



## Administration Policy

Complete Policy Title: <b>Reserve Funds</b>	Policy Number (if applicable):
Approved by: President and Vice-Presidents	Date of Most Recent Approval: March 10, 2020
Date of Original Approval(s): March 10, 2020	Supersedes/Amends Policy dated: New Policy
Responsible Executive: <b>AVP &amp; CFO</b>	Enquiries: <b>avpad@mcmaster.ca</b>
<b>DISCLAIMER:</b> <i>If there is a Discrepancy between this electronic policy and the written copy held by the policy owner, the written copy prevails</i>	

### PURPOSE AND POLICY OBJECTIVES

The University maintains certain funds to advance the University mission or fund future-oriented obligations. These funds are accounted for and disclosed in the University's financial statements as net assets. Funds to advance the University mission are identified as internal endowments and governed by the Expenditure Policy for Internally Restricted Endowments. Funds to settle future obligations are identified as internal reserves and governed by this policy. Internal reserves are used to:

- settle future-oriented obligations,
- pay for one-time or non-recurring expenses that will build capacity for the future, or;
- to mitigate risks associated with loss of income, particularly income associated with capital market and equity investments.

The objectives of this policy are:

- To outline the categories of internal reserves maintained by the university, including: reserve rationale, funding level, period over which to accumulate the funds, targeted value, allowable spending, investment of funds, and the governance for each internal reserve; and
- To outline the required disclosure of reserves.

### CATEGORIES OR RESERVES

- The categories of reserves maintained by the University are outlined in Appendix A.
- Additional reserve categories will be determined by the VP (Operations and Finance) or AVP and Chief Financial Officer.
- Changes to internal reserves, as detailed in Appendix A, regarding rationale or targets require PVP approval.

### DISCLOSURE REQUIREMENTS

- Disclosure of reserve balances, and description of each reserve shall be included in the notes to the University's audited financial statements.

### POLICY REVIEW

- This policy should be reviewed annually, or at minimum every five years.

## Appendix A

<b>Reserve Balance April 30, 2023</b>	<b>Rationale and purpose</b>	<b>Period to fund</b>	<b>Reserve Target or Target Range</b>	<b>Allowable Spending</b>	<b>Investment of funds</b>	<b>Management Oversight</b>
<b>Unexpended department and ancillary carry forwards</b>  \$262.0 million	Surpluses from operations to protect departments against possible adverse circumstances, and/or to allow departments to save for one-time expenses.	Envelope Manager discretion	Total unexpended department carry forwards approximate one (1) to four (4) months of total operating fund expenditures.  Target Range: \$67.3 - \$269.1 million	As approved by Budget Committee, subject to the authority of Senior Officers under the Operating and Ancillary Budgets Policy.	Cash and short-term investments pool	Budget Committee approves planned spending by Envelope Managers in budget submissions.
<b>Facilities Services projects</b>  \$44.2 million	Holding accounts for temporarily unspent funds related to construction projects in progress.	Duration of construction of project	Capital project contributions. Targets are project dependent	Spending only once approved in accordance with Execution of Instruments. If negligible surplus remains at project completion funds are generally returned to the funding sources.	Cash and short-term investments	Capital fund procedures.
<b>Specific purpose reserve</b>  \$89.1 million	Funds to mitigate risks associated with volatility in income from investments in the Long-Term Investment pool and protect spending needs associated with scholarships, bursaries and chair salaries.	1-3 years	Approximately 5% to 15% of total consolidated expenses less consolidated employee benefits.  Target Range: \$55.3 - \$166.0 million	Funds in excess of 5% may be transferred to other reserves under target upon recommendation of the AVP & CFO and approval of the VP (Operations and Finance).	Cash and short-term investments and long-term investment pool	VP (Operations and Finance) & AVP & CFO.
<b>Net capital reserves (strategic) and internally financed capital projects</b>  \$180.1 million	Funds for capital projects and confirmed by governance approvals.	Varies by project	As approved by project in accordance with Execution of Instruments policy.	Only where approved, by project, in accordance with Execution of Instruments policy.	Cash and short-term investments and long-term investment pool	In accordance with Execution of Instruments policy.

