



# Fundraising Activities of Public Institutionally-Related Foundations

Considerations for Foundation Implementation, Transition, and Operation



# Advancement Forum

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# 1) Executive Overview

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## Key Observations

**A 2012 Council for Advancement and Support of Education (CASE) survey found that 79.5 percent of university-affiliated foundations lead or manage fundraising efforts for their institution.** Contacts and secondary literature identify the following benefits of a foundation serving as the philanthropic receiving arm of the institution:

- Greater consistent prioritization of the pursuit of private support
- Opportunity to engage influential donors as board directors
- Enhanced management and stewardship of gifts.
- More flexibility in discretionary spending and asset management

**Institutionally-related foundations maintain varying degrees of independence from their institutions.** Most profiled foundations describe their relationship as “interdependent” with the university; these foundations receive some free in-kind benefits from their institutions but generate a portion of their own budgets. Although staff members are typically on university payroll, foundations partially or fully fund salaries. A positive correlation exists between endowment size and degree of independence: 29 percent of all foundations describe themselves as independent, but over half of foundations with endowments over \$100 million describe themselves as such.

**Memoranda of Understanding (MOUs) define the relationship between universities and foundations and clarify fundraising responsibilities of each entity.** To secure buy-in for foundation establishment, include language that outlines how administrators will mitigate university-foundation conflicts and how they will distribute foundation assets if the foundation is dissolved.

**Contacts recommend institutions and foundations collaborate through overlapping board members and joint planning committees.** Such committees should include the president, foundation chief executive officer, both board chairs, and the development committee chair. The committee reviews funding priorities, determines donor interest in priorities, and plans retreats and social events for both boards. At most profiled institutions, the foundation chief executive officer also serves as the chief advancement officer to achieve collaboration between boards, although this organizational model may inhibit foundation independence.

**New foundations should maintain a high level of transparency to assure university and regional constituents that foundation activities support the institutional mission.** Administrators achieve transparency through the provision of foundation MOUs, bylaws, annual reports, audits, and additional policy documents online.

**Contacts recommend that institutions do the following to transition an existing foundation to the fundraising arm of the institution:**

- Negotiate an MOI with a focus on establishing initial funding sources
- Establish term limits to phase out directors without fundraising inclination
- Form a development committee within the foundation board to secure buy-in for a robust fundraising role
- Transition staff members to the foundation’s payroll slowly

**Foundations fund operating expenses through administrative fees on the endowment and new gifts, direct appropriations from the institution, unrestricted gifts, and other foundation-managed assets such as real estate holdings.** Major expenses include staff salaries for non-fundraising advancement services staff, rent for space in university buildings, prospect database operation, and fundraising events.

## 2) Leveraging Foundations as Fundraising Arms

### Benefits of Foundations

#### Fundraising Foundations

**79.5%**

In a 2012 survey that surveyed almost 100 foundation executives, the Council for Advancement and Support of Education found that 79.5 percent of foundations lead or manage the fundraising efforts of their institution.<sup>1</sup>

### **Foundations Allow Institutions to Prioritize Long-Term Fundraising**

Public universities increasingly implement 501c3 foundations to serve as the institution's philanthropic receiving arm as state appropriations decrease and institutions must rely on private gifts and endowments to support institution operations. Although some foundations simply process and manage charitable gifts, more foundations have taken on an active responsibility for raising private funds. Contacts report that foundations are particularly critical where a system-level board governs all constituent institutions that do not have a strong separate campus board to advocate for their own needs.

### **Benefits Associated with Institutionally-Related Foundations as Fundraising Entities**



#### **Greater consistent prioritization of the pursuit of private support:**

Foundation board members are chosen for their capacity to give, willingness and ability to solicit gifts, and influential connections with the community. In contrast, members of publicly-appointed university governing boards often do not possess fundraising experience or interest and may not act as sufficient advocates for advancement activities. Self-perpetuating boards provide the opportunity to better engage donors, alumni, and friends in a meaningful role. Moreover, a fundraising infrastructure reliant on annually-appropriated resources alone might falter more easily if it must compete with other leadership priorities for investment during budget cycles. Foundations can better sustain fundraising efforts as fees and incomes earned on gifts provide the staff and other necessary resources.



**Greater continuity in donor relationship maintenance:** The well-recognized term "foundation" connotes permanency; the mere presence of a foundation signifies a long-term institutional commitment to the pursuit of private support. Institutional leadership transitions or fluctuating attention from advancement staff are less likely to deter or undermine ongoing or long-term donor giving and engagement if they interface primarily with the foundation.



**Better management and stewardship of gifts:** Effective acknowledgement, accounting, and stewardship of gifts (especially non-cash and planned gifts) are complex and specialized tasks. Because private support is a small portion of total institutional revenue, institutional financial staff likely lack the skill or time necessary to supervise the execution of these responsibilities. State open records laws vary, but foundations may also better protect the privacy of donors who seek anonymity; the independent nature of foundation resources also allow easier spending on necessary donor recognition events without scrutiny.

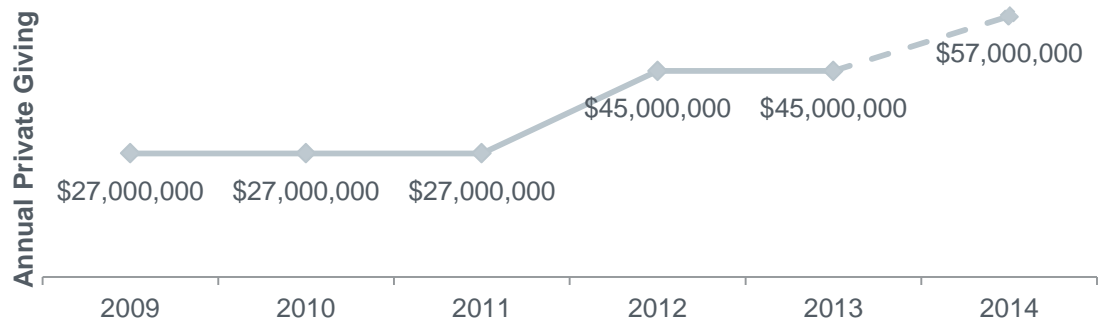


**More flexibility in spending:** Independent legal status allows foundations more flexibility in spending funds whereas universities maintain a limited budget for discretionary spending and state policies prohibit spending on certain initiatives. For example, **Institution B** funds most of the President's salary as state policy mandates that the institution cannot pay the president over \$200,000 annually. Further, foundations are best equipped to seize opportunities for purchases that have not been budgeted (e.g., a rare book collection that just came on the market). Although institutions may not retain funds to embrace such opportunities, a foundation could leverage available funds or tap a line of credit. For this reason, foundations can serve as property management or holding corporations for real estate or other assets.

