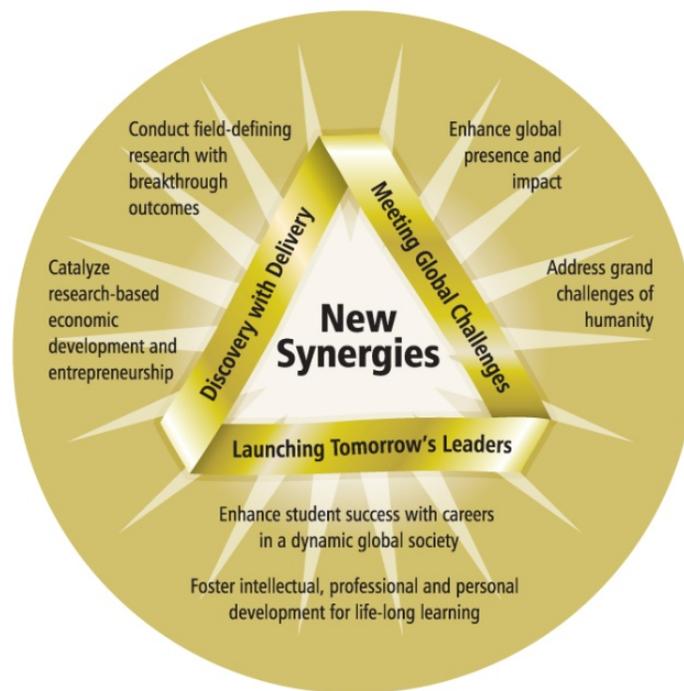


PURDUE

UNIVERSITY



GOVERNANCE REPORT TO THE BOARD OF TRUSTEES

PRIVATE GIVING

July 2012

**Purdue University Report to the Board of Trustees
Executive Summary on Private Giving
July 2012**

“Scholarship and philanthropy are each, separately, among the most powerful forces at work shaping the future of our society. In combination, they are unsurpassed in their capacity to improve the human condition.” - Former University of Oregon President William Beaty Boyd

PREAMBLE

Today’s economy creates new financial challenges for public universities, and the debate regarding the future of public higher education continues. As state and per student appropriations decline, access and excellence are at stake. Great public research universities, such as Purdue University, have immediate needs and looming funding challenges.

In 2011, President Córdova announced a bold charge to bring together university leaders to assess and propose alternative funding models to sustain the university over the long-term, in the face of declining appropriations. In response to this charge, university leadership, Board of Trustees (BOT) and administration developed the Decadal Funding Plan. This effort identifies budget options for the next ten years for new resource opportunities that will enhance the excellence and reputation of all aspects of the university mission.

These new and innovative revenue streams include balanced trimesters to increase revenue and decrease expenses for the university and students. It also includes increased research and commercialization of discovery. Most of all, it includes doubling the floor of philanthropy and shifting the historical mix of gifts towards cash. In the planning process, philanthropy is the largest stream of new revenues.

Although our goal is to raise more gift income for Purdue, this shift does not diminish the importance of deferred gifts, gifts-in-kind or sponsored programs. This shift will build on those strengths and focus on raising outright gifts to strengthen Purdue’s position in the long-term by building and expanding its endowment.

As strong as Purdue is philanthropically, given our accomplishments in the two previous campaigns, we are still a relatively young development operation. With the strategic direction and counsel of the BOT as well as university and volunteer leadership, we will build a scalable and sustainable development program, increasing Purdue’s pipeline of philanthropy from \$200M to \$400M annually.

IMPACT OF PRESIDENTIAL TRANSITION ON PHILANTHROPIC SUPPORT

During presidential transitions, philanthropic momentum tends to decrease in anticipation of the arrival of the next president. In the fall 2011, several stakeholders were asking what they could do to assist in building philanthropic momentum while others were stating their intent to hold on to their philanthropic investments until after the new president arrives. Stakeholders were also requesting assurances that the current university priorities would continue. Gift officers at all levels encountered questions about the transition and university priorities, which created distractions from securing philanthropic investments.

