



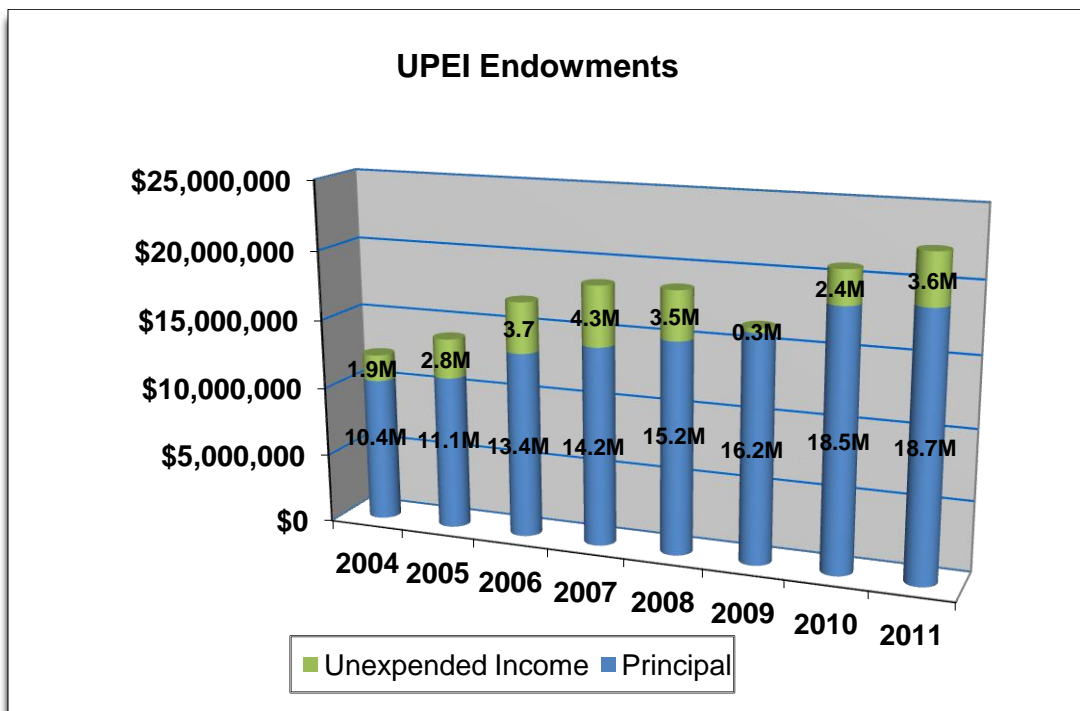
Endowments & Special Purpose Funds
Annual Report – 2010-11

October, 4, 2011

University of Prince Edward Island Endowments & Special Purpose Funds Annual Report – 2010-11

The University of Prince Edward Island assists benefactors and philanthropists to support the ongoing work of the university, its students, teaching, research and programs. This collaboration has provided great advances in education and allowed the individuals, families and organizations of many types and interests to support education in a manner fitting with their own interests. Virtually every aspect of the university benefits in some way from endowed funds. Endowment income is vital in the support of scholarships, fellowships, professorships, programs, retaining and attracting students to UPEI, and other academic enhancements. Endowment funds enable UPEI to make commitments far into the future, knowing that resources to meet those commitments will continue to be available, even through temporary decreases in market returns.

