



New Endowment Spending Budgets

When do new endowments become eligible to spend?

It depends on the endowment agreement, or memorandum of understanding (MOU).

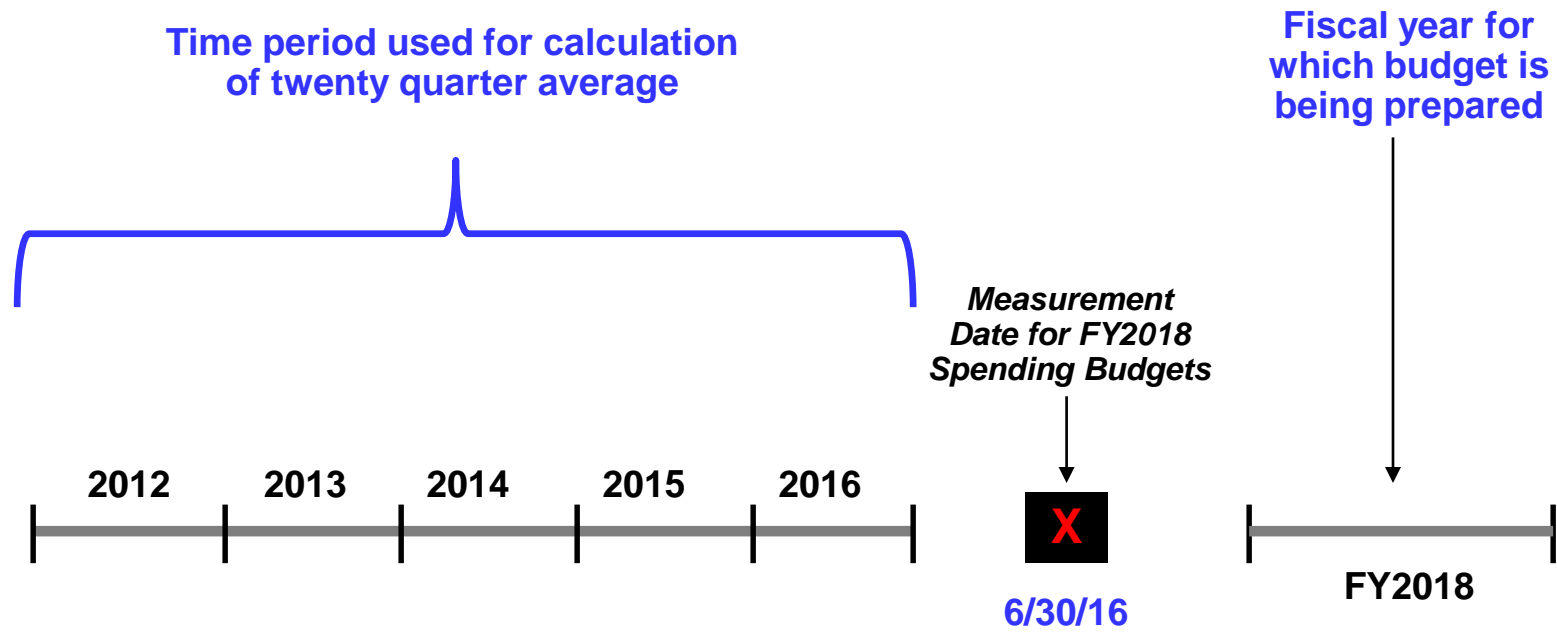
- New endowments with MOU's that follow the board-approved endowment spending policy are eligible to begin spending the fiscal year after a new endowment is created.
- New endowments with MOU's that prohibit spending of corpus are eligible to begin spending after accumulated investment earnings are sufficient to fund a spending budget.

When are endowment spending budgets computed?

Foundations Accounting & Investments (FAI) computes spending budgets in two phases.

- **PHASE I:** For endowments that were fully funded as of the prior fiscal year end: Spending budgets for next fiscal year are computed and communicated to campus in December. Early communication of next fiscal year's spending budgets aids campus in making scholarship decisions.
- **PHASE II:** For new endowments created during the current fiscal year that follow the board-approved spending policy allowing prudent spending of corpus: Spending budgets for next fiscal year are computed and communicated to campus in May.