Reserve Balance April 30, 2023	Rationale and purpose	Period to fund	Reserve Target or Target Range	Allowable Spending	Investment of funds	Management Oversight
<b>Debt repayment sinking funds</b>  \$58.7 million	Funds set aside to settle bullet repayments of long-term bonds.	Duration of the bonds: 2051 \$25 million 2052 \$120 million 2065 \$120 million 2071 \$125 million	Full funding of bullet payment(s) by due date.	Only where a sinking fund balance exceeds total bullet repayment or where the University has sufficient funding and approves early settlement of a bond via defeasance.	Long-term investment pool	The Planning and Resources Committee, in accordance with the Debt Management Policy, reviews the adequacy of the sinking funds annually.
<b>Research reserves</b>  \$58.5 million	Internal funds specifically to fund research operations, facilities and projects.	Principal Investigator discretion	As approved by project in accordance with Execution of Instruments and Internally Sponsored Research Accounts policies.  Target: > \$0	In accordance with the Execution of Instruments policy.	Cash and short-term investments	Principal Investigator, Department Chairs and Senior Officers in accordance with the Research Accounts Policy.
<b>Research investments</b>  \$3.1 million	Non-cash equity ownership interest measured at year-end fair market value for publicly listed entities or cost for private company investments.	Not applicable. Non-cash restricted reserve interest holding, whereby private investments are more illiquid.	This activity is an area of alternative revenue generation opportunity. Some private investments have plans for initial public offering.  Target: >\$0	No spending allowed. On investments in publicly traded companies the University could choose to liquidate its position applying the Execution of Instruments for governance approvals required.	Non-cash accounting.	VP (Operations and Finance) and AVP & CFO, with an internal research commercialization group, annual reporting to Planning and Resources Committee.
<b>MIP Investment</b>  \$1.8 million deficit	Non-cash net investment in MIP.	Not applicable.	Not applicable.	None.	Non-cash accounting.	VP and AVP roles on the FLIT (operating) Trust and wholly controlled Gore (land) Trust, with annual reporting to Planning and Resources Committee.
<b>Other</b>  \$15.1 million	Non-cash adjustments representing timing difference between our cash basis budgeting to our accrual basis audit financial statements.	Not applicable.	Not applicable.	None.	Non-cash accounting.	AVP & CFO, with audit results reported to Planning and Resources Committee.

Reserve Balance April 30, 2023	Rationale and purpose	Period to fund	Reserve Target or Target Range	Allowable Spending	Investment of funds	Management Oversight
<b>Pension Deficiency</b>  \$15.7 million deficit	Pension liabilities must be included on the University financial statements, this negative reserve tracks the unfunded status of the pension.	Funds must be sufficient to meet annual employee benefit payments and long-term benefit requirements. Period to fund is over 30 years.	The pension plans aim to be 85% funded on a solvency basis and up to 100% funded on a going concern basis.  Target assets \$2.2 billion to \$2.3 billion	Funding is held in a restricted third-party trust. Only benefit or approved pension oversight committee expense can be funded from the plan.	The salaried plans are invested in the Salaried Pension Pool. The hourly plan is invested in a separate Hourly Pension Pool.	The salaried plans oversight is Pension Trust Committee. The hourly plan oversight is the Hourly Retirement Pension Plan Committee.
<b>Non-pension post retirement benefits deficiency</b>  \$64.9 million deficit	Non-pension liabilities related to medical and dental benefits post retirement must be included on the University financial statements. This negative reserve tracks the unfunded status of the plan.	Funds must be sufficient to meet annual employee benefit payments and long-term benefit requirements. Period to fund is over 30 years.	The non-pension target is 100% funded.  Target \$277.6 million Internal Reserve \$212.7 million or 77% funded.	Funding is held internally within the Investment Pool. Annual cash expenditures are settled from the employee contributions and an employer operating fund. Annual unspent operating fund and investment earning contribute to the reserve to offset this deficiency.	Long-term investment pool	An annual long term obligation projection is prepared compared to the internal reserve monitored to achieve 100% funded status over time. The annual report is presented to Planning and Resources Committee.
<b>Non-pension post retirement benefits</b>  \$212.7 million	Funds set aside to settle the post retirement benefit unfunded obligation.	Long-term (in excess of thirty (30) years).  Note: \$277.6 million obligation, 77% Funding	Approximately 85% up to 105% of the unfunded obligation measured annually.  Target Range: \$236.0 - \$291.5 million	Where the reserve is in excess of 100% of the net present value of the obligation.	Long-term investment pool	Budget Committee approves the annual post retirement benefit rates, and the Planning and Resources Committee approves the annual post retirement funding plan for sufficiency.
<b>Employee benefits</b>  \$6.3 million	Departmental collections to fund employee health and dental plans whereby surpluses, if any protect against significant unanticipated rate increases.	Annual	Approximately 5% to 15% of total consolidated employee benefits.  Target Range: \$7.5 - \$22.4 million	Annual benefit rates must be adjusted such that this reserve is not below the minimum reserve target for a period greater than three (3) years.	Cash and short-term investments pool	Budget Committee approves annual rates as a part of the Consolidated Budget process.
<b>NET RESERVES</b> <b>\$643.9 million</b>						