<sup>1</sup> Council for Advancement and Support of Education. "Results of the FY2012 Institutionally Related Foundations Data Book Survey." June 2013. Accessed February 14, 2014, [http://www.case.org/Documents/protected/whitepapers/2013/IRF\\_DataBookSurveyFY2012\\_7-15-13.pdf](http://www.case.org/Documents/protected/whitepapers/2013/IRF_DataBookSurveyFY2012_7-15-13.pdf).

## Annual Private Giving Spikes After Establishment of the *Institution G* Foundation on January 1, 2012

Private annual giving averaged roughly \$27 million in the three years leading to the establishment of the university's first independent foundation, after which giving increased dramatically. Contacts project that annual private giving will reach \$57 million in 2014.



## Foundation Independence

### *State Policies and Institutional Culture Influence the Degree of Foundation Independence*

Although all institutionally-related foundations operate as separate legal entities, the degree to which foundations depend on their institutions for resources differs. Most profiled foundations describe themselves as interdependent; all profiled institutions share resources with and receive some funding from their institutions. Contacts note that the degree of foundation independence depends on the extent of the foundation's resources as well as state and system policies and institutional culture.

A positive correlation between endowment size and degree of foundation independence exists; research university foundations more often consider themselves independent. Two different studies conducted by the Association of Governing Boards of Universities and Colleges—one in 2007 and one in 2010—found that over half of foundations with endowments over \$100 million describe themselves as independent.

In contrast, new foundations typically rely on institutions for monetary and staffing support and are only able to fund more of their operating expenses – and become more independent – as time progresses.

### Models of Foundation Independence<sup>2</sup>



19% of foundations



53% of foundations



29% of foundations

#### More Dependent

- Institution provides foundation with office space, staff, and other support
- Foundations typically serve as passive recipients of private gifts

#### Interdependent

- Foundations receive some free in-kind benefits from institutions, but generate a portion of their own operating budgets

#### More Independent

- Foundations employ at least some of their own staff
- Foundation reimburses the institution for employment of institutional resources (e.g., office space)

<sup>2</sup> Worth, Michael. "Foundations for the Future: The Fundraising Role of Foundation Boards at Public Colleges and Universities." 2012. AGB Press.

## ***Conflicts between Universities and their Foundations Arise When their Relationship is Not Clearly Defined***

Conflicts between institutions and their related foundations arise when one entity prevents the efforts of the other to execute on agreed-upon responsibilities within its delineated area of authority – most typically when the institutional administration or governing board infringes upon the foundation. For example, senior fundraising officers employed by the University but active within the foundation’s activities may become too influential upon the the foundation board’s decision-making process. Likewise, influential foundation directors who contribute substantially to fundraising may seek greater influence in institutional resource allocation or decision-making, which is the province of the governing board.

Contacts at one profiled institution believe that institutional governing board members are improperly influential in determination of fundraising priorities. They explain that administrators and board members do not always understand which party is responsible for what aspects of fundraising due to vague descriptions of board member responsibilities in documents and training sessions. Foundation and governing board and staff members are currently drafting a more detailed memorandum of understanding (MOU) between the foundation and institution to better clarify board and staff members’ fundraising responsibilities. (*For more information on effective construction of MOUs, see “Foundation Documents.”*)

### **Responsibilities of Foundation and Governing Boards**

Foundation and governing boards maintain distinct responsibilities in the management of fundraising operations.

#### **Foundation Boards**

- **Review funding priorities:** Although the foundation board serves a limited role in establishment of funding priorities, it must provide a realistic assessment of the possibility of attracting monetary support for specific priorities.
- **Identify, cultivate, and solicit donors:** Foundation board members should commit to actively engaging potential donors and involving them in institutional activities.
- **Make personal contributions:** Foundation board members should lead by example through annual personal contributions.
- **Manage assets:** Foundation boards manage all short-term and personal assets held by the foundation, including funds for specific programs and departments and funds within the foundation’s endowment.

#### **Governing Boards**

- **Establish institutional goals and priorities:** Governing boards draft mission statements that describe where the institution is headed and how it will get there.
- **Ensure adequate resources:** Governing board members advocate for the institution’s needs with state policymakers. While board members may capitalize on political connections, presidents must ensure all messages reflect institutional legislative or policy priorities.
- **Raise private funds:** The governing board ensures that proposed funding priorities align with the institution’s goals and help establish a favorable climate for private support.

#### ***A Shared Responsibility: Recognition and Stewardship of Gifts***

In coordination with foundation directors, trustees should thank donors for significant gifts. The foundation board should ensure honoring of donor intent in designated endowment spending or gift direction, while governing boards also approve naming opportunities, including setting minimum contributions necessary for naming opportunities.



## ***Degree of Foundation Independence Determines the Affiliation of Foundation Legal Counsel***

Most profiled foundations receive legal advice from their own general counsel or retained external legal counsel. Employment of external legal counsel better establishes foundations as independent units and prevents conflicts of interest in the case of disputes between the institution and foundation.

