MEMO

From: Financial Services
Re: Elimination of Revenue Transfer Usage for Trust Funds

Definition of trust funds: externally restricted funds through Donor Terms of Reference that restricts the use of the donations or, for contracts, must include repayment provisions should the funds not be used for the intended purpose.

The purpose of this memo is to summarize the University's position in disallowing the use of revenue transfers to move trust funds into the operating fund. The overall goal is to strengthen the financial stewardship surrounding trust funds as this is the core principle in accounting for these externally restricted funds.

Core principle → strong financial stewardship
(Definition of stewardship: the careful and responsible management of something entrusted to one's care)

<u>Other Reasons for Restricting the Use of Revenue Transfers</u>

- Eliminates the risk of restricted funds being moved into operating prior to the qualified expenses being incurred, which poses the accountability issue in determining if the funds were spent and in accordance with the donor's wishes or the funder's restrictions.
- Eliminates the risk that any unused restricted funds go undetected and forms part of the unrestricted operating funds; thus, poor financial stewardship.
- Requires the funds to remain in the trust fund and the qualified expenses are directly recorded against the funds when incurred; providing ease in reporting to the donor or funder as the qualified expenses would be directly aligned with the restricted funds.
    - → This also provides strong financial stewardship and has strong support from the Office of Advancement regarding the reporting of donor funds.
- Aligns with other universities (for example, York University, Western University and University of Toronto) and improves the alignment with Ontario University Reporting Guidelines.
- Improves the presentation of financial information to the Board of Trustees.

<u>Managing Initiatives with both Restricted and Unrestricted Revenues</u>

Revenue transfers allowed restricted revenues to be moved into operations prior to the expenses being incurred. Although this provided an operating ease, as all the related expenses for the initiative were recorded in the operating fund and matched to the total revenues of the initiative, it is a weak control when trying to provide strong financial stewardship.

Financial Services recognizes that the elimination of revenue transfers represents a change in how activities are tracked and monitored as they may be spread across several fund codes. The following are some possible remedies that can be applied to ease the administrative burden this change may cause:

- Internal cost recoveries could be used, which allow expenses booked in operations to be supported by trust funds while preserving spending information in the trust fund itself. In this scenario all expenses related to an initiative would be booked to fund 10000, and those to be covered by trust monies are recovered from the trust. The remainder is supported by operational revenue.
- Using program coding can provide a method of capturing all activity across funds and potentially across departments. All revenues and expenses related to a particular initiative can be coded with a program, which can then be used within FAST to summarize the activity.
- Using the Departmental Expendable Report in FAST can allow for the summarization of program activity spanning multiple funds. This report can be produced for a single department and program and pivoted by fund-account.

In addition, Financial Services is currently exploring report development in FAST to allow more convenient summarization of activities spanning multiple funds in a format similar to the existing statement of operations