

**A presentation by**  
**Queen's University**  
**Financial Services**

Alternative formats for this presentation can be found on the Financial Services website.

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# Financial Services

## Managing Trust and Endowment Funds

# Workshop Details



## An overview of

- Trust and endowment funds – the various unique intricacies,
- How to create a fund – the various types and required steps and documentation,
- How donations are received and recorded,
- Interest and units on endowed funds,
- Recapitalization and transfer process,
- Key processes in managing your funds,
- Reporting requirements – the importance of accurate financial information,
- How to close a fund.

## What is a Trust?

A trust fund is comprised of contributions to the university which are subject to restrictions on how the amounts are to be spent. Trust funds may also require that the details of the amounts spent are reported back to the contributor.

The university only allows **donations** or **grants and contracts** as allowable contributions to a trust.

**Donations** to trust funds should only be entered by Advancement and are restricted by donor terms of reference.

**Grants and contracts** may only be recorded to a trust if the terms of the grant or contract indicate that any money not spent must be returned.

# Endowment Funds



## What is an Endowment?

An endowment fund is similar to a trust in that there are restrictions on how the amounts received by the fund are to be spent and there may also be requirements to report back to the donor. The amount available to spend for an endowment fund is comprised of investment income earned on **capital contributions** and is restricted by donor terms of reference.

**Capital contributions** are recorded by Advancement as endowment equity and will not appear as revenue. These contributions are invested within the university's **Pooled Endowment Fund** and will earn interest income that is available for spending on an annual basis.

# GL Fund IDs



Trust and endowment funds fall within the following ranges of PeopleSoft general ledger fund IDs:

- **Restricted Trusts (50000-59999 and 80000-84999)**  
Funds within this range should meet the definition of a trust.
- **Externally Restricted Endowments (71000-79999)**  
Funds within this range should meet the definition of an endowment.
- **Internally Restricted Endowments (60000-69999)**  
These are funds that the university has set aside to generate income for specific purposes as decided by the Board of Trustees.

# Donations



## Office of Advancement

Advancement is responsible for fundraising and development activities at Queen's. This includes annual giving, planned giving, major gifts, capital campaigns, and corporate and foundation fundraising.

### Accepting Donations

Most donors will gift to existing trust or endowment funds, but may decide to create a new fund to support students or a specific university function. A suggested minimum of \$10,000 is required to create a new trust fund held within a faculty, \$12,500 up front or \$2,500 per year for 5 years for a student award trust fund, and \$50,000 is required to create a new endowment fund. The Office of Advancement should be contacted regarding the establishment of any new trust or endowment.

All trust and endowment funds have terms of reference which detail how the amounts gifted may be spent. Terms may require the Office of Advancement to be involved in reporting the financial stewardship of the fund back to the donor.

### Gift Services

Charitable tax receipts are issued for applicable contributions by Gift Services. All contributions are then recorded to appropriate ChartFields in the PeopleSoft general ledger.



# Create a Fund



## How to open a Trust or Endowment Fund

### Terms of Reference

Every trust or endowment fund must have a terms of reference. Please contact the Office of Advancement to start this process. This document details the purpose of the fund, who is responsible for the fund, expenditure guidelines, and reporting requirements if applicable.

The terms of reference must be signed by any individuals responsible in the creation or for the administration of the fund. Where applicable, these individuals may include the following: the donor, the Dean or head of the department benefitting from the fund, the Associate University Registrar (Student Awards), and the Vice-Principal (Advancement).

Terms of reference documents are held with the Office of Advancement.

### ChartField Request

Once the terms of reference have been established for the new fund, a request can be made to add a new GL Fund ID to PeopleSoft through Financial Services. For more information on the form and how to complete the form visit the [Procedures](#) page, [Managing Funds](#) link.

# Pooled Endowment Fund (PEF)



All contributions received for endowment funds are permanently invested in the Pooled Endowment Fund (PEF). Internally restricted endowments are university-established funds intended to be invested permanently, but the Board of Trustees may decide to unendow amounts should the need arise. Endowment capital from external donors will always remain endowed.

## **Investment Services**

The PEF is administered by Investment Services and investment activities are governed by policies set out by the Investment Committee of the Board of Trustees. For more information about the PEF, visit the [Contact Us](#) page, **Investment Services** link.

# Interest and Units



## Interest

The Investment Committee is responsible for establishing the yearly dividend spending rate for the PEF. The rate is determined by a hybrid formula that is designed to release current income to the operating budget in a stable stream and protect the value of endowment assets against inflation.

If the spending rate for the fiscal year is 9.73 cents per unit and an endowment fund held 100,000 units within the PEF, it would receive \$9,730 in endowment income (100,000 units x \$0.0973 per unit).

Any contributions received during the fiscal year would receive a pro-rated dividend depending on when the contribution is received.

The proportion is equal to (12 months – the fiscal period the contribution was received) ÷ 12 months. For example, a contribution received in May (period 1) would receive (12-1)/12 or 11/12 of the yearly dividend. A contribution received in October (period 6) would receive 6/12 of the yearly dividend and one received in April (period 12) would receive no dividend.

