



Dear Brothers,

I am writing to you in response to the “Foundation 2.0” email sent on Monday, March 06, 2017 from the Executive Council. Many of its points are inaccurate and misleading, so we are distributing this letter as a means of sharing facts and perspective for your consideration.

Because of the seriousness of these allegations, and in an effort to share facts, allay concern, and reinforce our commitment to our brotherhood, the Foundation has enlisted the perspective of our Governance Review Committee, composed of four Phi Kappa Psi past national presidents – James R. Blazer *Ohio State '79*, J. Tryon Hubbard Jr. *Alabama '64*, George W. Humphries *Oregon '50* and Steven E. Nieslawski *Illinois '79*. This esteemed group of experienced brothers has been asked to review the criticisms of the Foundation’s performance with the intention of reporting their findings and conclusions to the entire brotherhood.

The Phi Psi Foundation Board of Trustees has only **one focus** — to provide educational benefits to our undergraduate brothers. The outputs from the Foundation’s efforts are three: 1) scholarships, 2) housing support, and 3) educational programming. Our focus has not shifted, and just as we emphasized scholarships in the 1990’s and housing in our 2005-2011 Our Phi Psi Capital Campaign, today we are dedicated to fundraising for and supporting new and improved educational programming. Together, these three priorities work synergistically to help our undergraduate brothers to have a competitive advantage upon graduation.

In response to the Executive Committee’s email, we perceive there to be three topical areas that necessitate comment in this letter: 1) financial performance, 2) funding for Fraternity activities, and 3) governance.

#### Financial performance:

The Governance Review Committee is seeking a credible independent third party assessment/validation organization to assess our overall fiduciary policies, procedures and practices. We expect that moving in this direction will assist in overcoming any misinformation or mistrust by publicly demonstrating the Foundation's commitment to accountability, diligence and fiduciary process. Further, the results of such an independent assessment may provide our Foundation with important opportunities for improvement.

The Governance Review Committee will comment later on our financial performance, but I want to clear up some possible misunderstanding about the alleged \$8 million loss over the past five years. Have the assets on our balance sheet declined recently? Yes, because since 2012, we have distributed more than \$13 million in scholarships, educational programs and other grants — all directly benefiting our undergraduate Phi Psis. In addition, we have paid \$9+ million premiums on two life insurance policies with a combined face value of \$55 million. These are investments in our current and future undergraduate brothers and are consistent with our mission, NOT investment losses or improper spending.

Brothers, the suggestion by the Executive Council that Phi Kappa Psi would be better served by investing all our assets in the S&P 500 has three major flaws: 1) Our assets would not be available to provide the ongoing flow of benefits to the brotherhood as previously noted. 2) The risk of investing all the Foundation’s assets in the equities market would not conform to our investment policy, which calls for a diversified, relatively conservative strategy. 3) Many of the Foundation’s assets are not available for equity investing such as property (i.e. Laurel Hall), wholly owned life insurance policies, housing loans to chapters, etc.

#### Funding for Fraternity activities:

We rolled out the Chapter Leadership Fund concept this last year to create a ‘bank account’ for chapters and undergraduates to draw upon for exciting new educational programs being developed by the Fraternity’s Membership



## PHI KAPPA PSI FOUNDATION

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Development staff. We know that alumni are motivated by opportunities to invest in their own chapter's undergraduates, and while the Executive Council is disappointed in the results of year one, the Foundation believes that Chapter Leadership Funds will be every bit as successful as Chapter Scholarship Funds were in the 1990's. And that is why Phi Kappa Psi is the #1 Greek men's scholarship granting organization year after year — in 2016, more than \$500,000 in scholarships were granted to young Phi Psis. We can also be #1 in leadership development outcomes as well.

