Like Nobody’s Business
An Insider’s Guide to How US University Finances Really Work

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13. Fundraising

13.1 How much do universities raise in gifts?

Philanthropic giving to universities is an essential part of their business model. This has always been true for private universities, and for most public institutions it has become increasingly true over the last several decades. Of course, the relative role of gifts and endowment income is far greater at the privates than the publics, as we saw back in Sections 2.4 and 2.5; combined, they account for 5–10% of the budget at public institutions and 20–40% of the budget at privates. Thus, it shouldn’t surprise us that education is the second largest charitable cause at 14% of all giving, second only to religion at 29%, and ahead of giving to human services and health at 13% and 9% respectively (Giving USA 2020).

The levels of giving to different types of institutions are illustrated in Figure 13.1, split into deciles to show the huge range of giving within each type of institution. Gift totals clearly scale with school size and as I just noted, size-for-size, private institutions

![Figure 13.1. FY2018 gifts averaged per decile by Carnegie classification and control. Source: IPEDS (2020).](https://doi.org/10.11647/OBP.0240.13)
attract more than public ones. The sheer dollar amounts raised are astonishing—in FY2018 the top 10% of R1 publics attracted over $380M in new gifts, while the top decile of R1 privates raised nearly $1.3B, over three times more—and these averages are per-institution and they raise these amounts anew every year. The stark disparity in gift income within each type of school is even more dramatic. The bottom 10% of R1 publics attracted about $10M in new gifts in FY2018, while the bottom decile of R1 privates raised “only” $76M dollars. Across all types of institution, the lowest decile raises from 0.1–3% of the highest decile.

Gift amounts per student afford a more consistent comparison across institution types, and in Figure 13.2 we can see that FY2018 gifts per student at the publics amounted to no more than a few thousand dollars at most publics and under $10,000 in the topmost decile of each institution type. At the privates, the profile of R3-M3 privates, the lowest type, is similar to the R1 publics with all but the top decile under $5,000 per student in new gifts, while at the other privates the schools in the upper deciles raise many tens of thousands of dollars per student annually, peaking at more than $70,000 at the top 10% of R1 private universities. Private baccalaureate colleges stand out as receiving the second highest level of overall gift support per student. It’s worth noting that R1 universities attract sizable gifts for research and athletics beyond the mix at other institutions, which increases their general and per-student gift totals. Also, a reminder that we are looking just at new giving here and that endowment income is a separate but equally important source of philanthropically-derived support (endowments are covered in Sections 13.3 and 13.4).

Figure 13.2: FY2018 gifts per full-time equivalent student averaged per decile by Carnegie classification and control. Source: IPEDS (2020).
Giving has tripled over the last three decades at most types of university, the exceptions being the two smallest types of private school (R3-M3 universities and baccalaureate colleges) as shown in Figure 13.3. The latter saw some growth in gift support during the late 1990s but their inflation-adjusted trends have otherwise been flat. Considering that the R3-M3 private schools have experienced slight enrollment growth over this period, their per-student gift support has actually declined by almost 40% (not shown) since its peak in 2000. The reason that we don’t see a similar pattern in the smaller publics, which have seen analogous enrollment patterns, is that virtually all publics initiated or expanded their development programs during this time. Many public institutions were starting from low levels of fundraising activity relative to the privates that already had active giving programs, and the publics thus had plenty of opportunity to grow (although their received gift totals are still substantially less than at the privates, as we saw above). Fundraising programs are still growing throughout the medium and small publics and it’s not yet clear when they will encounter similar limitations to further growth seen at the smaller privates. Still, at some point, they must because there is only so much giving capacity available for institutions with lower numbers of alumni and limited geographical spheres of influence.

Figure 13.3. Growth in inflation-adjusted total gifts averaged for the two smallest Carnegie classifications of private institution and for all other public and private institution types, by fiscal year. Values for 1997 and 1998 at private institutions are interpolated at the average rate of neighboring years; the average for other institutions is weighted by the number in each type. Source: IPEDS (2020).
13.2 Who is giving, and what are they supporting?

The mix of individuals and groups giving to higher education has shifted in recent decades, reflecting the changing face of philanthropy. Alumni have always been and will always be an important donor group, precisely because alumni have personal ties and emotional connections to their alma mater. As we can see in Figure 13.4, alumni donations are consistently among the top sources of giving to universities and colleges, although the preeminence of alumni giving changed after 2001 as philanthropic foundations took the top spot, part of the latter’s multi-decade increase in importance. At about the same time, and similarly to alumni giving, inflation-adjusted giving by non-alumni individuals and by corporations also flattened. The absolute and relative roles of giving by religious organizations has decreased consistently since the 1960s, to the point where those contributions have become sufficiently small to be included with other organizations since 2014. However, this is not the reason for the increase in giving by other organizations, which instead reflects an underlying change in the nature of philanthropy that is closely connected to the increase in importance of foundation giving.

Figure 13.4. Seven decades of voluntary support for degree-granting postsecondary institutions by source of gift, in FY2016 dollars. Sources: NCES (National Center for Education Statistics 2018e) and CASE (Council for Advancement and Support of Education 2020).

The growth in independent foundations parallels the affluence generated in the private sector, such as in technology and finance (e.g., Gates Foundation and Bloomberg Philanthropies), and the number of independent foundations grew by 40% from the early 2000s to the mid-2010s (Foundation Center 2020). That rise to some extent
reflects a shift in structure of how individual wealth is given away more indirectly than before. Similarly, the growth in popularity of donor-advised funds is an example of how individual wealth is given away using a different structure, and these account for some of the recent rise in the other organization category seen in Figure 13.4. Donor-advised funds are managed by community foundations or charitable arms of investment companies (the latter having lately seen substantial growth). They enable a donor to place money in the fund and claim the charitable tax deduction right away while the fund subsequently gives the money to charitable causes (technically an independent decision by the fund, but in practice virtually always on the advice of the donor). Thus, the mechanisms by which individual wealth is donated have been changing, affecting the appearance of who is giving to higher education. Also, while major gifts and giving overall are on the rise, household giving rates are actually declining (Osili 2019).

