

## **Finance and Accounting Manual**

### **Capital Preserved Trust Procedures**

Approved by the Chief Financial Officer on 31 May 2005

Date of effect: 1 June 2005

Updated for Delegation amendment: 4 October 2011

Updated: 25 September 2012

Updated for Delegation amendment: 29 May 2017 (commencing 1 June 2017)

#### **1. Overview**

##### **1.1 Purpose**

The purpose of this procedure is to explain the accounting treatment for Capital Preserved Trusts (CPT).

##### **1.2 Coverage**

This procedure applies to all University staff involved in the management of Capital Preserved Trusts.

#### **2. Procedures and Guidelines**

##### **2.1 General Operating Principles**

(i) Capital Preserved Trusts are generally bequests of money, shares or property by a donor to the University so that the income from the capital can be used for a nominated purpose(s).

(ii) The decision as to whether or not an endowment is a CPT is made on the basis of whether the will or relevant documentation obligates the University to limit expenditure to maintain the capital, ie, the amount of the bequest is kept preserved in perpetuity.

(iii) While the requirement is to maintain the original capital, Senate has interpreted the obligation to maintain the capital after allowing for inflation. Thus expenditure is limited, generally to 5% of funds involved in a trust. The funds employed comprise the market value of any assets and includes unspent income.

(iv) The 5% rule was determined by the Finance Committee which took the view that in relation to funds where the endowment was held in perpetuity, annual expenditure should be limited to the excess yield from the investment over the rate of inflation. Thus only the real rate of return was to be spent. To spend more than 5% might preclude the University from carrying out the same level of vested activity in the long term.

##### **2.2 Delegations**

Refer to part 5.2 relating to Gifts and Bequests in the [University of Sydney \(Delegations of Authority – Administrative Functions\) Rule 2016](#).

##### **2.3 Administration of Capital Preserved Trusts**

(i) On the receipt of the will, or relevant documentation, the Office of University Relations Department of Advancement Services, in conjunction with Financial Services Investments Office decides that the gift/donation etc. is a CPT. Relevant documentation is then forwarded to Financial Management and Analysis Unit to create a project code.

The Department of Advancement Services receives, records and banks all payments that relate to donations, gifts, bequests and fundraising.

(ii) If the purpose involves University-wide Scholarships, Awards or Prizes then the CPTs are administered by:

- (a) Research Office for post graduate research
- (b) Scholarships Unit, Careers Centre for undergraduate students

(iii) If a departmental activity is involved then the activity is controlled by the Department via a “child” Responsibility Centre Account. This is within the terms of the will and is subject to the 5% rule.

#### **2.4 Account Code Structure for Capital Preserved Trusts**

(i) A specific range of unique project codes (PC) have been allocated to Capital Preserved Trust accounts, the first character, of which, is a ‘T’.

(ii) A single project code is used for the life of each Capital Preserved Trust. The same project code is used for both the “parent” responsibility centre (RC) and the “child” responsibility centre and each is uniquely identified by a Responsibility Centre/Project Code (RC/PC) combination.

(iii) The “parent” responsibility centres are within a range of numbers specifically allocated for that purpose and are controlled by Investment and Capital Management.

(iv) Income received to a CPT is posted to either account class 2502 for bequests, or account class 2402 for donations.

#### **2.5 Allocation of Funds to Accounts**

(i) The original capital and income is allocated to a “parent” responsibility centre and its particular project code. Ongoing distributions from an estate to a CPT are also posted to the parent account under class 2502.

(ii) Distributions are credited by the CPT Pool Investment system to the “parent” responsibility centres.

(iii) The 5% allocation from “parent” responsibility centre to “child” responsibility is processed annually in January.

(iv) As a rule, the 5% calculation is based on the end of the previous year market value of the investment plus the cash balance.

(v) Where the 5% of income transferred to “child” responsibility centres is not spent these funds are returned to the “parent” responsibility centre.

(vi) Departments/Units cannot overspend the allocation in the “child” responsibility centre.

(vii) Income by way of donations to “capital preserved trust” (2502) should be receipted to the “parent” RC. The year end process ensures that any income in class 2502 within a “child” RC is transferred to the “parent” RC.

