additional approvals where needed (e.g. for a student award in the judgment of a Faculty or Department, confirm the Faculty or Department is able to select a recipient as outlined in the terms of reference)
 - d. obtaining final approvals regarding terms from appropriate University committees
 - e. obtaining from University Advancement signed gift documentation with details regarding the donation payment schedule
 - f. submitting requests to the Trust Fund Financial Analyst to open new trust funds, when appropriate, with information required regarding type of trust fund, designation code, spending criteria, etc.
 - g. 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, and capitalizing unused expendable as appropriate
 - b. serving as principal signing authority for assigned trust fund projects including changes to any aspect of the project 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 trust information and/or providing the Financial Analyst, Trust Funds with recipient and other relevant data
 - f. maintaining complete donor files (electronic and/or hardcopy) 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 Financial Analyst, 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 donor contacts, 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 letter requests)
- 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 projects,

- eliminate deficit balances and activate projects with little or no activity. Work with fund administrators to resolve any issues of compliance identified in the attestation process.
3. Review annually Trust Fund 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 Planning and Resources Committee.
 7. Review and recommend changes to Board related policies such as the Expenditure Policy – Externally Restricted Endowments and the Expenditure Policy – Internally Restricted Endowments.
 8. Review annually the need for spending overrides using the criteria outlined in section 5b of the Expenditure Policy – Externally Restricted Endowments.
 9. Review requested policy exceptions and seek legal advice when necessary.

Membership

Assistant Vice-President (Administration) & CFO –Chair
Vice-President, University Advancement – (ex-officio)
Corporate Counsel, Office of Legal Services (OLS)
Chief Internal Auditor (observer)
Chair, Trust Fund Operations Committee
Director, Advancement Services
Director, Stewardship and Donor Relations
Treasurer

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 projects assigned, deficit balances eliminated and projects with little or no activity to become active.
3. Review and oversee the Trust Fund Project Costing module within Mosaic.
4. Ensure centralized trust fund files are maintained and ensure security and safety of such files.
5. Approve opening of trust funds after reviewing appropriate gift documentation and confirming that checklist is complete.
6. 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.
7. Resolve issues relating to trust funds as they arise as identified on the “Trust Funds in Need of Attention” report.
8. 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.
9. The Chair will be responsible for calling meetings of the Trust Fund Operations Committee and for preparing or coordinating reports to be presented to the Trust Fund Management Committee on a quarterly basis.

Membership

Director, Finance – Chair
Director, Advancement Services
Senior Associate Registrar, Student Financial Aid & Scholarships
Assistant Registrar Administration
Director of Administration, - from a Non-HSC Faculty
Director of Finance, Graduate Studies
Senior Manager, Accounting and Financial Reporting, Financial Services
Senior Manager, Administration and Trusts, Faculty of Health Sciences
Senior Development Officer, University Advancement
Investment Operations Analyst
Treasurer (consultant)
Financial Analyst, Trust Funds – Secretary