Endowment Spending Budgets Phase I Time Table



To spend in FY2017, endowments must have adequate spending reserves at June 30, 2016 OR an MOU that follows board-approved spending policy and a market value greater than 85% of corpus.

NOTE: *Endowments with MOU's prohibiting spending of corpus established in the June 30, 2016 quarter will not be able to fund a spending budget until **FY2019**.*

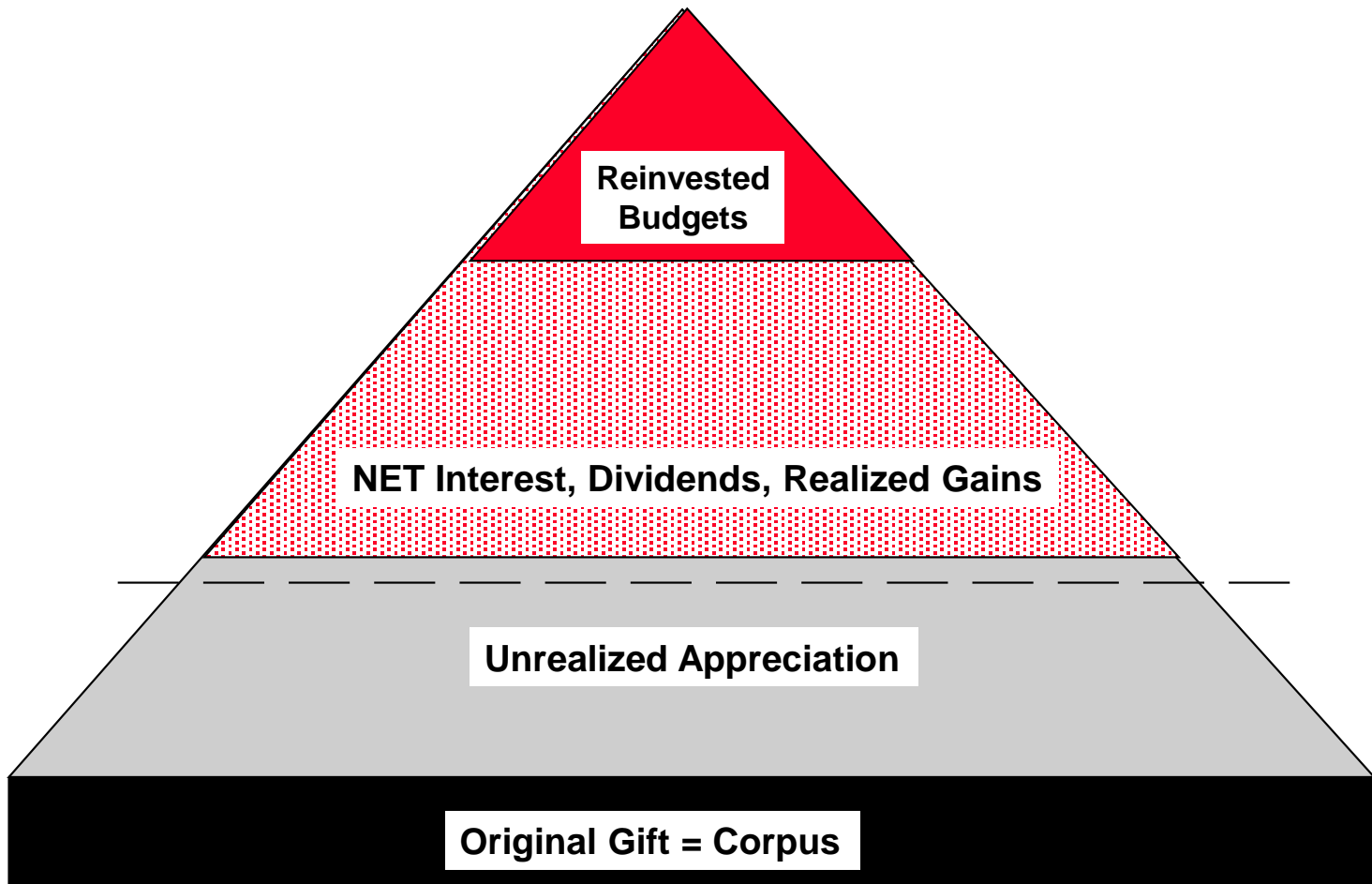
What information is used to calculate spending budgets?