Regarding the decrease in educational grants reported in the email, the Foundation has paid every grant request received from the Fraternity in accordance with IRS regulations. Any observed decrease is an indication of the Fraternity's frequency and volume of educational programming. This year we have partnered with the Fraternity to support the Health & Wellness Initiative, StrengthsQuest program, New Member Education program and we will soon be granting funds to support the recent (and highly acclaimed) Regional Officer Trainings. We also expect to fund the educational portions of the 2017 Woodrow Wilson Leadership School and the new Professional Development Conference. 2017 will likely be a record year of funds granted to the Fraternity in the last decade.

### Governance:

The Foundation cannot allow the Executive Council to control the election of Trustees because there must be separation of governance to maintain our independent fiduciary responsibilities, but we are offering several methods for greater transparency and accountability. We hope the Executive Council will give serious consideration to resolving their concerns without the costs of money and time for mediation.

Finally, we are very sad the Executive Council is considering the creation of a new 501(c)3 organization; we clearly have a Foundation that supports Phi Kappa Psi in its important ambitions today, just as in years past. This is not to suggest that improvement of the existing foundation isn't possible — we recognize that improvement is always necessary — but the establishment of a new legal entity with all the complexities and additional responsibilities that come along, does not seem to be a good use of undergraduate fees or alumni donations. We want to assure you that the Phi Kappa Psi Foundation intends to continue funding educational benefits for our undergraduate brothers in every way possible including programming, scholarships and housing. We intend to be excellent fiduciaries as well as great partners with the Executive Council in the appropriate and legal use of our donors' gifts.

Since 1914, we have invested heavily in the growth of our brotherhood. While the message coming from the Executive Council is disappointing to so many of us, and while it serves as a distraction to the work of both the Fraternity and the Foundation, we assure you that your Phi Kappa Psi Foundation is in excellent health and acutely focused on supporting our undergraduate brothers. We are poised to serve.

We appreciate your support and welcome your suggestions. We will be steadfast in our management of your gifts and your confidence.

In the Bond,

Frederick A. Hegele  
Chairman, Phi Kappa Psi Foundation

[FAH@PKPFoundation.org](mailto:FAH@PKPFoundation.org)



Brothers,

On Saturday March 4th, the Executive Council (EC) held its meeting in St. Louis, Missouri. During the course of business, the EC voted to create a new Foundation for the Phi Kappa Psi Fraternity. This decision was not arrived at lightly, and only came about after discussions dating back years between the Fraternity and its Foundation. Those discussions having proved fruitless, at the end of the day the EC felt that ensuring the best experience for our undergraduates was paramount and determined the creation of a new Foundation was the path which would be the most likely to support that experience, and the educational programming associated with it.

What follows is a synopsis of the facts and data that ultimately convinced the EC to pursue this new way forward.

