





# Restricted Funds Management for Endowment Funds

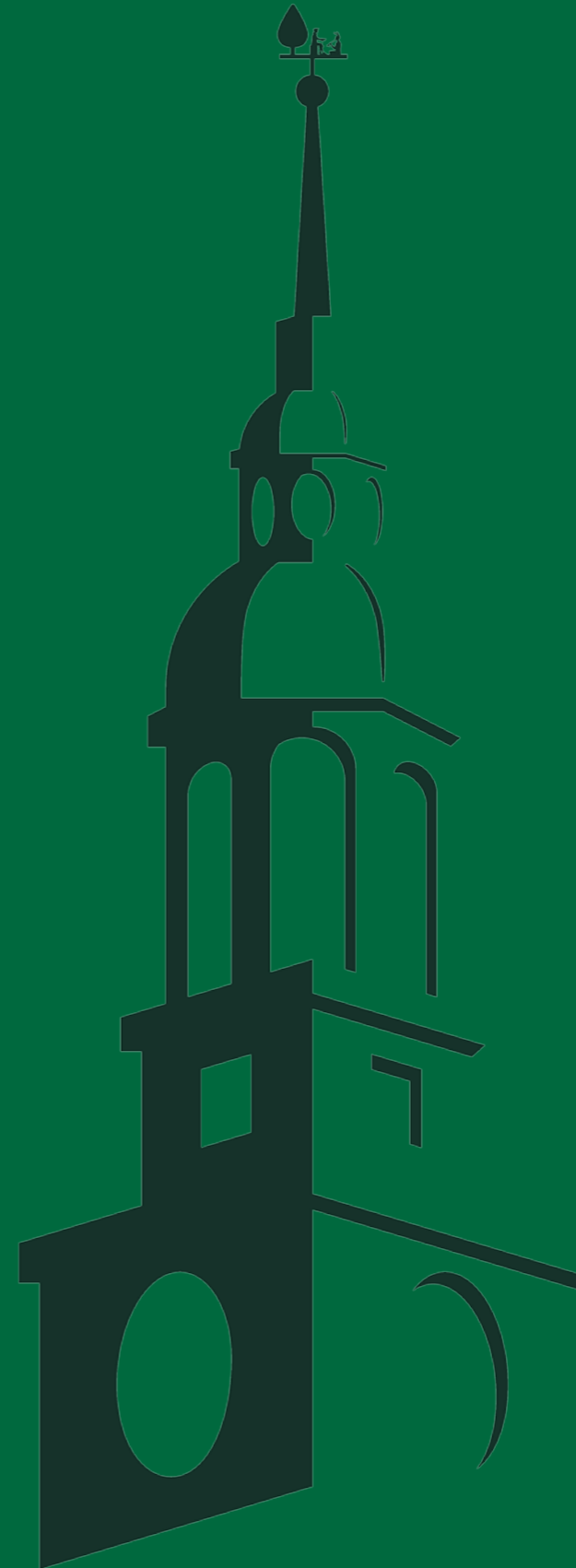
Office of Endowment Administration



# Restricted Funds Management Policy

- To ensure compliance with donor intent
- To allow for timely stewardship of donor-restricted gifts
- To promote practices that result in the greatest flexibility in long-term financial planning and utilization of all available resources

<https://policies.dartmouth.edu/policy/restricted-funds-management-policy>





**Dartmouth is legally obligated to use donor-restricted endowment gifts in accordance with donor intentions as expressed in the gift instrument.**

A **Gift instrument** is a record or records, including an institutional solicitation, under which property is granted to, transferred to, or held by an institution as an institutional fund. Examples include:

- Gift Agreement/Statement of Understanding
- Last Will & Testament
- Correspondence



- Donor restricted-gifts should be spent in a timely manner consistent with the charitable purpose.
- Restricted gifts and endowment distributions should be used consistently as the **first source of funding** to support programs and activities meeting the restrictions.
- Holding restricted gifts in reserve unspent is discouraged because it:
  - doesn't meet donor intentions except in rare instances
  - furthers the risk of not being able to provide stewardship for donors
  - furthers the risk of not being able to report on spending for compliance purposes



# Restricted Funds Management (RFM)

The RFM classification system categorizes each endowment fund based on its degree of donor restriction as set forth in the Gift Instrument.

