

Complete Policy Title: Trust and Endowment Fund Management	Policy Number: TF-01
Approved by: President and Vice-Presidents	Date of Most Recent Approval: October 19, 2021 Effective Date: January 1, 2022
Date of Original Approval: June 14, 1990	Supersedes/Amends Policy dated: Operational Policy and Procedures for Trust and Endowed Fund Management Revised – titles/language only October 25, 1995, December 14, 1999, April 14, 2005, April 2006, December 2008, June 2010, December 2012, December 2014, September 2015, September 2016, December 2017, December 2018
Responsible Executive: AVP Administration and Chief Financial Officer	Enquiries: Controller's Office
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1 Introduction

McMaster University holds gifts and bequests in individual trust funds when conditions and/or legal requirements exist for usage of the gift(s). Many of these trust funds are endowments which are invested to generate income in perpetuity to support endowed chairs and professorships, academic programs, research, lectureships, etc.; other trust funds are expendable and can be directly used for purposes as designated by funders. There are many areas of the University involved in the administration of trust funds including Financial Affairs, Directors of Finance and Administration in Faculties and units, departmental administrators within Faculties and units, University Advancement, the Office of Legal Services, and the Office of the Registrar.

2 Purpose

To outline the policy for management of trust funds including responsibilities by area, role or committee. For additional information and procedures on trust funds, see TF-01 Guidelines for Trust and Endowed Fund Management.

3 Scope

This policy applies to all types of trust funds, and internally funded and internally restricted endowments.

4 Definitions

4.1 Categories of trust funds

Trust funds are categorized depending on the conditions and/or legal requirements defined by the funder and the University.

- .1 General perpetual (i.e. endowed) trust: trust funds established in perpetuity whereby the capital¹ balance is non-expendable. Only income earned by the fund may be expended. General perpetual trusts normally have the following components:
 - i. Funds designated as non-expendable by the funder at the time of the gift
 - ii. Expendable funds accumulated from unspent income and funds designated for expenditure
 - iii. Preservation of capital which absorbs increases and decreases between actual income earned and the amount of expenditure permitted each year.
- .2 General long-term trust: fully expendable (i.e. non-endowed) trust funds from which both the original gift and income earned will be expended.
- .3 Spend-down trust: fully expendable (i.e. non-endowed) trust funds from which both the original gift and income earned will be expended over a defined number of years. The annual amount available for expenditure will typically be agreed upon and included in the gift documentation. This amount will normally not exceed 7.5% (6.5% for spending plus the 1% trust administration fee) of the original gift amount. The length of time a spend-down trust will be available for use will vary depending on the investment income earned over the course of the life of the trust.
- .4 Specific trust: fully expendable (i.e. non-endowed) trust funds which are normally to be spent within the same year the funds are given.

4.2 Accounting categories for trusts and endowments by type of restriction

- .1 Externally restricted funds: Subject to conditions specified by the funder. These trust funds may have an internal match as required by gift documentation that is considered externally restricted.
- .2 Internally restricted endowments: Internal University funding for which the purpose has been restricted by action or on behalf of the Board of Governors.
- .3 Endowments derived from gifts and bequests that were not restricted by the respective funders, such as the Hooker Endowment and General Endowment. The Pension Surplus Endowment is also included in this category.
- .4 Others funds internally restricted² by the Board of Governors via a transfer of internal funding according to the Expenditure Policy: Internally Restricted Endowments

5 Policy

Refer to TF-01 Guidelines for further information on these policy constraints.

- .1 All gifts to trust and other funds are processed through University Advancement.

¹ Capital includes the non-expendable amounts – original gift amount and internal matching funds.

² Internally restricted funds expendable amounts are included in the expendable trust fund ledger (Fund 77) but are not considered trust funds and have different accounting treatment.