Not all contributions from independent foundations are gifts. Many such foundations have extensive grant-making programs that support work in research, education and public outreach. For example, several of the largest foundations, including Mellon, Duke, Ford, Kellogg, and MacArthur, recently announced a $1.7B initiative in cultural inclusivity that will support nonprofit institutions in higher education, the arts and the humanities (Jaschik 2020). Most universities (and their foundations, if applicable) have established rules about what counts as a gift versus a grant or contract. The general rule of thumb is that the donor should not receive more than a thank you note for it to be a gift, versus a grant or contract where there are typically deliverables. Such rules are a defense against creative investigators and/or donors who wish to avoid paying the facilities and administration cost recovery charges for grants (see Chapter 8).

Now that we’ve seen where donations come from, let’s move our attention to the intended purposes of those gifts. Gift purposes are divided into two broad categories, current operations and capital, as illustrated in Figure 13.5. Gifts to current operations are those that are available directly for current spending on a wide variety of purposes. In contrast, gifts to capital purposes will last for many years (e.g., buildings, property and major equipment) or they will last in perpetuity (i.e., endowments) and are managed to produce income for annual expenditures. Gifts to research cover the whole range of scholarly pursuits from science to the humanities, while donations to academic divisions include those made to departments, schools and colleges but without other restrictions (such as a research topic or student scholarship). Unrestricted gifts, those without a purpose expressed by the donor, are far less common than they were a generation or two ago—unlike all other (restricted) gifts that can only be spent on their stipulated use, unrestricted gifts can be used however the institution deems best. Gifts to student financial aid include non-endowment contributions for scholarships (merit or need-based), student awards, and some athletic scholarships.
Speaking of athletics, let’s bust a persistent myth about giving to athletics versus academics: on average, athletics receives just 4% of gifts to the university for current operations. There’s a perception on many campuses that the lion’s share of giving goes to athletics, and while athletics gifts also go to endowments and facilities, the total athletic share pales in comparison to the academic share.¹ There’s a related hypothesis that courting athletics donors somehow crowds out donors who otherwise might give to academics. Its flawed assumptions are that fundraising for an institution is a zero-sum game and that donors can be redirected to other causes. The bulk of athletics fundraising is directly linked to obtaining premium football and basketball tickets and associated privileges such as stadium clubs and parking privileges. Astute presidents and fundraisers know that it is not an either/or proposition and that, while there are benefits to greater exposure and the occasional major athletics donor can be persuaded to support the institution more broadly, donor passion and intent drive most giving decisions and these are largely separate sets of donors. The research literature on this effect is small, but the most thorough recent study found evidence for spillover benefits from athletic giving to academic giving rather than crowding out such donations (Koo and Dittmore 2014), although recall from Section 12.7 on the related Flutie Factor that the magnitude of these kinds of effects is small.

Returning to the distribution of gifts by purpose, a large share of donations goes to restricted endowments. These are the core gift funds that support student scholarships, research, and academic divisions, among other things. Here’s a breakdown of the FY2018 distribution of gifts to higher education institutions by purpose:

- Endowment Restricted (Scholarships, Chairs, etc.) 27%
- Endowment Unrestricted 2%
- Deferred Gifts 1%
- Property, Buildings, & Equipment 12%
- Research 17%
- Unrestricted 6%
- Athletics 4%
- Student Financial Aid 5%
- Academic Divisions 11%
- Other Operations 14%
- Current Operations
- Capital Purposes

¹ There are exceptions but they are rare. For example, even in the SEC, only LSU raises more gift funding for athletics than for academics; the other conference members typically raise twice as much money “for the classroom as for the locker room” (Allen 2016).
named chairs, centers and institutes for the long term. Making a gift to endow these purposes involves a challenging trade-off, as much for the donor as for the department chair or dean soliciting the gift: current needs are almost always pressing and a large contribution of cash in the short run can make a sizable impact immediately versus a smaller impact for the long run. For example, a $100,000 gift can benefit 20 needy students with scholarships of $5000 for one year, or it can provide a single $5,000 scholarship for just one student in perpetuity, taking twenty years to reach the same level of impact. Only after that time, at which point the donor may have passed on, does the lasting impact of an endowment manifest itself. Thus, endowments are about the long game and they are not necessarily the vehicle of choice when shorter-term goals are a priority.

Buildings are a particularly visible sign of large capital gifts. Depending on the building’s purpose, the gift might account for a substantial portion of the construction expenses or it might only cover a minor portion of the overall project cost. There may be other sources of funds for classroom or laboratory buildings that can be supplemented with gifts, while funds for performance halls or stadiums may not be given the same precedence for funding as academic buildings, meaning that a larger proportion of those dollars will need to be raised from private donations. Most universities have established policies on the gift amounts associated with naming buildings, centers, programs, etc. after donors (and of course buildings can be named without relation to a donation to honor a significant social figure such as a politician, civil rights leader, or former university president).²

13.3 How big are endowments and how much have they grown?

The basic concept of an endowment is simple: rather than spending a cash gift on current needs, invest the money for the long term and use the proceeds to provide funding in perpetuity. We’ll go through an illustrated example of how endowments work in the next section (Section 13.4), but first let’s clarify some language and get a sense of endowment size and growth across higher education.

We tend to talk about endowments like we talk about sheep, using the same word for the singular and the plural (as I just did in the previous paragraph). This can lead to unfortunate misperceptions both on campus and in public policy, especially the use of the singular to describe the entire university endowment. The resulting impression is that there is a single fund containing a vast hoard of cash that can be spent on whatever the university desires or used as a rainy-day account to avoid budget cuts in times of financial need. There is no single fund. University endowments are collections of

² Names can be removed and naming gifts returned if warranted. For example, the names of controversial figures such as pro-slavery alumni at Yale (Thelin 2017) and Woodrow Wilson at Princeton (Princeton University 2020) have been removed from campus buildings, as was the name of donors to Tufts who were linked to the opioid crisis (Seltzer 2019b). The issue can go further: at the University of Alabama a donor seeking improper influence had his name removed from the Law School and his gift returned (Jaschik 2019c).
hundreds or thousands of individual funds, each from a distinct original gift and almost all from different donors over time. So, technically, the university has endowments, plural, despite our confusing verbal shorthand that incorrectly implies a single institutional fund. Endowments are generally not fungible either and virtually all of them have legal restrictions on their purpose as a condition of the gift, as we saw in the previous section. Therefore, the university or its foundation cannot unilaterally spend the principal or earnings of an endowment intended for, say, student scholarships to instead pay for a new stadium or to cover salaries and prevent layoffs. This issue isn’t helped by the conspicuous size of total endowments at the wealthiest elite private universities, which have become sufficiently large that recent legislation imposed a tax on these otherwise tax-exempt organizations.³

Figure 13.6 shows the size of total institutional endowments, split into deciles as we did for gifts because of the unusually large range within each institution type. At R1 public universities the total endowment value is typically $0.5 to $1.5B although schools in the top decile average north of $6B each. Endowments at the other public institution types barely register on the chart: at R2 publics the median endowment is $190M (lowest and highest deciles averaging $22M and $732M respectively), while at the smaller publics the median is $20-$30M with their lowest deciles in the single-digit millions and the highest deciles at $150-$300M.

