



Phi Kappa Psi Foundation FAQs

The Phi Kappa Psi Foundation (Foundation) exists to provide educational funding and support to our undergraduate brothers so that they may achieve academic excellence, develop into positive contributors to their communities, and hone their leadership abilities. The Foundation accomplishes this mission by raising charitable money from Phi Psi alumni and families, investing those assets, and distributing grants for qualifying activities. The Foundation, a 501(c)3 tax-exempt foundation, has been in existence for more than a century. It is one of the largest Greek foundations in the country, with over \$30 million in net assets. In the past five years alone, the Foundation has distributed more than \$13.9 million to our undergraduate brothers and chapters through scholarships, housing improvements, and educational programs.

The Executive Council (EC) of the Fraternity has announced the formation of a second non-profit foundation for Phi Kappa Psi. It has laid out the following arguments for why it feels a second fundraising arm is necessary. The Foundation is deeply disappointed and respectfully disagrees with the EC's plan and the reasoning behind it. Here are some answers to the accusations the EC has leveled against the Foundation and other common questions that have surfaced:

1. How do you explain the Foundation's financial losses over the past five years?

The Foundation implemented the **OUR PHI PSI** Capital Campaign from 2006-2012 which raised more than \$21 million, primarily for chapter housing projects that were started or completed since 2012. Much of these donated funds have been distributed as grants to Phi Kappa Psi from 2012-2016 including: \$2.8 million in scholarships and fellowships, \$650 thousand in educational programs and \$10.5 million in housing grants — all directly benefiting our undergraduate Phi Psis and strengthening the very underpinnings of Phi Kappa Psi.

The last decade of Phi Kappa Psi Foundation performance follows the normal lifecycle of a mature foundation, with times of significant inflow of funds and times of significant outflow. This cycle is particularly true in the years leading up to, during, and after a campaign.

The assets on our balance sheet have declined in the last five years because the Foundation's sole purpose is the granting of funds for the benefit of Phi Kappa Psi. From 2012 through 2016, the Foundation distributed more than \$13.9 million to support our undergraduate brothers and chapters.

In addition, the PKP McMahan Finance Engine, LLC (Finance Engine) within the Foundation, has paid life insurance premiums of more than \$9 million on two policies with a combined face value of \$56 million.

What the EC has called "losses" are actually investments in our current and future undergraduate brothers. These changes in assets are consistent with our mission, and are not investment losses or improper spending. Nor are they investments in a financial return that will not take effect for decades, rather the Finance Engine's life insurance policies are directly benefiting Phi Psi in the current fiscal year.

2. What about the EC's claims that you borrowed more than four million dollars to fund budget deficits related to the Finance Engine?

Established in 2004, the Foundation's Finance Engine holds two life insurance policies on Trustees with a combined face value of \$56 million. The intention of the donor, Brother Bruce McMahan, was to create a substantial continuing source of unrestricted funds into perpetuity. The Finance Engine is set up in such a way that the Foundation can utilize and leverage the policies through a line of credit. Thus, the Foundation is already accessing money from that fund to help cover administrative and fundraising costs, and fraternity program grants. Ultimately, the life insurance policies will provide a flow of funds that will significantly benefit the Foundation and the Fraternity far into the future.

3. The EC says you should invest all your assets into the S&P 500; why don't you do that?

The primary purpose of the Foundation is to preserve capital and to reliably fund Phi Kappa Psi initiatives, in accordance with the intentions of our donors. The Foundation's Investment Policy is consistent with other educational foundations' best practices and is similar across Greek, higher education, healthcare and other general nonprofit organizations that grant funds. We are not like growth-oriented mutual funds with their associated risks. Rather our asset mix is consistent with the Foundation's purpose and investment policy. As of 8/31/17, 12% of the Foundation's assets are in loans outstanding to chapters for improvements (these loans are at market interest rates). 26% of assets reflect the Laurel Hall property, equipment, the cash surrender value of life insurance policies, and other uses. 56% are available for long term investing. These assets are invested in a diversified mix of equity and bond mutual funds, which have had returns consistent with each fund's purpose and benchmark. The returns on these investments are used to fund scholarships, chapter housing projects, and Phi Psi educational programs.

4. How do we know the Foundation is on the up and up financially?

The Foundation's financial statements are audited every year by a respected public accounting firm, experienced in non-profit foundations, which has always resulted in a clean opinion. Recommendations for improvement in procedures and controls are implemented immediately.