# Interest and Units (Continued)



## Units

The PEF operates in a similar manner to a mutual fund. The value of a unit is determined by dividing the total current market value of the fund by the number of units outstanding. The PEF unit value is calculated monthly and posted online under the [Contact Us](#) page, **Investment Services** link. The PEF unit value is used to determine the number of units an endowment fund receives.

### For example

An endowment fund receiving a \$100,000 capital contribution in October 2014 would receive 32,976.09 units. ( $\$100,000 \div \$3.0325$  with \$3.0325 being the PEF unit value at October 31<sup>st</sup>, 2014).

The number of units an endowment fund holds determines the endowment income it receives based on the yearly dividend spending rate.

# Recapitalization



## What is a recapitalization?

To recapitalize funds in an endowment fund is to take excess endowment fund income (surplus from the current or prior year) and transfer that balance to capital. This means that the amount will be permanently reinvested in the PEF to generate additional annual endowment income for the fund.

Financial Services processes all recapitalizations at the end of each fiscal year. For more information on how and when to recapitalize excess income, visit the [Faculty/Staff](#) page, **Trust and Endowments** link.

## Endowing other excess income

Generally, only an endowment fund is allowed to endow surplus amounts. Endowing excess income from any other fund would require approval from the Associate Vice-Principal (Finance) and Provost unless formal direction to endow has been received from a donor. Also, any transfer from a trust requiring approval must align with the trust fund's terms of reference.

**A Request to Transfer Funds to Endowment Capital** must be completed and forwarded to Financial Services for review and approval. These requests may be submitted at any time during the fiscal year. For more information on these transfers visit the [Faculty/Staff](#) page, **Trust and Endowments** link.

# Reporting



Trust and endowment funds may have different reporting requirements depending on who provided the amounts received.

## **Donors**

Donors may place a requirement as part of the terms of reference for a trust or endowment fund to report how the amounts received by the fund were spent. Departments will work with Advancement to properly report back to donors. Fund reports are prepared after the fiscal year ends to be distributed to donors by the end of September.

## **Grantors**

Trust funds established through a grant may require reporting back to the grantor based on the terms set in the grant agreement.

# Reporting (Continued – 2)



## How much to spend

The amount a trust or endowment is allowed to spend is dependant upon terms of reference, amounts received during the year and any surplus carried over from previous fiscal years.

## Grants

Grants will often dictate whether the amounts received by a trust are intended to be spent over a period of years or by a certain date and may also have annual spending limits.

## Donations

Donations to trust funds are expendable and can be spent as received.

## Endowment income

Endowment income is intended to be spent within the fiscal year that it was received. Any excess income can be recapitalized to earn more endowment income in the future.



# Reporting (Continued – 3)



## How to record spending

The university's responsibility to report back to donors and grantors on a timely basis requires that spending recorded within trust and endowment funds is accurate and detailed. Revenue transfers to other funds do not provide adequate detail to demonstrate proper stewardship of funds and are therefore not permitted.

### Specific restriction

The terms of reference for the trust or endowment will determine where amounts can be spent and dictates the GL accounts to be used.

### For example

A fund that awards a scholarship would record expenses to this fund using account 630001 – Scholarships & Bursaries. The expense can be recorded directly to the fund or by using an internal cost recovery from the Operating fund.

# Reporting (Continued – 4)



## Departmental or faculty restriction

Some funds may be less specific in how the amounts received are spent, but instead restrict which specific faculty or department may spend those amounts. For these types of funds, the department may choose to record expenses directly to the trust or endowment as above.

However, it is also acceptable to use an internal cost recovery from the Operating fund to offset any departmental expenses. This method is also a simple way to ensure that the trust or endowment uses its full allowable amount of spending for the fiscal year.

For more information on internal cost recoveries and revenue transfers visit the [Training](#) page, [Additional Resources](#) link.

# Close a Fund



## How to close a Trust or Endowment Fund

There are several reasons a trust or endowment fund may need to be closed. Some examples include:

- Donor or grant amounts received have been spent.
- Donor's intended use of funds are no longer relevant due to technological, social, or university reasons.
- Donor has decided to change the terms of reference for the fund.

Similar to the process of creating a trust or endowment fund, a department will need to work closely with Advancement to ensure that all those involved with the creation of the fund are in agreement with the closure of the fund (where applicable). During this discussion, a decision can be made on where to transfer any remaining amounts within the trust or endowment.

Once Advancement has agreed that the fund may be closed, a ChartField Request form needs to be completed for Financial Services to process the closure of the fund in PeopleSoft.

# Additional Resources



## **Financial Reporting Team – Financial Services**

[financial.reporting@queensu.ca](mailto:financial.reporting@queensu.ca)

## **Trust and Endowments – Financial Services** website resources

[Faculty/Staff](#) page **Trust and Endowments** link

[Forms](#) page

[Procedures](#) page **Managing Funds** link

[Contact Us](#) page **Investment Services** link

# How may we help you today?



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**To learn more or to review additional**

**Training Resources**

**and Video Tutorials**

**visit the [Financial Services Training](#) page**