Figure 13.6. FY2018 endowments averaged per decile by Carnegie classification and control. Source: IPEDS (2020).

³ The 2017 Tax Cuts and Jobs Act imposed a 1.4% tax on private nonprofit higher education institutions with endowment assets greater than $500,000 per student and with at least 500 students enrolled. Less than a few dozen private schools meet these criteria, mostly R1 and BAS institutions.
Figure 13.6 also makes plain why the most well-endowed private institutions attract special attention—the handful of universities at the top of the pyramid have total endowment assets in the tens of billions of dollars (Harvard leads that list with about $40B). Endowments at the R1 privates are more typically in the single-digit billions, as are the wealthier R2 privates, although the latter are more typically in the hundreds of millions. While the richer R3-M3 privates have endowments in the hundreds of millions, there is a steep drop-off across these institutions and their endowments are more typically in the tens of millions. The private baccalaureate schools display a particularly wide range in endowments, as this group includes some unusually well-endowed elite colleges ($1.5B in the highest decile) as well as many less-wealthy schools (averaging just $11M in the lowest decile).

Returning to those universities with the largest endowments, the concentration of accumulated private giving is especially stark at the very top of the list, as shown in Figure 13.7. The top 2% of schools (23 of them) hold 50% of all university endowment wealth in the country. The first four on the list—Harvard, Yale, Stanford and Princeton—account for over 20%. Counterintuitively, the top 25 list includes 5 public universities: Texas A&M and the University of Michigan are in positions 7 and 8, ahead of large private schools such as Columbia and also the University of Southern California, the latter with an endowment close to those of two more publics, Virginia and Ohio State. Endowment size is determined by many things, including but not limited to the size of the founding endowment (at private institutions), the number of financially successful alumni (in turn a function of time), and the compounding effects of past success and prestige that help to further attract non-alumni donors as well.

Figure 13.7. Top 25 FY2018 university endowments and their cumulative share of all endowments in the data set. Amounts are for the main campus location and do not include branch campuses reporting separately. Source: IPEDS (2020).
The result for high-endowment institutions is that they have extraordinary resources to invest in their educational and research missions, all part of staying ahead in the competition (some would say arms race) to be the best. Assuming a 4.5% payout, every billion dollars of endowment provides $45M in revenue per year—that’s as much as a percentage or two of overall budgets at big universities such as the ones on the top 25 list, and they all receive several multiples of that number.

We can level the endowment playing field somewhat by examining endowment per student, just as we did for gift amounts. Figure 13.8 illustrates those distributions, again by decile as we did above for endowments. The same key observations apply here too: the especially wide range within each type of institution, and the large differences between public and private schools. The lowest deciles at medium and small institutions are just a few thousand dollars of endowment per student, while the highest deciles average in the hundreds of thousands, with the most well-endowed reaching $1M or more per student.

The top 25 list for per-student endowments is illustrated in Figure 13.9 and, unsurprisingly, with only one exception (Soka University in the number 2 spot), it’s a who’s who of the most elite and long-established private schools in the nation.

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4 Soka University of America is a small liberal arts college located in Orange County, CA, and it isn’t yet as well-known as the other schools on this list. It provides a secular education emphasizing human rights and interdisciplinary approaches, and was established in 2001 by a Japan-based worldwide Buddhist movement that contributed to its endowment (Soka University of America 2020). In FY2018, Soka’s endowment was $1.3B with an enrollment of 442 according to IPEDS (2020).
No public institutions make this list; they are all private and virtually all are either R1 universities or baccalaureate colleges. The wealth concentration is slightly less pronounced for this metric than for endowments proper, but the institutions on this list are still home to over one third of all per-student endowment wealth. Using the same payout math as above, $1M of endowment per student equates to $45,000 of annual endowment income per student. Note that this is not what these institutions necessarily spend per student, but it is a relative guide to the level of resources available at the wealthiest institutions. Also, a reminder that research universities have endowments for research institutes as well as for graduate students, and the simple endowment per student metric does not account for these differences.

Figure 13.9. Top 25 FY2018 university endowments per full-time equivalent student and their cumulative share of all values in the data set, shaded by Carnegie classification (all are private institutions). Amounts are for the main campus location and do not include branch campuses reporting separately. Source: IPEDS (2020).

To wrap up our tour of endowment wealth it’s worthwhile to also look at trends. Endowment values have increased steadily over the years, with the amounts for each type of institution showing the same basic pattern that more-or-less tracks the stock market, which is where the bulk of the funds are invested. A much more interesting trend, and one worth showing, is the relative growth of endowments per student that are illustrated in Figure 13.10 (the patterns are extremely similar to those for straight endowments, but the per-student values provide a more consistent comparison over time). What’s intriguing is that, over the three decades...

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5 The highest-ranked public institutions on the list are Virginia Military Institute and the University of Virginia at numbers 59 and 60 respectively, each with about $300,000 of endowment per student.
that included several bull and bear markets as well as the Great Recession, inflation-adjusted endowment per student grew by a factor of 3 at private schools and by an astounding factor of 9 at public schools. As we’ll see in the next section (Section 13.4), a typical endowment keeps pace with inflation with the additional returns used for income, so the overall growth we see in this figure is mostly the accumulation of new endowment gifts. Therefore, since the late 1980s, public institutions grew their relative level of endowment giving at three times the rate of the privates. I mentioned in Section 13.1 on gifts that the medium and smaller public institutions are relative latecomers to fundraising and that’s the effect we’re seeing here. Within the average for public institutions in Figure 13.10, R1 schools grew at the same rate as the privates while the other types of institution all grew much faster than their private counterparts (not shown) because many of the medium and smaller publics were just starting their development programs. Of course, they still have a long way to go in absolute terms.

