



EAB

RESEARCH BRIEF

Advancement Unit Sustainability

Gift Fees and Post-Campaign Funding of
Advancement Operations and Staff

Advancement Forum

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1) Executive Overview

Key Observations

Most profiled institutions fund their advancement units by appropriating funds from the university's central budget, though some institutions draw on an administrative endowment fee. Appropriating funds from the central budget is favorable because it is predictable, unlike other funding models (e.g., reliance on gifts or endowment performance). The second most-common strategy at profiled institutions is implementing an administrative endowment fee. Through this model, the advancement unit receives a percentage of funding from the university's endowment. For example, **Institution N's Foundation** receives two and one half percent of the annual endowment each year, which is approximately \$3.5 million. Contacts cite that funds from the central budget or administrative endowment fee cover all advancement expenses (e.g., overhead, personnel salaries and benefits, capital campaigns).

Fund campaign staff positions through an administrative endowment fee. Profiled institutions permanently maintain campaign staff positions after the conclusion of the campaign. Administrators at profiled institutions hire between two and 12 additional campaign staff, depending on campaign length and fundraising goals. Administrators at **Institution A** and **Institution B** increased administrative fees to support a capital campaign, and they do not plan to return to the original fee rate after the campaign concludes. Contacts at Institution A note that a higher administrative endowment fee is necessary to maintain staff hired to support the campaign.

Implement gift fees between two and six and a half percent to generate additional revenue for advancement units. Although advancement units at **Institution M** and **Institution N** do not implement gift fees, the national trend toward restricted giving may decrease endowment funding available for general operations costs. Thus, administrators at many institutions introduce gift fees to direct a portion of restricted gifts toward operational costs.

Minimize potential donor resistance to gift fees through strategic branding of fees and transparent communication with donors. Although donors typically understand the importance of gift fees, contacts recommend presenting this change confidently and strategically referring to the gift fee (e.g., "operational," "stewardship," or "administrative" fee). At **Institution L**, the President sent a letter to donors notifying them of changes to gift fee policies; he began the letter by sharing the University's rationale for expanding the gift fee to include donations to endowments and scholarships, and concluded the letter by indicating how administrators would use the revenue generated from the gift fees. In extreme cases of donor resistance, administrators may waive the gift fee.

Central funds, rather than gift fees or endowment interest, support elevated campaign spending. In anticipation of additional costs during a campaign, the director of advancement creates a separate campaign budget. The director then sends the campaign budget to senior leadership in the university finance office. The chief financial officer releases the funds to the advancement unit. This strategy is more common than other revenue-generating models (e.g., implementing gift fees or relying on endowment interest to fund campaign expenses); gift fees may upset donors, and endowment interest may not be sufficient to cover costs.

Advancement unit staff at profiled institutions organize capital campaigns, oversee fundraising, and manage donations. The Institution N Foundation (the advancement unit equivalent at **Institution N**) also manages the Alumni Association.

In addition to organizing fundraising programs and activities, advancement units aid in developing institutional fiscal strategy. At **Institution M**, advancement staff conduct campaign feasibility studies to determine the level of resources a campaign will require, and manage advancement investments. Senior leadership liaises with the advancement director to obtain information (e.g., projected alumni donations) to help inform the institution's annual fiscal strategy.

Profiled institutions permanently maintain campaign staff positions post-campaign and support them through an administrative endowment fee.

Administrators at profiled institutions hire between two and 12 additional campaign staff at profiled institutions, depending on campaign length and fundraising goals. Administrators at **Institution A** and **Institution B** increased administrative fees to support a capital campaign, and they do not plan to return to the former lower rate after the campaign concludes. Contacts at Institution A note that the higher fee is necessary to maintain staff hired to support the campaign.

