Funds, Fund Balances and Subventions: Principles and Guidance

1. Fund Balances Derived From Current-use Gifts
   Current-use gifts unexpended within the year of receipt shall become fund balances in the University Bank. Interest shall accrue to the fund at the then-applicable rate as determined by the University.

   Fund balances emanating from unexpended current-use gifts shall be expended in accordance with the donor’s intent within a reasonable time frame, usually within three to five years of receipt of the gift proceeds.

   Except under unusual circumstances, current-use gifts and associated fund balances should not be capitalized into the endowment. Capitalization of any current-use gift or unused current-use funds requires written authorization of the FAS Dean. Authorization will not be granted for any current-use funds budgeted for use within five years of receipt of the gift. Furthermore, requests for capitalization of current-use funds will be reviewed to ensure that capitalization does not create unnecessary and potentially imprudent financial risk for gifts intended to be expended within a relatively short time frame.

2. Fund Balances Derived From Endowed Fund Distributions
   A surplus is created whenever an endowment distribution (payout) associated with an endowed fund is either not utilized or not fully utilized in a given year.

   When this occurs, at the end of the fiscal year, the surplus will become or will add to a fund balance in the University Bank, to be used at a later date and in accordance with donor intent. This is appropriate when the expenses covered by the fund distributions are unevenly distributed over a small number of years, or when academic plans call for the “saving up” of multiple years’ worth of distributions to make a one-time purchase (e.g., saving two years’ distributions to purchase a new microscope). Interest shall accrue to the fund at the then-applicable rate as determined by the University.

   In exceptional cases, fund balances derived from endowment distributions may be recapitalized into the endowment, thereby increasing the endowed fund’s market value and increasing future endowment distributions (all else equal). This is allowed only when a unit has developed a multi-year, integrated, academic and financial plan supported in part or in full by increased income from the endowed fund. Capitalization is an investment decision made for the long term; such an action is not intended for any surpluses budgeted for use within five years. Capitalization of fund balances derived from endowed fund distributions requires written authorization of the FAS Dean.

3. Fund Balances Derived from “Unrestricted Designated” Funds
   In certain circumstances, departments, centers, and units have established “unrestricted designated” funds, sometimes referred to as “UD” funds. UD funds automatically allow for the carry forward of unrestricted balances from year-to-year. Examples of unrestricted designated funds are departmental distributions from faculty royalties, designated funds from the President/Provost, and service center activities (which must adhere to the external
funding agency guidelines and to the written policies of the service center). Interest income on fund balances (held in the University Bank) derived from FAS UD funds shall accrue to the fund at the then-applicable rate as determined by the University.

Except in rare circumstances, unrestricted fund balances (both designated and undesignated) should not be invested (capitalized) in the endowment. Capitalization of any unrestricted fund balance requires written authorization of the FAS Dean.

4. Subventions
The activities of some FAS units are not completely funded by endowment distributions, local fund balances, or other income designated for the unit. Each year, the fiscal budget of the FAS may direct unrestricted FAS funds toward the activities of one or more FAS units in support of their activities. The directing of unrestricted FAS funds to a FAS unit is called a subvention.

A department, center, or tub of the FAS will be eligible for a subvention once it has demonstrated compliance in budgeting for the next fiscal year with the first-dollar principle. This principle states that funding for activities of a department, center, or tub should come first from endowments, gifts, other funds restricted for that activity or for use in that FAS unit, or from locally held unrestricted fund balances. Only after looking to these restricted or local funds should a unit seek funds from a subvention.

Subventions are not fixed in size from year to year, nor are they guaranteed to grow. The size of the subvention given to a department, center, or unit will vary over time to reflect the changing academic priorities and financial health of the FAS. The academic plans of the FAS will be instrumental in determining changes to individual unit subventions.

Departments, centers, and tubs understandably desire stability in the funding of their programs and activities. Except in times of significant financial pressure on the FAS, reductions in subventions will be signaled and discussed well in advance of any reductions. As stated in Section 6 below, FAS units should not look to save any part of their subvention in a local fund balance. Keeping FAS unrestricted funds in a local fund balance jeopardizes the long-term sustainability of the FAS. Any part of a subvention that will not be used in the current fiscal year shall revert to the FAS so that the FAS may redeploys those funds toward another area of the FAS. Returning unused funds in an academic year will not cause a unit’s subvention to decrease in the next fiscal year. Changes to subventions will be driven solely by academic plans (except in the face of a financial crisis); acts of good citizenship will not be penalized.

5. Dean’s Discretionary Funds
Like the FAS dean, the SEAS, divisional, College, and GSAS deans have annual discretionary funds that they allocate toward the priorities of their units and sub-units. As with the unrestricted funds of the FAS that go toward subventions, units of the FAS requesting unrestricted support from a dean’s discretionary fund should demonstrate that these requests have adhered to the first-dollar principle described in Section 4 above. Each
dean is held accountable for the proper use of the academic unit’s discretionary funds and is expected to enforce the first-dollar principle.

6. **Fund Balances Derived from Subventions and Dean’s Discretionary Funds**
The creation of fund balances using subvention or dean’s discretionary funds is not normally permitted. The saving of any part of a subvention or dean’s discretionary funding beyond the current year requires written approval of the FAS Dean. In the rare instance when subvention- or dean’s discretionary funds-derived fund balances exist, interest income on those funds shall accrue at the FAS level.

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Note: If you have questions about the above ‘Principles and Guidance,’ please contact any of the following FAS Finance leaders:

- Deena Giancotti 6-3127 dgiancot@fas.harvard.edu
- Eric Kopstain 4-7333 kopstain@fas.harvard.edu
- Gail Pisapio 6-4197 gpisapio@harvard.edu
- Brett Sweet 6-8729 brett_sweet@harvard.edu
Capitalization / Decapitalization Request Form

For all FAS Tubs

This form must be completed for all endowment capitalization and decapitalization requests. To be processed for the current fiscal year, decapitalization requests must be submitted to FAS Finance by March 15th and capitalization requests must be submitted to FAS Finance by June 1st.

Section 1: Requester Information

Name: _______  Date: _______
Phone: _______  Email: _______

Section 2: Fund Information

Full title of account: _______
Tub: _______  Org: _______  Fund: _______
Type of fund  □ Current Use  □ Endowment
Action:  □ Decapitalize  □ Capitalize
Amount*: $_______

*Decapitalizations may be requested as “not to exceed” if uncertain of exact amount.

Section 3: Capitalizations

1. Please describe the reason(s) for this capitalization request.

2. Please provide a brief explanation of how the increase in subsequent years’ annual distribution income (all else equal) will be used and how this is tied to the unit’s long term academic and financial.

Section 4: Decapitalizations

1. Please describe the planned use of decapitalized proceeds and timeframe for their use.

2. Please provide a brief explanation of how the unit will manage with less annual distribution income in subsequent years.

Section 5: Approval Routing

Department Chair: ___________________________  Date: __________
FAS Dean: ___________________________  Date: __________

Please forward this completed form and all pertinent documentation to: FAS Office of Finance, 1414 Mass Ave., 4th floor, #482; Attn: Lisa Kuros. FAS Finance will share a copy of this form with the divisional dean, administrative dean, and tub director, as applicable. If you have any questions, please call 617-496-3934 or email linda_kuros@harvard.edu.