![Figure 13.10. Growth in inflation-adjusted endowment per full-time equivalent student, by fiscal year, with averages for public and private institutions weighted by the number of institutions in each Carnegie classification. Values for 1990 at both types of institution and for 2002 at public institutions are interpolated as the average of neighboring years, while the 1997–2002 gap at private institutions is interpolated proportional to the public institutions. Source: IPEDS (2020).](image-url)
Endowments at public institutions are generally far smaller than at their private peers, about 10–20% after adjusting for enrollment. Unlike the privates, however, public universities receive state support. A thought experiment: if we think of state appropriations as revenue from a sort of “public endowment” then how might the size of public and private endowments compare?

Typical state appropriations down the four types of public institution from R1 to BAS are something like $300M, $110M, $45M and $10M. At a 4–5% payout rate, those revenues represent, in round numbers, pseudo-endowment sizes of $6.7B, $2.4B, $1B and $0.2B respectively. Interestingly, these amounts are larger than their private counterparts, several times so for the medium-sized schools. However, recall that tuition revenue at the publics is generally much lower than at the privates, serving to offset some of these differences in the context of overall institutional revenue. Nonetheless, this exercise shows that, financially speaking, state support is at least as important to public institutions as endowment income is to private institutions.

13.4 How does a university endowment work?

The core idea of a modern university endowment is to invest the gifted funds to produce annual income, known as the endowment return, while maintaining the original amount, called the principal or corpus (Latin for body), such that the endowment can produce income in perpetuity.\(^6\) Let’s run an example to see how this works in practice. We’ll assume an endowment of $1M starting in 1980 and that our returns track the S&P 500. Of course, depending on exactly how the funds are invested, any given endowment will have a unique set of returns—more on that later. As it happens, the S&P has performed at just under 8.5% on an annualized basis over the last four decades. If we’d invested our funds and simply reinvested any proceeds and let those grow, we would have seen the value of our investment follow the index curve in the upper panel of Figure 13.11, starting at a smidge over $3M ($1M adjusted for inflation to 2016 dollars) and ending at about $23.5M. Inflation over this period was just over 3% (it was high back in the early 1980s—see Section 3.7). Overall, the annualized

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6 Endowments are as old as universities themselves. Although some of the philosophy schools in ancient Athens that predate universities had endowments in the sense of having independent wealth (Lynch 1972), the earliest endowments in the contemporary sense of an income-producing asset were in Europe. For example, in England, the early universities received tithes, 10% annual taxes on the produce of agricultural land, from acreage that passed to them from the dissolution of monasteries (Russell 2006). Early university endowments in the US originated from the wealth of multi-millionaires during the late 1800s and early 1900s, including Ezra Cornell, Benjamin Duke, Leland Stanford, Andrew Carnegie, and John D. Rockefeller (Kimball 2017). Since then, those endowments and may others have grown considerably from alumni contributions.
inflation-adjusted rate of return is 5.24% over the four decades but with plenty of ups and downs on that journey.

Figure 13.11. Performance of an example endowment started in 1980 (upper panel) shown as a simple investment with returns tracking the S&P 500 index and as a revenue-generating endowment fund, and as components of the example endowment (lower panel) including annual return, payout, investment management fees, and a surplus (or deficit) for reinvestment (or withdrawal). Amounts are in FY2016 dollars; the inflation-adjusted initial endowment value of $3M corresponds to $1M in FY1980 dollars. See text for details.
Endowment management is all about taking advantage of the overall trend, while weathering short-term downturns, to simultaneously produce a dependable annual income stream and maintain the principal in the long run. Therefore, the question is what (fairly consistent) portion of the endowment can be withdrawn each year, allowing for investment management fees, that will leave enough returns to cover inflation and preserve the original investment? In practice that amount, known as the payout, is typically between 4% and 5%. In our example, we will take an annual endowment payout of 4.2%, and we will pay annual investment management fees of 1%. Those rates result in the endowment trend illustrated in the upper panel of Figure 13.11, which is essentially flat in the long run, just as we desire (it ends slightly up at $3.2M in inflation-adjusted terms). The notion of preserving the inflation-adjusted principal is known as intergenerational equity. This approach is debated in tough times, when some argue that the corpus should be invaded to prioritize institutional survival (Whitford 2020d), and in good times when managers keep payouts low and let the endowment grow, i.e., lowering future risk at current expense (Mehrling et al. 2006).

The components that constitute the endowment performance are illustrated in the lower panel of Figure 13.11, also in inflation-adjusted dollars. After one year, the $3M initial endowment returned 7.6% ($207,000) in FY 1981, allocated as $114,000 in payout (the 4.2%), $27,000 in management fees (at 1%), and a surplus to be reinvested of almost $66,000 (the remaining 2.4%). The next year, FY 1982, the market was down 18.2% and the endowment lost value with a negative return of $468,000. Despite the loss, we still allocated a 4.2% payout ($108,000) and we still needed to cover management fees (almost $26,000), meaning that the endowment actually decreased by a total of $602,000. Thus, we actually invaded the corpus to provide the payout; many real endowments would not have done so. Fortunately, 1983 was a strong year and the (now reduced) endowment returned nearly 52%, although it was not enough to restore the endowment to its initial value—that took until 1986 (see the upper panel of Figure 13.11). Our example endowment did very well during the late 1990s, reaching a peak of more than $6M in 1999 and 2000, and it promptly lost those gains in 2001 and 2002. It sunk to its lowest levels during the Great Recession, about $2.1M in 2009, taking until 2017 to again fully regain its initial value.

One can see the importance of having the intestinal fortitude to take the long view, resisting the temptations of panicking during short-term losses or of spending windfall gains. That said, this was a simple example and in practice university endowment managers do a number of other things to increase value and ameliorate loss. We stuck with a constant payout percentage in our example, but endowment managers evaluate and reaffirm or modify the payout rate every year, trying to keep the rate smooth but sometimes shifting it up or down by a few tenths of 1% after a run of good or bad years. Also, all individual endowment funds are usually comingled for investment purposes while keeping track of individual accounts, much like a bank. Payouts are made into accounts from which the funds are spent by university units, and if those
accounts are well-budgeted then they provide a further small buffer against year to year fluctuations. I used the CPI to adjust for inflation as I’ve done throughout the book, but if this endowment was used to pay the salary of an endowed chair position, it would be more likely to rise at the HEPI which has recently run about 0.5% higher than the CPI (both are covered in Section 3.7). As it happens, the payout in our example increased at about that rate so it would be sufficient to maintain a salary commitment.