By October, it was evident that development activity was lagging behind all goals. Senior development leadership expressed great concerns of falling short of a strong start to support the Decadal Funding Plan. The solution to this short-term challenge with long-term impact called for development leadership to step forward with an innovative new approach that would be a first in higher education philanthropy. During November, senior development leadership partnered with two nationally recognized campaign experts to tackle the challenge to address the following immediate tasks.

- Need to fund university initiatives that are critical to the strategic future, transcending presidents
- Provide the financial cornerstone to enable a powerful entrance of new institutional leadership

With the support of the BOT, Foundation Development Council (FDC) and university leadership, the concept *Arch to the Future* was created, refined and executed. The objective of the *Arch to the Future* is to financially enable the seamless transition from President Córdova to her successor in a manner that sustains her legacy of student success and builds solid financial underpinnings for the entrance of a new president.

University leadership stepped forward by taking the initiative to create dollar for dollar match programs for endowed scholarships, graduate fellowships and faculty chairs. Mid-level donors stepped forward and a flurry of development activity was underway. As of June 30, more than 400 endowed gift agreements were completed, an increase by fourfold over FY 2011. The results are highlighted in the next section.

REPORTING FY 2012 DEVELOPMENT SUCCESS

To assure reporting is transparent and reflects the business management, the development office tracks and reports success with three purposes:

- Track gifts to reflect organizational structure and consequent growth
- Align reporting with generally accepted guidelines of the higher education industry, so progress can be benchmarked against other universities
- Replicate reporting trends in the *Campaign for Purdue* and under President Córdova's tenure

Purdue University has a short history of campaigns, compared to other institutions and is a relatively young development program. Young and emerging programs experience periodic growth as highlighted on the attached private giving data sheets.

In keeping with the 2011 Governance Report, the three measures of success are net production, gift income and philanthropic cash.

Net Production: Reports fundraising activity and includes:

- Cash, securities, real estate and gifts-in-kind
- New pledges received (less any pledge payments received)
- Irrevocable and revocable deferred gifts
- Payments made on pledges that were booked in previous fiscal years are not counted

FY 2012 goal for net production was \$230M and the results: The \$230M goal was established before the presidential transition was announced. Due to the vital role development plays in the Decadal Funding Plan, the goal was retained with the realization that extraordinary efforts by extraordinary people were required to achieve the goal, as well as a laser-like focus on implementing the FY 2011 Philanthropic Impact Study.

The results are the second best year in the history of Purdue, \$298.8M. The top three years of net production are as follows:

- FY 2003 - \$311.7M, core activity of \$195.8M and an exceptional gift of \$115.9M
- FY 2012 - \$298.8M, core activity of \$237.6M and an exceptional gift of \$61.2M
- FY 2005 - \$242.0M with no exceptional gifts

Gift Income: Reports assets transferred and includes:

- Cash
- Securities, real estate and gifts-in-kind
- Irrevocable deferred gifts
- Revocable deferred gifts and pledges are not counted

FY 2012 goal for gift income was \$154.8M and the results: The \$154.8M goal was established after the presidential transition was announced and supports shifting the mix of gifts toward philanthropic cash. The results are the second best year in the history of Purdue, \$193.0M. The top three years of gift income are as follows:

- FY 2003 - \$221.1M, core activity of \$105.2M and an exceptional gift of \$115.9M
- FY 2012 - \$193M with no exceptional gifts
- FY 2005 - \$191.4M with no exceptional gifts

Philanthropic Cash: Development is focused on shifting the mix of gift types toward a greater proportion of philanthropic cash as it is fungible, support other sources of revenue for the operating budget and build the endowment to generate recurring income continually in the future; including:

- Cash – new gifts and pledge payments
- Securities
- Realized bequests

FY 2012 philanthropic cash goal and the results: There was not an annual goal set as this is the second year of this measure of success and it is not tracked by higher education development programs. FY 2012 philanthropic cash is \$109.4M and trends slightly higher than last year's \$108.7M. Campaign activity is a significant factor in building philanthropic cash due to the volume of pledge payments at all levels.

