

University of Prince Edward Island	Policy No. govbrdgnl0014	Revision No. 1
Policy Title: Endowment and Special Purpose Funds Governance & Administration		Page: 1 of 5
Creation Date: March 20, 2000	Version Date: April 6, 2021	Review Date: April 6, 2026
Authority: Board of Governors – Fund-Raising, Development & External Relations Committee	Responsibility: Endowment Oversight Committee	WWW Access: Yes

Governance and Administration

1. Overview

- 1.1 This policy applies to funds held in trust with respect to Endowed and Special Purpose Fund Accounts (**“Restricted Funds”**). It covers the governance and administration of restricted funds. There is a separate and related policy governing the investment of restricted funds called the *Endowment & Special Purpose Funds - Investment Policy Statement*.
- 1.2 Restricted Fund Accounts shall be managed in accordance with all applicable legal requirements, notwithstanding any indication to the contrary, which might be construed from this policy.

2. Scope & Responsibilities

- 2.1 The Endowment Oversight Committee (“the Committee”) has responsibility for development, review and implementation of this policy.
- 2.2 The members of the Committee shall be appointed by the President and shall include representatives from three key departments in the Restricted Funds governance process: Development and Alumni Engagement, Finance, and Scholarships and Awards, and one representative from the Fund-Raising, Development and External Relations Committee of the Board of Governors.
- 2.3 The mandate of the Committee is as follows:
 - 2.3.1 To provide advice to the Development, Fund-Raising and External Relations Committee (‘Development Committee’) of the Board of Governors on matters pertaining to the administration and governance of endowed and special purpose funds.
 - 2.3.2 To provide advice to the Finance & Audit Committee of the Board and other duties as described in the *Endowment & Special Purpose Funds - Investment Policy Statement*.
 - 2.3.3 To develop, review and recommend governance and administration policy for endowed and special purpose funds.

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3. Definitions

- 3.1 **Unexpended Income** means revenue from investments, donations or other sources (except contributions to Principal) retained in restricted fund accounts.
- 3.2 **Principal** means the amount of restricted donation, bequest, transfer or capitalized investment income contributed to an endowed fund.
- 3.3 **Income Control Account** means a fund administered by the University for the purpose of receiving all investment return from the Endowment Investment Pool.
- 3.4 **Income Distribution Rate** means the rate of return distributed to endowed accounts from the Income Control Account, as approved by the University.
- 3.5 **Approved Annual Expenditure Rate** means the maximum expenditure rate from an endowment in any year.
- 3.6 **Gift Agreement** means a document created by the University in coordination with a donor that provides information on the use of their gift, the value of the gift and funding arrangements, contact information, and approval signatures.
- 3.7 **Guiding Document** is a document created by the University when there is no Gift Agreement. It provides information on the use of the fund, the value, who is authorized to manage the funds, and approval signatures.
- 3.8 **The Fund** means the Restricted Fund Account assets that are governed by the Endowment and Special Purpose Funds – Investment Policy Statement.

4. Characteristics of Restricted Funds

- 4.1 **Externally (Donor) Restricted Endowments** - Invested funds where the establishment of the endowed Principal and the use of the investment income are formally restricted by Gift Agreement, bequest or trust. The Principal is held in perpetuity and only the investment income may be used for the purpose of the endowment.
 - 4.1.1 The minimum balance required to establish a new Externally (Donor) Restricted Endowment at the University shall be \$15,000.
- 4.2 **Internally (University) Restricted Endowments** - Invested funds held for scholarship or other purposes, where the establishment of the Principal and/or the use of the investment income is

determined by the University. The Principal is held in perpetuity and only the investment income may be used for the purpose intended by the donor or the Board of Governors.

4.2.1 Internally (University) Restricted Endowments shall be recommended by the Development Committee to the Board of Governors for approval.

4.2.2 The minimum balance required to establish a new Internally (University) Restricted Endowments at the University shall be \$15,000.

4.3 **Special Purpose Funds** - Invested funds where both the original donation and investment income is available for the purpose established by the donor or by the University.

4.3.1 The minimum balance required to establish a new Special Purpose Fund at the University shall normally be in excess of \$15,000.

