An endowment refers to donations made to the university on the understanding that the donation will be invested in perpetuity with the investment income used to support specified educational purposes. The most distinguishing feature of an endowment is the creation of a legal relationship known as a “charitable purpose trust” (“trust”) in which funds are held by the Board of Governors of the university as trustee and not in its own right.

Updated January 2018
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PART 1  Introduction

Endowment funding supports a variety of programs and initiatives in the areas of student awards, chairs, professorships, visiting speakers, research and many other activities. An endowment refers to donations made to the university on the understanding that the donation will be invested in perpetuity with the investment income used to support specified educational purposes. The most distinguishing feature of an endowment is the creation of a legal relationship known as a charitable purpose trust (trust) in which funds are held by the Board of Governors of the university as trustee and not in its own right.

Endowments are usually created from donations, but endowments can also be created from other types of funding (e.g. government grants, transfer of trusteeship). Only donations that the donor has directed to be endowed or where the solicitation material clearly states the donation will be endowed are allowed to be deposited to endowment principal.

The university has developed an appropriate framework to ensure endowments are created and managed in a way that ensures the requirements of the charitable purpose trust are met. The Board of Governors is the trustee for all endowments.

The purpose of this document is to provide information that will assist the units with their endowment fund management. In conjunction with this document, please review all other endowment information in this Endowment Guide chapter.

With respect to accounting classification, there are two components to an endowment:

- **endowment principal account** – the account that generates the spending allocation for the endowment. It includes donations (principal) and investment returns (the portion of the investment return that is not allocated for spending).

- **endowment spending account** – includes the revenue (spending allocation per the university Spending Policy) and endowment expenditures.

Endowments are classified as follows in the UEP database:

- **Research** (E0010 – E4999; E9803 – E9833 – Killam Endowments)
  - Chair and Professorship – the endowment specifically supports this named position.
  - All awards administered by the Faculty of Graduate Studies and Research, and all other endowments related to graduate students.
  - Research – the endowment specifically supports research activity.

- **Special purpose** (E5000 – E9799)
  - Awards – includes all undergraduate bursaries, scholarships, awards, prizes and medals. All UofA bursaries and undergraduate awards are administered by Student Financial Support.
  - Academic Program.

Note: Endowments to support awards (scholarships, awards, prizes, medals and bursaries) are not included in this document as they are administered by Student Financial Support (SFS) and the Faculty of Graduate Studies and Research (FGSR).
The following acronyms have been used in this document:

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADA</td>
<td>Assistant Dean (Advancement) or equivalent</td>
</tr>
<tr>
<td>FGSR</td>
<td>Faculty of Graduate Studies and Research</td>
</tr>
<tr>
<td>FS</td>
<td>Financial Services</td>
</tr>
<tr>
<td>OA</td>
<td>Office of Advancement – Recording Secretary</td>
</tr>
<tr>
<td>SFO</td>
<td>Senior Finance Officer</td>
</tr>
<tr>
<td>SFS</td>
<td>Student Financial Support</td>
</tr>
<tr>
<td>UEP</td>
<td>Unitized Endowment Pool</td>
</tr>
<tr>
<td>UMV</td>
<td>Unit Market Value</td>
</tr>
</tbody>
</table>

The following terms have been used in this document:

**Faculty** - this document uses “faculty” throughout; as the dean has overall accountability for endowments within the faculty. Although faculty/dean is used throughout the document, it is recognized that some endowments are held at the Chair, Director, Vice-President and President level.

**Account holder** - refers to the specific endowment holder as identified in the Request New Endowment form. Generally, this is the budget owner (i.e. the budget owner associated with the deptID).

Refer to Appendix 1 for Endowment Glossary and Terms.

**Who to contact:**

These are the main contacts for assistance that are referred to in this document:

- Faculty Assistant Dean (Advancement) or Faculty Senior Finance Officer
- Advancement KNET – secure site containing forms and information on donations
- Office of Advancement – recsec@ualberta.ca

Access to Advancement KNET and Advance system is requested through recsec@ualberta.ca
PART 2  Legal and Legislative Aspects of Endowments

1. Definition of an endowment

An endowment is the creation of a legal relationship known as a charitable purpose trust (trust) in which funds are held by the Board of Governors of the university as trustee and not in its own right.

Endowment donations are those donations made to the university on the understanding that the donation will be invested in perpetuity with the investment income used to support the object (i.e., purpose). In order for the university to accept an endowment, it must be used to support specified educational purposes. Such purposes may, for example, include the establishment of a teaching award; the creation of a chair in a specified academic area; the funding of a particular research program; or, student support.

With a charitable purpose trust, there are three parties involved. In legal terminology, these three parties are referred to as:

- the settlor (i.e. donor)
- the trustee (i.e. the Board of Governors of the University of Alberta)
- the beneficiary (i.e. trust object) of the endowment (i.e. the specific charitable purpose the endowment is to serve, e.g., chair in diabetes, student award).

For trust law purposes, the beneficiary of an endowment, in a university setting, must be the advancement of education. If this is not the object of the donation, the donation will fail and revert back to the settlor. While the concept of the advancement of education has been broadly construed (so as to include academic programs, research funding etc.), some limiting parameters exist. Any donations directed to the support of an object which is out of the ordinary should be raised with university legal counsel to determine whether this criterion has been met.

Benefits accruing to the settlor (i.e. donor) from the establishment of a charitable purpose trust include:

- a charitable donation receipt for tax purposes (as applicable);
- the ability to assign a purpose to the donation; and
- assurance that the donation will be preserved in perpetuity.

Therefore, in order to create a trust (i.e. endowment), all of the general formal requirements of trust law must be met:

- it must be clear that the donor intended to create a trust;
- it must be clear exactly what assets are to form the trust property; and
- the trust object (i.e. purpose) must be clearly stated.

2. When is an endowment created?

Generally, an endowment is deemed to have been created (crystalized) when each of the following has occurred:

- all funding that has been committed to has been received,
- all documents are in place and approved, and
- spending to support the endowment’s purpose has commenced / is possible.
Where an individual donor has not met all pledge commitments, this means an endowment has not been established, even though an E fund may have been created in PeopleSoft Financials.

This is an important milestone, as once an endowment has been crystallized, it assumes all the aspects of a trust. Most importantly, the endowment's purpose is now finalized and cannot be altered.

3. Relevant legislation and other legal aspects

In addition to being subject to trust law practices, there are other important legal and legislative considerations associated with endowments. Some of the key points under relevant legislation are:

i. Province of Alberta - Post-Secondary Learning Act

- The Governors of the University of Alberta have the “capacity, rights, powers and privileges of a natural person” (section 59(1)). In addition, the Board of Governors is tasked with “managing and operating the University in accordance with its mandate” (section 60). Thus, like any other owner of property, the Governors of the university can create a trust “by declaration” whereby it yields up its ownership interest and becomes a trustee of the subject property, with beneficial ownership of the property residing elsewhere. Therefore, only the Board of Governors can create a charitable purpose trust (trust) from university operating funds.

- The Board of Governors must, by resolution, approve policies, standards and procedures that a reasonable and prudent person would apply in respect of a portfolio of investments to avoid undue risk of loss and to obtain a reasonable return (section 75).

- The university has the authority to vary the terms of endowments that it holds as trustee so as to allow for endowment assets to be “pooled” (as is done in the UEP) and to enable income earned by the endowment to be withheld from distribution (or conversely to allow encroachment on the principal to avoid fluctuations in the amounts distributed and generally to regulate the distribution of income earned by the endowment) (section 76).

ii. Province of Alberta - Trustee Act

The Trustee Act establishes the university’s powers as trustee.

- Provides that trust funds be invested according to the “prudent investor” rule.

- As trustee, the university must retain in perpetuity the governing document(s) that created the trust in order to administer the trust.

- In cases where the university does not have the power to vary, the university must look to the Trustee Act. The Trustee Act provides that the court shall not approve a variance of the trust unless it is satisfied that the variation appears to be for the benefit of each beneficiary and that in all circumstances, at the time of the application, the variation appears otherwise to be of a “justifiable character”. The Attorney General (Alberta Justice) also has a responsibility to respond to any application made by the university to the court as the spokesperson for the beneficiaries.

iii. Canada Revenue Agency (CRA) tax act:

CRA requires that all documents relating to the creation of the endowment (governing documents) must be retained in perpetuity.

iv. Trusteeship

In establishing endowments, donors may attempt to bestow trusteeship upon the dean of a particular faculty, or upon some other body or persons within or outside of the university. Similarly, donors may attempt to bestow upon a specific university officer(s) decision-making powers with respect to the administration and management of an endowment. Pursuant to the provisions of the Post-Secondary Learning Act, all university property, including property held in
trust, is owned and managed by the university Board of Governors. While the Board of Governors has seen fit to establish and authorize a number of administrative officers to assist in the administration of endowment funds, the trustee of all university endowments, as provided for in the standard Statement of Trust, remains the Board of Governors itself.

4. Governing document

The governing document is the source document that creates the trust, including stating the purpose. Usually, this is the Statement of Trust form, or a will. In some rare cases, the Statement of Trust may include a reference to other documents such as donation agreement.