However, the initial involvement of university-employed legal counsel may help secure buy-in for foundation establishment; once the foundation has its own general counsel, he or she can attend board meetings in a secretarial capacity to ensure legal fidelity. While system-level legal counsel currently supports the new foundation at **Institution A**, the foundation will hire external counsel once it can afford it. The foundation's university-employed legal counsel at the **Institution E** attends every board meeting, which helps maintain positive institution-foundation relationships because this presence assures university administrators that foundation activities are in compliance with state and system policies as well as agreements outlined in university-foundation documents.

## 3) Operations

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### Staffing

#### ***Interdependent Foundations Share Staff Members with University Advancement Divisions***

Most profiled institutions directly fund the salaries of advancement division staff members because foundations do not maintain sufficient resources to do so independently; university payroll allow allows staff members to enjoy state benefits. In some cases, foundations fully or partially fund the salaries of some advancement staff members, particularly those that conduct foundation accounting.

The direct employment of staff members on foundation payroll allows the complete bifurcation of staff salaries from the institutional general budget. This ensures that foundations may offer competitive salaries to top major gift officers without adherence to institutional job classification policies and can add additional staff members without concern for restricted institutional budgets. Foundations that hire their own staff also maintain their own human resources function and often retain more flexibility in hiring and firing staff members.<sup>3</sup>

Most profiled foundations pay their institution negotiated fees for fundraising efforts and staff salaries which vary greatly across campuses:

- **Institution D's** foundation pays the institution an annual fee that supports fundraising operations including annual giving, planned giving, prospect research, the annual fund, planned giving, and information technology.
- Although all advancement staff members at **Institution B** are on the University's payroll, the foundation funds the salaries of several staff members including two investment staff members, four accounting staff members, a property manager, and a board facilitator. Administrators consider these staff members to most closely serve only the foundation's operations.
- Although all staff members are on University payroll, the **Institution F** foundation fully funds salaries for centralized staff members that serve the foundation (e.g., accounting staff). The foundation funds 50 percent of the salaries of major gift

<sup>3</sup> Council for Advancement and Support of Education. "Results of the FY2012 Institutionally Related Foundations Data Book Survey." June 2013. Accessed February 14, 2014, [http://www.case.org/Documents/protected/whitepapers/2013/IRF\\_DataBookSurveyFY2012\\_7-15-13.pdf](http://www.case.org/Documents/protected/whitepapers/2013/IRF_DataBookSurveyFY2012_7-15-13.pdf).

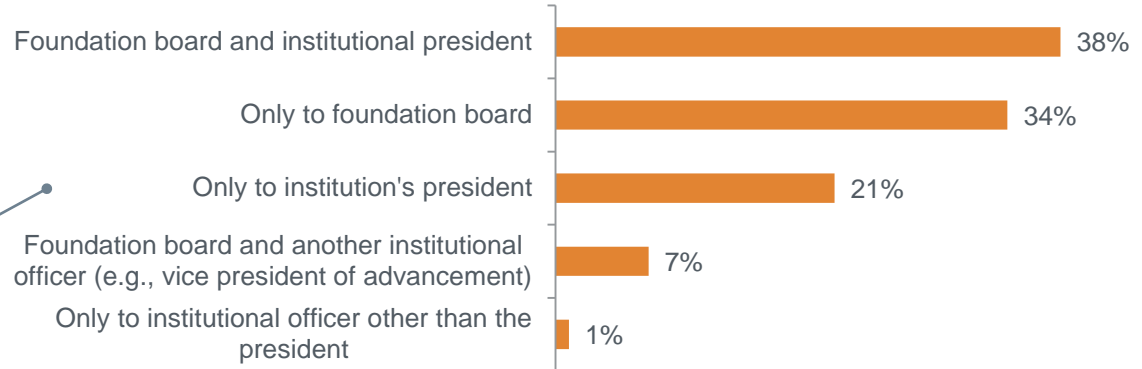


officers; the school or college the gift officer serves pays the other 50 percent. Contacts prioritize partial school or college funding for development staff members' salaries, which incentivizes decanal involvement in fundraising initiatives.

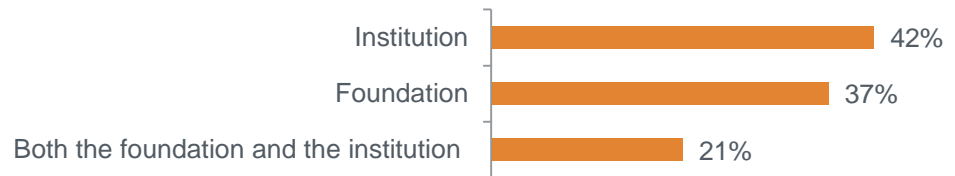
## Reporting and Payment Structure for Foundation Executives<sup>4</sup>

Foundation chief executive officers report to<sup>5</sup>:

61.5 percent of chief executive officers of foundations affiliated with research universities report only to the foundation board, as these foundations are most likely to act independently.



Foundation chief executive officers receive compensation from:



## Funding

### Foundations Receive Funds from the Institution and from Administrative Fees on Gifts

The following gifts are most often exempt from gift fees:

- Scholarships
- Capital gifts
- Gifts under a low dollar threshold or over a very high dollar threshold

Real estate holdings owned by the foundation (i.e., five office buildings) generate 10 to 15 percent of **Institution E's** foundation funding.

The following sources typically fund foundation operating expenses:

- Administrative fees assessed against the endowment
- Administrative fees on new gifts
- Direct funding from the institution (e.g., a negotiated payment from the institution for foundation services)
- Unrestricted gifts
- Income on current funds and unspent endowment distributions
- Outside entities' assets (e.g., university-affiliated hospital)
- Non-endowed assets (e.g., real estate)

The **Institution G** Foundation also receives operating funds from the membership fees and event ticket sales of the institution's alumni association. This allows the foundation to independently support a small portion of its own operating expenses and demonstrates to university constituents that the foundation only seeks university assistance in funding operations until the foundation can support itself financially.

<sup>4</sup> Worth, Michael. "Foundations for the Future: The Fundraising Role of Foundation Boards at Public Colleges and Universities." 2012. AGB Press.

