November 28, 1994

Memo to: Marv Leavy, Faculty Senate Chair

From: David J. Keeling
Chair, Fiscal Affairs Committee
Faculty Senate

Subject: WKU Foundation

The Fiscal Affairs committee has reviewed the responses (both written and verbal) of the WKU Foundation to the list of questions prepared about the activities of the Foundation. At this point in time, the committee believes that the Foundation has attempted to address all questions and inquiries honestly and openly. Some questions remain unanswered and will probably remain so until the first year's financial audits have been conducted. At that time, the committee strongly recommends a further analysis of the Foundation's activities to address the unanswered questions and to pursue further questions that the Faculty Senate might deem appropriate.

The committee members who attended the Catron/Rutledge Senate presentation are of the opinion that Mr. Catron tried to respond honestly and directly to the questions posed. The debate (in the Herald and elsewhere) about the "softness" of the Senate's questions appears to miss the underlying rationale for the initial inquiry. The Fiscal Affairs Committee was not charged with the task of "investigating" the character of the Foundation's officers nor was it charged with the task of "rooting out" any existing or potential fraudulent activities. Such actions are best carried out by professional auditors and others. The Fiscal Affairs Committee's task simply was to analyze the organizational and administrative framework of the Foundation and to pose such general questions as the Senate felt were important for all faculty and staff members to understand.

The committee strongly recommends that the Senate continues a direct and open dialogue with the Foundation and its officers. The committee further recommends that periodic reviews of the Foundation's activities are undertaken by the Fiscal Affairs Committee (or any other body that the Senate feels is appropriate).
Questions Prepared by the Faculty Senate, Fiscal Affairs Committee, relating to the WKU Foundation.

Foundation Organization:

1. Please explain the rationale for establishing the Foundation as a private entity.

   Time has proven that this is the most effective mechanism for raising and administering a fund raising activity. This is the environment that both donors and trustees are accustomed to working in and this is the generally accepted mechanism for highly successful fund raising at universities throughout the country. We saw no reason to deviate.

2. What are the mechanisms for generating the list of candidates for nomination to the Board of Trustees? How are these candidates vetted? Is there any oversight procedure concerning candidate nomination?

   The Foundation's first meeting of its nominating committee was held on October 21, 1994 prior to its regularly scheduled board meeting. The purpose of this meeting was to establish a profile of candidates for membership on the board and to establish the process for nomination and selection. Among others, we expect all of our Trustees to be major donors themselves, to have the standing professionally and socially to influence gifts to Western for our academic and educational programs.

3. What mechanisms are in place to insure that the "such other [meeting] place as approved by a majority vote" of the Board is accessible to all interested persons?

   When a meeting date and place are established by the board, all parties entitled to attend shall be notified.

4. Will all faculty members have access to the Board meetings?

   The Board of Trustees has not closed its meetings to the public. Additionally, in the event a faculty member or any other person has an issue they wish to discuss with the Board, then they are invited to submit a request to the Board.

5. Will there be term limits for members of the Board Nominating Committee? If not, why not?

   Two positions serving on the nominating committee rotate as a result of the bylaws of the Boards for which they serve (Board of Regents, Board of Trustees of
Foundation); the at-large members will be selected annually.

6. How are the relationships between the Foundation, HAF, and CHF defined?

The relationship is one of cooperation and coordination. This is formalized through their respective Presidents membership on the WKU Foundation Board.

7. The President is chair of the committee that nominates the individuals who will be in charge of the Foundation, and he is an ex-officio member of the WKU-F committee. Is this a conflict of interest?

No. The President does not participate in selecting officers of the Foundation.

8. Why do none of the University units with substantial assets, such as the Departments of Accounting, Agriculture, or Journalism, have representation on the board of directors?

They are represented through membership on the Board of the WKU Foundation, by Chair of the Board of Regents and the President of Western Kentucky University. See response to question 2 for membership criteria.

Foundation Administration:

9. Please outline the Foundation's short- and long-term strategies for fund raising activities.

These strategies are contained in a working paper draft of a strategic fund raising plan that will be reviewed by the University Board of Regents.

10. Do you have information regarding Foundation administration policies at other universities? If yes, would you provide the details regarding that information to the Faculty Senate?

We have reviewed vast amounts of material from the Foundations of other universities. Our policies are a product of that review, using the best experiences of others.

11. Please describe the mechanisms for external administrative and financial supervision, other than a CPA firm.

The fiscal affairs are the ultimate responsibility of the Foundation's Board of Trustees. The Board of Trustees has directed that an annual audit of the Foundation occur from an outside CPA firm.
12. Please describe the proposed management hierarchy. What benchmarks are used for salary, benefits, and other performance-based enumeration?

The Foundation has no employees at this time. No benchmarks have been established.