2) Advancement Unit Revenue Sources

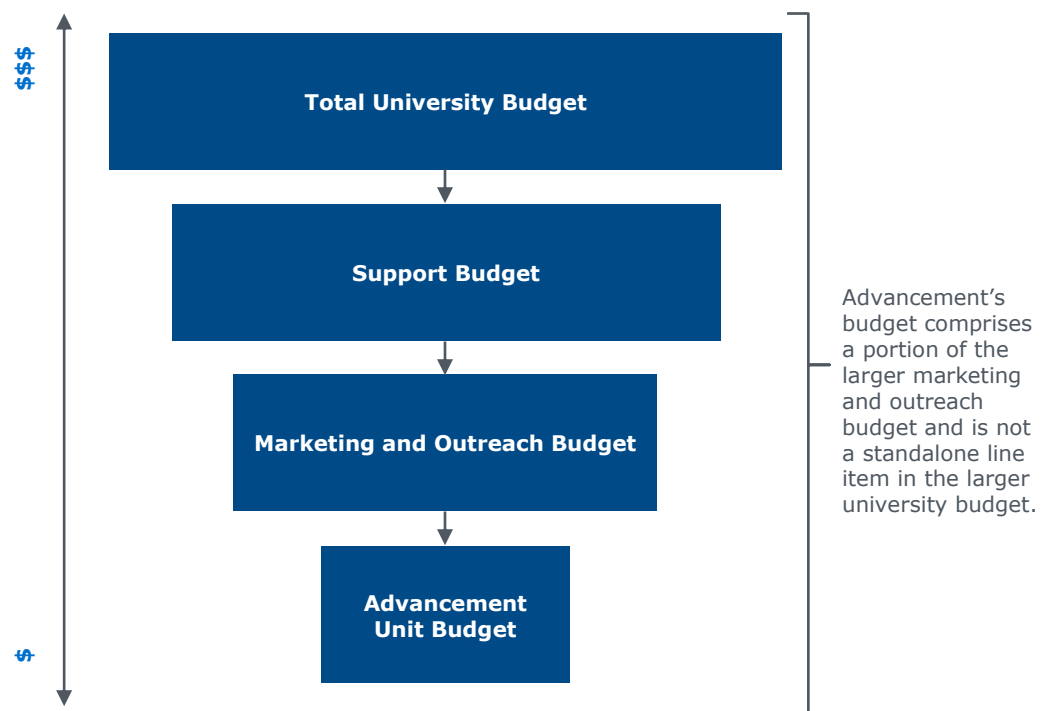
Advancement Unit Funding

Support Advancement Units through the University Central Budget or Administrative Endowment Fees

Administrators typically fund advancement units by appropriating funds from the university's central budget. At **Institution M**, funding for the advancement unit comes from the Marketing and Outreach department's budget, and funding for this department comes from the University's larger support budget for operational expenses.

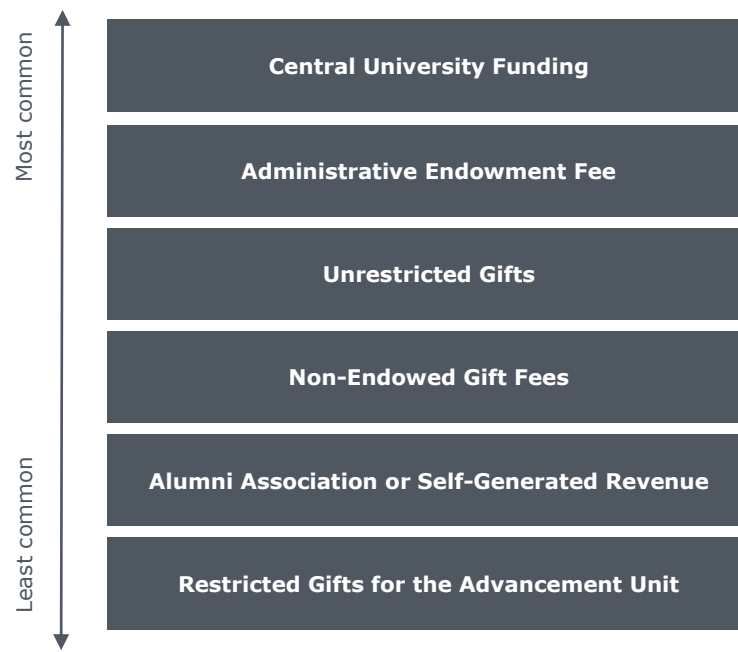
These resources account for all advancement unit expenses (e.g., personnel salaries and benefits, overhead, technology, alumni relations activities) at Institution M.

Advancement Unit Funding Model at *Institution M*



Receiving central university funding increases budget predictability, but it can be adversely affected by overdependence on gift fees and endowment variability.