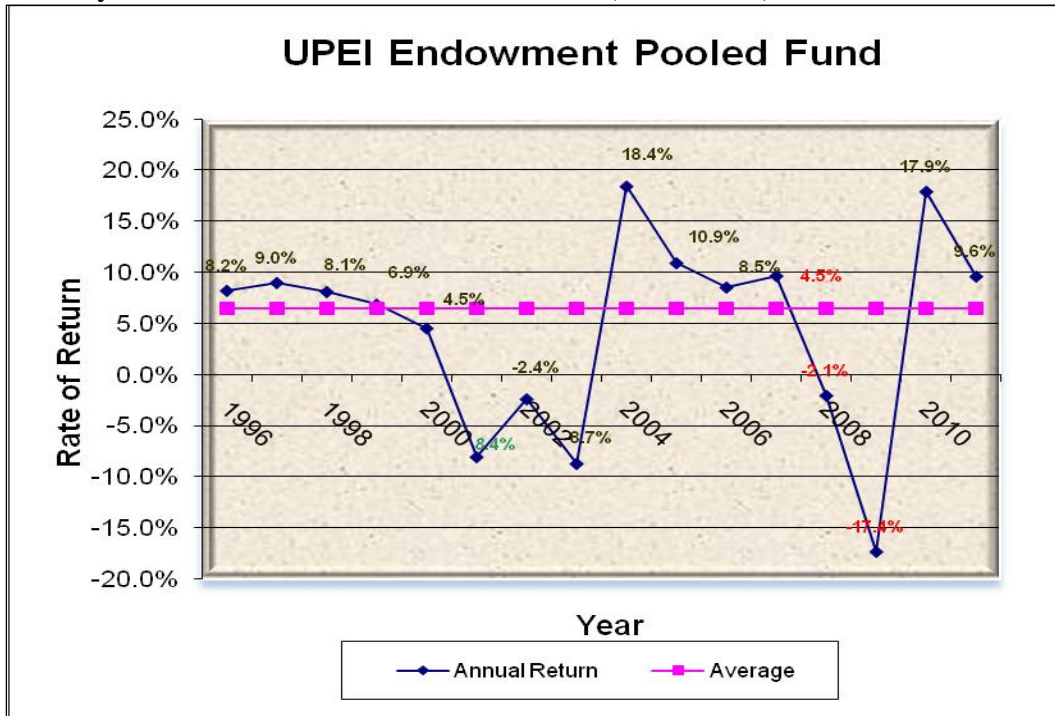
The donor(s) and the University enter into a trust agreement upon creation of an endowment account. The principal portion of a donation is held in perpetuity and the investment income earned is expended under the terms of each trust, to a maximum of 5% of the fund balance. These funds are placed with an independent custodian and invested through an external investment firm. The investment and spending policies governing these trust funds are approved by the University's Board of Governors.



At April 30, 2011, Endowed funds totaled \$22.4 million, which consisted of \$18.8 million in principal donations and \$3.6 million in unexpended income. Special Purpose funds totaled \$4.9 million at April 30, 2011. These funds total \$ 27.3 million and \$22.7 million is invested in the Investment Pool and the remaining \$4.6 million is separately invested in bonds and GIC's.

