

Complete Policy Title:
**Expenditure Policy: Internally
Restricted Endowments**

Policy Number (if applicable):
n/a

Approved by:
Board of Governors

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March 19, 1998

Supersedes/Amends Policy dated:
April 28, 2005

Responsible Executive:
**Assistant Vice-President
(Administration)**

Enquiries:
[University Secretariat](#)

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1. PREAMBLE

Internally Restricted Endowments result from unrestricted donations and bequests, and other funds which have been endowed by action of the Board of Governors, including unspent investment income. The following principles should apply.

- a. McMaster University should attempt to maintain the real value of the capital.
- b. McMaster University should use market value and the total long term rate of return in measuring investment performance and in setting expenditure levels.
- c. There should be a stable level of funds available to support expenditures to facilitate multi-year budget planning
- d. This policy will be reviewed every five years

The major endowments are as follows:

1. H.L. Hooker Endowment Fund

The Endowment Fund reflects the legacy of Dr. H.L. Hooker. While the legacy from Dr. H.L. Hooker is unrestricted, it is the policy of the University to maintain the capital value of the Fund in order to support designated programs of the University through the income generated by this capital. The programs to be funded from this income must enrich the academic achievements of the University as approved by the Board of Governors during the annual budget approval process.

2. General Endowment Fund

The General Endowment Fund receives bequests, insurance policies and other donations for which the use has not been designated by the donor. The income from the General Endowment Fund is used to support scholarships and bursary programs of the University and such other purposes as approved by the Board of Governors during the annual budget approval process.

3. Pension Surplus Fund

In 2003, the University's portion of the Salaried Pension Plan's excess surplus was transferred to internally restricted endowments. The income from the Pension Surplus fund is used to support general operating purposes as approved by the Board of Governors during the annual budget approval process. Encroachment (permanent or temporary) may be permitted under special circumstances as approved by the Board of Governors during the annual budget approval process.

Other Internally Funded and Restricted Endowment Funds

These Endowment funds are deemed to be internally restricted by the Board of Governors when created by transfer from internal reserves after recommendation by the Trust Fund Management Committee and approval by the President, the Provost and the Vice-President (Academic) and Vice-President (Administration). The Endowments are created to support specific purposes, such as Chairs as approved by the Board of Governors during the annual budget approval process.

2. EXPENDITURE POLICY

- a. The amount available for expenditure in any given fiscal year should approximate the expenditure rate⁽¹⁾ used for General Trust Funds. The actual amount approved for expenditure will be approved by the Board of Governors during the annual budget approval process. Temporary capital encroachment may occur, if it is not specifically prohibited under the terms of a particular donation.
- b. Additions and withdrawals from each endowment fund will be carried out by buying/selling units of the pooled investment funds based on the unit market value at the beginning of the month.
- c. Actual income earned includes interest, dividends, realized and unrealized capital gains/losses, net of investment management expenses. This income/loss will be distributed to each fund on a per unit basis at the end of each fiscal year. The dividend per fund less income previously distributed will be added to or subtracted from the fund.
- d. An annual administrative fee of 1% will be charged to the endowment funds with the exception of the Pension Surplus Endowment.

Notes

⁽¹⁾ The expenditure rate for General Trust Funds (Externally Restricted Endowments) is based on McMaster University's expected long term rate of return after inflation, investment management expenses and reimbursement of endowment fund administration expenses. (This expenditure rate is reviewed by the Finance Committee at a minimum of every five years and is included in the policy. [Expenditure Policy: General Trust Funds - Externally Restricted Endowments](#)).