- Number units owned in the long-term investment pool by each endowment. (Units are like mutual fund shares.)
- Average spending rate per unit, based on a rolling, 20-quarter average market value for the long-term pool
- Spending reserves for each endowment
- Prior year spending budget and additions, if any, to each endowment during the prior fiscal year.

When do new endowments begin accumulating spending reserves?

- New endowments begin participating in long-term investment pool earnings the quarter after the endowment is first invested.
- Spending reserves is NC State's terminology for net investment pool earnings, which includes interest and dividends net of fees, realized gains and losses as well as unrealized appreciation or depreciation.
- Spending reserves are tracked at the individual endowment level. This means that spending reserves for one endowment cannot be used to fund a spending budget for another endowment that does not have adequate spending reserves.

Layers of Spending Reserves



Can a spending exception be requested?

- Yes. All endowment spending policies have an exceptions clause.
- Spending exceptions must be agreed to by the Dean and the Treasurer.
- For endowments with MOU's that prohibit spending of corpus, adequate spending reserves must be available to fund requested exceptions.
- Exceptions can be requested for amount and timing of spending budgets.

Are there caveats to spending exceptions?

- Early spending or spending more than the 4.0% policy amount could exhaust spending reserves, negatively impacting future spending budgets.
- Reduction of spending reserves could potentially disrupt the flow of scholarship and fellowship funds to students in the future.

What are BTE's?

- BTE's are funds that are building to endowment level. BTE's are used when donors want to spread gifts to an endowment out over a period of time, up to 5 years.
- Foundation BTE's with a balance below the university endowment minimum of \$25,000 are invested in a combination of short term and intermediate term funds.
- Foundation BTE's with a balance of \$25,000 or more are invested in the long-term pool. University Endowment Fund BTE's are invested in the long-term pool upon creation.
- BTE's invested in the long-term investment pool are managed the same as new endowments created with a single gift, except no spending is allowed until the full endowment level specified in the MOU is achieved.

How will I know if a BTE has reached endowment level?

- FAI emails development officers each month notifying of BTE's that have met the minimum levels. Approved minimum levels can be found at:
<http://giving.ncsu.edu/supporting-nc-state/how-to-give/endowment-levels/>
- If you do nothing by the response date specified in the email, the entire BTE fund balance will be invested in the long-term pool. **However, an endowment agreement must be completed and provided to FAI before the funds will be invested in the long-term pool.**
- If you want a portion of the funds to be left in the endowment income project for spending, you must advise FAI by the specified date.

What can I do to accelerate spending from new endowments?

- Promote endowment MOU's that follow the board-approved spending policy permitting prudent spending of corpus.
- Remember that quarter-ends are critical dates for investing endowment gifts:
 - Gifts invested in one quarter don't begin earning income (*a/k/a spending reserve*) until the next quarter.
 - A new endowment invested during the last quarter of the fiscal year does not begin to earn income until the first quarter of the next fiscal year.

What can I do to accelerate spending from new endowments?

- Educate donors.
 - If early spending is important, suggest donors execute endowment MOU's following the spending policy or that they designate a portion of their gift for current spending.
 - Urge donors to accelerate giving when approaching a quarter end. Asking a donor to make the gift on March 15 rather than April 1 might accelerate spending by as much as a year in cases where the endowment MOU prohibits spending of corpus.
- Process all gifts for deposit in a timely manner.

Additional Information

Endowment spending policy

http://www.ncsu.edu/project/fdns-acct/dev_officers_toolbox/Spending_RuleFY14.pdf

Basics of Endowment Spending Budgets

http://www.ncsu.edu/project/fdns-acct/dev_officers_toolbox/Basics_Endow_Spending_BudgetsFY14.pdf

Frequently Asked Questions About Endowments

http://www.ncsu.edu/project/fdns-acct/dev_officers_toolbox/FAQendow_Jan2015.pdf

Uniform Prudent Management of Institutional Funds Act

http://www.ncsu.edu/project/fdns-acct/dev_officers_toolbox/UPMIFA_NCGS_36E.pdf



Questions?

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