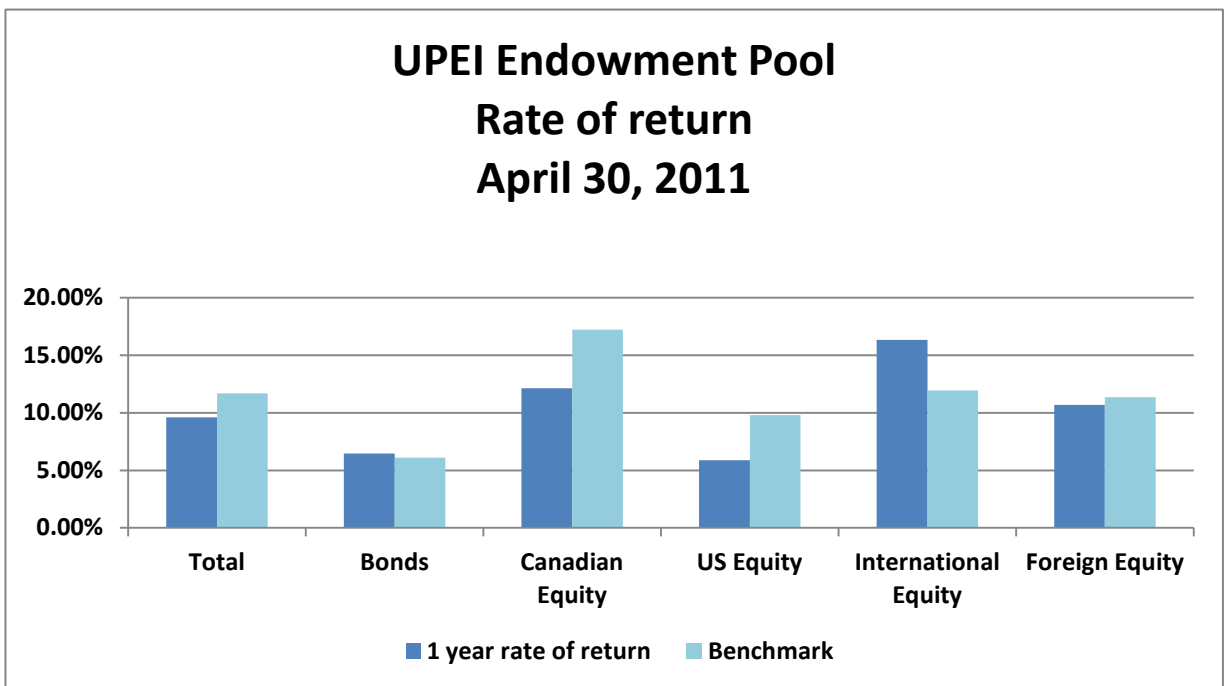
Most of the endowment funds are invested in the *UPEI Endowment Investment Pool* and are governed by rules established in the Endowment and Special Purpose Funds - Investment Policy Statement under the supervision of the University's Board of Governors and its Endowment Oversight Committee. The Investment Pool is a diversified portfolio containing Canadian Bonds and Canadian, US and International Equities which, since 2004, has been managed by the investment firm of Jarislowsky Fraser. All funds are held by an independent custodian (RBC Dexia).

Summary of Investment Returns – Pooled Funds (1996 – 2011)



Some individual donors have taken the option of designating fixed income investments for their endowment contributions instead of participating in the pooled fund. In addition, shorter term Special Purpose Funds are separately invested in bonds and GIC's. For endowed funds, which are held in perpetuity, we continue to recommend a diversified investment strategy.

The rate of return for UPEI Endowment Pool for 2010-11 (to April 30) was 9.6%. This reflects a substantial recovery from the general downturn in the global equity markets that occurred in 2008-09.



The Jarislowsky Fraser investment style is to preserve capital; therefore, on average, the endowment portfolio has performed slightly below the benchmark in the last year.

Spending Policy

The University has established a spending policy for all endowments that restricts annual spending from any endowment to a maximum of 5% of balance in the fund. In 2010-11, because of the drop in the equity markets, the UPEI Board of Governors set the *spending rate* at 3.5% of the principal balance plus unexpended income balance in each account. The Board approved the 3.5% spending rate to continue for 2011-12 with an increase to 4% in 2012-13.

**Endowments & Special Purpose Funds
Fiscal 2010-11**

	Externally Restricted Endowment	Internally Restricted Endowment	Total Endowments	Special Purpose Funds	Income Control Account	Total Endowments and Special Purpose Funds
Opening Principal - April 30, 2010	13,711,838	4,733,777	18,445,615			18,445,615
Principal Additions - 2010-11	303,720	15,420	319,140			319,140
Ending Principal - April 30, 2011	14,015,558	4,749,197	18,764,755	-	-	18,764,755
Opening Unexpended Income	720,997	664,823	1,385,820	4,386,046	1,215,617	6,987,483
Add Revenues:						
Contributions	12,947	1,933	14,880	907,905		922,785
Investment Return- Distributed	575,847	189,551	765,398	180,437	1,910,164	2,855,999
Net Investment Return - Undistributed					(712,997)	(712,997)
Total Revenue (Loss)	588,794	191,484	780,278	1,088,342	1,197,167	3,065,787
Deduct Expenditures:						
Scholarships	(302,353)	(76,937)	(379,290)	(221,947)		(601,237)
Research Support	(10,000)	(1,585)	(11,585)	0		(11,585)
Other programs	(79,924)	(159,316)	(239,240)	(645,524)		(884,764)
Total Expenditures	(392,277)	(237,838)	(630,115)	(867,471)	0	(1,497,586)
Unexpended Income - April 30, 2011	917,514	618,469	1,535,983	4,606,917	2,412,784	8,555,684
Fund Balance, April 30, 2011	14,933,072	5,367,666	20,300,738	4,606,917	2,412,784	27,320,439