Advancement Funding Sources¹



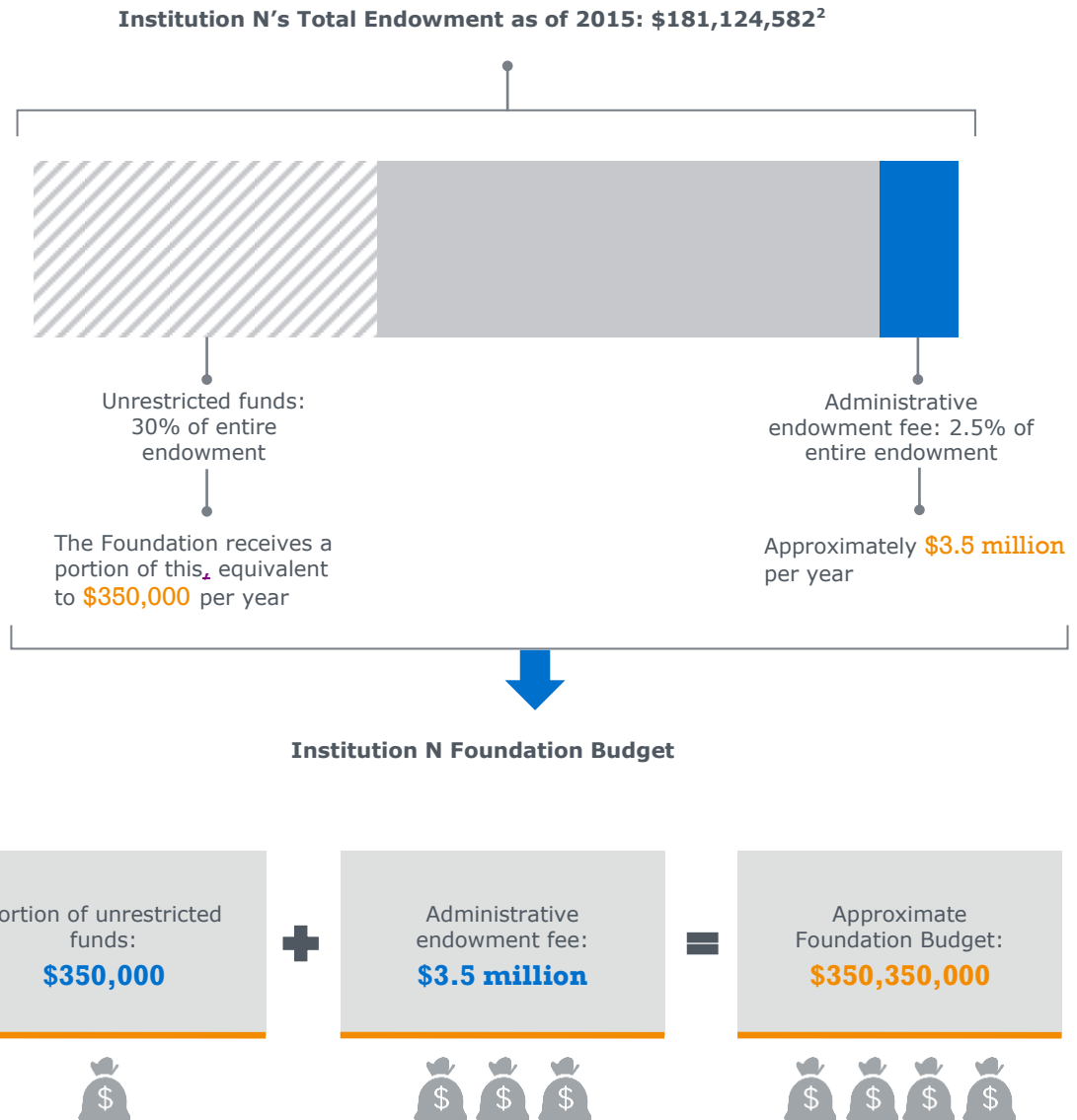
The second-most common funding model among profiled institutions is an administrative endowment fee, which administrators at **Institution N** use. Under this model, advancement administrators receive two and a half percent of the University's endowment (approximately \$3.5 million) to fund The Institution N Foundation. The Foundation oversees the institution's advancement activity and the Alumni Association.