Note: the referencing of other documents in the Statement of Trust is not recommended as, over time, it can limit the university’s flexibility or the trust itself.

Refer to later section for a detailed discussion on governing document.

5. Intergenerational equity

The purpose of setting up a trust is to “benefit the beneficiary”.

Excerpt from Statement of Investment Principles and Beliefs (section 2.3)

“… The Board of Governors recognizes the principle of intergenerational equity, which requires that the fund be managed to provide the same level of support to future generations as current beneficiaries receive. This means that the value of the fund should be preserved over time in real terms in order to maintain the future purchasing power of the assets.”

In setting the university’s investment and spending policies for the UEP, the focus is to preserve (i.e. inflation protect) “and to grow the real value of the endowments over time, while maintaining a strong and stable level of support to the beneficiaries”.

The UofA as trustee is under a legal duty to ensure that the purpose of the trust is fulfilled through expenditure. The UofA has to ensure even-handedness between (a) inflation and (b) current and future beneficiaries. The dean must have a process in place to ensure that spending is occurring. Therefore, the spending allocation should generally be expended annually (i.e. within approximately a year).

Note: there may be other non-financial purposes which must be met as well (e.g. donor recognition dinner).

Note: for the remainder of this document we will be using the following working terms:

<table>
<thead>
<tr>
<th>Legal term</th>
<th>Working term</th>
</tr>
</thead>
<tbody>
<tr>
<td>beneficiary*</td>
<td>used in the context of future recipients, etc.</td>
</tr>
<tr>
<td>charitable purpose trust (trust)</td>
<td>endowment</td>
</tr>
<tr>
<td>settlor</td>
<td>donor</td>
</tr>
<tr>
<td>trust object (object)</td>
<td>purpose</td>
</tr>
</tbody>
</table>

* Beneficiary is also “the specific charitable purpose the endowment is to serve”.

5
PART 3 Investment and Spending Policies

All investment activity is subject to the governance and oversight of the Board of Governors. The Board has delegated to the Board Investment Committee responsibility and authority to make decisions on behalf of the Board in the Committee’s defined area of responsibility. The Committee is responsible for all governance matters with the exception of the University Funds Investment Policy and the Unitized Endowment Pool (UEP) Spending Policy. These two policies are subject to approval by the Board of Governors.

The goal of the UEP is to achieve a long-term rate that shall equal or exceed the rate of spending established in the UEP spending policy, after allowing for inflation and growth and to support current and future beneficiaries in perpetuity (intergenerational equity).

1. University Funds Investment Policy

This policy establishes a distinct asset mix for each of the university funds (short-, mid- and long-term). The long-term investment strategy is primarily applicable to the UEP.

Per Investment Policies and Goals of the UEP – Goals and Risk Tolerance (Section 4.1):

“The goal of the UEP is to achieve a long-term rate of return that in real terms shall equal or exceed the rate of spending established in the UEP spending policy, and to do so with an acceptable level of risk.”

“The principle of intergenerational equity would require that the UEP be managed to provide the same level of support to future generations as current beneficiaries receive. This means that the value of the UEP should be preserved over time in real terms in order to maintain the future purchasing power of assets. In setting the spending and investment policies for the UEP, the focus should be not just to preserve but to grow the real value of the assets over time, while maintaining a strong and stable level of support to the current operations of the University.”

2. Statement of Investment Principles and Beliefs

This document sets out the underlying principles and beliefs, which shall form the basis for the development of investment policies and guidelines, and serves as a guide for managing the assets for the UEP. The objective of the Statement is to enhance the governance and management of the Fund and thereby increase the likelihood of achieving performance that is in line with expectations.

Per Fund Mission and Objective (Section 2.0):

Section 2.1:

“...The University has decided to develop an endowment fund that is comparable to those of the best public research universities in the world. The principles and beliefs set forth in this Statement are based upon the mission and objectives of the Endowment Fund as established by the Board of Governors.”

Section 2.2

“The objectives of the Fund are to support current and future operations of the University in perpetuity...”

Section 2.3

“The Board recognizes the principle of intergenerational equity, which requires that the Fund be managed to provide the same level of support to future generations as current beneficiaries receive. This means that the value of the Fund should be preserved over time in real terms in order to maintain the future purchasing power of the assets.”
3. UEP Spending Policy

The purpose of the Unitized Endowment Pool (UEP) Spending Policy in conjunction with the University Funds Investment Policy is to preserve and to grow the real value of endowment assets over time, while maintaining a strong and stable level of support.

Individual endowment funds own units in the pool, and the pool itself consists of a variety of investments. The units are purchased with donations to the endowment principal account. The underlying assets in the pool provide investment income.

The spending allocation is based upon the UEP Spending Policy, which utilizes the number of UEP units held as the basis of determining the annual spending allocation for each endowment fund.

FS will communicate the next fiscal year’s base unit spending amount in May of the current fiscal year (e.g. in May of 2016, the base unit spending amount for April 2017 will be communicated).

Extracts from the Policy:

- “Endowment contributions purchase units in the UEP based on the Unit Market Value (UMV) at the beginning of the month in which the contribution is received. Investment Earnings net of Direct Costs during the fiscal year in which an endowment contribution is received will become Capitalized Investment Earnings.”
- “The Annual Spending Allocation is distributed to account holders at the beginning of each fiscal year”.

Therefore:

- The annual spending allocation is processed at the beginning of the fiscal year (April).
- Annual spending allocation = number of units \* base unit spending amount.

For donations received on or after the start of the fiscal year (April 1), the capitalized earnings (1st yr) associated with these donations will be added to principal and will purchase additional units until the end of the fiscal year in which the donation was received.

This investment income is allocated as follows:

- to fund the current spending allocation requirements. This is distributed as spending allocation to each fund in the pool, based on the number of units held and the base unit spending amount.
- to pay investment costs and administrative fees.
- to change the UMV. Investment income more (less) than that required for spending allocation is added to (subtracted from) the principal and is reflected as a change to the current UMV.

Refer to Appendix 2 for more detail.

For further details, refer to Investments in this Guide chapter.

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Summary of policy capitalizations

- **Growth, inflation protection** – investment income earned over and above spending allocation.
- **First year of donations** - for donations received on or after the start of the fiscal year (April 1), the capitalized earnings (1st yr) associated with these donations will be added to principal and will purchase additional units until the end of the fiscal year in which the donation was received.
The endowment management framework consists of the following:

1. Faculty Management Framework
   
   The dean is accountable for the faculty endowment management framework that ensures effective and efficient endowment management. This framework will incorporate the following:

   i. Develop comprehensive knowledge of endowments
      
      Due to the knowledge required (for the review/approval of new endowments, ongoing compliance and stewardship), it is expected that the faculty will develop a centralized finance resource that will acquire the appropriate level of expertise in this area. The centralized financial expertise would provide support to the whole faculty.
      
      This role will be fully familiar with the Guide to Financial Management – Endowment Fund Management chapter as well as any other related university policy, procedure and guidance information. Integrating the institutional requirements and obligations with the faculty business and knowledge of each faculty endowment will ensure effective and efficient management. Often the senior staff within a faculty to assist with endowments would be the ADA and SFO.

   ii. Operational management
      
      The faculty would have an appropriate planning process in place to determine if a new endowment should be created, or new fundraising plans for existing endowments should be undertaken. If a new endowment is to be created, this would be approved by the dean, ADA and SFO.
      
      The faculty must have a process in place to ensure the endowments are managed in accordance with their purpose, including spending and non-financial requirements. Where not in compliance (e.g. annual spending has not occurred), ensure a plan is in place to restore its compliance within approximately a year.
      
      To assist in their management, the faculty will have processes that will address the following areas:
      
      - maintain endowment files
      - donations are sent to OA immediately
      - transactions are properly authorized
      - over expenditures are prevented, or when occur are resolved immediately
      - financial reports are reviewed
      - address specific requirements (e.g. changing account holder on an endowment)
      - determine how issues will be resolved, ensuring the resolution does not conflict with the endowment’s purpose. For issues that the dean cannot resolve, the dean will provide analysis and recommendations to OA and further consult with OA as appropriate.
      - perform an annual compliance self-assessment

2. Endowment financial system
   
   PeopleSoft Financials provides transaction information and financial reports with contributions at book value. As PeopleSoft Financials does not provide all required information, there is other information a faculty will be required to use:
• uPlan (effective fiscal 2018) – the university’s budget and planning module. Endowments with prior year’s revenue (spending allocation) that exceeded $25,000.00 or that have continuing salary expenses will be identified separately in uPlan and available for budgeting. Endowments with prior year’s revenue equal to or less than $25,000.00 will be grouped together, and available for budgeting as a group. An endowment with $25,000.00 revenue (spending allocation) or less can be added by request.

• Samba network – provides information on the number of units held, current unit market value, annual spending allocation and the endowment fair value.

Access can be granted to those individuals who have access to run nVision reports in PeopleSoft Financials.


Principal - book value versus fair value

• Book value represents contributions, which consists of the actual donated amount, and capitalizations (e.g. capitalize from operating funds). In the GL, the Exxxx principal balance is the book value.