<sup>5</sup> Council for Advancement and Support of Education. "Results of the FY2012 Institutionally Related Foundations Data Book Survey." June 2013. Accessed February 14, 2014, [http://www.case.org/Documents/protected/whitepapers/2013/IRF\\_DataBookSurveyFY2012\\_7-15-13.pdf](http://www.case.org/Documents/protected/whitepapers/2013/IRF_DataBookSurveyFY2012_7-15-13.pdf).

While smaller or newer foundations typically rely heavily on institutional support, larger ones may be self-funded through endowment and gift fees and other revenue sources (e.g., income from real estate). Of a \$2.8 million total budget, the foundation at the **Institution F** receives about \$900,000 from the University.

Few newly formed foundations or existing foundations that recently acquired fundraising responsibilities maintain enough funds to completely sever financial ties with their related institution. The more independent a foundation seeks to be, the fewer funds a University might be willing to provide for foundation operating expenses. Foundations that seek independence should create long-term funding plans to prepare for further separation. **Institution G** agreed to fund 90 to 95 percent of the institution's newly established foundation's operating expenses for the first three years of its existence. This agreement, outlined in an MOU, will be reviewed and revised every three years, and each revision will call for the institution to fund a smaller portion of foundation operating expenses. Major foundation expenses include the following:

- Staff salaries
- Prospect database operation
- Rent
- Fundraising event operation

Research university foundations report operating expenses of \$10,652,382, on average.<sup>6</sup>

### 3) New Foundation Implementation

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#### Populating the Foundation Board

#### ***Build a Diverse Board of Directors Based on Giving Capacity and Ability to Fundraise Effectively***

On average, foundation boards consist of 28 voting members and six non-voting members.<sup>7</sup> To build community ties and secure buy-in from regional leaders, new foundation boards should seek to recruit influential board members from a wide variety of community backgrounds and regions of the state.

Contacts note that new board formation is among the most critical tasks for new foundations because founding members will lead new fundraising initiatives, solicit funds from donors, and build support for foundation activities among university and community constituents. They will also set the tone and culture for foundation operations, and are expected to lead by example in supporting the foundation through large annual gifts. At the **Institution G** Foundation, directors must give \$100,000 to the institution before they join the board.

While contacts recommend placement of influential and able leaders on boards, contacts warn that these individuals will be most likely to experience frustration at the limits on their authority because they maintain positions of greater direct authority in their current professional positions.

<sup>6</sup> Council for Advancement and Support of Education. "Results of the FY2012 Institutionally Related Foundations Data Book Survey." June 2013. Accessed February 14, 2014, [http://www.case.org/Documents/protected/whitepapers/2013/IRF\\_DataBookSurveyFY2012\\_7-15-13.pdf](http://www.case.org/Documents/protected/whitepapers/2013/IRF_DataBookSurveyFY2012_7-15-13.pdf).

<sup>7</sup> Worth, Michael. "Foundations for the Future: The Fundraising Role of Foundation Boards at Public Colleges and Universities." 2012. AGB Press.

## Common Board Member Selection Criteria



### Regional Leaders Ex-Officio Board Members Increases Buy-In for Foundation Establishment

The inclusion of influential and trusted regional leaders as non-voting ex-officio foundation board members increases transparency and faith in board activities and secures support for foundation establishment from stakeholders who fear excessive board autonomy will lead to competing priorities or resource mismanagement. **Institution E** designates 10 spots for non-voting ex-officio members on the foundation board; these positions include the:

- County mayor
- City mayor
- President of the Economic Development Commission
- Chair of the county Research and Development Authority

Contacts note that, as a relatively new institution, inclusion of these leaders in board activities has increased community support of both the University and Foundation's presence.



### Consider Minimum Giving Requirements for Board

Some institutions set a minimum dollar amount that board members must give annually to reinforce directors' important role in raising funds. However, contacts warn that a minimum gift policy may discourage directors from giving more than the minimum even if they can give much more. Encouraging directors to meet a minimum gift requirement by bundling gifts from their own network can be problematic; it is not always easy to identify who actually secured the gift since several people are often engaged in the relationship with a potential donor. **Institution F** requires foundation board members to give or solicit \$5,000 annually; contacts report that virtually all directors give it themselves.

## **Individuals That Serve Both Governing and Foundation Boards Facilitate Collaboration between the Institution and the Foundation**

*“Fundraising is all about the university. It’s the foundation’s goal to raise money for initiatives and priorities that are defined as most important by the President and provosts and deans; the foundation should not be producing its own fundraising priorities. That’s not healthy and that’s where institutions and foundations get in trouble, when there is a lack of alignment between institutional strategy and where foundations can come alongside that institutional strategy and provide the resources to achieve goals.”*

Forum Interview

Overlapping members can also facilitate communication between other foundation groups. **Institution D’s** foundation implemented two subsidiary limited-liability companies: one for real estate development and one for intellectual property development. Each subsidiary maintains their own board of directors and several directors of each subsidiary also serve on the main foundation board. The president of the foundation also serves as the chief executive officer to each of these subsidiaries.

In the development of new foundations, administrators must implement practices that facilitate communication between the governing and foundation boards so that they can coordinate fundraising priorities. The institutional president, the chairs of both boards, and the foundation executive informally facilitate communication, but other policies can enhance their efforts. Contacts suggest efforts as minimal as planned social events can foster relationships between foundation and governing boards; **Institution F** hosts a “welcome back” party and holiday party each year for both boards.

### **Strategies to Increase Communication between Governing and Foundation Boards**

**Employ the chief advancement officer as the foundation chief executive**

At most profiled institutions, the institutional chief advancement officer also serves as the chief executive officer of the foundation. Nationwide, just over one half of foundation chief executives also serve as institutional officers. This shared responsibility helps ensure that the priorities of both boards align as the foundation chief executive directly reports to the institutional president and develops institutional initiatives alongside other senior university officers. This organizational model, however, can hamper foundation independence.