We tracked the S&P 500 in this example, but most university endowments are not invested in a simple consumer-oriented index fund. Instead, they are managed by a team that will often include investment consultants (a minority of endowments are wholly outsourced and managed by an investment firm). Also, depending on the type of investments in the portfolio there will be various associated costs and fees such as management fees, fund-of-fund fees, advisory fees, fund operating expenses, and custody fees for recordkeeping and reporting (Commonfund Institute 2017b). For simple investments these costs may be half or less of the 1% we assumed in our example, but for complex portfolios they can approach 1.5% (Skorina 2017).

University endowment managers invest the funds entrusted to them across a broad portfolio, as shown in Figure 13.12. Three quarters of the average institutional portfolio is invested in equities (i.e., stocks/shares), about 10% in fixed income investments such as bonds, and slightly more (about 14%) in real assets including real estate. This is the portfolio mix for the average institution, but the average dollars in each type of investment vary because large endowments (over $1B) tend to have a slightly different mix—about half as much in US stocks and bonds and roughly twice the share in private equity and venture capital, in cash, and in private real estate, energy and mining.

Figure 13.12. FY2019 equal-weighted average asset allocations for college and university endowments and higher education foundations. Source: NACUBO (2020).
13.5 Are fossil fuel divestment and socially responsible investing financially viable?

Universities are involved in studying and teaching about environmental, social and governance issues, and their institutional priorities on these topics are often plainly reflected in their official statement of values, usually right next to their mission and vision statements. One important way for institutions to demonstrate that their values have meaning is to align their endowment investments accordingly. The trend towards socially-responsible investing by university endowments began in the late 1970s as part of the divestment movement to boycott the apartheid regime in South Africa—the first was Hampshire College (Dayall n.d.). In 1990, Harvard and CUNY made front page news when they sold all their stocks in tobacco companies (Lewin 1990). Other disinvestment initiatives since then have included the prison industry, gun manufacturers, and companies employing sweatshop labor abroad (Elrod 2013; Chan 2015; Dyer 2018). Given the small portions of endowment portfolios that any such investments represented, and the strong university endowment performance in recent decades noted in Section 13.3, it is clear that those divestments had no appreciable financial effect on endowments while they simultaneously signaled the institution’s disapproval of an activity or industry.

However, by far the most prominent contemporary university divestment movement is against fossil fuel companies. Fossil fuels are the principal source of carbon dioxide and other greenhouse gases that are causing widespread climate and environmental change. The energy sector, including coal and oil companies, has historically been a standard and well-performing part of most investment portfolios. Therefore, quite reasonably as part of their fiduciary duty, endowment trustees and managers have raised questions about the possible risks of divesting from fossil fuel assets and consequent potential losses for the endowment. A minority have asked about the risks and potential losses of not divesting, given the downward prospects for the sector (Grantham 2018; Sanzillo et al. 2018).

Analyses by leading investment advisors and independent economists show that both the investment risks and endowment impact of not investing in fossil fuel

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7 This statement doesn’t really need a citation nowadays. I’m a climate scientist and the evidence shows beyond a shadow of a doubt that climate change is happening, with alarmingly little substantive action to stop carbon emissions. If you’re interested, the most authoritative source on the science of climate change, including its consequences as well as adaptation options and mitigation, is the Intergovernmental Panel on Climate Change (www.ipcc.ch).

8 Why target the companies when we all use energy from fossil fuels? Beyond signaling the importance of moving away from fossil fuel consumption, those companies are targets of divestment because they knew about the perils of climate change as early as the 1970s, misrepresented the harm their products would bring about, and funded campaigns to discredit the science, spread disinformation, and influence policy (the same playbook used by tobacco companies), as described by Naomi Oreskes and Erik Conway in their book, Merchants of Doubt (2010).

9 As someone who grew up in South Africa, became a climate scientist, and served as a senior university administrator, there is no more apt section of this book for me to write than this one.
energy companies are essentially neutral and possibly even positive. The bulk of most endowments is invested in companies on the stock market, as we saw in the previous section (Figure 13.12). The market is categorized into ten sectors, such as energy, financials, information technology, etc., with endowments typically holding a diverse portfolio across those sectors. We can calculate relative market performance by simply omitting a sector, such as energy, and comparing the non-energy market to the regular market. Figure 13.13 shows these comparisons for the non-energy portfolio and each of the other omitted sector portfolios for two periods, since 1957 and since 1989, as calculated by investment firm GMO (Grantham 2018). Omitting the energy sector makes the least difference of all sectors to overall returns, within 0.1% of the regular S&P 500 (10.18% return for the non-energy portfolio versus 10.25% for the regular S&P 500 from 1957 to 2017; likewise, 9.74% for non-energy versus 9.71% for the S&P 500 from 1989 to 2017). This means that if one was broadly invested across all other sectors, dropping energy was less risky than divesting from any other sector, and that the non-energy portfolio actually ended up doing slightly better than the overall market since 1989.

Figure 13.13. Annualized absolute returns of market portfolios excluding each of the ten market sectors, relative to the S&P 500 for 1957 to 2017 (10.25% annualized return) and for 1989 to 2017 (9.74% annualized return), with the non-energy portfolio highlighted. Source: Grantham (2018).

Figure 13.14 illustrates the trends for the non-energy S&P 500 portfolio and the whole S&P 500, showing that there is virtually no difference between the two and that, because energy stocks have declined more than the overall market in recent years, the non-energy mix actually ends up slightly ahead. Much the same conclusions were reached in a recent peer-reviewed analysis that applied rigorous econometric
methods to assess the financial implications of fossil fuel divestment (Trinks et al. 2018). Another recent study evaluated the impact of divestment in two ways, first on almost 700 institutions that did and did not divest, and second by modeling four actual college and university endowments in detail (Pitzer, Dayton, Syracuse and Stanford); the authors found no consistent impact or negative effects, along with some limited positive effects of fossil fuel divestments on mid-size and large endowments (Ryan and Marsicano 2020). Unsurprisingly, there are papers sponsored by the fossil fuel industry that claim negative impacts as a result of fossil fuel divestment (Cornell 2015; Bessembinder 2017); sustainable-investment groups have provided detailed rebuttals as to why those arguments are not pertinent to the actual performance of fossil fuel investments (Sanzillo et al. 2018). To the question of whether fiduciary duty might prevent fossil fuel divestment, because that duty binds a trustee or endowment manager to make the best financial decisions for the funds they oversee, there is now plenty of evidence that the most prudent fiduciary path is to actively consider calls for fossil fuel divestment—those calls cannot be rejected merely because of uninformed worries about negative risks or losses. Fiduciary duty may even favor divestment: some analysts argue that while fossil fuel investments provided strong performance in the past, their current financial case and future prospects are far weaker (Grantham 2018; Sanzillo et al. 2018).