• Fair value is calculated as the number of units times the unit market value (UMV at the last month end). The increase in the endowment value (due to investment income earned in excess of the amount allocated for spending) is booked at institutional level accounts (i.e. not booked to each individual endowment). Therefore, fair value information for each specific endowment is only available on the reports filed on the Samba network.

• Advance application – provides details on donation transactions and pledges.

Note: OA processes donations to the GL through the GLJE User Interface (DON mask). Advance is not a PeopleSoft Financials application; therefore, drill capability to the detailed Advance transactions through PeopleSoft Financials is not available. The journal line description in the GL contains the receipt number (first 10 digits of the journal line description) which can be found in Advance.

3. Governing document

Generally, the governing document is the Statement of Trust or a will.

Where filed:

• FS has the originals of the governing document, and any other information pertinent to the legal administration of the trust

• Electronic Document and Records Management System (EDRMS) (Alfresco) in OA

• the faculty retains a copy of the documents

4. Supporting documents

• donation agreement and donor correspondence which specifically addresses the administration of the donation (which are not referenced in the governing document).

Where filed: OA EDRMS (Alfresco)

• internal operating plans which assist in the faculty’s administration of the endowment, and includes an expenditure plan. These internal operating plans should be reviewed periodically (suggest every 4 years, to align with the academic planning cycle). These plans cannot
supersede the endowment trust object, and the faculty will always need to look at the endowment's trust object when an interpretation is required.

Where filed: faculty

- the faculty will retain any other internal correspondence that assists in their endowment management that is not filed in the Advance system.

Where filed: faculty.

In some future phase, OA will look at expanding the use of EDRMS (Alfresco) to include faculties' internal operating plans and other internal correspondence (that is not filed in the Advance system).

Refer to Part 5 for more detail on governing and supporting documents

5. Office of Advancement systems

- Advance system includes donor contact information, contact reports including correspondence, and donors' history of donations and pledges.
- Advancement KNET – secure site containing forms and information on donations
  - Gift Services – forms
  - Donation Tracker for information on status of particular agreements or requests
  - Donation Acceptance Tool Kit for procedural information
  - Links to various policies and procedures
- EDRMS (Alfresco)

6. UAPPOL policies and procedures related to donations

- Donation Acceptance Policy
- Donation Acceptance Procedure
- Counting Practice for Philanthropic Support Procedure
1. Governing document

The governing document is the source document that creates the trust (endowment), including stating the purpose. Usually this is the Statement of Trust document; however, there are other documents which can be used when a Statement of Trust cannot be used.

The following lists the different types of governing documents:

i. Statement of Trust (SOT) signed by the donor

To assist in the administration of endowments, the university has prepared a standardized document referred to as a Statement of Trust, which, wherever possible, is to be used by donors making endowment donations. All persons involved in soliciting, instituting and administering endowments should become familiar with this document, its content and the proper use of the SOT.

The SOT is prepared to confirm to all that:

a. there is a trust
b. this trust is an endowment and
c. the university accepts the purpose, will administer this endowment under a certain set of rules (i.e. legal, legislative, university policy).

Therefore, where possible, the university's standard SOT must be used, as this is the document that:

• ensures both the donor and the university recognize this as a trust (i.e. endowment). It avoids confusion over which, of a number of documents, actually creates the endowment in question (the "governing document"). Often, through a series of correspondence and agreements, differing terms are ascribed to a particular endowment. It may be unclear as to which set of terms actually governs the endowment. Thus, a prime function of the Statement of Trust is to establish, at the time the endowment is created, its governing terms.

• assists in the administration of the endowment. The SOT provides the university with the ability to effectively and efficiently manage each endowment and will assist in addressing any issues that may arise.

• assists both parties in identifying that an endowment is established in perpetuity. Recognition must be given to the need for the university to be able to react to changing circumstances. For this reason, the object (i.e. purpose) and the university’s powers, as trustee, are framed very broadly in the SOT.

Refer to Appendix 4 for further details

Excerpt from SOT (re powers to vary):

“In the event that future circumstances render the continuation of the aforementioned activity impractical or undesirable, the University may use the principal or income for such other purposes as will, in its opinion honour, as nearly as practical, the original intent of the donor.”

In most cases, the donor(s) will sign the Statement of Trust. However, sometimes an agent or lead donor will sign the Statement of Trust on behalf of the donor(s). An agent may be utilized where that individual is the authorized signing officer for a corporation, foundation, etc., or where the faculty has initiated the fund-raising (dean would sign). An executor can also act as agent for an estate. A lead donor is generally utilized when there are multiple donors such as class gift, annual reunion, pass the hat, memorial funded by family and friends, etc.
Note: in some cases, the SOT may reference another document (donation agreement, letter, etc.), in which case the document referenced is also a part of the governing document. This is rare and is not recommended as, over time, it may limit the university’s flexibility or the trust itself.

ii. Will

In the case of a will, the will speaks for the purpose of the endowment, and is the source of such purpose.

In the case of a will, if it is inferred that the donor wanted to set up an endowment (e.g. the purpose is to establish a named fund) then this bequest can be directed to an endowment. However, if this is not the case:

- with restrictions but no inferred direction to endow, the bequest will be directed to a restricted project.
- with no restrictions, the bequest will be directed to the operating fund.

Note: The UofA may receive all or final estate settlements prior to Canada Revenue Agency (CRA) clearance (final CRA tax evaluation of the estate). These funds would all be deposited to the endowment principal, and, in the rare event that CRA requires an additional payment (this is rare and not material), there are two options (pay from endowment spending (cannot overspend endowment), pay from operating funds).

Note: wills are kept in OA, with a placeholder document saved in EDRMS.

iii. Specific agreement

Generally, a specific agreement is used for larger endowments from an external entity (e.g. corporate donors) that call for special consideration beyond those contemplated in the Statement of Trust. These are commonly drafted jointly by the external entity and the university (including legal counsel). OA will therefore ensure that the specific agreement includes the language used in the Statement of Trust.

iv. Solicitation literature

All solicitation literature must be reviewed by OA. This includes all communication methods (e.g. mail outs, faculty website, etc.).

Failure to use the correct language (re: establishing an endowment) may result in solicited donations not eligible to be endowed. Ensure that the donors are directed to the relevant university policies in this area.

v. Memorial

Usually a memorial is initiated by family. The faculty should make every effort to have a Statement of Trust completed by the lead donor or the organizer. However, if this is not possible, the governing document in this case is usually an obituary notice and/or a letter from the family/friend.

2. Supporting documents

In addition to the governing document (which states the purpose), an endowment may also have supporting documents. Supporting documents are not governing documents. Their purpose is to assist the university in the day-to-day management of the endowment. They also may assist in later years when addressing issues (i.e. with respect to donor intent, spirit in which the gift was given). Examples of supporting documents are:
• Correspondence from donors such as letters, memos, emails

• UofA donation agreement. OA either prepares or reviews these before they are presented to the donor. Donation agreements are generally required for gifts of $50,000.00 or more, and are optional for gifts under $50,000.00. The purpose of the donation agreement is to document the timing of the donation (e.g. a payment schedule for pledges), as well as any recognition or further commitments to which the university and the donor have agreed. The donation agreement should not be referenced in the Statement of Trust, as this can limit the university’s flexibility in administering the trust over time.

• Internal operating plans (in faculty files):

  For some endowments, the faculty may also wish to develop an internal operating plan that sets out how the unit intends to utilize the spending allocation to fulfill the purpose of the endowment, or to provide guidance on operational aspects of the endowment. Expenditures must always be aligned with the purpose of the endowment. For example:

  o an endowment whose purpose is “student support”, the account holder (e.g. dean) may have decided that the spending allocation will be directed to fund conference travel for students for three years, and this spending will be re-assessed in three years’ time.

  o a discretionary endowment whereby the account holder (e.g. chair) decides where the spending allocation will be directed, including a time line to re-evaluate the spending priorities.

  o on any endowment where the unit wants to document in more detail how to manage the spending allocation.
As part of planning, the faculty will determine any new endowments required and whether to increase existing endowments. This planning would also assess whether or not a spendable donation would be preferable.

Whether planning a fundraising initiative or approached by a donor, a thorough review of the proposal and how this integrates with the faculty’s overall financial planning is a key step. In many cases, setting up a new endowment is the appropriate decision; however, before moving forward with a new endowment the faculty will want to ensure:

- all options are assessed before determining that a new endowment is required. This would include discussion with the donor the option of adding to an existing endowment that has the same purpose.
  
  Note: a new donation cannot attach further conditions to the original purpose.
- there is sufficient funding (principal) to support the planned expenditures
- the purpose will stand the test of time (i.e. ensure the purpose is as flexible/broad as possible)
- the endowment can be managed efficiently and effectively in perpetuity

The university does not allow donors to specify requirements to capitalize/decapitalize. The university has policies in place to ensure an appropriate level of inflation protection and growth occurs, providing “a strong and stable level of support to beneficiaries”. Individual donor requirements such as these work against these policies and impose an administrative burden.

