

University of Prince Edward Island	Policy No. govbrdgn10014	Revision No. 2
Policy Title: Endowment and Special Purpose Funds Governance & Administration		Page: 1 of 7
Creation Date: March 20, 2000	Version Date: February 13, 2024	Review Date: February 13, 2029
Authority: Board of Governors	Responsibility: Vice-President, Administration & Finance	WWW Access: Yes

1. Purpose

- 1.1. The purpose of this Policy is to establish the governing principles of Endowed and Special Purpose Funds, also defined as **Restricted Funds**, of the University of Prince Edward Island (the University, UPEI).
- 1.2. **Restricted Funds** shall be managed in accordance with all applicable legal requirements and University Policies.

2. Scope

- 2.1. This Policy applies to **Restricted Funds** that are held in trust with respect to Endowed and Special Purpose Fund Accounts.

3. Responsibilities

- 3.1. The Board of Governors (the Board) has the authority to establish and amend this Policy.
- 3.2. The Endowment Oversight Committee (the Committee) established under this Policy, has the responsibility for the administration and governance of the **Restricted Funds** of the University.
- 3.3. The Vice-President, Administration & Finance (VPAF) has the responsibility for the development, maintenance and implementation of this Policy and corresponding procedures.
- 3.4. The University Auditor has the responsibility for conducting internal audits on the governance and administration of the University's Endowment & Special Purpose Funds.

4. Definitions

- 4.1. **Approved Annual Expenditure Rate** means the maximum expenditure rate from an endowment in any year.
- 4.2. **Externally Restricted Endowments** means invested funds received from external donors where the establishment of the endowed Principal and the use of the investment income are formally restricted by a 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.
- 4.3. **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, funding arrangements and contact information of the donor.
- 4.4. **Guiding Document** means a document created by the University in circumstances where there is no Gift Agreement in place. It provides information on the value of the fund, its use and management, according to University policies.
- 4.5. **Income Control Account** means a fund administered by the University for the purpose of receiving all investment returns from the Endowment Investment Pool.
- 4.6. **Income Distribution Rate** means the rate of return distributed to endowed accounts from the Income Control Account, as approved by the University.
- 4.7. **Internally Restricted Endowments** means invested funds set aside by the University and 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 University, in accordance with the *UPEI and UPEI (US) Foundation Inc. Gift Acceptance Policy*.
- 4.8. **Principal** means the amount of restricted donation, bequest, transfer or capitalized investment income contributed to an endowed fund.

Policy Title: Endowment & Special Purpose Funds Governance & Administration	Policy No. govbrdgnl0014 Page: 3 of 7
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- 4.9. **Restricted Funds (The Fund)** means funds available for scholarship and awards purposes and for academic programs and include both internally and externally restricted endowment fund balances and unexpended endowment investment income, as well as Special Purpose trust funds.
- 4.10. **Special Purpose Funds** means invested funds where both the original donation and its investment income are available for the purpose intended by the donor or by the University, in accordance with the *UPEI and UPEI (US) Foundation Inc. Gift Acceptance Policy*.
- 4.11. **Unexpended Income** means available revenue from investments, donations or other sources (except contributions to Principal) not spent in previous years and retained in **Restricted Fund** accounts.

5. Policy

5.1. Endowment Oversight Committee

- 5.1.1. The Endowment Oversight Committee shall consist of six (6) members as follows:
- a) The Executive Director of Development & Alumni Engagement
 - b) The Manager, Donor Relations
 - c) The Manager, Registrarial Operations and Services
 - d) The Comptroller
 - e) The Vice-President, Administration & Finance
 - f) A Finance Officer from the Comptroller's Office

The Vice-President, Administration & Finance will act as Chair of the Committee.

The Committee may invite other members of management or external consultants to its meetings as required for its functioning.