Figure 13.14. Performance of S&P 500 index with all sectors and excluding the energy sector since sector indices were launched by S&P in mid-1996. Source: S&P/Investing (Investing.com 2020).

How does an endowment divest from fossil fuels? It’s a process rather than an event. The institution typically announces that it has decided to divest and that it will
complete the process within a year or two. A period of time is necessary because some investments have rules about when investors can get in or out, or they are only offered at certain times. Having that time enables the endowment managers to integrate the sale of direct and indirect investments in fossil fuels into the flow of transactions while they balance the portfolio through the purchase of other positions. Direct investments include, for example, shares in an oil company, while indirect investments include index funds and other instruments that commingle fossil fuel stocks with many others. Divestment initiatives sometimes include a commitment to shed only direct investments in fossil fuels (or even narrower, such as coal only), while others promise full divestment including indirect holdings. Figure 13.15 shows the mix of divestment at the 60 institutions that have made the commitment so far. About two thirds are in the process of fully divesting or are already fossil free, while institutions in the other third have committed to various permutations of limited divestment (e.g., partial divestment of direct investments only, or coal companies only). Together, all these schools represent about 5% of all universities and colleges; they include institutions of all types such as large public and private universities (e.g., University of California system, Johns Hopkins) as well as smaller public and private schools (e.g., Salem State, Middlebury). For institutions looking to evaluate whether or not to divest, and where to invest instead, there are several sustainable investment groups that offer frameworks and performance information (Cambridge Associates 2014; Dyer et al. 2020).

Figure 13.15. Number of US universities and colleges (or their affiliated foundations) with full and limited fossil fuel divestment, as of mid-2020. University systems are counted as the number of main campuses in the system. Source: Fossil Free/350.org (Fossil Free 2020).
Divestment is not so much an investment strategy as it is a reaction and decision to not invest in something. A number of institutions have adopted active strategies to align their endowment investing with their priorities on environmental, social and governance issues (ESG investing). For example, not just divesting from fossil fuels but investing in renewable energy instead, or in companies with commitments to social responsibility. The irony of philanthropy is that it is needed to fix the very system that creates it. To that end, progressive groups in the philanthropy world are now advocating a rethinking of how social justice initiatives could be supported by what they term liberatory philanthropy, which acknowledges the inequalities that produced its wealth and commits to deconcentrating it, as well as making restorative investments in communities and programs that address environmental, social and governance issues aligned with their philanthropic mission (Foxworth 2019).

13.6 How does the business of university fundraising work?

For most people, the thought of asking for donations inspires a dread that rivals their fear of public speaking. Most professors have overcome the latter through their experience in teaching; the same kind of practice and familiarity is also how one overcomes the fear of fundraising and, in particular, making “the ask” (see Box 13.2 for a glossary of fundraising terms). Better yet, most universities employ professional fundraising staff who are not only able to make the actual request but are also invaluable at systematizing the process of raising money. Gift officers often say that fundraising is friend-raising, which underlines the simple truth that relationships are the cornerstone of any development effort. The business of creating and cultivating relationships, figuring how much to ask for, and stewarding the connection after a donor has made a gift take time and require organization—that is the role of the gift officer (or development officer). Lest this sound rather clinical, the magic ingredient is the student, faculty member, department chair, center director, or dean who has the opportunity to talk about what they love with a potential donor—someone who would like to share in that passion for advancing the program or unit and helping it to do good in the world. Like teaching, it’s actually a lot of fun once the anxiety of the unfamiliar is out of the way. So, relationships are key, but how does the money work?

Let’s say that we need to raise a million dollars, perhaps to endow a scholarship program in an emerging field. This scholarship will enable us to attract excellent students who will gain special skills and experiences and position them well for future studies and/or jobs. We have some friends of the department and college who we already know might be willing to support the new program (and if we’re smart, we’ve already mentioned to them our excitement about it). Some of them could even provide a substantial amount, but we’ll need to greatly expand the set of people involved to reach our fundraising goal. Figure 13.16 illustrates a simple gift table example, also known as a donor pyramid, that a gift officer might draw up as a planning tool to help
us reach the goal. Working together, we think that we could land one principal gift of almost half the needed amount, we could get three major gifts in the $50,000 range, and a set of others down the pyramid that together will get us to our total. Notice that we need 184 donors across the plan and that we will need to approach three or four times that number of viable prospects in order to net the support we need.

<table>
<thead>
<tr>
<th>Prospects</th>
<th>Donors</th>
<th>Amount</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>1</td>
<td>$450,000</td>
<td>$450,000</td>
</tr>
<tr>
<td>12</td>
<td>3</td>
<td>$50,000</td>
<td>$150,000</td>
</tr>
<tr>
<td>40</td>
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<td>$10,000</td>
<td>$100,000</td>
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<tr>
<td>70</td>
<td>20</td>
<td>$5,000</td>
<td>$100,000</td>
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<td>150</td>
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<td>$2,000</td>
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<td>$1,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>576</td>
<td>184</td>
<td></td>
<td>$1,000,000</td>
</tr>
</tbody>
</table>

Figure 13.16. Example gift table to raise $1M, showing the donor pyramid (shaded), estimated prospects needed to net those donors, gift amount at each level, total gifts per level, as well as overall totals for each category. See text for details.

Importantly, these estimates are not arbitrary or a wish-list. They reflect what we know about our alumni, community members with a demonstrated interest in our other work, possible corporate support, and so on. The gift officer will have assessed the capacity of potential donors to give as a function of their connection, prior giving, potential interest, estimated wealth, and more, such that the amounts and timeline are realistic.