The results are \$109.4M and the top three years of philanthropic cash in the history of Purdue are as follows:

- FY 2007 - \$145.6M
- FY 2005 - \$135.5M
- FY 2004 - \$127.6M

Overall Philanthropic Cash: To better understand the full impact of development efforts, both past and present, the senior development staff is rethinking how philanthropic cash is defined and reported. The current definition does not reflect the full, ongoing impact of the development effort such as realized trusts, annuities and endowment distributions.

Other Philanthropic Achievements: During FY 2012, the President's Council kicked off its 40th anniversary celebration and accomplished the landmark achievement of securing more than 18,000 members before the December 2011 deadline goal. In addition, during President Cordova's tenure, approximately \$1.1B was raised. Fewer than five universities with official campaigns have accomplished similar results.

FUNDAMENTALS OF A SUCCESSFUL AND EXPANSIVE PHILANTHROPIC EFFORT

University leaders are dialoging about the impact of philanthropy to support university excellence and serve as a key enabler of the Decadal Funding Plan. To double the floor of philanthropic activity from \$200M to \$400M annually, there are three basic fundamentals required for success — *bold fundable ideas*, *philanthropic capacity* and *infrastructure*. Each must be considered and analyzed for today's large and complex business of philanthropy. While the fundamentals are basic, development and execution of these strategies is complex and requires specific measurable outcomes and sustainable self-funding models.

During FY 2012 and FY 2013, these basic fundamentals are the focus of the development team. Listed below are brief summaries of each to provide a framework for this report.

Bold Fundable Ideas: Donors give in response to a dynamic vision and bold fundable ideas – the bolder the better. With the arrival of President-elect Daniels and his active engagement, a committed BOT and philanthropic volunteer leadership, a professional development team with the active collaboration and support of academic leadership and the identified donor philanthropic capacity, the focus should move

forward to creating a university-wide compelling philanthropic case that frames the bold fundable ideas to test with key stakeholders. Purdue has the opportunity to make the move from traditional thinking (emphasis on campaign priorities) to more donor-centric thinking (emphasis on the bold fundable ideas that define the university's educational agenda).

Philanthropic Capacity Analysis: A recent Harvard University study found that of all higher education campaigns \$100M and higher, the top 500 gifts consistently total 77 percent of the campaign goal. *The Campaign for Purdue* supported these findings, generating 78 percent of the campaign total from the top 500 gifts. To secure these top 500 gifts, 2,000 confirmed prospects are required for success.

In these mega-campaigns, it is crucial to assess and validate the capacity of the alumni base through analysis. The objectives of a capacity analysis are to forecast projections of sources of giving and determine the size and scope of the prospect pool for a range of potential philanthropic goals. To examine and validate philanthropic capacity that is projected in the billions of dollars, it is prudent to consider a minimum of two different philanthropic capacity methodologies.

Infrastructure: Successful and expansive philanthropic efforts require the right balance between staff and volunteer leadership to complete the labor-intensive work of qualifying, cultivating, soliciting and stewarding potential donors. The forecast of philanthropic capacity will change to the productivity of development. There are implications for the structure of the development operation, and its size, including frontline fundraisers and functional support to build a scalable and sustainable development program.

FY 2012 PROGRAM HIGHLIGHTS

Although a presidential transition was and is underway from July 2011 to January 2013, the school and college capacity analyses, central development infrastructure alignment and transitional philanthropic communication strategies moved forward without delay. These activities are vital in combination with the bold fundable ideas to double the floor of fundraising.

Primary FY 2012 activities accomplished include:

1. School and college philanthropic capacity analysis
2. Realignment of central development
3. Strategic philanthropic communications supporting a presidential transition

Philanthropic Capacity: In higher education, there are a small number of universities that have implemented more than one \$1B and higher campaign.

- 79 universities have implemented or are implementing campaigns of \$1B or higher
- Of those 79 universities, 22 have implemented or are implementing a second campaign of \$1B or higher
- Of the 22 universities, only 11 are within the philanthropic capacity identified by Purdue for the next effort

In turn, there is only one emerging best practice methodology to assess philanthropic capacity and scale up a sustainable development program. This new methodology has been instrumental to the philanthropic success of Columbia University (\$4B goal), Stanford University (\$4B goal) and University of Virginia (\$3B goal). At Purdue, we are also implementing this emerging best practice methodology.