### **Why did the Fraternity decide to form a new foundation?**

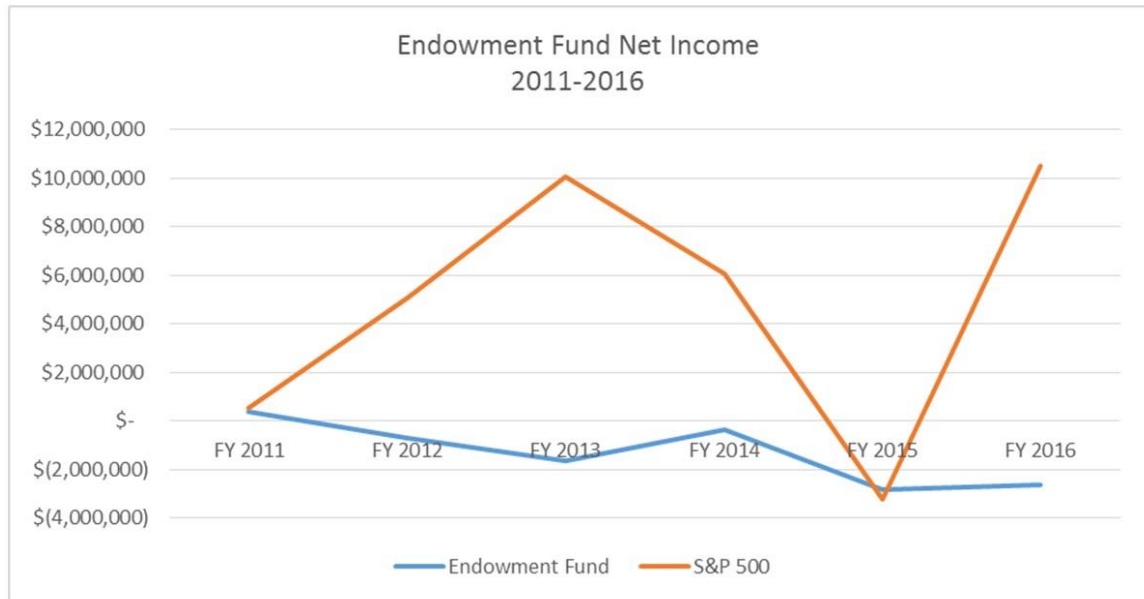
The Fraternity decided to form a new foundation due to 1) the unacceptable financial performance of the Endowment Fund over the past 5 years, and 2) the shift in the Endowment Fund's focus from its primary mission of raising money to putting on student programming. This shift in focus led the Endowment Fund to direct its limited financial resources to its new programs and not funding Fraternity programs. The Fraternity needs a foundation that will be good stewards of the brotherhood's money and responsive to the needs of today's modern fraternity. We need a foundation that supports the fraternity's programming efforts and is a partner in programming, not a competitor. Finally, we need a foundation that will willingly be accountable to the brotherhood.

The Fraternity decided to invest its time, energy and resources in building a foundation that will be supportive of the Fraternity's programming efforts, and deliver resources to facilitate the programming of undergraduate members. The Fraternity is exhausted in its investment of time and effort to help the Endowment Fund fix organic problems, when for over five years the Endowment Fund has made it plain that such help is not wanted and not welcome. The Fraternity can no longer be complicit in the Endowment Fund's ingraining of those problems and the camouflaging of those problems from the Brotherhood.