- 5.1.2. The mandate of the Committee is as follows:

Policy Title: Endowment & Special Purpose Funds Governance & Administration	Policy No. govbrdgnl0014 Page: 4 of 7
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- 5.1.2.1. To develop, review and recommend governance and administration policies for endowed and special purpose funds to the Board.
 - 5.1.2.2. To execute all duties and responsibilities assigned to the Committee in the *Endowment and Special Purpose Funds Investment Policy Statement*.
 - 5.1.2.3. To provide reports to the President pertaining to the administration and governance of the **Restricted Funds**, upon request and periodically.
 - 5.1.2.4. To report to the Development, Fund-Raising and External Relations Committee (Development Committee) of the Board on matters pertaining to the administration and governance of **Restricted Funds**.
 - 5.1.2.5. To provide financial reports to the Finance & Audit Committee of the Board on **Restricted Funds** and corresponding investments, as described in the *Endowment & Special Purpose Funds Investment Policy Statement*.
- 5.1.3. The Committee shall write its terms of reference to define its operating mechanisms, including those on conduct of meetings and reporting to the President, the Standing Committees and the Board of Governors.

5.2. Minimum balances for the establishment of a Fund

Fund Type	Minimum Balance
Externally Restricted Endowments	\$25,000
Internally Restricted Endowments	\$25,000
Special Purpose Funds	\$100,000

5.3. Establishment of Restricted Funds documents

- 5.3.1. Gift Agreements shall be established for each Externally Restricted Fund.

5.3.2. A Guiding Document shall be established for each Internally Restricted Fund or if there is a change in circumstances to and no living contact for the Endowed Fund.

5.4. **Investment of Funds**

5.4.1. Restricted Funds shall normally be invested in the UPEI Endowment Investment Pool (The Pool).

5.4.2. Donations in kind, such as equity shares, real property, etc., shall normally be sold upon receipt, and the proceeds invested by the University as per Section 5.4.1.

5.4.3. Any exceptions from the provisions in Sections 5.4.1 and 5.4.2 shall be managed by the Comptroller according to University Policies.

5.5. **Income Distribution**

The following rules shall apply to the Income Distribution of Restricted Funds participating in The Pool:

5.5.1. Investment return including realized and unrealized gains or losses shall be recorded in a centrally managed Income Control Account in the financial records of the University.

5.5.2. 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. A conservative approach is adopted to allow for the growth of the endowed fund over time and protect its principal amount.

5.5.3. 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.

5.5.4. 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

Policy Title: Endowment & Special Purpose Funds Governance & Administration	Policy No. govbrdgnl0014 Page: 6 of 7
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account to protect the individual Restricted Fund Accounts from fluctuations in investment return.

- 5.5.5. When the balance in the Income Control Account exceeds ten percent of The Pool at the fiscal year-end (April 30), the Endowment Oversight Committee 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 may be distributed to Special Purpose funds that participate in The Pool.

5.6. Expenditure

- 5.6.1. Unless otherwise stated in its Gift Agreement or Guiding Document, endowment expenditure shall be limited to the Approved Annual Expenditure Rate plus any Unexpended Income carried forward from prior years.
- 5.6.2. Expenditure from each Restricted Fund Account is restricted to the purposes as stated in the Gift Agreement or Guiding Document of each account.
- 5.6.3. 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.
- 5.6.4. 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.
- 5.6.5. Notwithstanding paragraphs 5.6.1 to 5.6.4, 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.
- 5.6.6. Notwithstanding paragraphs 5.6.1 to 5.6.4, investment management and custodial fees shall be deducted from investment income earned by the Fund prior to distribution to the individual Restricted Fund Accounts.

6. Reporting

- 6.1. The Committee shall prepare an annual report of **Restricted Funds** for the Development Committee and the Finance and Audit Committee of the Board of Governors, containing such information as:
 - 6.1.1. A listing of Restricted Fund Accounts;
 - 6.1.2. A summary of disbursements for scholarships and other purposes;
 - 6.1.3. A summary of investment assets and investment returns; and
 - 6.1.4. Other matters related to the administration of the Restricted Fund Accounts.

7. Prescribed Rates

- 7.1. The Approved Annual Expenditure Rate shall not exceed 5%.
- 7.2. 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.

8. Internal Audit

- 8.1. The University Auditor shall conduct an audit of Restricted Funds once every three years and submit the internal audit report to the Finance and Audit Committee.

9. Review

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

10. Relevant Policies

- 10.1. Endowment & Special Purpose Funds - Investment Policy Statement
- 10.2. UPEI and UPEI (US) Foundation Inc. Gift Acceptance Policy