**Appoint a governing board liaison to sit on the foundation board**

Most profiled institutions maintain at least one governing board member on the foundation board. Governing board liaisons should meet the qualifications required of all foundation board members, especially their willingness to give and solicit funds. 23.6 percent of foundation executives report that overlapping members best facilitate communication between the foundation board and institutional board.<sup>8</sup>

**Establish a development committee within the governing board**

Although development or fundraising committees within the foundation board are common, 82.2 percent of governing boards do not maintain a development committee.<sup>9</sup> Such a committee helps evaluate funding priorities and fosters communication with the foundation board. The institution chief advancement officer should staff this committee, which should consist of three to five trustees.

**Establish a joint planning committee with representatives from governing and foundation boards**

The Association of Governing Boards of Universities and Colleges recommend a joint planning committee include the president, foundation chief executive, both board chairs, and development committee chairs. It should hold two or three meetings annually to review funding priorities and determine donor interest in them. This committee can also plan retreats with both boards. Committees established for capital campaigns may also include members of both boards.

<sup>8</sup> Worth, Michael. “Foundations for the Future: The Fundraising Role of Foundation Boards at Public Colleges and Universities.” 2012. AGB Press.

<sup>9</sup> Ibid.

### ***Memoranda of Understanding Must Clarify Boundaries between the Institution and Foundation***

Clear boundaries define the responsibilities of foundations and institutions as foundations become more active in fundraising. Memoranda of understanding (MOUs) confirm the foundation's status as an independently-governed corporation that may exercise independent judgment when fulfilling obligations and commitments to donors. MOUs, which serve as enforceable contracts, also outline functions that foundations and institutions complete jointly. Administrators should involve legal counsel in MOU construction to determine whether the foundation would be treated as a public entity subject to open records laws or other regulations that might limit the foundation's ability to serve its missions.<sup>10</sup>

The MOU does not need to address every nuance of the foundation-institution relationship. The MOU may reference existing policies and documents (e.g., Articles of Incorporation) and administrators may draft additional agreements in addition to the MOU. The document should be simple enough that readers can easily review its contents.

The institution's president, the chair or other representative of the institution governing board, the foundation's chief executive, the foundation's board chair, and legal counsel for both parties should participate in MOU development. They should review the MOU every three to five years, or at the beginning or conclusion of each campaign.

#### **Common Components for Inclusion in the Document:**

- Introduction:
  - Summarizes the foundation-institution relationship
  - Broadly states the foundation's responsibilities
  - Clarifies the foundation's standing as an independent entity
- Details of foundation-institution relationship:
  - References policies regarding the acceptance of restricted gifts and the permission of the foundation to employ the institution's name and trademarks and vice-versa
  - Describes overlapping board structures, joint meetings between the governing and foundation boards, and the reporting relationship of the foundation chief executive
- Responsibilities of the institution:
  - Outlines institutional board responsibilities relating to the determination of institutional mission, employment and compensation of university employees, and oversight of university operations
  - Describes how institutional priorities and other essential information will be shared with the foundation
- Responsibilities of the foundation:
  - States responsibilities for investment and stewardship of foundation assets, employment and compensation of foundation employees, and operational oversight and risk management
  - States responsibility to comply with state and federal laws, maintain a tax-exempt status, and properly manage conflicts of interest involving staff or board members
  - Describes ways the foundation board may participate in advocacy efforts on behalf of the institution

<sup>10</sup> Association of Governing Boards of Universities and Colleges. "Illustrative Memorandum of Understanding Between a Public Institution or System and an Affiliated Foundation." Accessed February 18, 2014, [http://agb.org/sites/agb.org/files/AGB\\_MOU\\_2014.pdf](http://agb.org/sites/agb.org/files/AGB_MOU_2014.pdf).

- Describes prospect records owned by the foundation and provisions of the use of such data by the institution
- Describes required accountability practices (e.g., audits)
- Finances and administration:
  - Outlines authority for hiring, assessment, and termination of the foundation chief executive
  - Describes compensation and benefits provided by the foundation to institution administrators and staff
  - Describes the sources that fund the foundation
  - Outlines provisions for the use of unrestricted gifts
- Terms of the MOU:
  - Clarifies how the document will be reviewed and updated
  - Describes circumstances for the dissolution of the foundation and distribution of its assets



### **Outline Generous Termination Guidelines to Secure Buy-In for New Foundations**

To secure buy-in for foundations, MOUs should outline detailed processes to mitigate foundation-institution conflicts. **Institution D's** MOU contains the following language:

*“Either party may . . . at least one year prior to the end of a fiscal year, terminate this Agreement. Notwithstanding the forgoing, either party may terminate this Agreement in the event the other party defaults in the performance of its obligations and fails to cure the default within a reasonable time after receiving reasonable notice to cure.*

*Should the University choose to terminate this Agreement, the Foundation may require the University to pay, all debt incurred by the Foundation on the University's behalf within 180 days of the written notice of termination, including, but not limited to, lease payments, advanced funds, and funds borrowed for specific initiatives. Should the Foundation choose to terminate this Agreement, the University may require the Foundation to pay debt it holds on behalf of the Foundation.”*

## Bylaws and Other Policy Documents Clarify Fiduciary Responsibilities of Board

The most important document aside from the MOU outlines the foundation bylaws, which define board structure and operation, committee structure, and director responsibilities. New board members should receive binders that include MOUs and bylaws. Administrators should also post updated bylaws and MOUs on foundation websites in the spirit of transparency and to prevent suspicion in the foundation's purpose or activities.