In addition to receiving two and a half percent of the endowment annually, the advancement unit also receives a portion of the endowment's unrestricted funds, which generates an additional \$350,000.

Advancement staff at Institution N apply administrative endowment fees and dollars from the endowment's unrestricted funds to account for all of Institution N Foundation's expenses, including operational expenses for the Alumni Association.

1) Source: "Advancement Office Funding Models." *Education Advisory Board*. Accessed 26 April 2016. <https://www.eab.com/research-and-insights/business-affairs-forum/custom/2014/05/advancement-office-funding-models>

Administrative Endowment Fee Model at *Institution N Foundation*



Implementing Gift Fees

Implement Gift Fees between Two and Six and a Half Percent to Generate Additional Revenue

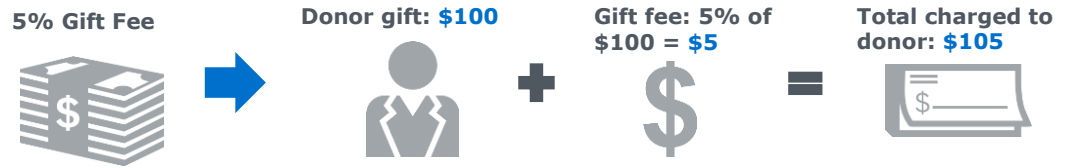
Contacts at **Institution M** and **Institution N** indicate that they do not employ gift fees. The Board of Regents at Institution N decided to fund Institution N's Foundation solely through the endowment more than 20 years ago. As a result, administrators do not anticipate changing this model.

However, the recent increase in restricted giving may decrease endowment funding available for general operations costs; in 2011, 88 percent of gifts at private institutions and 97 percent of gifts at public institutions were restricted. Thus, more institutions are using gift fees to direct a small portion of restricted funding toward operating expenses and general funding.³

2) Source: "Fiscal Year 2015 Auditor's Report." *Institution N Foundation*. Accessed 26 April 2016.

3) Source: "Optimizing Institutional Budget Models." *Education Advisory Board*. Accessed 26 April 2016. <https://www.eab.com/research-and-insights/business-affairs-forum/studies/2014/optimizing-institutional-budget-models>

Sample Gift Fee Implementation



Institution Gift Fees⁴

	Institution	2011 Endowment	Gift Fee
Smallest Fee Largest Fee	Institution F Foundation	\$231 million	2% on expendable gifts
	Institution G Foundation	\$495 million	<ul style="list-style-type: none"> No fee on gifts to the endowment 5% fee on all other gifts
	Institution H Foundation	\$430 million	5%
	Institution I Foundation	\$242 million	5%
	Institution J Foundation	\$714 million	6%
	Institution K Foundation	\$2.9 billion	6.5%

Notably, **Institution F** has the smallest endowment yet charges the lowest gift fee percentage of the institutions profiled. The institution with the largest endowment, **Institution K**, charges the highest gift fee.




Overcoming Gift Fee Challenges

Minimize Donor Resistance to Gift Fees through Clear Communication and Strategic Fee Branding

Administrators report that they experience little opposition from donors regarding fees on gifts. Donors usually understand the need to assess an administrative fee to finance operations of the development office, though they may occasionally express initial resistance to this policy. Donors are more amenable to fees on endowments than new gifts because the investment and disbursement of a long-term fund typically requires more labor and thus has more costs.

4) Source: "Benchmarking Operating Fees for University 501(c)3 Foundations." Education Advisory Board. Accessed 26 April 2016. <https://www.eab.com/research-and-insights/business-affairs-forum/custom/2013/01/benchmarking-operating-fees-for-university-foundations>

Strategies to Minimize Donor Resistance to Gift Fees⁵

Communicate clearly about fee purpose 	Encourage administrators to present the fee confidently rather than apologetically to preempt resistance. If donors protest the fee, an advancement director or other university leader often provides a detailed explanation of the fee's use.
Refer to the gift fee strategically 	Advancement officers refer to taxes on non-endowed and endowed gifts as "management," "administrative," "operational," or "stewardship" fees, and avoid the word "tax." These titles more accurately describe the use of the fee, which can help answer questions and mitigate donor resistance to the fee.
Waive the gift fee in extreme cases 	Administrators have waived operational fees in unique instances in which the donor would otherwise withdraw their gift. Contacts observe that many private foundations maintain a policy that prohibits donations when such a fee is applied.