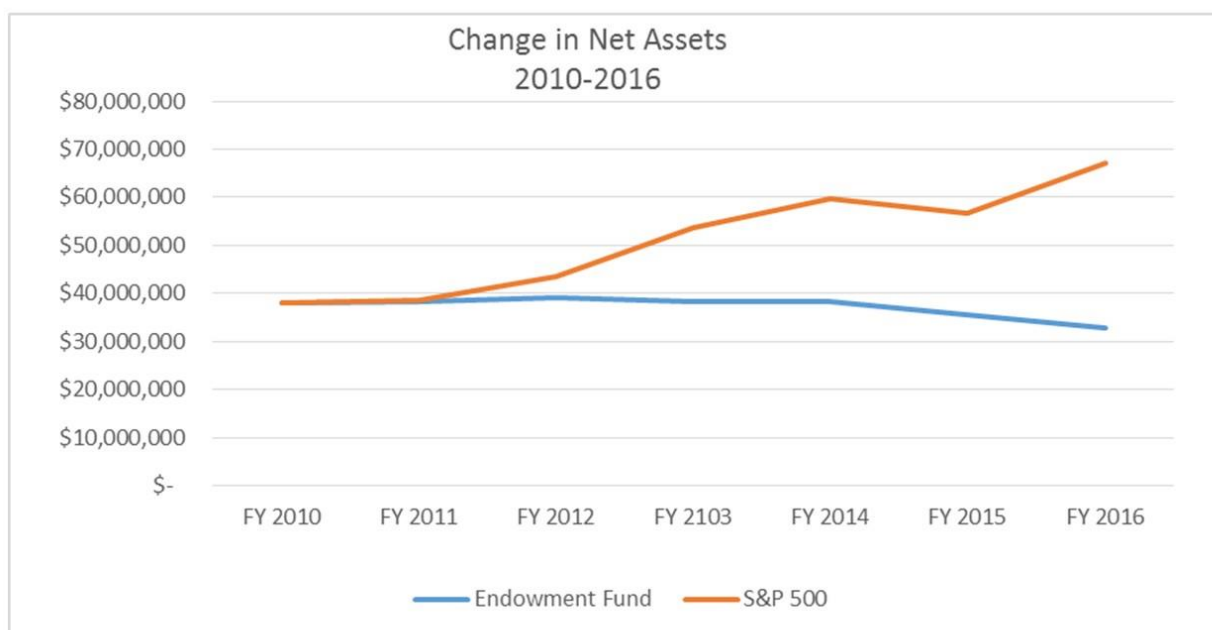
### **Financial Performance**

The Endowment Fund has lost over \$8 million in the last 5 years, and it has borrowed an additional \$4 million+ to fund its consistent budget deficits. In that same timeframe, the net assets of the Endowment Fund have shrunk by 14%, while the S&P 500 has risen by 77.4%. With those results, it was clear to the Fraternity that the Endowment Fund was not being a good steward of the brotherhood's money. Moreover, the Foundation's financial problems have directly impacted the Fraternity, as the Foundation provided 59% less in educational grants to the Fraternity between 2005 and 2015.

To demonstrate just how bad this performance was, as of January 1, 2011, the Endowment Fund had \$38,338,599 in assets. Had those same assets been invested in the S&P 500, the Endowment Fund would have made \$29,029,355 by the end of 2016 and would be worth \$67,066,794. Instead, they lost over \$8 million in the same time period and their assets shrunk to \$32,666,787. While the Endowment Fund is not a passive investment and has made grants and incurred expenses during that time period, these results are unacceptable for the brotherhood.



Net Income	2011	2012	2013	2014	2015	2016	Total
Endowment Fund	\$389,707	(\$714,517)	(\$1,636,335)	(\$367,626)	(\$2,830,096)	(\$2,624,928)*	(\$8,173,502)
S&P 500	\$532,524	\$5,059,363	\$10,078,374	\$6,068,970	(\$3,227,940)	\$10,518,064	\$29,029,355



Net Assets	2010	2011	2012	2013	2014	2015	2016*
Endowment Fund	\$38,037,439	\$38,338,599	\$39,136,122	\$38,331,565	\$38,268,940	\$35,653,704	\$32,666,787
S&P 500	\$38,037,439	\$38,569,963	\$43,629,326	\$53,707,700	\$59,776,670	\$56,548,730	\$67,066,794

\*as of 10/31/2016

### Lost Mission

The Endowment Fund was originally established to provide loans to students needing financial assistance in finishing college. Over the years, that original mission evolved into awarding scholarships, assisting with housing campaigns, and supporting Fraternity programming. Raising money to help the brotherhood was always the core mission of the Endowment Fund. However, last fall the Endowment Fund decided to stray from its mission of raising money and get into the programming business with the formation of the Nelson Leadership Institute. The Endowment Fund then spent \$250,000.00 for initial funding of the Nelson Leadership Institute (“NLI”) program.

At the same time it was pouring money into its own programming, the Endowment Fund told the Fraternity that the only money they would provide for Fraternity programming would be money raised through their Chapter Leadership Funds (“CLF”). In 2016, the Foundation raised just under \$175,000.00 for CLF’s (\$55,000.00 of which was endowed funds not available for immediate

payment). Seventy three percent (73%) of the amount raised (\$127,000) was for just five (5) chapters and only fourteen (14) chapters had more than \$1,000 in their CLF. Based on those numbers, the Endowment Fund would only be paying for programming for the members of 5 chapters. So it became crystal clear to the Fraternity that **if CLF Funds were going to be the only funds the Endowment Fund made available for the Fraternity's programming, THERE WOULD BE VERY LITTLE PROGRAMMING BY THE FRATERNITY UNLESS WE IDENTIFIED ALTERNATIVE SOURCES OF FUNDING.**