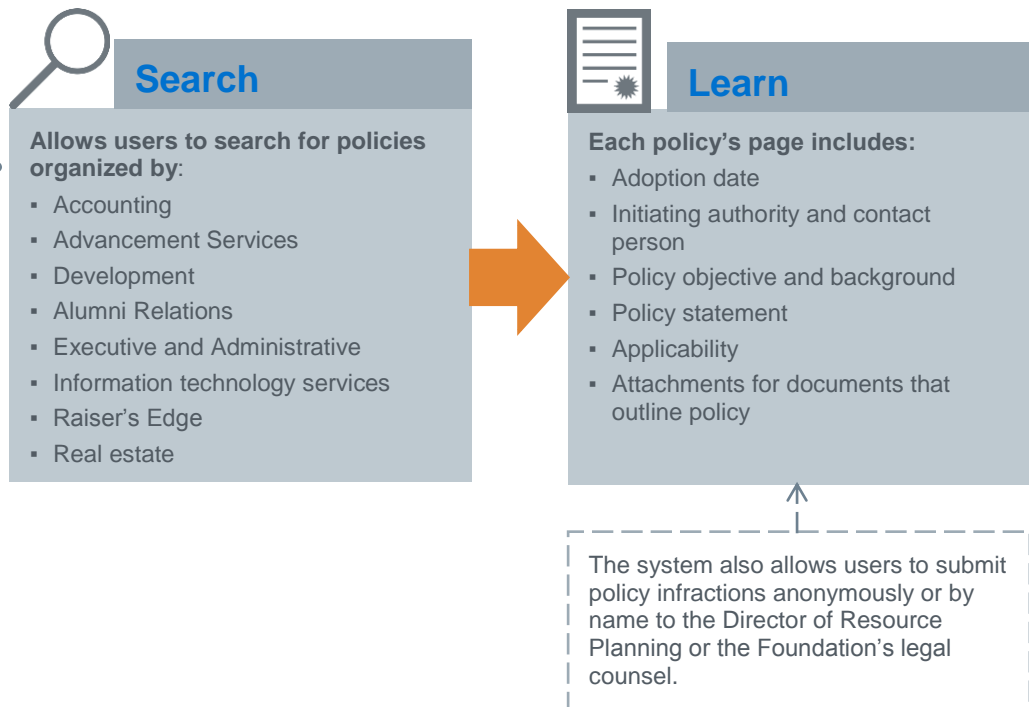
State laws on disclosure vary, but contacts strongly recommend that foundations share them even without a requirement to assure public constituents that foundation staff and directors allocate funds only in support of the institutional mission.

### Other documents that foundations make publicly available include:

- Financial audits
- Annual reports
- Articles of Incorporation
- Foundation strategic plan
- Meeting agendas and minutes

## Policy Guide at Institution E

**Institution E** employs the content management product policyIQ to organize foundation policies for easy identification and review by university and foundation constituents as well as the public.





## Transition Considerations

### *Phase-In New Board Members with Fundraising Expertise and Train Existing Board Members*

Enhancing the fundraising responsibilities of an existing institutionally-related foundation requires that foundation board members understand and embrace their new responsibility to solicit funds. Existing foundations transitioning to serve as the institution's philanthropic receiving arm may not have a board with fundraising interest or expertise. Contacts recommend that board members institute term limits so that directors without fundraising capabilities can be phased-out.

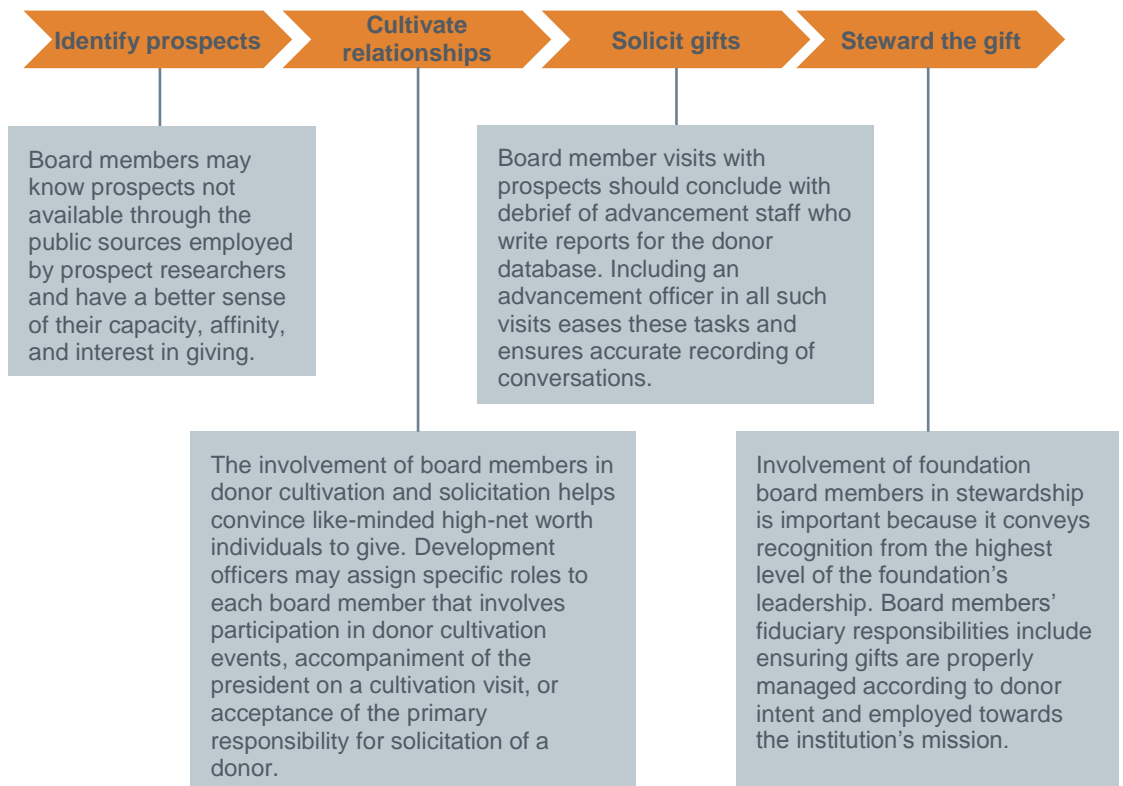
#### Most common foundation board committees include:

- Executive
- Governance
- Nominating
- Audit
- Investment
- Finance
- Development
- Scholarships
- Real estate

Once institutional leadership decides to transition the fundraising arm of an institution to the foundation, the foundation chief executive should present fundraising goals and accomplishments at every board meeting so that directors understand the importance of this new responsibility. Administrators should train existing board members in fundraising skills just as they might train new board members. Administrators must also update all existing foundation documents to reflect the new responsibilities of the foundation, board committees, and individual board members.