Box 13.2. University Fundraising Lingo—A Non-Exhaustive Glossary

THE PROCESS

**Advancement** — building broad awareness and support through development, alumni relations, government relations, and sometimes marketing and public relations

**Ask, “The Ask”** — the actual request for support from a donor; sometimes refers to the amount being requested
**Campaign, Capital Campaign** — a coordinated fundraising initiative to meet a stated financial goal, typically institution-wide; customarily begins with a quiet phase to raise a substantial portion of the goal, followed by a public (marketed) phase to achieve and subsequently celebrate it

**Capacity** — the estimated giving capability of a prospective donor; a combination of the individual’s disposable wealth and inclination to give to the specific cause

**Case Statement** — a donor-oriented document that makes the case for support of a fundraising initiative including the need or opportunity and potential impact; often a glossy brochure, possibly a website and/or video

**Development** — fostering understanding of, and obtaining private support for, an institution’s activities and programs; a subset of advancement

**Fundraising** — acquiring voluntary financial support from individuals and organizations; a subset of development

**Gift Officer, Development Officer/Director** — a staff member with primary fundraising responsibilities; typically works closely with an academic unit leader (e.g., dean, director)

**Moves Management** — the practice of progressing a donor through a five-step fundraising cycle:

(i) **Identification** — finding prospective donors, or prospects

(ii) **Qualification** — wealth screening and estimating capacity

(iii) **Cultivation** — building a relationship (“fundraising is friend-raising”)

(iv) **Solicitation** — making “the ask”

(v) **Stewardship** — saying thank you and continuing cultivation

**Wealth Screening** — assessment of a potential donor’s assets to help estimate giving capacity; includes knowable and public data such as previous giving, real estate ownership, public stock ownership, political donations, and corporate/executive positions

**THE GIFT**

**Alumni Giving** — not only gifts from alumni but also the proportion of alumni who donate

**Annual Giving** — ongoing foundational fundraising program engaging a broad base of donors and prospects; typically generates many smaller donations from letter and email appeals

**Bequest** — gift made through a will or trust upon the donor’s decease

**Charitable Contribution** — a tax-deductible donation to a qualified nonprofit organization
Donor Pyramid, Gift Table — planning tool that accounts for the many small donations and few large donations typically needed for a fundraising initiative

Legacy Gift — synonymous with bequest, sometimes announced as a gift with current gifts

Major/Principal Gift — large/extra-large gift at the upper end of the typical gift range for the institution

Philanthropy — literally “love of humanity” via the giving of money, expertise or time, often with a long-term or strategic connotation; a philanthropist is an individual giver; a philanthropy is a philanthropic organization or nonprofit foundation that can give and/or be given to

Planned Giving — major gift that is part of an individual’s financial and/or estate planning

Pledge — a promise to donate a specific sum to be fulfilled at a later date

Voluntary Support — broad and/or synonymous term for gifts, donations, bequests and philanthropy

Two further points on donor pyramids and gift tables. First, there’s an interesting trend in the shape of the donor pyramid towards a much narrower profile: the top 1% of donors now account for almost 80% of total giving, rising from 64% just a decade ago (Hasseltine 2017). This shift is likely related to rising wealth inequality and megagifts from the ultra-wealthy, the ultimate example of which is Michael Bloomberg’s $1.8B gift to Johns Hopkins (Bloomberg 2018).

The second point is about campaigns. Donor pyramids and gift tables are often used in institution-wide fundraising campaigns, and almost every university has had or will have a major fundraising campaign. Campaigns are, more or less, a large multi-year marketing wrapper around what is essentially the whole range of institutional fundraising priorities. In years past when university fundraising had a lower profile, a campaign denoted a substantial intensification of activity and sometimes a special target, but nowadays campaigns can be almost continuous and they involve all the colleges and schools. Because the campaign has an identity of its own that is seemingly separate from fundraising in local units within the university, it is not unusual for the campus (and donors) to think that the funds raised in a campaign are likewise separate. I’ve heard people ask, “Where’s that X million dollars the University raised in the campaign? They should give some to our department.” Generally, those funds are not separate; they represent the university-wide total of fundraising done by all the units across the university as part of the overall campaign effort. Campaigns typically have a quiet phase and a public phase. If our school is ordinarily raising about $1M per year, we might plan a five-year campaign to raise $6M: the expected annual amount
($5M over five years) plus a further $1M from the extra campaign activity. The first two years might be the quiet phase where we concentrate on the top of the pyramid to obtain leadership-level gifts, and then we announce the public phase and say that we’ve already raised $2.4M and we need to reach our $6M goal in the next three years. Of course, we expect to get $3M of that from our regular fundraising, but we need to try and average an extra $0.2M (20%) more per year ($0.6M over the three years) using the momentum of the campaign goal. If we’ve planned well, we’ll reach the goal on time (or early) and celebrate (and start planning the next campaign). If we were over-zealous in our estimates, we might move the timing goalposts and extend the campaign to complete it the next year.

Let’s shift now to how the money arrives, how it’s handled, and how we pay for the process. Most gifts are monetary and they can be made in many forms including credit cards, electronic transfer and checks, but gifts also include stock/shares, real estate, and personal property. Non-monetary gifts are typically sold and converted to cash prior to the institution taking possession—the institution or its foundation will have a policy on how it handles such gifts. Two common exceptions are artwork or manuscripts donated to the university’s scholarly collections—those gifts will usually be handled by the museum curator or special collections librarian and, of course, they are not counted as fundraising.

What happens next will vary somewhat by institution—the main difference being whether or not the gift goes into the accounts of the institution itself or those of its foundation. The presence of a foundation is largely (but not exclusively) a public/private university distinction. Public universities have separate foundations so that, in the memorable words of a trustee I know, “the State can’t get its hands on our endowment!” It’s also useful because the foundation will be a nonprofit for charitable contribution purposes while a public university is technically a state agency of some kind (nonetheless, many public universities will still accept gifts, and often they will be managed by the foundation). For private universities, the institution itself is a nonprofit (recall we are not focusing on for-profit private schools in this book) and only the more complex institutions might have multiple entities for handling various aspects of their finances.\footnote{The more complex publics can also have multiple entities connected with fundraising. Examples at such public and private institutions can include real estate investment, foundations for sub-parts such as the law and medical schools, athletics foundations, and more.}

The role of a university foundation can also vary considerably: at a minimum it will almost certainly hold and invest endowed funds, it can include some or all of the professional fundraising staff (frontline gift officers as well as back-office data analysts and financial specialists), and it may provide some or all the additional functions of an advancement office (e.g., alumni relations; see Box 13.2). Public university foundations have boards of trustees/directors and, while the organization must preserve its legal and financial independence from the main institution, the foundation’s (typically...
sole) mission is to support the university. Note that those on the foundation board are not the same as the regents (sometimes also confusingly known as trustees) who serve on the public university (or system) governing board.  