**Develop a robust review process**

The process around planning for new endowments would include the following:

| i. | Ensuring familiarity with the legal and legislative aspects of endowments, investment and spending policies, and any other relevant university policy and procedures |
| ii. | Assessing the endowment’s area of support is a priority with respect to alignment with the faculty’s goals and objectives. |
| iii. | Ensuring a fundraising plan and alternate purpose are in place where support is going to be solicited from multiple donors, and that the plan and all solicitation literature have been approved by OA. |
| iv. | Ensuring familiarity with the process and documentation required to set up an endowment, and the general timelines for setup and spending allocation availability to support the trust purpose. |
| v. | Any known unusual requests from the donor are discussed with OA as early as possible |
| vi. | Determining whether the donor has intended to set up an endowment by: |
  | - Ensuring donor understands the legal and legislative aspects of endowments, as well as the applicable university policies. |
  | - Communicating with donor the importance of ensuring the endowment is fully funded. Endowments require a minimum amount of principal in order to generate sufficient spending allocation. Refer to Appendix 3 – Minimum Thresholds and Additional Approvals |
| vii. | Assessing the ability to manage the endowment effectively and efficiently in perpetuity. |

At this point the faculty would have an opportunity to determine if the planned endowment purpose is appropriate or if more flexibility would be preferred. The faculty will want to structure the endowment so as to ensure the university can comply with the donor’s wishes in perpetuity; including recognition that the university must be able to react to changing circumstances.

The dean will also determine who will hold the endowment (i.e. account holder).
viii. Determining whether an endowment should be accepted in light of any purpose that is too restrictive or over time may become difficult or impossible to administer.

The university must carefully consider any language that further restricts the trustee powers or authority, as these further restrictions may not be acceptable to the university as trustee.

Note: using the university’s standard Statement of Trust will assist in this area.

ix. Ensuring the planned endowed amount will provide sufficient spending allocation. Where there is a known shortfall, the faculty must address at the outset how the shortfall will be covered (e.g. fundraising plan).

This step will also include a spending plan to ensure the spending allocation is expended annually (i.e. within approximately a year).

x. Reviewing other options (e.g. such as adding to an existing endowment).

Determine whether the donation requires a new endowment be set up, or if the donation can be added to an existing endowment. The faculty can work with the donor (where appropriate) to highlight:

• Discretionary endowments and the importance of adding to these endowments.
• Other existing endowments.

xi. Determine the account holder. It is recommended that the dean hold as many endowments as possible within the faculty.

xii. When an endowment is set up with an expectation to meet the target with future fundraising or pledges (generally a three to five year period), an alternate purpose must be identified which will be used if the fundraising target is not met. An alternate purpose is not required where the amount is fully pledged by one donor.

Example: “Funds will be used for a chair in diabetes, if however the $5 million target for a chair is not met then these funds will be endowed to support diabetes research”.

If the amount raised did not meet the target and it is insufficient to meet the spending requirements, the amount donated will be used to support the alternate purpose.

If the amount raised did not meet the target, but the original purpose can still be met and has exceeded the endowment minimum threshold (e.g. perhaps a smaller lecture series), that original purpose will be supported.

When an endowment is funded by one donor and that donor does not meet their pledge commitment, an endowment has not been created (crystallized). As no alternative purpose was identified at the outset, the university has the flexibility to decide how to best use the donations received as well as any spending allocation which may have been earned.

OA would consult with the stakeholders (including legal as necessary) and provide a recommendation to the Vice-President (Advancement) and the dean. In making such recommendation(s), the original intent of the donor would be reviewed and may be included as a factor for consideration in determining the appropriate course of action. If the fundraising plan requires capitalization of all or some of the spending allocation to reach its target, this must be listed as a funding activity. The spending allocation will be capitalized by FS at the beginning of the fiscal year (April) at the same time the annual spending allocation is processed.

Note: Capitalization of the spending allocation is only appropriate when this amount is required to reach the target. If not required to meet the target, then the spending allocation would be expended. It is rare that spending would not be possible before fundraising is complete.

Example where spending will occur each year and increase until target is reached - $50,000.00 is to be raised to fund diabetes research, over 5 years. There is no reason that spending would not occur in each year.

Example where spending allocation may accumulate in first two years - a $1 million fund to support a professorship is pledged over 3 years, meaning that the position can be filled in the fourth year. However, the spending allocation being generated in each of the previous years may allow the position to be filled in the third year.

xiii. Provide OA with appropriate information and lead time to draft the Statement of Trust, UofA Donation Agreement, approve fundraising plan, etc. Note that OA will prepare all Statements of Trust and UofA Donation Agreements before they are sent to the donor.

xiv. Dean’s review and approval.

If, after the planning and review stages, a new endowment is required, the faculty will proceed with requesting a new endowment.
Common issue areas that tend to arise over time

The following are some of the more common issues that tend to arise in later years, with suggestions on how to prevent/minimize these issues at the outset from occurring.

<table>
<thead>
<tr>
<th>Issue</th>
<th>How to prevent/minimize</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose is overly restrictive and over time it becomes difficult or impossible to comply</td>
<td>Using a more general term, such as “student support” rather than “student travel”</td>
</tr>
</tbody>
</table>
| Endowments are small in value and therefore become more difficult to administer efficiently, spending allocation is too low or the faculty has a number of smaller endowments that have a similar purpose | • use of minimum thresholds  
• use of general endowments (e.g. research fund, visiting speaker fund) |
| Over time, the spending allocation may become insufficient. For example, an endowment is set up to fund a student travel to Europe (to study economics). Over time, the cost of the travel to Europe becomes far more than what the endowment generates for spending allocation. | Adding flexibility to the primary purpose such as: “to support the travel costs to Europe, or to fund the study of European economics at the UofA”. |
PART 7 Request New Endowment

When it has been determined that a new endowment is required, and all of the supporting documents are in place, the faculty will initiate the request new endowment process.

As noted in Part 6 (Planning for New Endowment), OA will prepare all Statements of Trust and UofA donation agreements (where required). As well, OA must approve all fundraising plans, and will either prepare or approve all fundraising literature, solicitation letters, etc. OA is also available to support the faculty in preparing the Request New Endowment form.

1. Complete and submit the Request New Endowment form

   The ADA and SFO in the faculty must sign off on the completed Request New Endowment form. Other sign-offs noted on the form may be required and must be included in the supporting backup.

   Refer to Appendix 3 – Minimum Thresholds and Additional Approvals

   Once completed, the Request New Endowment form and supporting documents (originals) will go to the Dean, Vice-President or President (as appropriate) for review and approval.

   All requests for new endowments will originate from the faculty. Where OA becomes the initial contact point (e.g. receives notification of bequest); they will forward all documents to the faculty.

2. Review and approval of request for new endowment

   Once approved by the faculty, the form and original documents are sent to OA. OA will review and pass on to FS for their review and set-up in PeopleSoft Financials. The SOT is signed off by Vice-President (Advancement) and Vice-President (Finance and Administration).

   This process will be completed within 10 days, and is contingent upon complete documentation. If there are any questions or concerns, OA will contact the ADA.

3. Set up endowment in PeopleSoft Financials

   Once approved, FS will:

   - Set up endowment in the financial system (assign a fund and deptID number). Note: this fund/deptID combination is required on all transactions associated with the endowment.
   - Send out an email notification of the new endowment fund number (and name) and speedcode, and attach a fully signed Statement of Trust. This notification will be provided to the faculty SFO (for the dean) and OA. Note: if the faculty requires any additional notifications, they will be responsible for this additional distribution.
   - Assign a general category in the UEP database
   - Create a permanent file (institutional file of record)
   - Create a data sheet
   - Provide documents to OA to be uploaded to EDRMS

For new endowments created from sources other than donations (e.g. transfer of trusteeship, court orders related to creative sentencing fines or class actions, government grants), contact FS.
1. Donation processing and coding to endowment principal account

Only donations that the donor has directed to be endowed or where the solicitation material clearly states the donation will be directed to an endowment are allowed to be deposited to an endowment principal account.

Units must submit donation deposits to OA via the Donation Deposit/Pledge Transmittal Form (available on Advancement KNET). All cheques for donations must be forwarded to the OA on a daily basis. In rare cases where cash donations (i.e. currency) are collected, units must deposit these through Cashier (code to account 108131 - Clearing Campus Cash Donations) and must notify OA by submitting the Donation Deposit/Pledge Transmittal Form and copies of all supporting documentation. Upon receipt and approval, OA will process the donation. All donations must be processed to the same deptID as identified on the Request New Endowment form.

i. Coding (COA)

Only donations that fit within the endowment’s purpose can be coded to the endowment principal account.

The faculty is required to have the appropriate approval process in place to ensure donations are coded accurately. The faculty is responsible for ensuring that new donations do not attach further terms to the original trust.

Note: a donation may be credited to the endowment spending account, and this would generally occur in the rare case when a donor may wish to pay or top up, as the spending allocation may not be sufficient in the first year or so. This is generally for student support endowments (e.g. travel awards), and would be identified as part of the fundraising plan.

ii. Corrections to donation coding

Units must submit corrections to OA via the Donation COA Correction form (available on Advancement KNET).