### **Board Member Role in Fundraising Process<sup>12</sup>**

Administrators educate board members on the following steps of the fundraising process and the role they will play in each step.



<sup>12</sup> Worth, Michael. "Foundations for the Future: The Fundraising Role of Foundation Boards at Public Colleges and Universities." 2012. AGB Press.

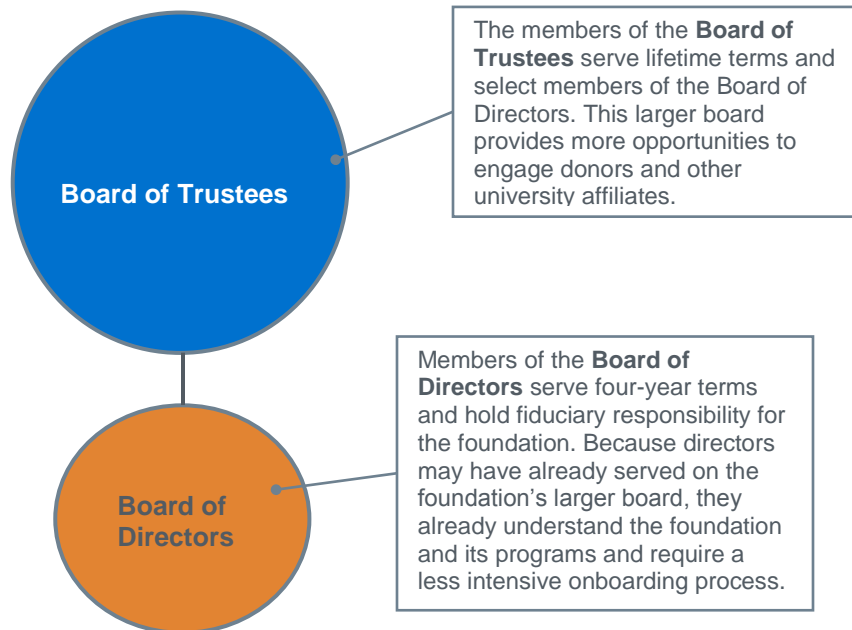
## Implement a Development Committee to Secure Board-level Buy-In

Contacts recommend that foundations with new fundraising responsibilities create a development committee as an initial step toward focusing directors on fundraising initiatives. Contacts warn that the creation of such a committee may lead to the board's non-development committee members to dismiss the importance of the board's full involvement in fundraising. Administrators should stress that while development committee members are most active in planning and promoting, every board director maintains fundraising responsibilities. Development committee responsibilities include ensuring the overall fundraising program is aligned with the institution's mission and planned priorities approved by the governing board and encouraging board member participation in personal giving and fundraising through goal-setting.

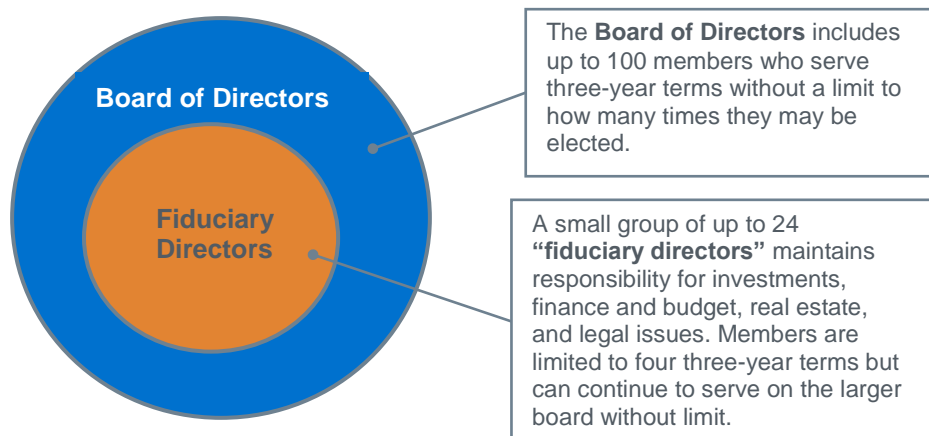
## Two Board Model at Washburn University and Indiana University<sup>13</sup>

Foundations may find it helpful to bifurcate responsibilities of directors with fiduciary tasks and without them to smooth a transition in board responsibilities.

### Washburn University Foundation



### Indiana University Foundation



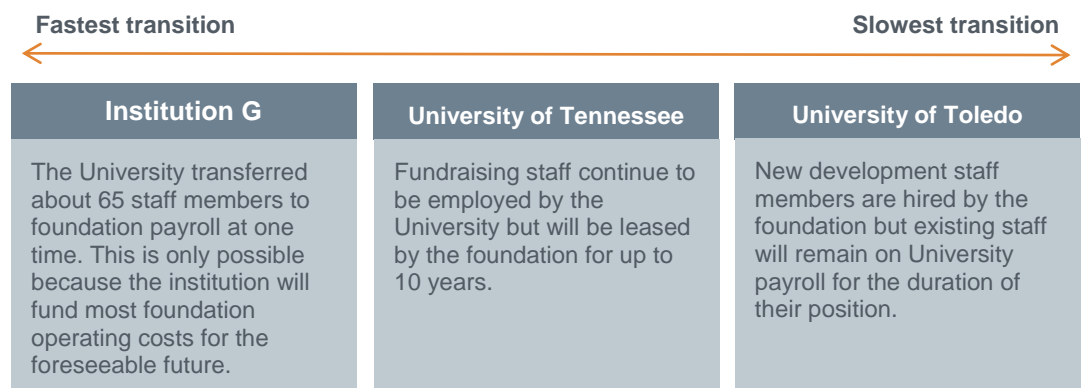
<sup>13</sup> Worth, Michael. "Foundations for the Future: The Fundraising Role of Foundation Boards at Public Colleges and Universities." 2012. AGB Press.

