

March 22, 2010

Written Testimony for Senate Higher Education Committee
Interim Hearing Scheduled for March 25, 2010
Senator Judith Zaffirini, Chair

Testimony prepared by:

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Eli Cipriano began his service with the University of Houston System on July 1, 1992 as executive director of advancement services. His current responsibilities include budget and planning for the Division of University Advancement, administrative operations, annual giving, gift processing and data management, prospect research and management and donor stewardship. Prior to joining the UH System, Mr. Cipriano worked for the Houston Chapter of the March of Dimes for 10 years. Mr. Cipriano received a bachelor's degree from Syracuse University.

Charge 7: Review endowed funds at institutions of higher education to ensure compliance with all state laws and, in particular, the Uniform Prudent Management of Institutional Funds Act. Study and make recommendations for requiring all institutions of higher education to report annually to donors on the use of gifts and endowed funds. Review state laws to determine if they provide adequate oversight of these funds. Study the manner in which scholarship and other funds are given and bequeathed to institutions of higher education and make recommendations for ensuring that donors' wishes are honored while institutions are allowed appropriate flexibility with the use of the funds.

1. Overview

- The University of Houston (UH) has 1,296 endowment accounts with a combined market value of \$455 million as of January 31, 2010.

- UH values these gifts which provide additional funding above and beyond state appropriations, tuition and fees and other typical revenue sources, and often are the difference that allows students and faculty to achieve levels of excellence.
- Scholarships, fellowships, chairs and professorships mostly are funded through private donations; private support also enhances funding for a wide variety of academic programs, research activity and construction and maintenance of facilities.
- This support is not taken for granted and UH has implemented policies and practices aimed at preserving the trust and support of its donors, alumni and other key constituencies.
- UH subscribes to the nationally recognized Donor Bill of Rights (attachment "A") which was developed and is maintained by the Council for Advancement and Support of Education (CASE) and other professional organizations.
- The Donor Bill of Rights is included in section 3.10 of UH endowment policy 3F02. (Attachment "B")

2. Donor Intent

- Point four of the Donor Bill of Rights states that donors have the right to be assured that their gifts will be used for the purposes for which they were given; UH believes that a key step in assuring this is to have clear written instructions from the donor, whenever possible, as to how their gift is to be used.
- Endowment funds and the purpose they support almost always outlast staff and donors, therefore a formal agreement is the constant guide as to how these funds may be used; these agreements typically include a statement where the donor agrees that the institution may redirect funds if the purpose of the gift is no longer possible or practical in the future.
- Donors who establish endowments at UH do so through a standard written agreement that specifies the amount of the endowment gift,

payment details, the purpose of the endowment and any restrictions of how the funds are to be used. (3F02 section 3.4a)

- Donors may use a separately prepared gift agreement if approved by the UH System General Counsel and Treasurer; endowments established with many gifts through a special event or similar activity must be done so with a memorandum of understanding specifying the purpose of the endowment.
- All agreements are reviewed and approved by UHS General Counsel. (3F02 section 3.5b)
- In addition to the written agreement, the Treasurer prepares an endowment registry for each endowment—this registry records the terms and restrictions of the endowment. (3F02 section 3.4f)
- When donors inform UH of their intent to include the university in their estate plans, planned giving officers and other appropriate UH faculty and staff work with the donor to establish written agreements that will be fulfilled with a realized bequest--this is the best way to assure that estate gifts are implemented in accordance to a donor's wishes.
- When a gift is bequeathed to UH where no previous agreement had been established, the university implements the gift in accordance with the terms of the donor's last will and testament; when there is ambiguity, UH works with the executors to reach agreement about the purpose of the gift.

3. Disbursement Oversight

- In addition to establishing written agreements with donors documenting the purpose of gifts whenever possible, UH takes additional measures to ensure that these agreements are being adhered to.
- Each endowment is assigned a unique income beneficiary cost center (expenditure account); co-mingling of funds within cost centers is not allowed—this allows easier and more effective monitoring of use of endowment funds. (3F02 section 3.11)

- The Vice Chancellor for University Advancement works with the Treasurer and other financial officers and staff to monitor disbursement of endowment income and make sure expenditures are occurring according to donor purposes and restrictions. (3F02 section 3.10d)
- Each year primary signatories of the endowment expenditure accounts are reminded about any restrictions imposed by donor agreements. (3F02 section 3.14i)
- UH has an office of donor stewardship within University Advancement that has a leadership role in facilitating endowment agreements, monitoring expenditures and working with various departments throughout UH to ensure donor intent is being honored.
- In addition to the policies and practices mentioned, UH is subject to internal and external audits that review documentation and spending activities.

4. Reporting to Donors

- UH subscribes to the widely accepted best practice of providing endowment donors with status updates of their endowment account(s); the Vice Chancellor of University Advancement is responsible for establishing such reporting requirements and which are facilitated by the office of donor stewardship. (3F02 section 3.10)
- UH has been providing endowment donors with an annual status report for more than a decade; the current report includes beginning and ending market value for the reporting period, new gift activity and expenditure information. (See attachment "C")
- In situations where an extraordinarily large or complex endowment has been established, UH may provide a more detailed written report and/or conduct an in-person meeting between the donor and university officials.
- In addition to written reports, donors often maintain relationships with deans, department heads and faculty who keep them informed on progress and activity in areas the donors have expressed interest.

- These reports and relationships are the foundation of trust and commitment that drives philanthropic support; without them universities would see a decline in repeat donors and new donors.
5. Adequacy of and Compliance with UPMIFA and Other State Laws
- UH complies with state and federal laws, including UPMIFA, in its management and use of endowment funds.
 - Additional information about compliance or any perceived enhancements to state law can be provided by UH financial officers and general counsel.