The President at **Institution L** sent donors and friends of the University a letter describing the rationale for expanding the gift fee policy to include donations made for scholarships or the endowment (previously these gift types had been exempt from the five percent gift fee). In the first part of the letter, the President indicates that dwindling state funds have strained the University's financial resources. After introducing this rationale for expanding the gift fee policy, the President uses reassuring language to tell donors that their donation is put to good use (e.g., "95 percent of every gift received is able to go directly to the purpose identified by the donor").⁶

3) Advancement Campaign Personnel

Funding Additional Campaign Expenses

Allocate Funds from the Central Budget to Pay for Large Capital Campaigns

At all profiled institutions except **Institution D**, staff in the advancement unit fund capital campaigns of one billion dollars or more through the university's central budget. With the assistance of office staff, the vice president for advancement creates a campaign budget, which the university's central finance office and senior

5) Source: Ibid.

6) Source: Alumni Foundation. *Institution L*. Accessed 29 April 2016. Please see Appendix A at the end of the report to view the President's letter.

administrators must approve. The chief financial officer typically disperses funds for capital campaigns.⁸

Although appropriating funds from the university's central operating budget is the most common means of funding additional campaign expenses at profiled institutions, administrators may use other funding strategies for campaign purposes (e.g., administrative fees, endowment interest).

Advantages and Disadvantages of Campaign Funding Strategies⁹

Advantages



Central University Funding

- ✓ Prevents use of funds for campaigns that were intended for other purposes
- ✓ Does not require hiring additional staff or increasing advancement staff capacity

Gift Fees

- ✓ May generate a large amount of funds
- ✓ Aligns with the philanthropic model used by charities
- ✓ After initial introduction (e.g., first four years), typically no difference in level of donations

Endowment Interest

- ✓ Does not require hiring additional staff or increasing advancement staff capacity

Disadvantages



Central University Funding

- ✗ May not generate a large amount of funds
- ✗ Relies on unrestricted gifts, which are less common than other types of gifts
- ✗ Creates competition with other units who may seek to use unrestricted gifts

Gift Fees

- ✗ Discourages donors from donating, due to the additional fee charged

Endowment Interest

- ✗ May not generate a large amount of funds if endowment interest rate is low



Alternative Means to Fund Advancement Campaigns: Alumni Donations or Reserve Account Funds

At **Institution M**, administrators applied funds from an alumni donation of \$1.5 million to cover campaign expenses (e.g., compensating two part-time campaign staff, building new office space). At **Institution N**, the Board of Regents created a reserve account of \$3 million that administrators use for additional advancement expenditures. Contacts channeled funds from the reserve account to compensate additional campaign staff and cover campaign marketing costs (e.g., printing and mailing campaign brochures). Unused funds remain in the reserve account for future expenditures.

8) Source: Planning and Funding One Billion Dollar Capital Campaigns. Education Advisory Board. Accessed 26 April 2016. <https://www.eab.com/research-and-insights/advancement-forum/custom/2014/5/planning-and-funding-one-billion-dollar-capital-campaigns>

9) Ibid.

Maintaining Advancement Staffing Levels

At **Institution N**, four of five campaign positions terminated naturally through retirement post-campaign, which administrators had anticipated prior to campaign launch.

Sustain Staffing Levels Increased during a Campaign through an Administrative Endowment Fee

Profiled advancement offices do not dismiss staff hired to support a capital campaign after the campaign's conclusion. Instead, administrators develop a strategic plan to permanently fund these positions before launching the campaign. This prevents institutional advancement units from developing a reputation that they "hire and fire."

Rationale for Retaining Fundraisers after a Campaign¹⁰

1

Some capital campaigns lack concrete end dates and lead to a permanent increase in institutional fundraising efforts.

2

Additional development staff attract new funding sources, increasing the institution's operating budget and enabling administrators to fund salaries for added positions.

3

Releasing campaign fundraisers may harm key relationships with donors that may continue to generate future funding.