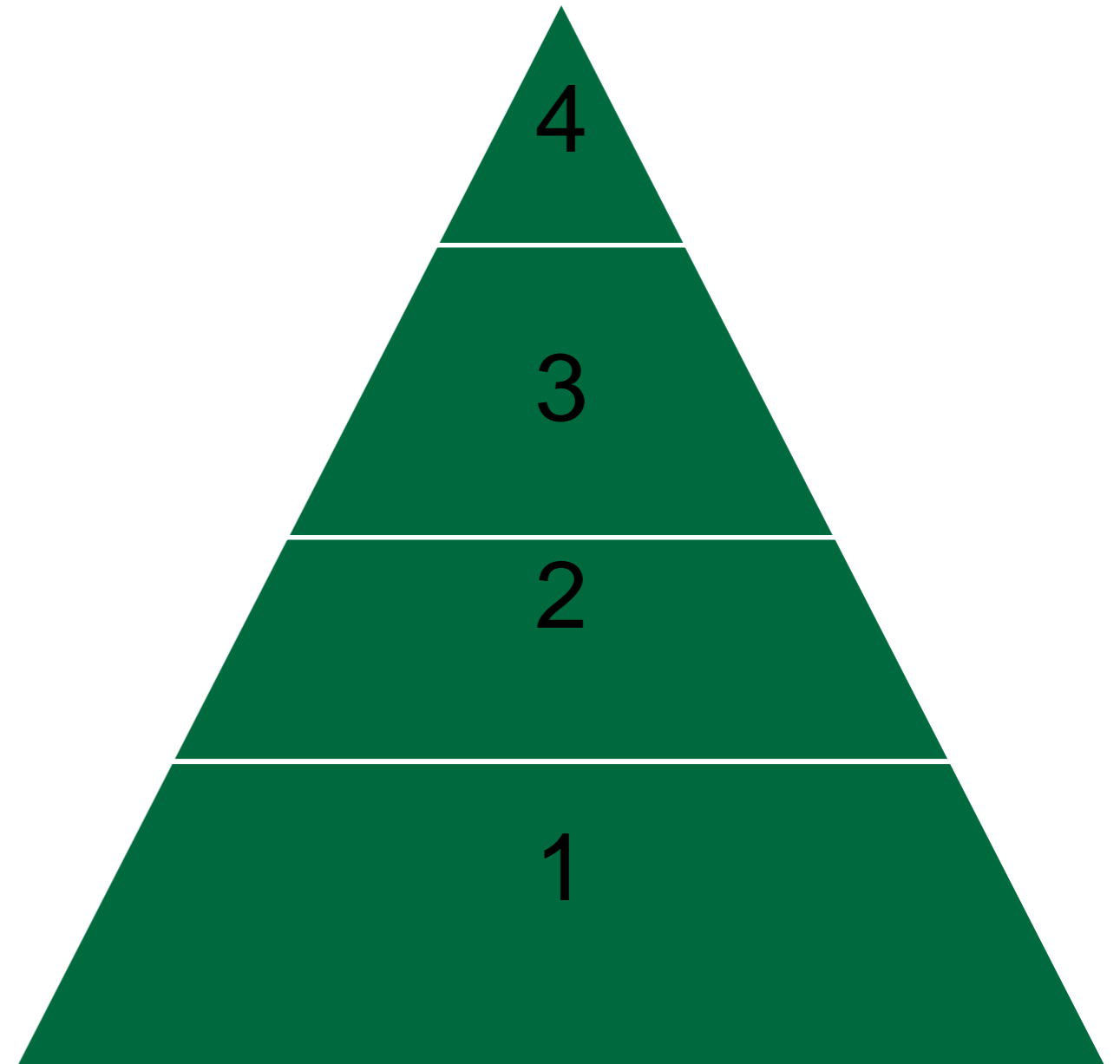
[https://www.dartmouth.edu/finance/financial-management/reporting\\_financial\\_stewardship/restricted\\_funds.php](https://www.dartmouth.edu/finance/financial-management/reporting_financial_stewardship/restricted_funds.php)



# Restricted Funds Management Categories

To aid in the transacting and reporting of restricted funds, a classification system has been created to categorize specific endowment funds based on their degree of donor restriction.

[https://www.dartmouth.edu/finance/financial-management/reporting\\_financial\\_stewardship/restricted\\_funds.php](https://www.dartmouth.edu/finance/financial-management/reporting_financial_stewardship/restricted_funds.php)







# RFM Category 1

Unrestricted to Dartmouth College or restricted to one of the professional schools and used to support general purposes.







## RFM Category 2

Broadly restricted to a division, department or general needs of a large program.

Example: General support for Baker library







## RFM Category 4

Restricted to very specific items, programs or activities

Example: Restricted to support library programs related to the book arts, including special activities and acquisitions





# Fiscal Officers are responsible for:

- Providing Departments & Program Directors or other staff responsible for spending endowment distributions with the specific fund/gift terms
- Managing endowment spending to ensure that expenditures charged against endowment reserves are consistent with donor intent, Dartmouth's educational mission, and its tax-exempt purpose
- Ensuring that endowment distributions are utilized in a timely manner for purposes meeting the restrictions
- Ensuring that endowment distributions are used as the first source of funding to support programs and activities meeting the restriction
- Contacting the Office of Endowment Administration for guidance if the terms are unclear or if distributions cannot be spent due to narrow restrictions



# Department and Program Administrators are responsible for:

- Spending endowment distributions in accordance with the fund terms
- Spending endowment distributions in a timely manner
- Using endowment distributions used as the first source of funding to support programs and activities meeting the restriction
- Contacting their Fiscal Officer for guidance if 1) they have questions about interpreting donor instructions, 2) there is a lack of donor documentation (particularly with old gifts) or 3) there are problems spending the funds because of restricted terms.