Note: donations received prior to the receipt of completed documentation will be placed in endowment suspense. While in suspense, donations do not attract spending allocation.

2. Suspense procedure

Suspense is intended to be a short-term holding account, and funds placed in suspense are to be moved out as soon as possible. Funds remaining in suspense longer than allowed per procedure will be brought to the attention of the Dean for resolution.

Refer to the OA suspense procedure for more detail (available on Advancement KNET).

3. Additional donations to endowment principal account

The faculty must ensure that additional donations do not attach further terms to the original purpose or that the original trust does not prohibit additional contributions.

Additional donations may arise from the following:

- target date/amount - where it may take a number of years to receive all of the donations (e.g. pledges)
• regular/recurring, where
  o donations continue to come in based on the initial fundraising event (continuous stream)
  o there is a new fundraiser on a regular basis of which the purpose of the event is to add to the original endowment (e.g. the Nursing Class of 1985 holds a reunion every five years; and donations are requested for the Nursing Education Endowment).
  o the faculty expects to receive donations on a regular ongoing basis due to the general nature of the endowment object (e.g. diabetes research endowment; whereby donor specifies to be endowed in the area of diabetes research).

• New donations (from a new donor or the original donor) that are being directed to an endowment where it was not anticipated there would be additional donations.

4. Donations to endowment principal account in current fiscal year
   For donations received on or after the start of the fiscal year (April 1), the capitalized earnings (1st yr) associated with these donations will be added to principal and will purchase additional units until the end of the fiscal year in which the donation was received.
   Refer to Appendix 2 for more detail

5. Net proceeds directed to endowment principal account
   Some activities (e.g. golf tournaments) provide funding for an endowment. The activity will have revenue (e.g. ticket sales) and expenditures (related to the event) on the understanding by the ticket purchasers/donors that the net proceeds will be added to endowment principal.

   The method of processing depends upon whether or not the faculty has filled out a Charitable Donation Event worksheet and has received approval from OA:

   i. Charitable Donation Events worksheet has been approved
      Units must contact OA well in advance of preparing brochures, solicitation material, etc. with the information which will allow for an appropriate review. The revenue for this activity will be processed in the Advance system, split between F210* - account 402xxx (sales portion) and endowment principal (donation). OA provides a charitable receipt for the portion of the funds deemed donation, if deemed charitable, or a business receipt for the entire contribution.
      * Sales revenue is credited to the COA from which expenses were or will be paid, which is generally F210 (operating fund).

   ii. Charitable Donation Events worksheet is not applicable (i.e. net proceeds of an event)
      The revenue for this activity will be processed by the faculty (e.g. Cashier) through the operating fund (F210 - account 402xxx).

      The faculty will determine the appropriate time during the year when the net proceeds should be moved to the endowment principal. OA will require a copy of the solicitation literature (to support the movement of funds to the endowment) and a financial statement on the activity (to support the net proceeds amount). OA will submit a GLJE Request to transfer the net proceeds to the endowment principal account.

For both (i) and (ii) above, the faculty must provide the appropriate supporting documentation for this funding arrangement at the outset (i.e. when the new endowment is requested).
6. Additional donations to endowment spending account

Donations directed to the spending account are rare. If an endowment has donations directed for spending (as specified by the donor), this is generally defined at the outset and forms part of the file documentation. This may occur when a donor directs part of their donation to spending when there is not yet sufficient principal to fully support the purpose. For example, if it will take up to three years for the pledges to reach their target, then the donor may provide the amount required to fully fund the annual award until the endowment reaches its target.

If, after the endowment has been set up, the faculty determines that donations will be processed to the endowment spending account, the faculty must provide OA with appropriate supporting documentation. OA will review for appropriateness.

Donations deposited to the spending account are available for spending immediately (i.e. will not purchase units, therefore will not increase the spending allocation) (applicable donation revenue account – 4xxxxx).

Under no circumstances can additional donations be deposited to the spending account of a discretionary endowment. By their very nature, these donations are not restricted; therefore, they are considered operating funds (F210).

7. Annual spending allocation

The annual spending allocation is processed at the beginning of the fiscal year (April). Annual spending allocation = number of units × base unit spending amount.

The FS bulletin will communicate the next fiscal year’s base unit spending amount in May of the current fiscal year (e.g. in May of 2016, the base unit spending amount for April 2017 will be communicated). A reminder notification of the upcoming year’s rate will be sent out in the January FS bulletin.

It is expected that endowments will spend an amount somewhat equal to their spending allocation on an annual basis (i.e. within approximately a 12-month period). The unexpended portion would represent a planned expenditure timing lag and it is expected that the unexpended portion would be expended in the next year. An annual spending plan will ensure the university is complying with the purpose and will assist the faculty in ensuring the effective use of all funds available.

Refer to Appendix 2 for more detail.

8. Budgeting (uPlan – the university’s budget and planning module)

Faculties will develop an endowment spending plan as a part of fiscal and strategic planning. This is an ongoing and predictable source of revenue.

Endowments with prior year’s revenue (spending allocation) that exceeded $25,000.00 or that have continuing salary expenses will be identified separately in uPlan and available for budgeting. Endowments with prior year’s revenue equal to or less than $25,000.00 will be grouped together, and available for budgeting as a group. An endowment with $25,000.00 revenue (spending allocation) or less can be added by request to Resource Planning.

9. Expenditures

The account holder is responsible for ensuring that expenditures are approved, occur each year and are in compliance (i.e. eligible) with the purpose.

All expenditures related to the endowment must be coded to the endowment, and all expenditures must be coded to the same deptID as specified on the Request New Endowment form, as all
reporting is driven off the one deptID to one endowment structure. The faculty has the option of including program, class and project on the expenditure coding.

Assessing eligibility – sometimes there may be uncertainty as to whether or not a planned expenditure would be in compliance with the endowment’s purpose. When this occurs, the endowment account holder may wish to review with the SFO or the ADA. If these more senior individuals are also uncertain with respect to the appropriateness of the expense, they would consult with the dean. It is expected that these more senior roles will be able to make the appropriate judgement with respect to the purpose of the endowment (including the spirit and intent of the donor) in the context of the faculty’s academic (courses, programs) and operational environment. OA is available for consultation with the dean as required.

Questioning the appropriateness of a transaction already processed – if a transaction that has already been processed is later reviewed and there is some uncertainty with respect to whether the expense is in compliance with the endowment purpose, the procedure above would be followed.

Over expenditures (OE) are not allowed. An OE occurs when the endowment has spent more than the annual spending allocation plus the full carry forward from prior year.

10. Transfers

Transfers of spending allocation (in or out) of an endowment are generally not allowed/not required. It is important that spending related to the spending allocation occur within the endowment for ease of administration, as this allows the account holder to assess if spending has occurred and is compliant with the trust purpose.

There are some endowments whose purpose includes providing internal awards or funding for specific projects both within their unit and to other units. The purpose of these endowments supports “sub-grant” activity to other funds. For these types of endowments, FS will develop a standard template for support that would be submitted with the GLJE Request whether the request is going to FS or RSO.

Note: In these cases, it is the account holder’s responsibility to ensure that the transferred out amount has been expended and that spending was in compliance with the endowment’s purpose.

11. Internal financial reporting for managing and monitoring

Account holders are responsible for ensuring the accuracy and completeness of their financial reports. The following reports will assist the faculty in managing and monitoring endowments:

- Endowments Principal and Spending (fsglv16)
  Provides a summary list of all endowments
- Endowment Principal and Spending (10 year) (fsglv28A)
  If a faculty needs to access more than 10 years, contact FS (who can run this report back to 1998 (when PeopleSoft Financials was implemented). Prior to 1998, FS has this information stored on microfiche.
- UEP (Samba network) – monthly
  Provides various information including number of units, current unit market value, endowment fair value, spending allocation)
- Endowments Principal and Spending (fsglv80B)
  Provides a summary list of all endowments held by SFS on behalf of the faculties

For more information on reports, refer to:
• Advance application - for details on donations transactions (units can run queries by faculty, by department, etc.)

12. Internal reporting (in support of donor reporting) provided by OA

• October (based on September data) - Endowment Spending Review report will be sent to the Dean (and copied to ADA and SFO). The purpose of the report is to identify possible spending issues as well as assessing fundraising target fulfillment. This is one of the preliminary steps as OA prepares for donor Annual Endowment Fund Report.

• February (based on December data) – draft Annual Endowment Fund Reports (see next point) will be sent to the Dean (and copied to ADA and SFO). The purpose of this report is to provide information that will be communicated to donors. The Dean would review and provide feedback to OA – Stewardship Office in advance of the Annual Endowment Fund Reports that will be sent to donors.

13. Donor reporting provided by OA

• Annual Endowment Fund Reports (EFR) are generated in June—for all donors who are identified by central Stewardship.

• Stewardship Reports are created for individual donors to illustrate the cumulative impact of their giving. Threshold is typically $1M+ for individuals and $4M+ for corporations and foundations, or at the conclusion of a significant pledge cycle.

• Endowed Chair and Professorship Reports are created annually in collaboration with chair holders, faculty development personnel, and/or respective research offices for donors who have endowed chairs and professorships. Ideally these reports are included in the EFR packages.