## University Staff Often Resist Transition to the Foundation's Payroll

Staff members resist a transition from the institution to the foundation payroll because they will lose generous state pension plans. **Institution G**, which transitioned 65 development staff members to a newly-formed foundation, ensured that all staff members transitioned would retain benefits nearly equal to those they enjoyed as university employees (e.g., similar number of vacation and sick days, tuition remission, a retirement matching program). As the University will provide a significant portion of operating expenses to the foundation, securing these benefits required negotiations between foundation and university leaders.

Because establishing benefits and hiring a benefits administrator takes so much time, leaving staff members on University payroll may be beneficial. Contacts at **Institution G** report that administrators spent over six months establishing benefits packages and recommend that administrators spend 12 to 18 months preparing for a staffing transition.

### Staffing Transition Models<sup>14</sup>



<sup>14</sup> Quackenbush, Cara and Josh Keniston. "Moving Out." Council for Advancement and Support of Education." April 2012. Accessed February 13, 2014, [http://www.case.org/Publications\\_and\\_Products/2012/April\\_2012/Moving\\_Out.html?printFriendly=printFriendly](http://www.case.org/Publications_and_Products/2012/April_2012/Moving_Out.html?printFriendly=printFriendly).

## 5) Research Methodology

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### Project Challenge

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

- What motivates administrators to employ 501c3 foundations as their institution's philanthropic receiving arm? What value or benefits do institutions reportedly derive from leverage of a separate philanthropic foundation?
- How have profiled institutions recently established new philanthropic foundations or restructured existing university-affiliated foundations into university-wide philanthropic receiving arms? On what processes did administrators rely to enact this change?
- How did they consult stakeholders to secure buy-in for the change and define the parameters of the foundation?
- What resistance or challenges did administrators face in the implementation or restructuring of 501c3 foundations, particularly from university and state constituents? How did administrators overcome these challenges?
- What advice or lessons learned do contacts or literature offer regarding the implementation of 501c3 foundations as the philanthropic receiving arm of the university?
- What advice, lessons learned, or best practices emerge from literature regarding essential components of a memorandum of understanding between the institution and the foundation?
- What is the administrative and governance structure of foundations?
- How do policies characterize the role and responsibilities of the board and its members?
- Who serves as legal counsel for the foundation?
- How do foundations fund operating expenses? What are the major costs associated with foundation operation?
- To what extent does the foundation rely on any institutional systems or services? How does the foundation reimburse the institution for consumption of these resources? In particular, how are advancement staff members shared between the two entities?

### Project Sources

The Forum consulted the following sources for this report:

- Association of Governing Boards of Universities and Colleges. "Effective Foundation Boards: A Guide for Members of Institutionally Related Foundations." 2012.
- Association of Governing Boards of Universities and Colleges. "Illustrative Memorandum of Understanding Between a Public Institution or System and an Affiliated Foundation." Accessed February 18, 2014, [http://agb.org/sites/agb.org/files/AGB\\_MOU\\_2014.pdf](http://agb.org/sites/agb.org/files/AGB_MOU_2014.pdf).
- Council for Advancement and Support of Education. "Results of the FY2012 Institutionally Related Foundations Data Book Survey." June 2013. Accessed February 14, 2014, [http://www.case.org/Documents/protected/whitepapers/2013/IRF\\_DataBookSurveyFY2012\\_7-15-13.pdf](http://www.case.org/Documents/protected/whitepapers/2013/IRF_DataBookSurveyFY2012_7-15-13.pdf).
- Legon, Richard, Association of Governing Boards of Universities and Colleges. "Governing and Foundation Board Relations." 1999.

- Quackenbush, Cara and Josh Keniston. "Moving Out." Council for Advancement and Support of Education." April 2012. Accessed February 13, 2014, [http://www.case.org/Publications\\_and\\_Products/2012/April\\_2012/Moving\\_Out.html?printFriendly=printFriendly](http://www.case.org/Publications_and_Products/2012/April_2012/Moving_Out.html?printFriendly=printFriendly).
- Worth, Michael. "Foundations for the Future: The Fundraising Role of Foundation Boards at Public Colleges and Universities." 2012. AGB Press.
- EAB's internal and online research libraries (eab.com)
  - Education Advisory Board. "Benchmarking Operating Fees for University 502(c)3 Foundations." 2012.
- National Center for Education Statistics (NCES) (<http://nces.ed.gov/>)
- Profiled foundations' websites

## Research Parameters

The Forum interviewed leaders of institutionally-related foundations at the following institutions.

### A Guide to Institutions Profiled in this Brief

Institution	Location	Approximate Institutional Enrollment (Undergraduate/Total)	Classification
Institution A	Pacific West	5,000/5,000	Master's Colleges and Universities (smaller programs)
Institution B	South	10,000/12,000	Doctoral/Research Universities
Institution C	South	25,000/30,000	Research Universities (high research activity)
Indiana University*	Midwest	32,000/42,000	Research Universities (very high research activity)
Institution D	Mountain West	22,000/26,000	Research Universities (high research activity)
Institution E	South	51,000/60,000	Research Universities (very high research activity)
Institution F	South	14,000/16,000	Master's Colleges and Universities (larger programs)
The University of Tennessee*	South	21,000/30,000	Research Universities (very high research activity)
University of Toledo*	Midwest	17,000/21,000	Research Universities (high research activity)
Institution G	Northeast	11,000/13,000	Research Universities (high research activity)
Washburn University*	Midwest	6,000/7,000	Master's Colleges and Universities (medium programs)

Source: National Center for Education Statistics

\*Profiled through secondary research  
eab.com