- .2 All trust funds must conform to all applicable University policies.
- .3 All trust funds are to be opened with approved terms of reference and according to established criteria.
- .4 Approved terms of reference must meet all legal conditions for charitable trusts (see TF-01 Guidelines).
- .5 Approved terms of reference must meet all conditions of the Ontario Human Rights Code, which prohibits actions that discriminate against people based on a protected ground.
- .6 Funds will be invested and income assigned as follows:
 - i. General perpetual and spend-down trusts: The capital and accumulated earnings are invested in the Long-Term Investment Pool. For endowments without sufficient accumulated investment income, temporary encroachment of the capital is permitted (provided capital encroachment is not explicitly prohibited in the gift documentation). Any encroached amounts are to be recovered via future investment returns.
 - ii. General long-term trusts: The balance is invested in the Short-Term Investment Pool
 - iii. Specific trusts: No income allocations.
- .7 Income is distributed in accordance with the Expenditure Policy: General Trust Funds (Externally Restricted Endowments).
- .8 The non-expendable portion of general perpetual trust funds is invested under the Statement of Investment Policies and Objectives – Investment Pool, with the exception of funds for which the funder has stipulated the securities are to be retained, or for which other special arrangements have been made.
- .9 The expendable portion of trust funds is invested under the Statement of Investment Policies and Guidelines – Cash and Short-Term Investment.
- .10 No disbursements will be made from trust funds until the minimum has been received, other than in exceptional circumstances.
- .11 Except for memorial gifts of up to \$1,000 or exceptional circumstances, operating funds from the budget allocation framework and/or designated research funds cannot be transferred into trust funds.
- .12 Requests for policy exceptions must be made in writing to the Chair of the Trust Fund Operations Committee.

6 Responsibilities

- .1 **University Advancement** (in consultation with other units as appropriate) is responsible for due diligence for all gifts to trust funds prior to gift acceptance and compiling final documentation required to open trust funds. This includes ensuring terms of reference for trust funds meet all legal conditions for charitable trusts and all conditions of the Ontario Human Rights Code.
- .2 The **Financial Analyst, Trust Funds** is responsible for undertaking a documentation completeness check before a trust fund is opened, submitting to the Trust Fund Operations Committee as required, and distributing income to individual trust fund projects.
- .3 **Treasury Operations** (in consultation with the Investment Pool Committee) is responsible for oversight of the investment of funds and determining the total income to distribute to trust fund projects.

- .4 **Trust fund administrators** are responsible for managing their respective trust funds in accordance with the designated gift documentation, terms of reference, specific spending criteria, and the appropriate expenditure policy:
 - i. [Expenditure Policy: General Trust Funds \(Externally Restricted Endowments\)](#)
 - ii. [Expenditure Policy: Internally Restricted Endowments](#)
- .5 **Trust Funds Operations Committee (TFOC)** is responsible for reviewing documentation completeness and relevant accounting and financial details for all trust funds with an original gift amount of \$100,000 or more (upfront or pledged) to facilitate requests for opening trust funds, and completing other duties as outlined in its terms of reference (see TF-01 Guidelines).
- .6 **Trust Funds Management Committee (TFMC)** is responsible for making decisions and recommendations on policies, procedures, trust fund status, items brought forward from TFOC, and other duties as outlined in its terms of reference, including referring any matters requiring approval to the President and Vice-Presidents.

7 Exceptions

- .1 Requests for policy exceptions must be made in writing to the Chair of the Trust Fund Operations Committee. If the exception requires further approval, the Chair will refer the request to the Chair of the Trust Funds Management Committee.

8 Related Resources

- [TF-01 - Guidelines for Trust and Endowed Fund Management](#)
- [Charitable Giving Policy](#)
- [Statement of Investment Policies and Procedures – Investment Pool](#)
- [Statement of Investment Policies and Guidelines – Cash and Short Term Investment \(formerly Working Capital\)](#)
- [Expenditure Policy: Internally Restricted Endowments](#)
- [Expenditure Policy: General Trust Funds \(Externally Restricted Endowments\)](#)