1. School and College Philanthropic Capacity Analyses: Based on internal and external analyses completed in FY 2011 projecting a ten year campaign that yields gift income of more than \$3B, an additional external analysis was completed in FY 2012 for schools and colleges, Athletics, Purdue Center for Cancer Research, Libraries and Student Affairs and departments within the College of Engineering.

The FY 2012 external philanthropic capacity analysis provided for three scenarios, which include pessimistic, realistic and optimistic. The definitions are as follows:

- Pessimistic - Assumes business as usual with current staffing, structure and resources
- Realistic - Assumes restructure, continuing pace of investment as of FY 2011
- Optimistic - Assumes restructure continues at higher level of investment than that of the realistic scenarios, approaching resources of aspirant peers

These scenarios ranging up to \$3.3B were constructed by comparing Purdue's historic performance within the context of peer institutions that are stronger fundraisers than Purdue. These peers reach beyond the Big Ten and include public universities that have had significant and robust development operations in place longer than Purdue, and raise more, after normalizing for size, than Purdue. By focusing on best practices peers, areas of potential growth of current strengths are identified.

The University and combined school and college philanthropic capacity analyses were used to establish the final philanthropic goal. This straight line forecast of philanthropic gifts by school or college is then "paced" to account for differences in the maturity of the development operation in each school or college. The pacing was determined in discussions last fall with central, school, college and unit-level development leadership and deans.

These will determine:

- Current structure and experience level of school and college fundraising teams
- Current capacity of the existing team to increase philanthropic productivity
- Areas where additional staff and/or budget resources will support growth opportunities

During February and March, school and college development leadership received training regarding forecast outcomes. In turn, university leadership reviewed and analyzed the forecast outcomes in April and May.

Ten-year Philanthropic Forecast: As development was identified as a key enabler of the decadal funding plan, development senior leadership moved forward to forecast a ten year period for gift income, FY 2012 to FY 2022 for the university, by schools and colleges, Athletics, Purdue Center for Cancer Research, Libraries and Student Affairs.

To supplement the forecast, for the first time, development staff is near completing an inventory of irrevocable and revocable planned gifts. To date, \$610M has been identified and cash flowed based on actuarial tables. The final step will begin in FY 2013 to inventory restrictions and general use of these funds.

2. Realignment of Central Development: To support the growth in productivity, sustainable and scalable staffing models were studied and will continue to be studied and recommended for implementation over a period of up to a year. The growth of functional areas within central development was carefully and purposefully structured.

The move to the restructure accomplished the following:

- Moved toward best practice staffing model to scale-up a sustainable development program
- Realigned resources to identify philanthropic capacity
- New expertise to support change in productivity
- Recognizes record of success, provides career growth opportunities and incorporates new and innovative methodology to build a strong, flexible and innovative development team

Overall: During the *Purdue: Vision 21, The Campaign for Purdue* and through FY2011, gift officers were structured in a generalist model which was successful for these efforts. The development research team identified 20,257 individuals with capacity of \$10,000 and higher including 2,012 at \$1M and higher capacity. The \$1M and higher capacity potential donor pool has quadrupled from the previous campaigns.

Moving toward, best practice requires building gift officer teams by gift bands. Different cultivation, solicitation and stewardship strategies are required for each band.

Principal Gifts, \$1M and higher: The first team to be organized was the principal gifts team focusing on the 2,012 potential donors. The principal gifts program serves as a multiplier effect building on the long-term relationships between donors and university leadership, along with development professionals.

The principal gifts team partners with the most seasoned and experienced gift officers and university leadership to create and implement strategies that result in the best possible experience. These peer to peer solicitations mandate engagement of volunteers, as well as university leadership. The principal gifts program is being embraced by the development team and deans; resulting in high demand for strategy sessions with senior development leadership.