4.3.2 The establishment and maintenance of a Special Purpose Fund shall be at the discretion of the President or designate(s).

4.4 Gift Agreements shall be established for each Externally (Donor) Restricted Fund and a Guiding Document for each Internally (University) Restricted Fund and approved by the President or designate(s).

4.5 **Investment of Funds**

4.5.1 Restricted Funds are normally invested in the UPEI Endowment Investment Pool ('The Pool').

4.5.2 Donations in kind, such as equity shares, real property, etc., are normally sold upon receipt, and the proceeds are invested by the University as per above.

5. **Income Distribution**

5.1 The following rules shall apply to Restricted Funds participating in The Pool:

5.1.1 Investment return including realized and unrealized gains or losses shall be recorded in a centrally managed Income Control Account.

5.1.2 Each Restricted Fund account shall receive an annual transfer from the Income Control Account in the amount of the Income Distribution Rate, as approved by the Finance & Audit Committee of the Board of Governors.

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- 5.1.3 The annual transfer shall equal the Income Distribution Rate times the opening balance in each account, plus the average balance of Principal additions and donations received (and not expended) during the year, providing such additions exceed \$4,999.
- 5.1.4 Funds in the Income Control Account shall be held exclusively for transfer to the participating Restricted Fund accounts and may not be used for any other purpose. The Income Control Account shall serve as a market smoothing account to protect the individual Restricted Fund Accounts from fluctuations in investment return.
- 5.1.5 When the balance in the Income Control Account exceeds ten percent of The Pool at the fiscal year-end (April 30), the University may authorize a special distribution to the participating Restricted Fund accounts. The distribution is intended to maintain the purchasing power of the endowments by distributing an amount equivalent to the average long-term CPI rate. Such distribution shall be calculated based on the balance in each account as at that fiscal year end, and will be distributed during the next fiscal year. At the discretion of the Committee, this distribution can be withheld from Special Purpose funds that participate in The Pool, if the funds available for distribution in The Pool are less than the average long-term CPI rate for the participating endowments.

6. Expenditure

- 6.1 Unless otherwise stated in its Gift Agreement or Guiding Document, endowment expenditures shall be limited to the Approved Annual Expenditure Rate plus any Unexpended Income carried forward from prior years.
- 6.2 Expenditures from each Restricted Fund Account are restricted to the purposes as stated in the Gift Agreement or Guiding Document of each account.
- 6.3 The Principal plus capitalized income of an Endowment Fund shall be held in perpetuity for the purpose stated in its Gift Agreement or Guiding Document.
- 6.4 The donations/contributions plus investment income of a Special Purpose Fund shall be used for the purpose stated in its Gift Agreement or Guiding Document, or by direction of the University's Board of Governors. The Annual Approved Expenditure Rate for Endowments does not apply.
- 6.5 Notwithstanding paragraphs 6.1 to 6.4, an annual fee (Fund Raising Levy) for administration as prescribed by the University's Board of Governors may be deducted from investment income earned by the Fund.

6.6 Notwithstanding paragraphs 6.1 to 6.4, investment management and custodial fees shall be deducted from investment income earned by the Fund prior to distribution to the individual Restricted Fund Accounts.

7. Reporting

7.1 The Committee shall prepare an annual report of Endowment and Special Purpose Accounts for the Development Committee and the Finance and Audit Committee of the Board of Governors, containing such information as:

7.1.1 -A listing of Restricted Fund Accounts;

7.1.2 A summary of disbursements for scholarships and other purposes;

7.1.3 A summary of investment assets and investment returns; and

7.1.4 Other matters related to the administration of the Restricted Fund Accounts.

8. Prescribed Rates

8.1 The Approved Annual Expenditure Rate shall not exceed 5%.

8.2 The prescribed Fund-Raising Levy shall be a reasonable charge for administrative costs up to a maximum of 1% of the Restricted Fund Account opening balance, unless prohibited by the Gift Agreement or Guiding Document of that account.

9. Internal Audit

9.1. Internal Audit and Risk Management shall conduct an audit of Endowment and Special Purpose Funds once every three years and provide a report to the Development Committee of the Board of Governors.

10. Review

10.1. This policy shall be reviewed every five (5) years or as circumstances dictate.