• Student biographies are provided to scholarship donors, if students provide them—typically as an EFR package insert, or in the form of a lengthier Scholarship Report.

• Updates are provided as necessary for donors who request current or specific information regarding their endowed funds, their award recipients, or their memorial funds.

14. Compliance process

Generally, non-compliance occurs when there is low or no spending, or if expenditures are not per the purpose of the trust.

i. Expenditure compliance with financial purpose (eligible expenditures, number of travel awards)

It is expected that the faculty will manage most of its expenditure compliance through the transaction approval process with respect to eligible expenditures. However, where there are additional requirements, such as that two travel awards be given out, the faculty must ensure that they have a process whereby they can confirm that both awards were given out.

Note: where an endowment's spending allocation has been transferred (e.g. sub-grant), it is the account holder's responsibility to ensure that the transferred amount has been expended and that spending was in compliance with the endowment's purpose.

ii. Non-financial purpose compliance

The faculty must have a process in place to ensure that other compliance areas have been satisfied. As these purposes are generally not related to endowment spending, a different process for assessing compliance will be required.

Examples:

• Donor may provide a donation for an annual award event and require that the donor be acknowledged in some appropriate manner at the annual event.
• Donor will be recognized in the faculty newsletter
• Plaque or similar permanent recognition to be installed in a certain location

iii. Low or no spending
In addition to the processes around expenditures noted above, the faculty must also ensure it has a process in place to identify endowments where no spending is occurring or where less than the annual spending allocation is spent each year. In general, an endowment's purpose cannot be met without spending occurring. If an endowment has more than one year's spending allocation accumulated in its spending account, this may also be an indicator of non-compliance with the endowment's purpose.

Note: it is expected that at least 80% of an endowment’s spending allocation would be used each year. Some endowments may be set up to spend every second year (i.e. the endowment supports a conference which is to be held every two years).

iv. Faculty compliance self-assessment
The faculty office must have a process in place to ensure each endowment is managed in compliance with its purpose. This includes ensuring the annual spending allocation is expended and is expended per the endowment’s purpose, as well as meeting any non-financial obligations (e.g. donor recognition).

An annual compliance self-assessment must be reviewed and signed off by the dean. This annual assessment is intended to provide assurance to the Board of Governors that the university’s trustee obligations are being met.

Where an endowment is not in compliance (e.g. annual spending has not occurred), the dean must have, and include in the compliance self-assessment, a plan to ensure compliance is restored within a year. Generally, non-compliance can occur if expenditures are not made in accordance with the purpose of the endowment, or low or no spending is occurring. Where there is no or low spending, the account holder is required to develop a plan detailing how the accumulated spending will be addressed, and annual spending restored (within the next year).

In order to assist faculties with their compliance self-assessment, they may wish to use the Compliance Monitoring Template, located in the endowment Guide chapter. Faculties can tailor this template further to support their particular requirements.

Note: the template shows transfers separately. This relates to the additional reporting requirements in place for transfers (refer to previous point).

15. Discretionary and general endowments

i. Discretionary
A discretionary endowment is one where there are no restrictions on the use of the spending (e.g. donated for spending at the dean’s discretion), thereby allowing the dean to determine where the spending allocation will be used each year in support of the dean’s overall spending plan.

Discretionary endowments are generally held at the faculty level (i.e. held by dean), and more flexible with respect to use and therefore very effective and efficient from a financial management perspective.

Note: some faculties may have a discretionary endowment at the department level (i.e. held by chair). A faculty or department will generally have only one discretionary endowment each.

ii. General
An endowment where the purpose is slightly more restrictive than discretionary.
Examples:

- a faculty research fund, where the dean can direct the spending to support a research initiative in any area within the faculty.
- a student support fund, where the spending can be directed at any focus area within the broad scope of helping students.

Discretionary or general endowments may be named very generally (e.g. Dean’s Discretionary Fund, Student Support Fund) or more specific if the faculty feels that will assist in fundraising. What is important is that it is recognized that these endowments have spending flexibility. For discretionary endowments, the endowment description in PeopleSoft Financials will reflect this flexibility by having “D” appended.

Periodic review of internal operating plans and use of funding

For both discretionary and general endowments, the faculty outlines an internal expenditure plan (internal operating plans). These are retained at the faculty level only as this does not change the endowment purpose. This plan should be reviewed periodically (suggest in conjunction with the overall planning process). The review confirms the spending allocation is being utilized in the most strategic manner, especially for discretionary endowments.

16. Endowments that support Chairs, Professorships

A faculty may receive other funding that can be used to fund the salaries and benefits for these positions. This alternative funding can be short- or long-term in nature. In these cases, it is then appropriate to utilize the spending allocation for activities related to the Chair or Professorship, such as research, hiring graduate students, funding awards, etc.

Notes:

- the endowment name must be retained on the Chair or Professorship, even though there is a different funding source.
- this is not allowed if the terms of the endowment specifically state that the endowment funds the salary and benefits.
- unit internal operating plans must be in place with details on the alternate funding source, other allowable uses for spending allocation, and a transition plan for when the other funding is no longer available. The account holder would add appropriate comments to their compliance self-assessment for the duration of this funding arrangement.

17. Capitalize

This section does not refer to the capitalizations which occur as part of the UEP spending policy (refer to Part 3 (Investment and Spending Policies)), or when capitalization is part of a fundraising plan.

Capitalize is both “complex and permanent” and therefore requires the appropriate due diligence. It is important to note that a capitalize action will permanently remove the ability to expend these funds and, further, that these endowed funds are now held by the university as trustee, and not in its own right. Capitalize requests therefore require Vice-President approval, and in some cases, Board of Governors approval.

Note: it is generally not appropriate to capitalize unexpended spending allocation, as the endowment has been set up to generate a level of spending that the donor and the university deemed appropriate to support the purpose for current and future beneficiaries, and the university is bound to this purpose as trustee. The university’s investment and spending policies are structured to support the requirement for intergenerational equity (inflation plus growth).
Capitalize requests are rare, and would generally only occur under the following conditions:

- when it is deemed appropriate to capitalize non-endowed restricted research funds
- when it is deemed appropriate to capitalize operating funds.

Note: Capitalize to an existing endowment cannot attach further terms to the original endowment.

i. Capitalize non-endowed restricted research funds
   A minimum of $50,000.00 is required.
   Grants
   This may apply to grants whereby the sponsor allows the university flexibility in how it wishes to utilize the residual. Contact the Vice-President (Research) office for further information.
   Donations
   It is extremely rare that the university would not fully expend a donation. However, where there may be residual, it is important that the faculty consider the “donor intent” in its assessment. If it is clear that the donor intended their donation be “spent”, these funds would not be eligible to capitalize. If, however, the donor did not provide this clear intention, these funds may be eligible. Contact OA for further information.

ii. Capitalize operating funds
   The university may, from time to time, choose to capitalize operating funds for the future and permanent benefit of the university. The university would consider this option when it has surplus funds that are not required for the current operation of the university and only after other internal obligations have been satisfied (this assessment is made by both the Provost and the Vice-President (Finance and Administration) during their review of the requests).
   As the faculty is requesting that a charitable purpose trust be created (or augmented) from operating funds, Board of Governors approval is required.
   In general, the operating sources of funding available for directing to a charitable purpose trust include donations (directed to general operations) and royalties, and requires a minimum of $50,000.00 (in aggregate) per faculty. This process occurs once per year (requests are submitted to the Provost by mid-May; and are presented (for approval) at the fall Board of Governors meeting). Amounts of $500,000.00 or greater can be addressed throughout the year.
   For more details, refer to the Endowment Guide chapter - Capitalization of Unrestricted Funds to Permanent Restricted Endowment Procedure.
PART 9  Issues Encountered in Managing Endowments

Part A – Proactively preventing issues
Set up new endowments with “perpetuity” and “ease of administration” in mind
Manage and monitor existing endowments regularly throughout the year
A strong process around the planning for and the approval of new endowments will in most cases prevent (or minimize) issues from occurring at a later date. Regular monitoring will assist in more quickly identifying issues when they do occur.
A robust endowment framework will ensure the following is in place:
• a rigorous planning and approval process for new endowments
• a Statement of Trust document that provides a broad statement with respect to the purpose of the endowment (trust)
  The importance of the Statement of Trust (with as broad a purpose as possible) cannot be stressed enough. The broad purpose allows the university to administer the endowment efficiently and effectively, avoid issues or where an issue may be encountered provides the university with some flexibility in addressing the issue.
• annual compliance and management review

However, despite the university’s best efforts, other factors may come into play which may impair the university’s ability with respect to compliance or in its ability to manage effectively and efficiently.