The Foundation prepares its annual budget very carefully and our staff is challenged to be efficient and cost-effective. The Foundation continually welcomes new perspectives and seeks improvements to our internal policies, procedures and practices. For example, this year, the Foundation has hired a fiduciary group that employs a set of 'industry standards/best practices' which will help us stay up-to-date with best fiduciary practices. Recommendations from that study are being implemented.

The Foundation also has engaged a leading law firm, experienced in non-profit governance, to review our governance practices as well. The firm concluded that the Phi Kappa Psi Foundation is "one of the best among Greek organizations." Finally, a panel of former Phi Kappa Psi National Presidents reviewed the Foundation's governance and found, in their words, that "the Foundation is acting in the best interests of the brotherhood." The work of the former Fraternity Presidents in ongoing as they remain actively engaged in the Foundation's affairs.

5. The Fraternity claims the Foundation is attempting to become a direct competitor by offering its own educational programs. What response do you have to that?

The Foundation does not seek to be in competition with the Fraternity for educational programming or in any other service area. We are all brothers of Phi Kappa Psi and our goals should be collaborative and closely linked.

The only new educational programming implemented by the Foundation is the Nelson Leadership Institute LLC (NLI), and that came to the Foundation by way of the Fraternity. Several generous alumni offered to create a leadership institute that would benefit Phi Psi undergraduates while also recognizing Brother Jerry Nelson, following the termination of the American Leadership Academy. At that time, the EC told the Foundation it did not have the "bandwidth or time" to institute a new leadership program of this type. With donors offering to fund a program to honor Brother Nelson, the Foundation established the NLI which, in turn, piloted the PIVOT program, based upon the Phi Kappa Psi Creed, for spring break 2017 and invited Fraternity staff and EC participation. Had the Foundation not acted, the funding source would not

have been available for other purposes. Following the initial success of PIVOT 2017, several other alumni have since added their financial backing to the project. The NLI has a separate board of Managers to guide NLI governance and the Trustees hope that new educational programming, such as PIVOT, started and incubated by the NLI, can become scaled up enhancements for the Fraternity Membership Development strategy. The Foundation is not competing with the Fraternity and has sought participation by the EC and Fraternity staff many times in many ways.

6. The EC says the Foundation is providing less educational grant programming to the Fraternity. Is that true?

The Foundation has paid 100% of every qualifying grant request received from the Fraternity in compliance with IRS regulations. Any observed increase or decrease in educational funding is a direct function of the Fraternity's frequency, timing and volume of educational programming grant requests.

This year we have partnered with the Fraternity to support the Elevate Health & Wellness Initiative, Clifton Strengths program, New Member Education program and Regional Officer Trainings. The Foundation also funded more than 85% (over \$185,000 which is the highest level of funding in the history of Phi Kappa Psi) of the 2017 Woodrow Wilson Leadership School and we expect to fund a significant portion of the new Professional Development Conference.

7. The Fraternity claims that the Foundation underfunded and delayed payment to its programs. Is that true?

All grants have been paid in a timely manner after proper documentation has been received from the Fraternity. The Foundation has never withheld grant payment for any reason.

All grant requests are closely reviewed for program content to ensure Internal Revenue Service (IRS) compliance. We have funded all educational programs at 100% of the amount allowed by IRS regulations. To fail in this regard would put our tax-exempt status at risk and compromise our relationship with donors.

8. Why does the Foundation not just give the EC a voting seat on its Board of Trustees?

The governing bodies of the Foundation and the Fraternity are separated for two important legal reasons: Tax-exempt treatment of donations and to protect the Foundation assets from Fraternity lawsuits. The Board of Trustees is opposed to compromising the separation of governance between the Foundation and the Fraternity. The IRS rules are complex and the Foundation's legal counsel advises that increased Fraternity control of the Foundation Board of Trustees could affect our tax-exempt status. We are steadfast in our commitment to maintaining independent fiduciary responsibilities. We are also committed to transparency and accountability that are important to our donors and Foundation Trustees.

In the spirit of brotherhood and collaboration, the Trustees have extended an open invitation to both the Fraternity Vice President (SWGVP) who is the officially designated EC liaison for the Foundation, and the Fraternity Executive Director (ED) to attend all Foundation Board of Trustees meetings. Complete board meeting materials (i.e.: reports, financials, audit reports, etc.) are also provided to both the SWVGP and the Fraternity ED. We have invited EC participation on Foundation Committees and we have sought EC nominations for new Trustees.

