Management of Restricted Gifts

Introduction
The University has established this policy to provide guidelines governing the management of restricted gifts which include endowment and current-use gifts.

Policy Statement
Brown University is obligated to honor donor directives regarding the use of their gift. Current uses gifts and distributions (i.e. endowment payout) from restricted endowments must be used for the purposes consistent with donor intentions and should be the first source of funding to support programs and activities meeting the restriction. Unrestricted resources may be applied to such programs after gifts and distributions restricted to these purposes have been fully exhausted.

This policy is to ensure compliance with donor intent and to ensure the University properly administers these funds and honors fiduciary responsibilities.

Definitions
Current-use gift: Current use gifts are also known as spendable gifts. The gift may be restricted by the donor and is expected to be spent in the current year, or when the donor-imposed restriction is met.

Endowment payout: The endowment payout, also known as the endowment distribution or yield, is the approved amount available to be spent in a current fiscal year. The endowment payout is expected to be spent in the current year, or when the donor-imposed restriction is met. Unspent endowment payout is carried forward until spent, unless the terms of endowment gift require that any unspent payout be transferred to principal.

The endowment payout is determined in accordance with the spending policy as adopted by the University Corporation. The spending policy fixes the spending range between 4.5% and 5.5% of the average fair market value of the applicable endowments over the prior twelve quarters, with the objective being to hold the spending rate to no more than 5% average over time.

Responsibilities
The department / unit authorized to spend from restricted funds are responsible for managing current-use and endowment spending, ensuring timely and appropriate application of funds consistent with donor intent. Periodic review of gift agreement terms is necessary to ensure that this responsibility is being met in its area of oversight. This ensures that expenditures charged against restricted gifts and endowment payout are consistent with donor intent.

The Controller’s Office is responsible for compliance with this policy.

Procedures
Spending:
It is recommended and preferred that departments directly charge the current-use gift or endowment when the donor restrictions are met. Example of direct charges include direct payroll costing, supplier invoices, expense reports, etc. At times it is impractical to directly charge the endowment or spendable gifts for expenses incurred. In these instances, the endowment or spendable gift may be charged through an expense transfer or allocation, as described below:

- Expense transfer- In instances where expenses are charged to a different worktag / fund (e.g. FD100 General Operating) and later reallocated to a restricted gift account, it is the
responsibility of the department to submit a journal entry for the transfer as soon as possible, but no later than June 30th of the current fiscal year. It is recommended that expenses be transferred by journal entry by spend category. However, if impractical, journal transfers aggregating the spend across two different fund types (e.g. FD600 Spendable Gifts & Other Restricted funds from General Operating fund FD100 or Endowment Spend Funds FD400 from General Operating FD100) should use spend category 9760 - Expense Reallocation across Fund Types.

- Endowment Return Applied and Allocated expenses – This is generally used in cases where the endowment yield is expected to be fully utilized (e.g. gifts and endowment payout designated for university scholarships). The gift or endowment payout is considered fully spent and journalized either by an allocation in Workday (processed by the controller’s office) or select departments. The recommended spend category is 9710 – Unrestricted Endowment Return Applied or 9720 - Restricted Endowment Return Applied.

**Carry forward balances:**
During a fiscal year, all or a portion of the spendable gift or endowment yield is unable to be spent when there are no or not enough corresponding expenses that meet the donor restrictions. In those instances, the unspent balance will be carried forward to the next fiscal year and is available to be spent. It is recommended that during the budgeting and planning process departments work plan on how best to utilize prior year unspent balances, in accordance with the donor-imposed restrictions.

**Deficit Balances:**
A current use gift or endowment payout that is over spent and in deficit must be funded by the end of the fiscal year from another appropriate funding source.

**Policy Owner** Approved by University Controller

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