Corporate and Foundations: Today, companies and foundations seek university partners who can provide strategic benefits including future employees, sponsored research, new technologies, technical consultants, employee and executive education, economic development and joint university-company proposals for government funding. The level and quality of these non-philanthropic engagements impact the amount of philanthropic support.

The recently hired Assistant Vice President for Corporate and Foundation Relations has developed a new organizational and staffing model with two fundamental goals: 1) to significantly deepen our partnerships with key companies and foundations by working collaboratively with the Office of Research, Office of Engagement, Discovery Park, Purdue Research Park, Center for Career Opportunities and with colleges, centers, and other offices across campus to leverage and maximize opportunities; and 2) to develop and implement comprehensive cultivation, solicitation and stewardship strategies for key corporations and foundations to significantly increase their engagement and investment.

Planned Giving: Planned Giving staff develops the vehicles required to secure some of the largest gifts received by the university. Whether it be through gift agreements, complex estate plans, transfer of real estate or other means these gifts not only assist donors in making a lasting impact on the university, but also aid in the process of building a pipeline of giving that will sustain the university.

The Planned Giving Office experienced significant staffing changes in the past two years with the retirement of the General Counsel/Senior Director of Planned Giving and Senior Staff Counsel. This transition presented an opportunity to re-evaluate the needs of the university, schools and colleges to build an infrastructure allowing senior development staff a greater opportunity to focus on the large complex planned gifts.

Development Operations: This newly created department is involved in a variety of essential activities that support the university, schools and colleges development offices and enable the fundraising enterprise. This includes donor services, budgeting, financial reporting, philanthropic forecasting, information systems, development operations, talent management and broad base support including the annual fund and President's Council.

Significant accomplishments include inventory of \$610M in planned gifts, creating 10-year philanthropic forecasts, moving toward standardizing development budgets within the university, schools and colleges and develop a suite of financial management reports; a reduction of reports from 200 to 10 monthly.

3. Strategic Philanthropic Communication to Support a Presidential Transition: Based on findings from ongoing dialogue with university leadership and faculty, FDC, Alumni Relations and Development Decadal Subcommittee and the development team about increasing the pipeline of philanthropy, the Vice President for Development moved forward the creation of messaging to support Purdue's philanthropic goals over the next 24 months in light of a presidential transition.

A nationally recognized expert worked with staff to develop messaging and the case for support around key student success initiatives. These initiatives provide development the best opportunity to raise significant private support during this transition period. It is intended to be broad enough to provide a focus for each college and school, as well as at the university level. In addition, the Life and Health Science Park initiative was identified yet requires further extensive discussion.

A national search was conducted for a newly created position; Executive Director of Philanthropic Communications and Donor Relations, and the position was filled in January. The Executive Director has partnered with Marketing and Media colleagues to move forward the project to completion in early FY 2013.

LOOKING FORWARD – FY 2013

As the development team moves into FY 2013, staff will focus on strategies to optimize the opportunities identified in the school and college philanthropic capacity analyses in partnership with university leadership, specifically with Deans and Vice Provosts.

Primary FY 2013 activities will be:

1. Bold, fundable philanthropic case
2. Strategic growth and alignment: university, schools and colleges
3. Investment forecast and self-funding model

1. Bold, Fundable Philanthropic Case: Seven-, 8- and 9-figure donors give in response to a dynamic vision and bold fundable ideas, the bolder the better. During this transition period, development staff look forward to working with Acting President Tim Sands to continue momentum based on philanthropic messaging emphasizing student success. With the arrival of President-elect Mitch Daniels, university leadership has the opportunity to identify opportunities which translate into the bold fundable ideas necessary to build a compelling philanthropic case. This is a complex process that calls for the involvement and buy-in from university leadership, application and integration of sophisticated advancement practices and a deliberate and identifiable process.

2. Strategic Growth and Alignment: University, Schools and Colleges: Based on the philanthropic capacity analyses, a need for alignment of more than 20,000 potential donors within gift officer portfolios to increase productivity and development's strengths and opportunities have been identified. Through these analyses, it is evident that within the university, schools and colleges there are different stages of maturity. There are varying levels of staff expertise and staffing structures ranging from a focus on development to encompassing all facets of advancement.