# Central Departments (host departments)

## Endowment Administration

Review/categorize fund assignments\*

Help with understanding donor intent

Maintain fund category assignment

## Financial Planning & Budgeting

Establish & communicate Budget Guidelines

Perform budget target calculations given RFM requirements

Review budget submissions & quarterly statements for RFM compliance

## Accounting/Financial Reporting

Establish & maintain accounting procedures

Set up GL Funding and/or Activity values

Ensure the RFM attribute (category assignment) is current

Create reports and tools that assist the end user

## Internal Controls

Review/test transactions for compliance

\* Not all of 6000+ endowment funds have undergone full review. If there is no narrative review date in Fundriver/Balance, you should not rely on the accuracy of the narrative. Please contact OEA for additional information



# RFM Reporting

## **GL Transaction Report**

Verify appropriateness of transactions

Research unexpected amounts identified on GL Rollup report

## **RFM Report**

Ability to select Org(s), Funding(s) and/or RFM category(ies) to retrieve a list of Fundings and their RFM attribute

Ability to see detail of transactions by RFM category(ies) and Funding(s)

Ability to see Funding balances by RFM category



**If you are accumulating reserves** because the distributions can't be used, the Office of Endowment Administration may be able to help in one or more of the following ways:

1. Review Fund file to see if the gift instrument permits a broader use or contains an alternative use clause
2. If there is a living donor, work with Advancement to get a new gift agreement
3. Work with the Office of General Counsel to apply for judicial or non-judicial modification pursuant to New Hampshire's Uniform Prudent Management of Institutional Funds Act.
  - Dartmouth must show that the restriction has become unlawful, impracticable, impossible to achieve, or wasteful.
  - You can help by carefully tracking spending to show how distributions have been used in the past several years and documenting why all or part of the distributions can no longer be used.
  - Legal modification can be a long & expensive process; it may not be available for all funds.

# TEST YOUR KNOWLEDGE



What RFM number would you assign to each of the following Financial Aid Funds?

- Income from the Fund is restricted to support general financial aid for undergraduate students based on their demonstrated need. (Fund #05037)
- Income from the Fund is restricted to general financial aid for undergraduate students based on financial need, with a preference to replace loans with grants in financial aid packages (Fund #05022).
- Income from the Fund is restricted to support general financial aid for undergraduate international students at Dartmouth College based on their demonstrated need. Excess income may be used to support scholarships for other Dartmouth undergraduate students. (Fund #05007)

## Answers

- Income from the Fund is restricted to support general financial aid for undergraduate students based on their demonstrated need. (Fund #05037) **RFM 2 because fund is restricted financial aid generally.**
- Income from the Fund is restricted to general financial aid for undergraduate students based on financial need, with a preference to replace loans with grants in financial aid packages (Fund #05022). **The RFM assignment remains 2. Although Dartmouth's policy is to honor preferences whenever possible and as long as they fit the need of the benefiting area, unlike restrictions, preferences are not legal obligations**
- Income from the Fund is restricted to support general financial aid for undergraduate international students at Dartmouth College based on their demonstrated need. Excess income may be used to support scholarships for other Dartmouth undergraduate students. (Fund #05007) **RFM 3 because this Fund is restricted to a particular type of student that must be tracked by Financial Aid.**

What RFM number would you assign to each of the following Professorship Funds?

- Income from the Fund is restricted to support an Early Career Professorship at the Thayer School of Engineering and shall be used for the holder's salary, benefits, and associated costs of the professorship (e.g. space, support, and oversight). The Dean of the Thayer School of Engineering shall determine how income in excess of that needed to support costs of the holder (or income during vacancies) is used. (Fund #04611)
- Income from the Fund is restricted to support a Professorship at the Thayer School of Engineering. (Fund #69530).