The University uses a pooled income distribution method of income allocation. The University no longer posts market gains and losses directly to individual endowments. The approved income distribution rate is deposited into each endowment and restricted special purpose account participating in the pool and the University manages the risk associated with market gains and losses. This has the effect of stabilizing the income available for spending while continuing to protect principal in the account. In addition, returns earned in excess of the approved spending rate will be available for distributions to the endowments from the centrally managed pool.

Following is a summary of activity in the Income Control Account for 2010-11:

Endowment Investment Pool	
Income Control Account:	
Opening unallocated gain/(loss), May 1, 2010	\$ 1,215,617
Add Earned Income:	
Realized income	745,425
Unrealized gains/ (losses)	\$1,164,621
Total Earned Income for 2010-11	\$ 1,910,146
2010-11 income distribution (3.5%)	\$ (712,997)
Closing unallocated gain/(loss), April 30, 2011	\$ 2,412,784

Over the last two fiscal years, there has been a significant recovery in the accumulated losses in the Endowment investment pool income control account. The Governance and Administration policy for Endowments and Special Purpose Funds allows for a distribution from the Income Control Account when the balance of this account exceeds ten percent of the total Endowment Investment Pool. The Development, Fundraising & External Relations Committee approved a distribution of 5% of the average account balances since May 1, 2009. This value of this distribution is approximately \$1 million which will be added to the principal balance in endowed accounts and the fund balance for special purpose accounts.

The Endowment Spending Rate is approved 2 fiscal years in advance for planning purposes. Therefore, the rate has been set at **3.5% for 2011-12**, and increased to **4.0% for 2012-13**.

Characteristics of Restricted Fund Accounts

Endowments - External

Invested funds, held in trust, where the establishment of the endowed principal and the use of the investment income (total return) is formally restricted by written agreement with an external donor, bequest or trust. The principal is held in perpetuity and investment income, only, may be used for the purpose of the endowment.

Endowments – Internally Restricted

Invested funds, held in trust for scholarship and other purposes, where the establishment of the principal and/or the use of the investment income (total return) are determined by the University. The principal is held in perpetuity and investment income, only, may be used for the purpose intended by the donor or the Board of Governors. Internally Restricted Funds must be approved by the University's Board of Governors.

Special Purpose Funds (Deferred Revenue)

Invested funds, where both the principal donation and interest are available for the purpose established by the donor or by the Board of Governors.

Fund Balance Summary
April 30, 2011

<i>Type</i>	<i>Principal</i>	<i>Accumulated Income</i>	<i>Income Control Account</i>	<i>Total</i>
<i>Endowments</i>	18,764,755	1,551,384	2,047,721	22,363,860
<i>Special Purpose Funds</i>	-	4,591,515	365,064	4,956,579
<i>Totals</i>	18,764,755	6,142,899	2,412,785	27,320,439

Investment Summary
April 30, 2011

<i>Type</i>	<i>Pooled Fund</i>	<i>Separately Invested</i>	<i>Total</i>
<i>Endowments</i>	17,270,002	3,046,137	20,316,139
<i>Special Purpose Funds</i>	3,078,865	1,512,650	4,591,515
<i>Income Control Account</i>	2,412,785		2,412,785
<i>Totals</i>	22,761,652	4,558,787	27,320,439