Managing growth when it relies on accomplishing measurable goals and outcomes, and solving different issues are marked with challenges. Starting late summer, development leadership, deans and administrators will work together to identify staffing, program and resource gaps and opportunities as well as define and clarify functions within university, schools and colleges.

The synergy between the development teams is supportive, respectful and collaborative. Due to the willingness to seek each other's support and counsel, and realization of the need to double the floor of philanthropy, school and college development leadership and gift officers are collaborating with their colleagues in university development. Listed below are examples.

- New levels of expertise and support regarding large and complex gifts
- Recruiting, hiring and retaining staff, including talent management and leadership training
- Expanded programs to support activities regarding research and prospect management, strategic philanthropic communication, donor stewardship and events and broad-base donor support
- Financial management tools regarding reporting and tracking success

3. Investment Forecast and Self-Funding Model: The forecast of investment and return on investment in development will commence soon. The first step in the process is to determine the likely annual budget required based on the identified philanthropic capacity. To do so, the budgets of peer and aspirant institutions that were part of the external philanthropic capacity analyses will be studied and benchmarked against Purdue's budget. Once the overall budget is calculated, it will be segmented in university, schools and colleges based on collaborative efforts with development staff in the university, schools and colleges, Deans and administrators.

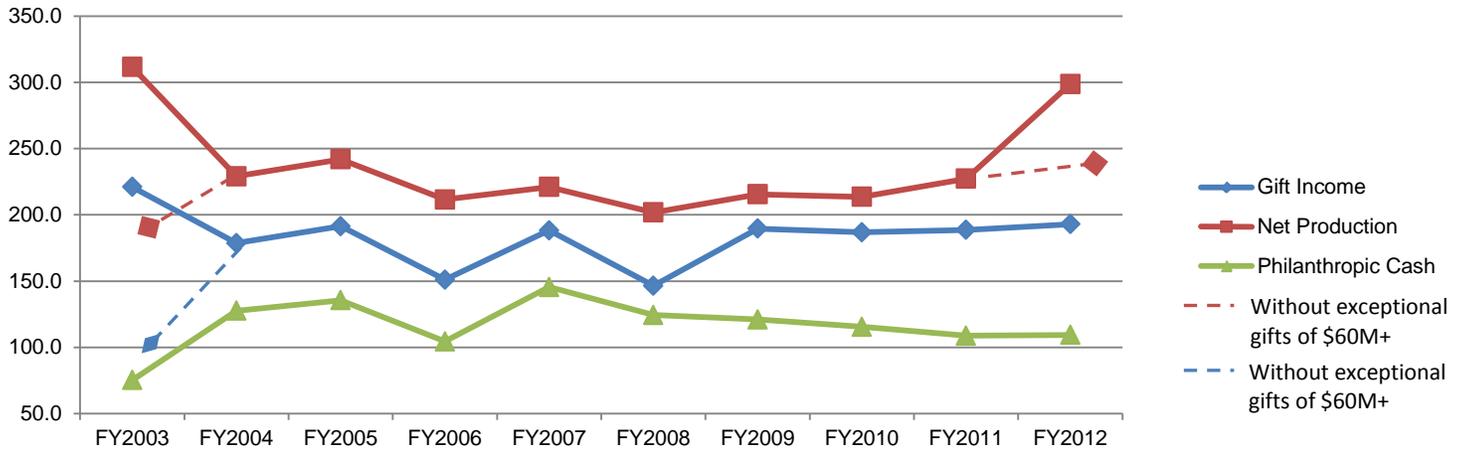
University leadership in partnership with senior development leadership is dialoguing that the investment in development will be funded through a self-funding model. Development operations leadership will study and review both public and private university self-funding models and present recommendations for consideration of university leadership.

SUMMARY

Purdue will move forward philanthropically with development serving as a key enabler of the Decadal Funding Plan. We will implement the analytical tools available, by applying Purdue's legendary problem solving ability to our new challenges, and by working tirelessly with the Purdue community on campus. Success will be due to the generosity and loyalty of the Purdue family. This is a time for all of us to redefine what it means to support Purdue and acknowledge the continuing legacy of philanthropy.

