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Capitalization of Unrestricted Funds to Permanent Restricted Endowment Procedure

Office of Administrative Responsibility:	Financial Services
Approver:	Vice-President (Finance and Administration)
Scope:	Compliance with this university policy/procedure extends to all Academic Staff and Colleagues and Support Staff as outlined and defined in Recruitment Policy (Appendix A and Appendix B).

Contact for questions about this procedure:	Manager & Senior Business Analyst stefan.thordarson@ualberta.ca
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Overview

The University may from time to time decide to capitalize unrestricted funds to **permanent restricted endowments** for the future and permanent benefit of the University. The University would consider this approach 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.

Purpose

To ensure that:

- capitalization occurs only when it is financially appropriate for the University
- all appropriate approvals for capitalizing unrestricted funds are obtained

PROCEDURE

The University's ability and desire to capitalize unrestricted funds at a time when the University may be in a deficit in future years may be based on a number of factors. The appropriate analysis is required during any deficit period to support a decision to capitalize.

1. DETERMINE ELIGIBILITY OF FUNDING SOURCE

The following outlines the general categories of unrestricted funding and the appropriateness of capitalization for each of these categories. These categories also assist in identifying the funding source in the request and therefore provide the appropriate context to those in an approval role.

a. Undesignated donations:

This includes:

- i. donations targeted to a faculty or department without a specified purpose;
- ii. estates that are silent with respect to terms and conditions and therefore these funds must be classified as unrestricted. It is the University's belief that most donors would prefer to permanently endow their bequest, however not all donors may be aware of the appropriate wording to designate as such.

Undesignated donations - eligible for capitalization

b. Ancillary funds

An ancillary **unit**, after covering its full costs of operating, may have surplus funds.

Ancillary surplus funds - eligible for capitalization

c. Enrolment Planning Envelope (EPE) funds

Funded by the provincial government for the purposes of implementing specific new programs or expanding existing programs.

EPE funds – not eligible for capitalization, as these are conditional grant

d. General operating funds

This includes the provincial operating grant, other provincial grants, student tuition and related fees, investment income, generally sales (external and internal), indirect cost recoveries, and other miscellaneous revenues.

General operating funds – not eligible for capitalization, as these funds are for the day to day operational expenses of the University

e. Royalties

Payments to a unit for the use of a work or invention or a right to take natural resources. Includes the use of intellectual property.

Royalties - eligible for capitalization

2. DETERMINE ELIGIBILITY OF FACULTY/UNIT

A faculty must be in an overall positive financial position (i.e. favorable budget variance position in the operating fund).

3. MEET MINIMUM CAPITALIZATION THRESHOLD

Generally a minimum threshold of \$50,000 (in aggregate per faculty) is required for capitalization.

4. PROVIDE ANALYSIS, SUPPORT AND FACULTY APPROVAL FOR REQUEST

The Dean must submit a request for capitalization to the Provost and Vice-President Academic (via signed letter) with the following information:

(Note: Item 8 provides a sample format for the Summary of Request for Capitalization of University Funds that may be of assistance when assembling the information required.)

- a. composition of the source of funding
(plus provide full chart of accounts, excluding account)
- b. proposed amount to be capitalized
(plus provide endowment fund number if to an existing endowment)
- c. explanation as to reason funds are available and why it is in the best interests of the University to permanently endow these funds
- d. summary of the past three years' history of faculty requests for capitalization of unrestricted funds
- e. if creating a new endowment, the Dean must:
 - i. complete and sign the Statement of Trust for Capitalization
Note: Statement of Trust for Capitalization form must be requested from Financial Services (This form is not in the Forms Cabinet.)
 - ii. provide detailed terms of reference for the new endowment
 - iii. designate the Endowment Manager (i.e. Dean, Chair)
 - iv. provide the following certification:
 1. *"We are fully aware that this will result in the permanent capitalization of funds to the above mentioned endowment fund."*
- f. if adding to an existing endowment, the Dean must:
 - i. provide a copy of the relevant section of the terms of reference of the existing endowment including confirmation that the existing endowment accepts additional contributions.
 - ii. provide the following certifications:
 1. *"We are fully aware that this will result in the permanent capitalization of funds to the above mentioned endowment fund."*
 2. *"We have reviewed the terms of reference for the existing endowment and there are no restrictions within the terms which may affect this capitalization."*

5. SUBMISSION AND APPROVAL TIMELINES AND PROCESS

A request for capitalization is reviewed at the same time that the Provost and Vice-President Academic and other Vice-Presidents review plans for large variances. Requests from faculties that are not required to provide a plan for large variances, but are requesting capitalization, are also reviewed at this time.