## Answers

- Income from the Fund is restricted to support an Early Career Professorship at the Thayer School of Engineering and shall be used for the holder's salary, benefits, and associated costs of the professorship (e.g. space, support, and oversight). The Dean of the Thayer School of Engineering shall determine how income in excess of that needed to support costs of the holder (or income during vacancies) is used. (Fund #04611) **RFM 2 because there is a provision for excess income**
- Income from the fund is restricted to support a Professorship at the Thayer School of Engineering. **This professorship does not have an excess income provision, and the answer depends on the size of the annual distribution. Professorship funds without excess income provisions are assigned RFM 3 if the annual distribution is not expected to exceed the holder's compensation (i.e. unlikely to create excess). If the annual income is expected to exceed the holder's compensation, RFM 4 will be assigned. The threshold is not determined on an individual bases, but assigned in the *Endowment Professorships – Spending Policy eff 7/1/2016***

## Glossary

**APC:** Associated Program Costs (APC) is a levy on the distribution from an endowment fund to cover costs incurred to support the endowed program but that are not charged directly to it.

**Alternative Use Clause:** Alternative use clauses provide Dartmouth discretion to modify or release a restriction if the endowment can no longer be applied to the original purpose. Clauses are generally intended to address unforeseen, long-term changes in circumstances and implementation requires executive level approval. Compare to excess income clause below.

**Book Value:** Also known as Historic Gift Value is comprised of the initial gift plus any gift additions to a permanent endowment.

**Cy Pres:** Legal doctrine that means “as near as possible.” Used colloquially to refer to any judicial release or modification of fund restrictions. The concept has been codified and expanded by New Hampshire’s legislature (Chapters 547:3-547:3-d).

**DPC:** Direct Program Costs (DPC) consists of the remaining distribution from an endowment fund available to be spent by the endowed program. DPC is the Endowment Distribution less Associated Program Costs (APC) and Infrastructure Renewal Distribution (IRD).

**Endowment:** A pool of money owned by a nonprofit organization that is permanently invested to generate an annual return for the support of the organization’s operations. Often, but not always, the money has been contributed by a donor and may come with restrictions regarding its usage. Usually, the endowment is structured so that the original principal amount is kept intact while the investment return is available for use annually in perpetuity. Endowment expenditures and investment decisions are managed according to state law known as the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

**Endowment Fund:** “True” Endowment Fund is created with a gift in which the donor's intent is to create a permanently invested fund that is not wholly expendable. Typically, the total gift value remains intact, and a portion of the earnings are distributed to support general purposes or programs designated by donors.

“Quasi” Endowment Fund (historically known as “funds Functioning as Endowments”) may be created by a donor or by Dartmouth. Quasi endowments permit principal and income to be expended, subject to Dartmouth’s policies for expending quasi endowment principal <https://policies.dartmouth.edu/policy/quasi-endowment-policies>

“Term” Endowment Fund require that principal remain intact for a specified term, with only the income available for spending. After the passing of a specific event or time, principal may also be expended at the Dartmouth’s discretion.



**Endowment Distribution:** dollars provided to an institution's operating budget annually from the endowment. Also see APC, DPC, Infrastructure Renewal Distribution (IRD), and Reserves.

**Excess Income:** Excess income provision designed to provide fiscal officers with the flexibility to fully utilize distributions each year. Compare to alternative use clause above.

**Infrastructure Renewal Distribution (IRD):** The IRD is a distribution from the endowment equal to 0.5% of the endowment market value at the beginning of the fiscal year which is applied to all endowment funds unless specifically prohibited by the donor. The IRD was approved by the Board in 2021 specifically to fund upgrading and modernizing housing, energy and information technology. The distribution began in 2022. Also see Infrastructure Renewal Fund ("IRF").

**Infrastructure Renewal Fund (IRF):** A designated reserve for each facility owner (Geisel, Thayer, Tuck, Irving, and Central/Arts & Sciences/Guarini/Auxiliaries) that holds the IRD until it is spent.

**Market Value:** Consists of the endowment fund's original Book Value (gifts) plus any reinvested earnings and any market appreciation (or less any market losses).

**Reserves:** another term used to describe the net assets of a nonprofit organization; typically, this represents the amount of cash available to spend. Restricted endowment distributions and/or gift reserves should be spent in a timely manner and should be used as the first source of funding to support programs and activities meeting the restriction. Holding them in reserve unspent doesn't usually meet donor intentions except when held for a reasonable time for a special project or purpose.

**RFM:** Restricted Funds Management, Dartmouth's classification system created to categorize endowment and current-use gift funds based on their degree of restriction from the donors. The ranking system has four levels, with Category 1 being least restrictive and Category 4 being most restrictive.

**Return to Market (RTM):** When endowment earnings are not distributed to programs but are reinvested in the endowment and added to the market value, usually at the direction of the College.

**Return to Principal (RTP):** When endowment earnings are not distributed to programs but are reinvested in the endowment and added to the book value, usually at the direction of the donor.

**Subvention:** Non-restricted funds allocated to support spending

**UPMIFA:** NH Uniform Prudent Management of Institutional Funds Act establishes the parameters, subject to any donor limitations, in which Dartmouth can maintain, invest, and spend its endowment and other institutional funds.

# Office of Endowment Administration

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Thank you