Part B – Reacting to issues that have arisen
The issues that the university encounters can usually be categorized as one of the two scenarios:
• endowment did not reach fundraising target
• endowment purpose has become too restrictive over time (or unit perceives they are too restrictive)
The following steps should be taken if a unit is encountering difficulty in administering their endowment.
  1. Ensure you are looking at the governing document.
     FS maintains, on behalf of the Board of Governors, the institutional permanent file. For trustee purposes, documents that created the trust must be retained in perpetuity. The FS file will therefore include the original governing document, and any other information pertinent to the legal administration of the fund. A copy of these documents is available in EDRMS.
  2. Review the governing document to see if there is more spending flexibility than originally thought.
     • The unit may be referring only to their internal operating plans. These can be more restrictive than the endowment’s purpose, as they address a spending plan at a point in time.
     • Often, over the years, a number of internal notes, internal memos, etc. may have been added to the unit endowment file. These are not governing documents and in many cases, these documents contain decisions on use which may be more restrictive than the purpose in the governing document. Original documents on EDRMS should be reviewed to determine spending options available.
     • The unit may be too narrowly interpreting the purpose; for example, “purchase of books” could be interpreted to include any mode or medium to “gain or access information”. This interpretation will, therefore, provide more expenditure flexibility.
3. Determine if there are other solutions such as:
   - additional fundraising
   - top-up spending from other funds

4. Assistance with endowment issues
   i. Faculty resolves internally
      Each faculty is expected to have a review process in place to address issues which are identified. At a minimum, this would consist of identification of a position which would take the lead in the review process, possibly the ADA or SFO. This position would also coordinate all discussions with the dean, including receiving the dean’s input related to interpretation of purpose. Where the faculty is able to resolve the issue (i.e. faculty is able to continue its management of the endowment purpose), then they would continue on with their administration of the endowment.
   
   ii. Faculty is unable to resolve
      If the dean determines that the faculty is unable to resolve an issue, the faculty would contact OA. It is expected that the dean would delegate a position in the faculty office (possibly the ADA or SFO) to be the contact point between the faculty and OA. The dean would provide OA with a written analysis including:
      - a description of the issue,
      - options the faculty has developed,
      - documents the faculty has referred to, and
      - recommendations.
      
      OA would assess and consult with appropriate offices (e.g. legal) and provide a recommendation to the dean who would make the final decision.

5. Variance
   An endowment will only require a variance when it is deemed to have a “failed object”; i.e., when it is no longer possible to meet the purpose or where the purpose no longer exists. Instances like this, where the university can no longer fulfill its role as trustee, are extremely rare. If such a situation is encountered, it should be identified to OA. OA will then take the necessary steps to confirm a variance is required, and ensure the applicable offices are involved in the resolution process. In order to pursue failed object, the dean would need to provide comprehensive analysis such as that described above (4(ii)), including why the endowment purpose cannot be met.
   
   Note: Where a faculty has changed the name of the program, but has not changed the student cohort registering in that program, or the course content being delivered, this does not generally constitute a variance. The following are examples of instances which do not constitute a variance:
   - in 2012 the faculty of Law changed its program from Legum Baccalaureus (LLB) to Juris Doctor (JD).
   - a course number changes (e.g Math 301 becomes Math 355), but the content and the student cohort who would register for the course do not change.
# Appendix 1  Endowment Glossary and Terms

<table>
<thead>
<tr>
<th><strong>Account holder</strong></th>
<th>The individual responsible for operational management of an endowment, ensuring trust purpose is met. This individual has signing authority for transactions (i.e. budget owner).</th>
</tr>
</thead>
</table>
| **Charitable purpose trust (trust)** | A charitable purpose trust refers to money held by the university as trustee and not in its own right. There are three parties involved in the creation of a charitable purpose trust:  
  - the settlor (the donor)  
  - the trustee (the university)  
  - the beneficiary (the specific charitable purpose the endowment is to serve)  
  
  **Trust** - a trust is a right of property, real or personal, held by the university (the trustee) for the benefit of another (the beneficiary).  
  
  For trust law purposes, the beneficiary or the purpose (trust object) in the university setting must be for the “advancement of education”. The concept of “advancement of education” is broadly construed (so as to include teaching, research support, etc.).  
  
  **Trust object** - the purpose or objective of the endowment (e.g. leadership prize, providing research support, instituting a visiting speaker program, etc.). This is generally noted on the Statement of Trust, but can also be found in a will or other governing document.  
  
  Note: Unit internal operating plans are not part of the trust object. These set out the manner in which, from year to year, the university as trustee intends to fulfill the trust object of an endowment.  
  
  **Non-financial purpose** – a component of the trust object which may not be fulfilled by a simple expenditure (e.g. recognition dinner)  
  
  **Trustee** - as trustee the university holds the property in trust and is required by law to execute the trust.  
  
  **Stewardship** - As trustee, the stewardship includes acting in a fiduciary capacity and therefore the university must exercise a standard of care in such management. This also includes the management of the donor relationship and the reporting back on the fulfillment of the trust. |
| **Endowment** | For the purposes of this document, the term “endowment” is used to refer to donations made to the university on the understanding that the donation will be invested in perpetuity with the investment income used to support the object (purpose). The most distinguishing feature of an endowment is the creation of a legal relationship known as a “charitable purpose trust” in which funds are held by the Board of Governors of the university as trustee and not in its own right. |
| **Failed object** | An endowment fails its object when it is no longer possible to meet the object or where the object no longer exists and therefore the university can no longer fulfill its role as trustee. |
| **Governing document** | The governing document is the legal document establishing the university's trusteeship of an endowment and setting out the endowment's trust object or purpose. |
| Intergenerational equity | The principal of intergenerational equity requires that the same level of support be provided to the endowment’s object or purpose (in legal terms, the beneficiary) in the future as has been provided in the past. This means that the value of the endowment should be preserved over time in order to maintain the future purchasing power of assets, allowing for inflation and some growth. |
| Principal account | Includes donations made on the understanding they will be invested (i.e. not spent) and that the investment income generated therefrom will be used for spending (i.e. to support the trust object).  
At the pool level, principal also includes capitalization of investment income (investment income earned less spending allocation distributed) in order to preserve and grow the real value of the endowments (this includes inflation protection).  
**Book value** – the actual donated amount and the capitalized earnings (1st yr). In the GL, the Exxxx principal balance is the book value.  
**Fair value** - calculated as the number of units times the unit market value (UMV) at the end of the previous month. The increase in the endowment value (due to investment income in excess of spending allocation) is booked at institutional level accounts (therefore not booked to each individual endowment). A faculty must look at the reports on Samba to see the fair value of each individual endowment.  
**Units** - an internal measurement indicating a portion of “ownership” of the UEP.  
**UMV** – Unit Market Value. The total investment value divided by total units  
**UEP** – Unitized Endowment Pool. The pooling of investment assets accumulated by or donated to the university for endowment (trust) purposes to facilitate investment management and administration of the funds. |
| Spending account | Includes the spending allocation, donations directed by the donor for endowment spending and related expenditures.  
**Spending allocation** - The annual distribution of investment income for each endowment as per the UEP Spending Policy.  
**Base unit spending amount** – refer to Appendix 2 |
TERMS and ACRONYMS

Other than when discussing a purely legal scenario, we have generally used the following working terms in this document:

<table>
<thead>
<tr>
<th>Legal term</th>
<th>Working term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beneficiary*</td>
<td>charitable purpose</td>
</tr>
<tr>
<td>capital</td>
<td>principal</td>
</tr>
<tr>
<td>charitable purpose trust (trust)</td>
<td>endowment</td>
</tr>
<tr>
<td>settlor</td>
<td>donor</td>
</tr>
<tr>
<td>trust object (object)</td>
<td>purpose</td>
</tr>
</tbody>
</table>

* Beneficiary is also “the specific charitable purpose the endowment is to serve”.

The following acronyms have been used in this document:

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADA</td>
<td>Assistant Dean (Advancement) or equivalent</td>
</tr>
<tr>
<td>FGSR</td>
<td>Faculty of Graduate Studies and Research</td>
</tr>
<tr>
<td>FS</td>
<td>Financial Services</td>
</tr>
<tr>
<td>OA</td>
<td>Office of Advancement – Recording Secretary</td>
</tr>
<tr>
<td>SFO</td>
<td>Senior Finance Officer</td>
</tr>
<tr>
<td>SFS</td>
<td>Student Financial Support</td>
</tr>
<tr>
<td>UEP</td>
<td>Unitized Endowment Pool</td>
</tr>
<tr>
<td>UMV</td>
<td>Unit Market Value</td>
</tr>
</tbody>
</table>

The following terms have been used in this document:

**Faculty** - this document uses “faculty” throughout; as the dean has overall accountability for endowments within the faculty. Although faculty/dean is used throughout the document, it is recognized that some endowments are held at the Chair, Director, Vice-President and President level.

**Account holder** - refers to the specific endowment holder as identified in the Request New Endowment form. Generally, this is the budget owner (i.e. the budget owner associated with the deptID).
Appendix 2  UEP Units and Spending Allocation Examples

FS will communicate the next fiscal year’s base unit spending amount in May of the current fiscal year (e.g. in May of 2016, the base unit spending amount for April 2017 will be communicated).

The annual spending allocation is processed at the beginning of the fiscal year (April). Annual spending allocation = number of units x base unit spending amount (see next page for further information).

For donations received on or after the start of the fiscal year (April 1), the capitalized earnings (1st yr) associated with these donations will be added to principal and will purchase additional units until the end of the fiscal year in which the donation was received.