(viii) Written documentation must be sent to the Finance Manager for special circumstances where an amount greater than 5% is required, eg, where 10% is spent every second year.

## 2.6 Year end Close Process

- (i) A year-end close process is applied to CPT accounts to move the net result of the “child” responsibility centre to the “parent” responsibility centre prior to the overall year end close process. This is carried out in period 998.
- (ii) The steps involved in this process are: -
- (a) Prepare a journal to transfer any new income receipted into the classification code for “bequests capital preserved trust” (2502) in the “child” RC to the “parent” RC.
    - Debit the class for “CPT close off” (9999) in the “child” RC/PC; and
    - Credit the class for “initial preserved capital” (1700) in the “parent” RC/PC.
  - (b) Prepare a journal to transfer the balance, excluding “Bequests Capital Preserved Trust” (2502) income, of the CPT “child” RC to the “parent” RC.
    - Debit/credit the class for “CPT close off” (9999) in the “child” RC/PC; and
    - Credit/debit the class for “CPT close-off” (9999) in the “parent” RC/PC.
  - (c) Clear the overall balance of the class for “CPT close off” to zero.
    - Debit/credit the class for “operating accumulated funds c/fwd” (1810); and
    - Credit/debit the class for “CPT close off” (9999) at the University corporate RC.

## 3. Internal Controls

### 3.1 Responsibilities/Accountability

<i>Officers</i>	<i>Responsibilities</i>
Investments Office (Financial Services) in consultation with Department of Advancement Services (Office of University Relations)	<ul style="list-style-type: none"> <li>• Responsible for the decision on whether the gift/donation etc. is a CPT or not.</li> </ul>
Research Office	<ul style="list-style-type: none"> <li>• Responsible for the administration of CPTs that involve University-wide scholarships, awards or prizes for post graduate research.</li> </ul>
Scholarships Unit, Careers Centre	<ul style="list-style-type: none"> <li>• Responsible for the administration of CPTs that involve University-wide scholarships, awards or prizes for undergraduate students.</li> </ul>
University Staff with CPT projects	<ul style="list-style-type: none"> <li>• Responsible for any CPT that is deemed to be a departmental activity.</li> <li>• Responsible for ensuring that the “child” responsibility centre is not overspent.</li> </ul>
Investment Accountant	<ul style="list-style-type: none"> <li>• Responsible for accounting for the investment activities involved with Capital Preserved Trusts.</li> <li>• Post notice of allocations on PeopleSoft Finance System.</li> </ul>
Financial Management and Analysis Unit	<ul style="list-style-type: none"> <li>• Responsible for creation of CPT Responsibility Centre / Project codes.</li> <li>• Responsible for the CPT year end close process.</li> </ul>

## 4. Related Information

4.1 Resources and weblinks.

(i) **Training Materials**

(ii) **References**

[University of Sydney \(Delegations of Authority – Administrative Functions\) Rule 2016](http://sydney.edu.au/policies/showdoc.aspx?recnum=PDOC2011/72&RendNum=0)

sydney.edu.au/policies/showdoc.aspx?recnum=PDOC2011/72&RendNum=0

- [Finance and Accounting Manual](http://sydney.edu.au/finance/about/manual.shtml)  
sydney.edu.au/finance/about/manual.shtml

4.2 University procedures superseded or replaced by this procedure:

(i) Finance and Accounting Manual

- Capital Preserved Trust Procedures: 7 May 2002
- APP 1204 Capital Preserved Trusts

## 5. Contact and Review

### 5.1 Contact

Unit:	Investment Accountant, Financial Services	Department of Advancement Services, University Relations
Phone:	9351-3864	9036-5488
Fax:	9351-3753	9351-5688

### 5.2 Review

The Chief Financial Officer will approve changes to financial procedures and guidelines and will co-ordinate changes to financial policy, with the Vice-Chancellor delegated to approve University financial and infrastructure policy.

Amendments to forms, schedules and weblinks will be processed by Financial Services.

Amendments to the Finance and Accounting Manual procedures and forms are listed on the Financial Services website under:-

- [FAM Amendments](#)
- [Amendments to Forms](#)

Please forward suggestions and comments on the Finance and Accounting Manual via the [Feedback Form](#).

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