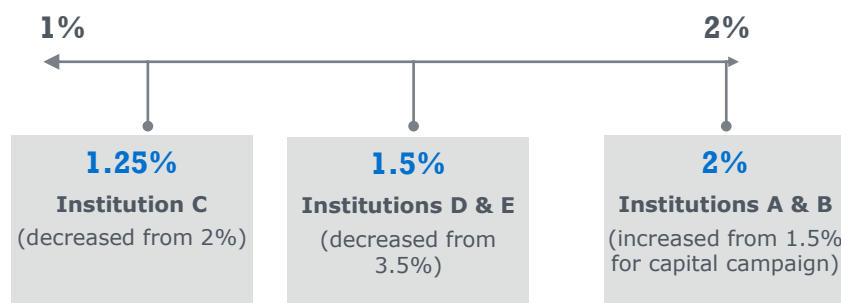
► How Many Campaign Staff Members Should Institutions Hire?

Advancement units typically hire two to 12 additional staff to support campaigns. Administrators add gift officers, fundraisers, and staff to represent academic units and target donors in particular geographic areas. At **Institution A**, advancement administrators hired additional front-line fundraisers to departments with especially promising prospects, including the colleges of veterinary medicine and business. **Institution C** added one staff member to support fundraising for the institution's professional colleges (i.e., law and medical schools). Administrators typically did not hire additional management staff to lead capital campaigns. Only **Institution D** hired new management staff, including a campaign manager and a second associate vice president of development.

10) Source: "Supporting Capital Campaign Strategies for Adding and Funding Staff Positions." *Education Advisory Board*. Accessed 26 April 2016. <https://www.eab.com/research-and-insights/business-affairs-forum/custom/2012/08/supporting-a-capital-campaign-strategies-for-adding-and-funding-staff-positions>

The most common strategy to permanently fund campaign positions is through implementing an administrative endowment fee. Fee revenues fund development operations even when a campaign is not underway, although administrators may increase rates to support campaigns. For example, administrators at **Institution A** and **Institution B** increased the fee from one and one half to two percent to account for additional staff salaries.

Administrative Endowment Fees for Funding Campaign Staff at Profiled Institutions¹¹



Though advancement leaders at both Institution A and Institution B increased the administrative fee from one and a half to two percent to support capital campaigns, they do not plan to return to the former rate until after the campaign concludes. Contacts at Institution A note that the higher fee is necessary to maintain the staff positions hired to support the campaign, which they will maintain when the campaign concludes. They anticipate keeping the higher rate until the institutional endowment reaches a value of one billion dollars, at which point they may decrease it. Leadership at **Institution D** recently decreased their fee to one and a half percent from three and a half percent to align more closely with administrative endowment fees charged by similar institutions. At **Institution C**, administrators originally set the fee at two percent, but reduced the fee over time.

Although it is a less common strategy, administrators may implement gift fees to permanently fund campaign staff, but contacts note that the endowment tax generates the majority of funding. Advancement leaders at **Institution E** tried implementing fees on non-endowed gifts to fund additional campaign staff but repealed the fee after experiencing donor resistance.

4) Advancement Unit Activity

Advancement Unit Responsibilities

Advancement Staff Manage Fundraising Activity and Inform Institutional Fiscal Strategy

Advancement units at profiled institutions oversee all university fundraising initiatives (e.g., capital campaigns, annual giving) and donations. At **Institution N**, the advancement unit also oversees the Alumni Association's activities.

Administrators at **Institution M** indicate that advancement staff collaborate with staff in other University departments on an ad hoc basis. For example, the Interim Executive Director provides the University's central finance department with important advancement updates (e.g., projected annual alumni donation estimations) to help inform the institution's annual fiscal strategy.