Between the vast amounts of money being spent on NLI and the Endowment Fund's policy of only using CLF's to fund Fraternity programming, the Endowment Fund was attempting to squeeze the life out of Fraternity programming and take over for themselves the programming of our members. This was a dangerous precedent to allow persons that are not elected or appointed by our members and, consequently not accountable to our members, and not trained, certified or educated in programming, to take over such a critical mission of our Fraternity. Therefore, it was imperative that the Fraternity develop its own, independent funds to support the programming efforts of our members.

#### **How will the New Foundation be structured?**

This is the motion that was approved by the Executive Council at its March 4, 2017 meeting:

*"To direct the Attorney General to incorporate The Phi Kappa Psi Foundation, Inc. and to apply for 501(c)(3) status with the Internal Revenue Service. The Attorney General shall also work with experienced legal counsel to establish the new Foundation in such a way that the Trustees are accountable to the Fraternity, yet maintain a separate identity to protect the new Foundation's assets. The Executive Director shall prepare a business plan for the new Foundation and provide said report to the Executive Council not later than June 1, 2017."*

The motion was sufficiently broad enough to permit the Attorney General and outside legal counsel flexibility in structuring the New Foundation. The Executive Council will report back once the attorneys have concluded their work.

#### **What happens to the Endowment Fund?**

The Endowment Fund has substantial assets consisting of life insurance policies and chapter-centric funds. Those assets will still be owned by the Endowment Fund for the benefit of identified beneficiaries.

#### **Weren't the Fraternity and Endowment Fund supposed to reach an agreement to work together?**

Yes. At the 2016 Grand Arch Council (GAC), the Fraternity and Foundation agreed, and the GAC approved, a plan whereby "the respective attorneys for each organization will work to craft a mechanism by which the Grand Arch Council shall **review and approve** the recommendation of



the Foundation’s nominating committee for those Directors whose terms’ expire in the year of that particular Grand Arch Council. The intent is to facilitate transparency and accountability.” Everyone also agreed—and the GAC voted and approved—that, if agreement could not be reached within 6 months, the Fraternity and Foundation would mediate their disputes. Representatives of the Foundation and the Fraternity signed this agreement, read it in to the record at the GAC, and shook hands before the body politic on the agreement.

After the GAC, the Endowment Fund stated that it would propose changes to its governing documents to accomplish the plan agreed to at the GAC. Despite repeated requests, it was not until the 1<sup>st</sup> week of December that the Endowment Fund proposed any changes. They simply proposed to inform the Executive Council of their Trustee choices before they were actually voted on and approved by the Endowment Fund. But there was no opportunity to object or for the GAC to “review and approve” the recommendations of the Endowment Fund’s nominating committee. Therefore, the Executive Council unanimously rejected the Endowment Fund’s proposal.

In early January, the Executive Council made a counter-proposal that permitted the Executive Council to appoint a minority of members of the Endowment Fund’s nominating committee and permitted the Executive Council to “review and approve” the recommendations of the Endowment Fund’s nominating committee. In mid-February, the Endowment Fund’s attorney responded that the Endowment Fund rejected the Fraternity’s counter-offer and “would not continue to discuss this matter further.” The Fraternity then made written demand on the Endowment Fund for mediation, in accordance with the GAC directive. The Endowment Fund informed the Fraternity at its March 4, 2017 meeting that the Endowment Fund would not agree to mediate.