9. How is the Foundation's Board of Trustees accountable to donors and the broader Phi Psi community?

The Trustees are accountable to Phi Psi alumni that entrust the Foundation with raising, investing and granting their contributions with integrity, within non-profit industry standards, and within the law. Alumni gain trust in the Foundation through their experience as a donor, having their gifts properly handled and accounted for, seeing the direct benefit of their gifts as they impact Phi Psi, and through more formal mechanisms such as audited financial statements, Form 990s, annual tax statements and annual reports.

As an added layer of accountability, the Foundation welcomes the involvement of the Governance Review Committee. The group of four past National Presidents is charged with producing a report called the Governance Review Report, which is also located on our website's [transparency page](#).

The Trustees are accountable to the Phi Psi community beyond its donors by being as transparent as possible in the ongoing pursuit of the Foundation's stated mission: to provide educational funding and support to our undergraduate brothers so that they may achieve academic excellence, develop into positive contributors to their communities, and hone their leadership abilities.

We are all Phi Kappa Psi brothers with one common goal – to provide educational benefits to undergraduate brothers. The Board of Trustees is comprised of 17 experienced and dedicated Phi Psi alumni who have devoted themselves to the good work of the Foundation. These men have personally contributed nearly \$7 million of their own money plus thousands of hours of service every year to the Foundation over the last decade, while paying their own expenses for meeting attendance. Furthermore, they have raised an additional \$20 million by soliciting other brothers for gifts of money and time. All those funds directly benefit our undergraduate brothers and their chapters. We believe the evidence of performance of the last decade demonstrate great accountability to our brotherhood, particularly our newer, younger, undergraduate brothers.

10. Does Phi Kappa Psi need a second foundation?

The prospect of a second competitive foundation is already dividing our Phi Kappa Psi and will ultimately compromise our ability to achieve future success. Many believe a second foundation is not a prudent use of donor contributions to create, administer and operate a competitive fundraising entity, and will be very confusing to the donor community.

The EC has tried to compare Phi Kappa Psi to a university with multiple foundations. That comparison is flawed in that universities often have different foundations that support unique purposes (i.e.: athletics, multiple academic centers, capital improvements). Each foundation at a university has a focused audience and mission and they seldom compete for the same fundraising dollars. That same logic cannot be applied to Phi Kappa Psi since the very programs and services the EC's foundation seeks to fund are already being funded by the Phi Psi Foundation to the maximum level allowed by IRS rules. We fear that by creating a second foundation, the EC is expending funds that would otherwise be used for chapter and undergraduate support. We know that some prospective donors question the EC's intentions.

In the opinion of the Trustees and others, including most former National Presidents, a decision of this magnitude should not be left in the hands of a select few; it should be an issue for the brotherhood to decide after deep investigation and consideration. The EC has authority to manage the Fraternity between GACs, but establishing an additional entity of this nature extends beyond its purview.

11. Has the Fraternity shared its audited financials and 990s with the public?

Not to our knowledge. While the historic Form 990s are available via certain transparency clearing houses such as GuideStar, the majority of our undergraduates and alumni would be challenged to easily find this information. It seems prudent for the Fraternity to publicly share its 990s, audited financials, related business activity, and any other information that would allow all brothers to gain a better understanding of the Fraternity's financial health.

The Foundation believes in being transparent and we actively post important financial information on our [website's transparency page](#). Our recent 990s, audited financial statements, investment allocation and other financial data is easily accessible on our website.

12. What does the Foundation recommend to assure the Phi Kappa Psi brotherhood is well served by both governing bodies in the future?

The Foundation believes Phi Kappa Psi is a family that has had its ups and downs and is now at a point requiring third party facilitation. Together, we must agree to allow an independent, experienced facilitator to help us find common ground and move forward without an irreversible divide. It is time to resolve our differences and find a way to work together to meet our shared needs and objectives. We must show our thousands of undergraduates and alumni that their Brotherhood is united in purpose, vision and leadership. The Foundation Trustees and staff would like to move forward with this facilitation process. We are hopeful the Fraternity leadership will agree to move forward, expeditiously.

13. Has any other national Greek organization started a separate foundation and separated the partnership between the established foundation and the fraternity?

Yes, Delta Delta Delta national sorority established a separate foundation, but the result was deeply damaging to the sisterhood, and ultimately, the second foundation folded. While their situation is not identical to Phi Psi's, it does serve as the best example within the Greek community of a comparable approach to what the EC is considering, and should serve as a caution for our future should we continue down this path.