Whether via a foundation or in-house, the entire fundraising operation has costs that need to be covered. While they are sometimes allocated all or in-part from general institutional funds, in many institutions/foundations those costs will be recovered from gifts and/or endowment proceeds via a gift or administrative fee. Such fees are usually in the 1–15% range depending on the base they are applied to, which may variously be non-endowment gifts only, just the first X million dollars of major gifts, only endowment income, and so on.

A discussion of fundraising costs leads, almost inevitably, to the question of return on investment, often phrased as, “What does it cost to raise a dollar?” It’s a fair question, even an important one. But take just one more step and ask, “What is the right cost per dollar raised?” and you will find yourself slipping all the way down the rabbit-hole of seemingly-useful-but-completely-misleading metrics. The notion of a right cost per dollar is a myth that has afflicted the fundraising world for years; there is no magic number and it is no more useful than asking, “what is the right cost per student?” The myth stems from the preference of donors to have 100% of every dollar go to the cause, and the incorrect supposition that dollars spent to actually raise the funds are being diverted to activities that should mysteriously be paid for by someone else (tuition from students and families?). This erroneous belief not only undermines the strategic value of investing in growing philanthropic support for education and research, but it also distracts from the impact and effectiveness of the program.

Consequently, while one school might spend 10 cents to raise a dollar, another might spend 20 cents, and either one could be performing relatively better or worse depending on context: a new fundraising initiative will not yet be bearing fruit, or some programs will need to rely more on high-cost and lower margin activities (e.g., special events) instead of depending on major gifts from a few reliable donors. A healthy fundraising program will try to balance this tension between cost and dependency. By all means, we should compare costs per dollar across like programs and institutions, but a holistic range of effectiveness metrics is far better than boiling things down to a single number (BoardSource 2020).

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11 As you might imagine, state governing boards, foundation boards, and presidents can have diverging priorities. The resulting politics will occasionally rise to a level that makes the news, such as during a recent chancellor search at Ole Miss (Ganucheau 2019).

12 The nonprofit overhead myth became so pervasive that three leading groups that provide information about charities issued an open letter to donors everywhere, urging them to pay attention to other performance factors (Taylor et al. 2013).
13. Fundraising

13.7 What role do alumni donors and associations fill in fundraising?

The quintessential donor is an alumna or alumnus but, as we discussed in Section 13.2, that is becoming less and less the case. While the dollar amount of alumni giving overall has continued to rise (Council for Advancement and Support of Education 2019), the number of alumni donors has not risen much at all, as shown in Figure 13.17. The result is that alumni giving participation has been falling since 1990, when it peaked at over 18%, to less than half of that at the current level below 8%. All is not what it seems, however, because technology has enabled us to make dramatic improvements in our databases of contactable alumni, the alumni of record, by a factor of almost two over the same period (Council for Advancement and Support of Education 2019). Thus, the denominator has doubled and this alumni participation metric, also known as the giving rate, has halved and lost its validity as a measure of alumni engagement. Also, a definitional note, alumni donors include those who have given any amount, even just $1. Still, the role of individual alumni giving is changing as the wealthiest alumni give through family foundations and donor-advised funds, as we saw in Figure 13.4.

Figure 13.17. Trends in alumni of record, alumni donors and alumni participation (giving rate) at colleges and universities. Records of contactable alumni have improved dramatically, driving down the participation/giving metric. Source: CASE (Council for Advancement and Support of Education 2019).

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I can’t stop myself, the Latin is: alumna (female, singular), alumnae (female, plural), alumnus (male, singular), and alumni (male, plural; or a mixed-gender group). I’m perfectly fine with the colloquial “alum” or “alums” to keep things easy, although I imagine there must be some sticklers out there for whom those terms or the incorrect usage of the others are like fingernails scratching on a Latin blackboard (in tabella unguibus scalpendo, so Google Translate informs me).
To which activities do alumni give, relative to all donors? Figure 13.18 illustrates that mix for giving to current operations (typically lower dollar amounts than capital gifts, and strongly connected to annual giving). We see that alumni give proportionally more to academics, student aid and especially athletics, relative to giving from all donors. Those are all areas where institutional affinity makes a difference. Alumni appear to give relatively less to research, but this is likely not because alumni don’t support research and instead because research is where non-alumni tend to find relatively more affinity and provide the greatest proportion of their support.

![Figure 13.18. FY2018 distributions of gifts to current operations from alumni and from all donors. Source: CASE (Council for Advancement and Support of Education 2019).](image)

It’s worth stressing again that fundraising is a relationship practice—it has to be sincere and meaningful—and that fact applies as much to alumni donors as to all donors. If donors get the impression that the relationship is transactional, or if fundraising is managed with sales-type metrics alone (e.g., number of calls, quarterly targets) without those that incentivize relationship-building, then the institution’s fundraising success will be mediocre. Indeed, that mediocrity may be further doomed because the next generation of donors prioritizes the entire engagement experience and an investment impact mindset over the less-engaged institutional allegiance of previous generations. For young alumni it is particularly important to pursue multiple engagement paths: while their philanthropic capacity is small, they can volunteer their time and experience (career nights, outreach events), participate in experiences that celebrate achievement or create further engagement or excitement (athletics has this one figured out, but it’s a work in progress for the academic part of many universities),
and connect and interact via a relevant and regular set of communication tools (social media, even newsletters).

Alumni associations are evolving in this direction, whether they are free-standing or integrated within the development or advancement office. The old business model was based on limited membership with dues, along with sales of organized travel and cruises, affiliate credit cards, etc., whereas the contemporary business model is shifting away from exclusive membership to inclusive membership for all alumni, signaling the emphasis toward engagement (Fraser and LeMaster 2013; Vlahos 2016). Alumni associations are rarely completely self-sustaining and there is a wide range of institutional contribution to their budgets (The Napa Group 2010) to complement the specific permutation of business model (i.e., mainly dues, fee for service, alumni gifts or foundation support, mainly institutional funds, or some blend of these).