- a. Request is submitted by mid-May to the Provost and Vice-President
- b. Upon completion of the review for capitalization the Provost and Vice-President Academic will either:
 - i. recommend and forward to the Vice-President (Finance and Administration) for consideration. Provost signs the Statement of Trust; or
 - ii. not approve and provide faculty the rationale for the decision.

c. The Vice-President (Finance and Administration) reviews, consults and provides final approval. The Vice-President (Finance and Administration) signs the Statement of Trust (for new endowments) and forwards to Financial Services. If the request is not approved, the Vice-President (Finance and Administration) advises the Provost and Vice-President Academic and the faculty.

d. Financial Services:

i. reviews for completeness and accuracy

(any inconsistencies with the requirements of this procedure may result in a re-review of the request);

ii. prepares motion for the fall Board of Governors meeting;

iii. upon written confirmation of the Board of Governors approval, advises the faculties and processes the capitalization entry.

6. SUBMISSION AND APPROVAL PROCESS – CAPITALIZATION OF ESTATES OVER \$500,000

(Note: This is the one exception to the timelines on the process outlined above.)

a. Requests for capitalization of estates equal to or greater than \$500,000 are forwarded to the next scheduled Board of Governors meeting.

b. For estates that fall into this category the faculty must send its request to Financial Services, and include: memo from the Dean (including certification statement); supporting documentation (i.e. copy of will); Statement of Trust (if setting up a new endowment); any other relevant supporting documentation.

c. Financial Services prepares the Board of Governors motion and provides to Vice-President (Finance and Administration), who consults with the Provost and other Vice-Presidents. The appropriate Vice-President signs the Statement of Trust (if required). Upon written notification of the Board of Governors approval, Financial Services advises the faculty, process the capitalization entry and sign the Statement of Trust on behalf of the Vice-President (Finance and Administration).

7. SUBMISSION AND APPROVAL PROCESS - CAPITALIZATION OF CENTRAL INSTITUTIONAL FUNDS (FUND 100)

a. The President's executive committee (PEC) may approve requests for capitalizing central institutional funds. The requesting Vice-President's office provides PEC with support for the request (refer to earlier sections as to appropriate support) and the recommendation. If approved by PEC, then the requesting Vice-President's office forwards all supporting documentation (including the minutes from the PEC meeting showing that the request was approved) to Financial Services.

b. Financial Services prepares the motion for the fall Board of Governors meeting. Upon written confirmation of the Board of Governors approval, Financial Services advises the requesting Vice-President's office, and processes the capitalization entry.

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8. SAMPLE FORMAT - SUMMARY OF REQUEST FOR CAPITALIZATION OF UNRESTRICTED FUNDS

Source of Funds (including COA)	Proposed amount to be Capitalized	Name of new or existing endowment	Summary Purpose of new or existing endowment	Summarize why in best interest to capitalize
Royalties	\$60,000	New – Research	Support faculty	To establish a fund

(210-799999)		Initiatives	research.	that provides ongoing support for research programs
Undesignated Donations (210-799999-79321)	\$50,000	E9999 – J Smith Award	E999 – Graduate scholarship in memory of a staff member and eminent researcher	To match donations to provide for an annual award
Total (must be \$50,000 or greater)	\$110,000			

9. SUMMARY OF SUPPORTING DOCUMENTATION TO ACCOMPANY REQUEST

Attach the following details for each endowment:

- a. Details on the composition of the source of funding
- b. An explanation of why funds available and why it is in the best interest of the University to permanently endow
- c. Summary of past three years of faculty requests for capitalization of unrestricted funds
- d. Certification and support required if capitalizing to an existing endowment
- e. Certification and support required if capitalizing to a new endowment
- f. For new endowments provide detailed documents that support the terms of reference
- g. Any other relevant supporting documentation that will assist in the administrative review and approval process

DEFINITIONS

Any definitions listed in the following table apply to this document only with no implied or intended institution-wide use. [\[▲Top\]](#)

Permanent restricted endowment	A “charitable purpose trust” which is held by the University Board of Governors as trustee and not in its own right.
Unit	Unit is used to describe the major central services units.

FORMS

There are no forms for this Procedure. [\[▲Top\]](#)

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