### **Why does Phi Kappa Psi need two foundations?**

The Endowment Fund is a completely separate entity with no governance ties to the Fraternity. No member of the Fraternity, no Chapter of the Fraternity, and no Alumni Association of the Fraternity, is a member of the Endowment Fund. As such, it is neither accountable to, nor held accountable by, the Fraternity. At the 2006 Grand Arch Council, the Endowment Fund changed its Bylaws to remove the Fraternity as a member of the Endowment Fund and removed the GAC’s ability to elect Endowment Fund Trustees. Despite numerous attempts by the Fraternity to return to the pre-2006 method of permitting the GAC to elect Endowment Fund Trustees, the Endowment Fund has consistently refused. The Endowment Fund has primarily become a holder of investments and assets and not a fundraising organization.

The new Foundation will also be a separate legal entity, but will have governance ties to the Fraternity so that it will be fully accountable to the brotherhood. The new Foundation does not intend to operate chapter-centric funds because they can become overly bureaucratic and costly to administer. The focus of the new Foundation will be program-centric fundraising to benefit the Fraternity. The new Foundation will also offer a pass-through mechanism for chapter house campaigns that will not charge the 10% fee the Endowment Fund currently charges.

### **What programs will the new Foundation support?**

The Fraternity has embarked on a very aggressive programming effort. From our innovative health and wellness program, ELEVATE, to our new Regional Officer Training program that was received with rave reviews this past January, to the Woodrow Wilson Leadership School that will have a newly-developed emerging leaders track and chapter advisor and house corporation officer training, to our 1<sup>st</sup> ever Professional Development Conference for college seniors, graduate students and recent graduates, Phi Kappa Psi is fast becoming a top leader in student development and programming. Below is an estimate of costs for these programs in 2017:

ELEVATE	\$119,307.80
StrengthsQuest	\$22,018.00
New Member Education	\$45,448.60
Regional Officer Training	\$132,445.60
Chapter Leadership Retreats	\$27,445.60
Woodrow Wilson Leadership School	\$258,967.20
Professional Development Conference	<u>\$115,706.40</u>
<b>TOTAL</b>	<b>\$721,339.20</b>

### **What about non-tax deductible giving?**

In addition to authorizing the formation of a new Foundation, the Fraternity also agreed at its March 4, 2017 meeting to reinstitute the Loyalty Fund for non-tax deductible giving. Donors to the Loyalty Fund will become members of the Association of Honor, based on the original name of our Fraternity. The Loyalty Fund will accept gifts of any size, but will primarily target smaller level giving where a tax deduction is not a significant factor for the donor. As you may recall, under the Internal Revenue Service rules, contributions to a 501(c)(3) Foundation are tax deductible for the donor, but funds in a 501(c)(3) organization can only be used for educational purposes. While much of the Fraternity's programming qualifies as educational in nature, a portion of its programming does not. That is why non-tax deductible giving to the Loyalty Fund is a critical component of the Fraternity's overall giving campaign.

### **Can I give now?**

The Loyalty Fund is established and available to receive gifts right now. You can mail donations to the "Phi Kappa Psi Loyalty Fund, 5395 Emerson Way, Indianapolis, IN 46322" and soon you will be able to give online. The new Foundation has not yet been formed or received its exempt status from the Internal Revenue Service. We expect that will happen later this summer and you will be informed when the new Foundation is available to receive gifts.



## **Conclusion**

Although the long-standing relationship with the Endowment Fund made this a difficult decision, the Endowment Fund's poor financial performance and their actions to form the Nelson Leadership Institute and become a direct competitor with the Fraternity made this a necessary decision for the Fraternity. Know that the Fraternity elected leaders and staff work tirelessly every day on behalf of all of our members and we will continue to strive every day to make Phi Kappa Psi **the best** fraternal experience in the college world.

Please join us for the next President's Conference Call, with SWGP Jim Boyle and SWVGP Shannon Price, where we will discuss this matter. The conference call will occur on March 16th 7 pm Eastern / 6 pm Central / 4 pm Pacific. Dial-in details will be forthcoming in the next few days.

In The Bond,  
The Executive Council of Phi Kappa Psi