AGENDA REPORT TO EXECUTIVE COUNCIL

MEETING DATE: September 25, 2015

Item:	*Reserve Fund Management*
Author:	*Carrie Passi, Managing Director Finance and Administration*
Purpose of Report:	*For APPROVAL*

Recommendation: *For the Board to approve this agenda report requesting that $750,000 be recalled from the USC reserve funds held with TD Waterhouse Investments for terminations completed over the past five years that were paid out of operating funds.*

Legislative History:

Report:

Background:

In the past, the payment required when terminations were approved, was taken out of operating cash. Over the past 5 years, the USC positions with a value of $750,000. While these payments were deemed appropriate from a cash flow perspective, they did represent a significant drain on the operating cash of the organization over time.

This drain on operating cash became particularly pertinent this past year when the USC was faced with a budget shortfall due to less students than anticipated paying fees to the organization. For the year, there were approximately 1,000 less students paying fees to the USC than anticipated. This was one contributing reason that resulted in the USC cash levels being lower than ideal at a time when the organization was not receiving any additional payments from Western. This further lead to an extensive analysis on how the USC was spending money, when the USC was spending money and what were the major causes of large spends for the organization. This analysis is summarized in the Cash Flow Memo.

Report:

As laid out in the Cash Flow Memo, the USC was alerted to a lower than ideal cash position at a point in time when no student fee payments were expected. When the analysis was completed, three major pieces resulted in the depletion of the USC cash position. These were: a heavily *front end loaded capital plan which resulted in a high volume of capital transactions happening, termination payments being made out over a 5 year period and receiving less student fee revenue than expected. The trifecta effect was really a blessing in disguise for the USC as it raised concern over cash flow at a point in the year when plans could be made to correct the outflow of cash and ensure that spending was being done in line with when revenues are available. As a result, the USC has worked over the summer to develop a purchasing policy, a reserve fund policy, an operating and capital budget process and procedure document as well as to relook at our 10 year capital plan to reflect current needs and to ensure that we don't miss any milestone renovations for the organization. Without the three pieces coming together at the same time, the USC would not have been alerted to the shortage in student fees when compared to budget until much later in the year (which would have been in the new fiscal year). This would have dramatically shortened our time to react and put new processes and procedures in place to protect the USC's cash flow throughout the entire year.*

During the analysis that took place to determine what actions were drawing significant cash from the operating account, termination payments were highlighted as one of the main determinants. When the final tally came in, it was made apparent that $750,000 had been paid out in termination payments over a 5-year period. It was also determined that those payments were paid from the USC operating account. This was done because for years, the USC had paid terminations from operating as they were deemed an operating expense.

Approximately 5 years ago, audit regulations determined that the USC needed to set up a liability account entitled Post Benefit Retirement Obligation. This was originally set up to be a $1.5 million liability and has been readjusted overtime to approximately $800,000. The idea behind this liability is that if we had to pay out 100% of current employees today that would be the total cost. Therefore, as employees or positions with employees in them are terminated, the liability would decrease. As a result, the proposed reserve fund policy recommends that $800K from the reserve fund be dedicated to the PBRO.

The PBRO liability sits on the balance sheet and is offset by another balance sheet account, which are the fund balances or equity for the USC, the payments for the terminations should have come from the reserve fund rather than the operating fund. Because it is impossible to budget for terminations, such payments are considered one-time expenses and should either be covered by a large contingency built into a budget or by reserve funds. Because the USC's budget is not large enough or have enough revenue sources to allow a large contingency that could be earmarked and held each year in case of terminations without increasing student fees, that option isn't possible. As a result, decisions that require significant payouts that cannot be budgeted for, should be paid from the reserve fund money sitting with TD Waterhouse.

The reason that this report suggests that we go back 5 years and recoup funds paid out from operational cash from our reserve fund is twofold. First, based on analysis conducted this summer, doing so would bring the cash flow position of the organization, at the end of the fiscal year, to a minimum level of $1 million. It is at this level that the USC should be at going into the summer months when revenue generation is at its low point. This level enables capital spending to be considered without fear of not being able to afford operational needs.

The second reason is that doing so puts us in line with when the Post Benefit Retirement Obligation liability was set up during our year-end audit.

As a result, we request approval to move $750K from reserve fund account to our operating account to cover or repay the operating account for terminations paid out over the past 5 years. We request further approval that $800K of the remaining reserve funds at TD Waterhouse be earmarked for PBRO as per our audited financial statements. And finally, we make a further request that you approve that all future terminations paid out by the USC will be paid from the reserve fund rather than through our operating accounts.

Project Team:

Carrie Passi, Managing Director Finance and Administration

Sophie Helpard, USC President

Cathy Clarke, USC General Manager

Financial Implications:

It is recommended to recall $750,000 from reserve fund and deposit into operational cash.

Based on analysis conducted this summer, bringing $750K back into operating cash would bring the cash flow position of the organization, at the end of the fiscal year, to a level of approximately $1 million. This is an ideal level for the USC to be in going into the summer months when revenue generation is at its low point. This level enables capital spending to be considered without fear of not being able to afford operational needs.

Going back 5 years puts us in line with when the Post Benefit Retirement Obligation liability was set up during our year end audit. Therefore the USC would be consistent in theory and in practice.

Taking the money from reserve fund also brings reserve fund to a reasonable and expected balance.

As a result, we request approval to move $750K from reserve fund account to our operating account to cover or repay the operating account for terminations paid out over the past 5 years. We request further approval that $800K of the remaining reserve funds at TD Waterhouse be earmarked for PBRO as per our audited financial statements. And finally, we make a further request that you approve that all future terminations paid out by the USC will be paid from the reserve fund rather than through our operating accounts.

Attachments:

Sign-Offs:

Author:	*Carrie Passi*	
Financial Review:	*Carrie Passi, Managing Director, Finance and Administration*	
Legislative Review:	*Scott Courtice, Managing Director, Government Services*	
General Manager Review:	*Cathy Clarke, General Manager*	