

Frequently Asked Questions about Institutionally Related Foundations

What are institutionally related foundations?

Institutionally related foundations are separate 501(c) (3) nonprofit organizations dedicated to the support of a college, university, university system, school district or teaching hospital. While most institutionally related foundations are affiliated with public institutions, some private colleges and universities have also established such foundations. Although foundations may perform a wide range of functions, their primary purpose is to raise and/or manage private support for the institution with which they are affiliated. About two-thirds of institutionally related foundations are responsible for soliciting private support to benefit the educational institution to which they are related and for managing and investing private support, while the remaining third solely manage and invest private support. The Houston Community College Foundation is an Institutionally Related Foundation as defined above whose primary purpose is to raise and manage private support for Houston Community College.

Are institutionally related foundations the same as private foundations?

No. Institutionally related foundations are "public charities" as defined by the Internal Revenue Code. As such, they receive funds from many different donors in the form of charitable contributions. Private foundations, as defined in the Internal Revenue Code, are distinct from public charities and subject to different rules. Most private foundations are established by individual donors, they do not solicit funds, and they are governed by boards controlled by donors, family members or representatives of donor corporations who make decisions about how to use the private foundation funds.

Although institutionally related foundations typically manage investments like a private foundation, they do not establish funding or usage priorities. The governing board of the college or university defines its mission and priorities while the related foundation then provides the educational institution with guidance on which projects or purposes are most likely to appeal to donors and cultivates private support to help the institution achieve its goals.

Donors typically specify how their gift funds should be used and managed by institutionally related foundations. The majority of assets held by foundations are restricted for particular uses by donors, within reasonable standards to ensure tax deductibility in accordance with IRS requirements. For example, donors may direct that their gift be held as an endowment to fund a scholarship, chair or other program in perpetuity, or simply designate that their gift be used for a particular present purpose. Why do public colleges and universities establish institutionally related foundations?

As tax-exempt organizations, institutionally related foundations have more flexibility to raise and/or manage private support than state offices or government subdivisions.

Many states mandate that public funds be invested according to low-risk, low-return strategies. Institutionally related foundations, however, can invest private gift funds in a more diversified manner, providing greater investment return and increased support for the educational institution with less risk of loss of real value.

Institutionally related foundations are not subject to regulations governing the sale or purchase of

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property by the state and can perform these and other business transactions in a more competitive and expeditious manner.

Institutionally related foundations can develop and establish for-profit subsidiaries such as research parks or real estate foundations that contribute to the mission and resources of the college or university while minimizing the risks associated with such investments.

For each of the reasons above, many donors prefer to make a gift to a private rather than a state or other public entity. By giving to an institutionally related foundation, many donors feel assured that their gift will be responsibly invested, distributed for the intended purposes, and not become confused with state appropriations or other funds.

Additionally, a foundation provides an opportunity for a college or university to involve prominent business leaders, alumni and other successful individuals who are willing to commit their time, resources, and talent in order to support the educational institution. While many college or university trustees must be state residents, foundation board members can extend the educational institution's sphere of influence well beyond state borders.

Foundation boards can provide a long-term perspective on the needs and priorities of the related educational institution, which extend beyond the outlook and tenure of institutional staff and trustees who may be subject to a wide range of circumstantial pressures and influences. Clearly, the sole mission of institutionally related foundations is irrevocably linked to the educational institution the foundation serves, but the independence and long-term nature of the foundation are steadying forces that can benefit the institution in difficult times. Foundation financial resources can provide a stable and secure source of funding for the institution, free of any governmental influences that can shift overtime, sometimes erratically, depending on the political climate in place at the time.

Why do donors make gifts to college or university foundations instead of to the college or university itself?

Donors often feel more secure making a major gift to a foundation governed by individuals with specialized legal, business, and financial management expertise. Unlike college and university regents or trustees, who may be politically appointed or elected and have primary responsibility for institution policy, foundation trustees are recruited for their ability to raise and manage private support for the benefit of the institution. Foundation boards provide an engaging role for successful individuals who want to advance an institution.

Foundation boards can ensure that gifts are used in strict accordance with donors' wishes. Foundations are held to a fiduciary responsibility to represent the donors' interest. This responsibility of using the gifts of other persons as they have directed is an extremely high standard for which the foundations are accountable to the IRS, various other regulatory agencies, donors and the media. This can be a critical role when political or budgetary pressures are present at the educational institution.

In many instances, foundations can protect the privacy of donors who may not want the details of their personal finances to become a matter of public record.

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How are institutionally related foundations governed?

Like other charitable organizations, institutionally related foundations are governed by an independent volunteer board. In most cases, the CEO of the educational institution and/or other senior college and university staff sit on the foundation board, although they may be non-voting members. A member of the college or university board may also have an ex-officio seat on the foundation board. In many instances, the CEO or executive director of the foundation also holds a position within the educational institution. These arrangements help to maintain open communication between the foundation and the institution it serves.

Foundation board members support the educational institution in a variety of ways. They typically contribute personally, serving as leaders and examples for other donors. They also help foundation staff with prospect identification, solicitation and stewardship. They may also serve as advisors to institution and foundation staff and represent the institution to the media and legislature.

How are institutionally related foundations accountable?

As public charities, institutionally related foundations are accountable to their donors and to the students, faculty, staff and trustees of the institutions they serve. They are also legally accountable to the Internal Revenue Service and state agencies that oversee charitable organizations (typically attorneys general).

Foundations must file an annual IRS Form 990, which is a public document. In addition, foundation annual reports, gift and endowment reports, investment performance summaries and audit summaries are routinely made available upon request. Most foundations also honor requests for other information that does not compromise the privacy of their donors.

Institutionally related foundations are established to support their related educational institution. They are not a vehicle for shielding information from the public. CASE encourages its member foundations to be as open with information as possible, especially as it pertains to expenditures and uses of funds, while recognizing that donors often consider their gift information to be confidential.

How are institutionally related foundations funded for staff and administrative support?

Most institutionally related foundations are supported by the institution that they serve. Institution staff members are assigned to the IRF and are employees of the institution. Additional non-payroll funding is all provided through the institution's annual approved budget. The institution's funding is reflected on the foundations statement of activities as "In Kind Support". Most institutions, through the memorandum of understanding (MOU) between the institution and the institutionally related foundation, have an expectation of return on investment to institution for their annual funding investment. The Houston Community College's minimum expectation of the HCC Foundation is \$1 returned to HCC for every \$1 invested in the Houston Community College Foundation. This expectation is codified in the MOU between Houston Community College and the Houston Community College Foundation.