Number of units and fair value

The number of units for individual endowments, as well as current fair value, can be found on Samba under the folder for the department holding the endowment at the following location:

\Samba.srv.ualberta.ca\win2000\rptbooks\Reports - Non - PeopleSoft data

Note: units, fair value and distribution averages are all calculated to four decimals. Figures shown below are only to two decimal places as they are for illustration purposes only.

Units

Endowment donations purchase units at the prior month end unit value. To determine the number of units, divide the amount of the donation by the unit value at the prior month end. The following is an example of estimating the number of units:

<table>
<thead>
<tr>
<th>Donation amount</th>
<th>Unit value</th>
<th>Units purchased</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10,000.00</td>
<td>$280.00</td>
<td>35.71</td>
</tr>
</tbody>
</table>

Endowment principal account:

The change in fair value is reflected in the unit market value. This amount is not recorded at each individual endowment; it is recorded at the pool level.

<table>
<thead>
<tr>
<th>Month</th>
<th>Activity</th>
<th>Book value, opening</th>
<th>Donations</th>
<th>Book value, closing</th>
<th>Fair value, closing</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>Donation</td>
<td>Principal ($)</td>
<td>0</td>
<td>10,000.00</td>
<td>10,000.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(Units)</td>
<td>35.71</td>
<td>35.71</td>
<td>$280.00 per unit</td>
</tr>
<tr>
<td>May</td>
<td>Change in fair value</td>
<td>Principal ($)</td>
<td>10,000.00</td>
<td>0</td>
<td>10,177.35</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(Units)</td>
<td>35.71</td>
<td>35.71</td>
<td>$285.00 per unit</td>
</tr>
<tr>
<td>June</td>
<td>Additional donations</td>
<td>Principal ($)</td>
<td>10,000.00</td>
<td>5,000.00</td>
<td>15,000.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(Units)</td>
<td>35.71</td>
<td>17.54</td>
<td>53.25</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$290.00 per unit</td>
</tr>
</tbody>
</table>

(1) Note that the June donation purchases units using the May unit market value of $285.00.
Base unit spending amount

The following example shows how the base unit spending amount is calculated:

\[
\begin{align*}
&\text{Base unit spending amount} \\
&\text{The following example shows how the base unit spending amount is calculated:} \\
&\begin{array}{|c|c|}
\hline
\text{Unit market value (3-year rolling average originally fixed at the December } \scriptsize{2010 \text{ value, and since indexed by inflation per policy)}} & $222.4056 \\
\times & 3.9\% \\
= & \text{annual base unit spending amount} \ $8.67 \\
\hline
\end{array}
\end{align*}
\]

(1) Spending allocation increases for fiscal 2016 and future years will occur at the rate of inflation (change in total CPI) if the UEP fair value is at least 10% above its inflation tracking target (value of all donations to endowment principal indexed to historical inflation rates). If the target is not met, base unit spending amount will not change.

Annual (April 1) spending allocation example

The spending allocation is processed at the beginning of the fiscal year (April).
FS processes via a GLJE (END journal) to account 404050 (Endowment spending allocation).

The following example is based on:
Base unit spending amount - $8.67
Number of units - 100.00
Endowment spending allocation - $867.38

<table>
<thead>
<tr>
<th>Month</th>
<th>Transaction</th>
<th>Opening balance $</th>
<th>Revenue $</th>
<th>Expenditures $</th>
<th>Closing balance $</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>Spending allocation</td>
<td>-</td>
<td>867.38</td>
<td>-</td>
<td>867.38</td>
</tr>
<tr>
<td>July</td>
<td>Expenditure</td>
<td>867.38</td>
<td>-</td>
<td>(600.00)</td>
<td>267.38</td>
</tr>
</tbody>
</table>
Capitalized earnings (1st yr) example

The capitalization of spending allocation is processed beginning in the month following the donation.
Note: donations received in March do not purchase additional units.

FS processes via a GLJE (END journal) to account 303209 (Endow Cap Earnings (1st yr))

The following example is based on:

Donation received in December

Unit market value is $280.00 throughout the time period shown

<table>
<thead>
<tr>
<th>Month</th>
<th>Transaction</th>
<th>PRINCIPAL ACCOUNT (Book value)</th>
<th>SPENDING ACCOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Opening balance $</td>
<td>Donation, Capitalization $</td>
</tr>
<tr>
<td>Dec</td>
<td>Donation</td>
<td>-</td>
<td>10,000.00</td>
</tr>
<tr>
<td>Jan</td>
<td>Capitalized earnings (1st yr)</td>
<td>10,000.00</td>
<td>25.81</td>
</tr>
<tr>
<td>Feb</td>
<td>Capitalized earnings (1st yr)</td>
<td>10,025.81</td>
<td>25.87</td>
</tr>
<tr>
<td>March</td>
<td>Capitalized earnings (1st yr)</td>
<td>10,051.68</td>
<td>25.94</td>
</tr>
<tr>
<td>April</td>
<td>Spending allocation</td>
<td>10,077.62</td>
<td>-</td>
</tr>
</tbody>
</table>

(1) The capitalized earnings (1st yr) for January is calculated as:

\[
\begin{align*}
\text{annual base unit spending amount} & = 8.67 \\
\text{number of units purchased} & = 35.7143 \\
\text{capitalized earnings (1st yr)} & = 25.81
\end{align*}
\]

(2) The capitalized earnings (1st yr) for February is calculated as:

\[
\begin{align*}
\text{original number of units purchased} & = 35.7143 \\
\text{units purchased in January} & = 0.0922 \\
\text{total units held} & = 35.8065 \\
\text{annual base unit spending amount} & = 8.67 \\
\text{capitalized earnings (1st yr)} & = 310.44
\end{align*}
\]
Appendix 3  Minimum Thresholds and Additional Approvals

The following provides the minimum thresholds for named endowments and, where applicable, additional approvals required. These thresholds are effective as of April 1, 2012. Additional approvals refer to those approvals beyond the faculty approval required (i.e. dean, ADA and SFO).

<table>
<thead>
<tr>
<th>Type of Named Endowment</th>
<th>Minimum Threshold For Naming</th>
<th>Additional Approvals</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Naming</td>
</tr>
<tr>
<td>Academic Positions:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Endowed chair</td>
<td>$4M</td>
<td>Provost</td>
</tr>
<tr>
<td>Endowed professorship</td>
<td>$2M</td>
<td>Provost</td>
</tr>
<tr>
<td>Visiting professor</td>
<td>$1.5M</td>
<td>Provost</td>
</tr>
<tr>
<td>Awards (scholarships, awards, prizes, medals and, bursaries¹)</td>
<td>$25,000.00</td>
<td>Appropriate Awards Office</td>
</tr>
<tr>
<td>Undergraduate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Graduate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Endowments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lectureship</td>
<td>$25,000.00</td>
<td>Please refer to Naming Policy</td>
</tr>
<tr>
<td>Research Fund</td>
<td>$25,000.00</td>
<td>Please refer to Naming Policy</td>
</tr>
</tbody>
</table>

¹Held by Student Awards, Faculty of Graduate Studies and Research, University Bursaries and Emergency Funding

For all other categories of endowments, the minimum threshold is $25,000.00.
Note: A $25,000.00 endowment provides a spending allocation of about $900.00 per year

Any pledges or fundraising initiatives that will take longer than 5 years to complete require approval from the Vice President (Advancement).
The Statement of Trust provides the university with the ability to effectively and efficiently manage each endowment (charitable purpose trust) in perpetuity and will assist in addressing any issues that may arise.

UNIVERSITY OF ALBERTA

STATEMENT OF TRUST

Donor(s)/Agent(s) Information

Name
Address
City Province/State Postal/Zip Code
Preferred Phone Number E-Mail Address

Name
Address
City Province/State Postal/Zip Code
Preferred Phone Number E-Mail Address

2. Designation of Endowment Object

The Endowment is designated to: (specify the purpose of the Endowment, e.g. an award, research support, visiting speakers program, etc.)

In the event future circumstances render the continuation of the aforementioned designation impractical or undesirable, the University may use the principal or income for such other purposes as will, in its opinion, honour, as nearly as practical, the original intent of the Donor.

3. Endowment Administration

The Endowment will be administered by the University in accordance with the Post-Secondary Learning Act, the University Funds Investment Policy and the Unitized Endowment Pool (UEP) Spending Policy.

Copies of these policies are available upon request, or they can be viewed online at: www.financial.ualberta.ca/GuideToFinancialManagement

Donor Signature(s)

Signature of the Donor(s) or Agent(s) of the Donor of the:

Name of Endowment

Dated this ______ day of ________, 20___

Signature of Donor or Agent

Printed Name of Donor or Agent

Signature of Donor or Agent

Printed Name of Donor or Agent

Acknowledgement of the University, as trustee, of acceptance of the Endowment

Dated this ______ day of ________, 20___

Signature of Vice-President (Advancement) or designate

Printed Name of Vice-President (Advancement) or designate

Signature of Vice-President (Finance & Administration) or designate

Printed Name of Vice-President (Finance & Administration) or designate

April 2016

Clear Form

Print Form