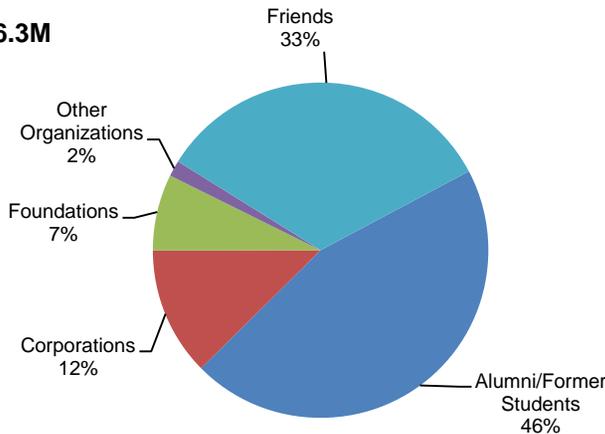
University Development Ten Year Results (in millions of dollars)

	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Gift Income	221.1	178.6	191.4	151.1	188.3	146.5	189.6	186.9	188.7	193.0
Net Production	311.7	229.1	242.0	211.6	221.1	201.8	215.6	213.7	227.3	298.8
Philanthropic Cash	75.3	127.6	135.5	104.4	145.6	124.4	121.1	115.5	108.7	109.4