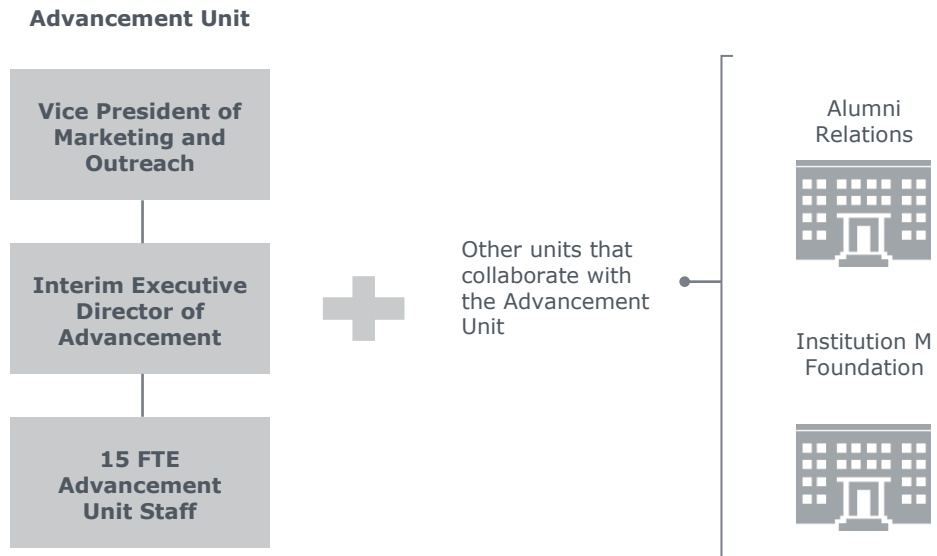
11) Source: Ibid.

Advancement Unit Responsibilities at Contact Institutions

Institution	Institution M	Institution N
Oversee alumni association activities		✓
Oversee all university fundraising initiatives (e.g., campaigns)	✓	✓
Manage donations	✓	✓
Manage advancement investments		✓
Set strategic fiscal goals	✓	
Lead campaign feasibility studies	✓	

At Institution M, the Advancement Unit is part of the University's Marketing and Outreach department. The Interim Executive Director of Advancement reports to the Vice President of Marketing and Outreach.

Advancement Unit Structure at *Institution M*



5) Research Methodology

Project Challenge

Leadership at a member institution approached the Forum with the following questions:

- What are advancement unit staff responsibilities?
- What financial resources do administrators rely on to fund their advancement units, including personnel costs (e.g., gift fees, endowment fees, investment earnings, institutional funding, split funding between departments, donations, other)?
- How do administrators designate funding resources for certain expenses?
- How do administrators determine appropriate gift fees for their institution (e.g., a flat fee, proportion of total gift, sliding scale)?
- How do administrators successfully propose and/or position new or increased gift fees to donors and the campus community?
- What challenges do administrators face when implementing gift fees? How did they overcome these challenges?
- During campaigns, what sources of revenue do administrators rely on to fund additional campaign expenses?
- Post-campaign, do administrators maintain staffing levels added during the campaign? If so, what revenue sources do administrators identify to permanently fund these staff positions?

Project Sources

The Forum consulted the following sources for this report:

- EAB's internal and online research libraries (eab.com)
 - *Advancement Office Funding Models*: <https://www.eab.com/research-and-insights/business-affairs-forum/custom/2014/05/advancement-office-funding-models>
 - *Optimizing Institutional Budget Models*: <https://www.eab.com/research-and-insights/business-affairs-forum/studies/2014/optimizing-institutional-budget-models>
 - *Benchmarking Operating Fees for University 501(c)3 Foundations*: <https://www.eab.com/research-and-insights/business-affairs-forum/custom/2013/01/benchmarking-operating-fees-for-university-foundations>
 - *Capital Campaign Strategies for Adding and Funding Staff Positions*: Education Advisory Board: <https://www.eab.com/research-and-insights/business-affairs-forum/custom/2012/08/supporting-a-capital-campaign-strategies-for-adding-and-funding-staff-positions>
 - *Planning and Funding One Billion Dollar Capital Campaigns*: <https://www.eab.com/research-and-insights/advancement-forum/custom/2014/5/planning-and-funding-one-billion-dollar-capital-campaigns>
- National Center for Education Statistics (NCES) (<http://nces.ed.gov/>)
- The Chronicle of Higher Education (<http://chronicle.com>)
- Institution L
- Institution N Foundation

The Forum interviewed advancement unit staff members at the following institutions:

A Guide to Institutions Profiled in this Brief¹²

Institution	Location	Approximate Institutional Enrollment (Undergraduate/Total)	Classification
Institution A*	West Coast	14,300 / 17,700	Research Universities
Institution B*	West Coast	23,300 / 30,700	Research Universities
Institution C*	Midwest	18,300 / 20,700	Doctoral Universities
Institution D*	Mid-Atlantic	14,000 / 18,400	Master's Colleges and Universities
Institution E*	Midwest	43,000 / 56,400	Research Universities
Institution F*	Midwest	18,300 / 27,600	Doctoral Universities
Institution G*	East Coast	20,000 / 30,000	Doctoral Universities
Institution H*	West Coast	24,500 / 30,000	Doctoral Universities
Institution I*	West Coast	18,800 / 21,500	Doctoral Universities
Institution J*	West Coast	5,800 / 8,300	Doctoral Universities
Institution K*	West Coast	29,700 / 41,900	Doctoral Universities
Institution L*	Midwest	13,300 / 15,000	Doctoral Universities
Institution M	South	9,400 / 11,200	Master's Colleges & Universities
Institution N	Midwest	5,900 / 6,700	Master's Colleges & Universities

*Profiled via secondary research.

Appendix A: *Institution L* Letter to Donors Indicating Gift Fee Policy Changes¹³

Dear Friends,

Institution L is incredibly fortunate to receive generous and transformational gifts each year to support our People, Places and Programs. Because of that support, the Institution L Alumni Foundation now manages over \$200 million in total assets for the benefit of Institution L.

In July of 2014, with the approval of the Board of Governors, the Institution L Alumni Foundation adopted an updated gift fee policy. We have received a variety of questions regarding this change and I would like to take this opportunity to explain the Institution L Alumni Foundation's role as well as our new gift fee policy.

First, I want each of you to know that your support is vital. The gifts you make provide an enormously important "margin of excellence" for Institution L and allow us to continue to excel in our mission to provide a quality, affordable education while serving our local and global communities through research and service.

Over the past several decades public institutions of higher education in America have seen a steady decline in state funding. In 1992 the state of Montana funded 77% of the cost of higher education. Today, that number has shrunk to 39%. These changes mean that financial resources on our campus for new initiatives and programs are scarce, and competition for those resources is high. Private support from generous donors allows Institution L to continue to improve, innovate, and grow despite diminishing state support.

The Institution L Alumni Foundation is charged with raising the private support necessary to fuel and advance Institution L and to engage the university's alumni and friends. The Alumni Foundation operates as a separate, non-profit organization and employs the people and implements the programs necessary to fulfill that mission. The Alumni Foundation has an operating budget that is funded through three primary sources:

- Direct university support
- Gift and endowment fees
- Self-generated revenues (i.e. interest income, memberships and events)

As mentioned, on July 1, 2014 the Institution L Alumni Foundation adopted a revised gift fee policy. Previous to this change, gifts—with the exception of scholarship and endowment gifts—were charged a 5% fee. The change adopted last year assesses the 5% fee on all gifts.

I can assure you that this 5% gift fee is a direct investment in the University's future. At the Alumni Foundation, we use these funds to leverage even more funding for Institution L. Every \$1 in gift fees helps to raise over \$20 in support of Institution L. Last year, gift fees helped us raise over \$23 million for Institution L. That is a 20-1 return—an outstanding return on investment by any measure.

12) Source: Alumni Foundation. *Institution L*. Accessed 29 April 2016.

Due to our multi-faceted funding approach, 95% of every gift received is able to go directly to the purpose identified by the donor. The Better Business Bureau Wise Giving Alliance (WGA) recommends a non-profit's operating costs not exceed 35% of related contributions. We are proud to say that the 5% Institution L Alumni Foundation gift fee is well below the standard.

Thank you again, for your outstanding and generous support of Institution L. In my first six months I have found the people both inside and outside the University to be extraordinarily generous, caring, and passionate.

I would welcome the opportunity to discuss this with you further. Two of my core values are transparency and openness. We must communicate openly, consistently and frequently. We must build trust and confidence with our University partners and most importantly with our donors and friends. If you have any questions or comments or would like to talk in more detail I would be pleased to have a conversation.

Thank you for all you do for Institution L. Your support is truly inspiring—you make such a difference every day.

Warm regards,

President and CEO