Access and Student Support

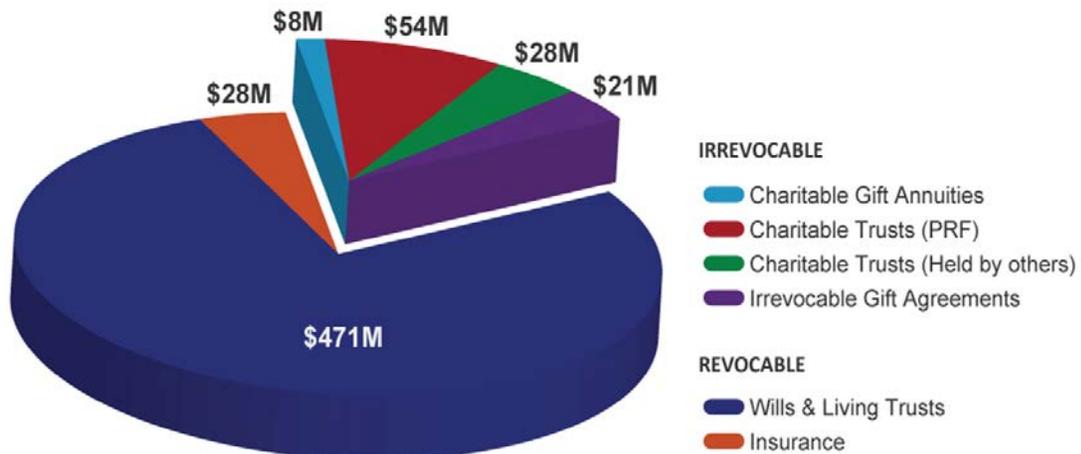
Total \$206.3M



Access and Success Student Support Breakdown July 2007 - June 2012

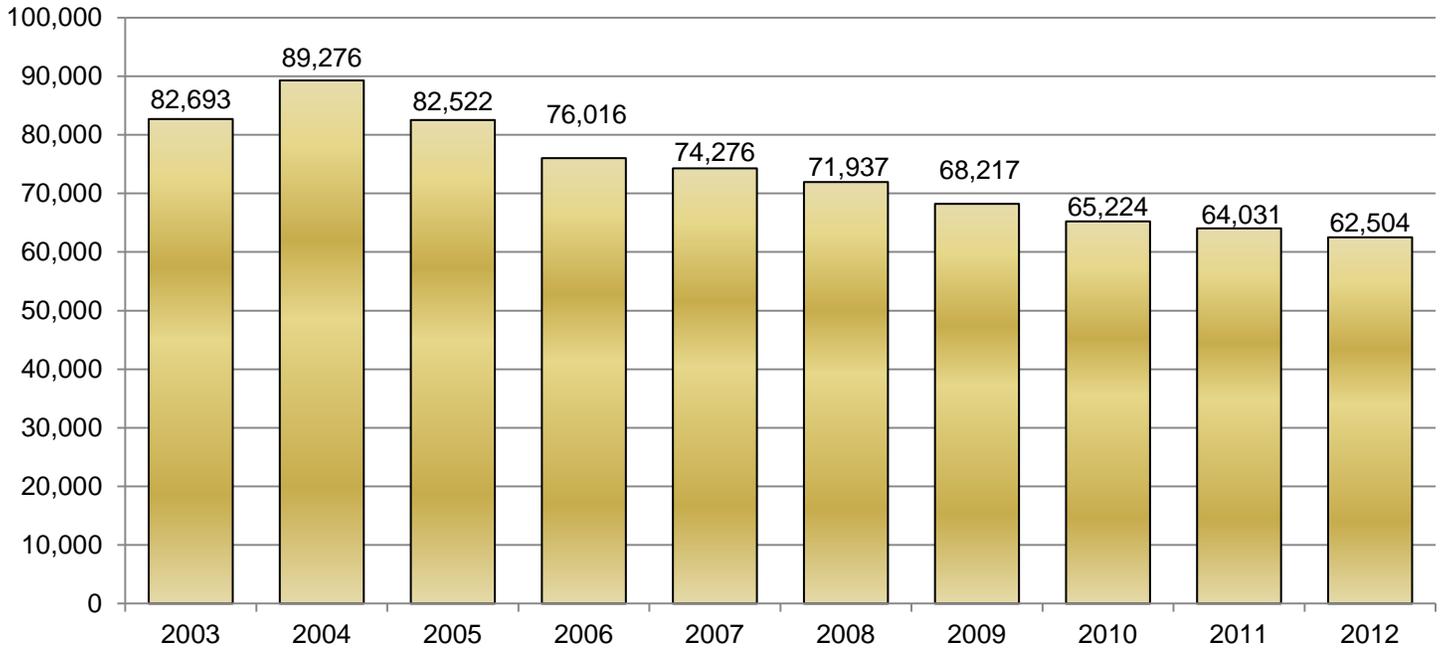
Student Support	\$181.5M
Programs/Other	\$24.8M
Total	\$206.3M

PLANNED GIFT INVENTORY (as of June 30, 2012)



Total Irrevocable = \$111M; Total Revocable = \$499M; Combined Total = \$610M

DONOR COUNT (by Fiscal Year)



Donor count is unduplicated.

ENDOWMENT MARKET VALUE COMPARISONS June 30, 2011 Market Value (in millions of dollars)

Top 15 Public University Endowments

1)	University of Texas System	17,149
2)	University of Michigan	7,835
3)	The Texas A&M University System	7,000
4)	University of California System	6,577
5)	University of Virginia	4,761
6)	University of Pittsburgh	2,527
7)	University of Minnesota & Foundations	2,503
8)	UNC at Chapel Hill	2,261
9)	The Ohio State University	2,121
10)	Purdue University¹	2,002
11)	University of Wisconsin Foundation	1,873
12)	The Pennsylvania State University	1,725
13)	Michigan State University	1,718
14)	Georgia Tech & Foundation	1,620
15)	Indiana University and Foundation	1,575
	Average Endowment Market Value	4,216

Strategic Plan Peer and Big Ten Institutions

1)	University of Texas System	17,149
2)	University of Michigan	7,835
3)	Texas A&M University System	7,000
4)	University of Minnesota and Foundations	2,503
5)	Ohio State University	2,121
6)	Purdue University	2,002
7)	University of Wisconsin Foundation	1,873
8)	Pennsylvania State University	1,725
9)	Michigan State University	1,718
10)	Georgia Institute of Technology Foundation	1,620
11)	University of Illinois Foundation	1,601
12)	Indiana University & Foundation	1,575
13)	University of California Berkeley	1,055
14)	University of Iowa	1,044
	Average Endowment Market Value	3,630

¹Purdue has moved up one place compared to FY2010.

Source: NACUBO Endowment Study