13. Please describe what short- and medium-term fund performance goals have been established for the Foundation.

The Foundation has adopted policies on Investment of Endowed and Non-Endowed funds. These policies are available upon request. See also responses to question 9.

14. Assuming potential donors are identified, who decides which group (Foundation, HAF, or CHF) solicits the donation?

A coordination of solicitation policy is currently in place. Currently, a more responsive process is being developed that will address this issue when numerous major gifts are being solicited. The Vice President for Academic Affairs is presently involved in the process of determining for what academic program(s) the solicitation is directed.

15. When donations are earmarked for a specific departmental unit, what percentage of that donation does the unit actually receive? Will each departmental unit receive the full benefit of each donation (i.e., capital plus earnings) or some other portion?

100%; Yes, less service fees. (See question 19).
16. Many charitable organizations provide overhead cost data to interested parties. Will overhead information be made available to those donors who specifically request such data?

Yes.

Financial Management of the Foundation

17. Please describe the procedures for selecting an independent Certified Public Accounting firm for the annual audit of the Foundation. Who will prepare the accounting records?

The Board of Trustees select the Foundation's Independent Certified Public Accounting firm. A new position of Trust Accountant was approved at the October 28th Board of Regents meeting.

18. Please identify and describe all reports developed by the Foundation providing programmatic and financial information. Which, if any, of these reports is confidential? Which of these reports is open to public/faculty/staff disclosure and scrutiny? What is the basis for determining report confidentiality? If confidential information does exist, who are the parties that decide issues of confidentiality surrounding Foundation activities?

Programmatic information - identification of programs for which funds are solicited is the responsibility of Western Kentucky University and its individual colleges and departments. Financial Information - The Foundation's audited financial statements are available to the public. Individual account information is available to the College/Departments/unit to which the fund is restricted.

19. What is the proposed fee structure for the administration of funds by the WKU Foundation?

Service Fees -- Service fees are designed to reimburse the Foundation for the cost associated with the active, professional management of all assets. (Endowment and non-endowment funds). In the early years of the Foundation, fees earned will not cover these costs. As more assets are brought under management, management cost will be reimbursed completely.

No fees have been charged to accounts currently under management. The exact fee structure has not been finalized.

20. Do you have information regarding Foundation fee policies at other universities? If yes, would you provide the details regarding that information to the Faculty Senate?

A current schedule of service fees from a representative sample of other universities is being obtained and will be evaluated by the Board of Trustees. The answer is
complicated because the services provided for the fees vary substantially from
University to University. We will make available the background information
submitted to our Trustees.

21. Will the proposed fees apply to funds raised by others prior to the establishment of the
WKU Foundation? If fees are required to transfer such funds to the Foundation, will such fees be
applied only to funds received after the establishment of the Foundation?

Service fees will be assessed to all assets managed by the Foundation.

22. If rumors are true that the Foundation’s fees will be substantial (such as 1% of the
principal and 50% of the earnings), why should University units be required to use the
Foundation, as they should be able to retain more of their funds by managing money within the
University unit?

Rumors, as usual, are untrue. See answer to question #19, this section. The total
net return on funds invested by the Foundation will exceed the return if funds are
managed by the University.

23. Will various units within the University, some of which have made significant efforts at
establishing development funds, be required to transfer previously raised funds to the WKU
Foundation?

Yes; The Board of Regents, at its October 28, 1994 meeting, transferred these assets
to the Western Kentucky University Foundation for management.

24. Will investment assets transferred to the Foundation be transferred at current market value
or at historical cost? If fees are charged on funds transfers, will those fees be based on the current
market value of an asset or on its original book value?

Service fees will be assessed on original book value.

25. What are the criteria for external fund investment? Please describe any consideration
given to investing in companies that pursue environmentally friendly policies or that avoid
investments in arenas that could violate basic human rights.

PNC Bank of Louisville has been engaged by the Foundation as investment
manager. No specific policies have been developed to address this specific issue,
however, this concern will be reviewed at a later date by the Board of Trustees.

26. Please describe what overhead percentage the Foundation has budgeted for the first fiscal
year and identify any non-recurring charges. What internal mechanisms are in place to contain
excessive overhead costs?
Board members and others have donated unrestricted funds to the Foundation’s use. See response to question 27.

27. Who decides how unrestricted money is spent? Who determines the appropriateness of spending? With what level of specificity will spending be reported, and with what frequency? Who will have access to spending reports?

1) The Board of Trustees of the Foundation; 2) The Board approves an annual budget for unrestricted monies, expenditures are reviewed quarterly by the Board of Trustees; 3) The public will have access to financial data through the Audited Financial Statement and (Internal Revenue Service) Form 990 and information that the Foundation publishes in its normal course of business (i.e., annual report). The itemized spending reports are reviewed by the Board of Trustees.

28. With what specificity will the recipients of benefits (funds) from the Foundation be identified?

If I understand the question correctly, the specificity will be identified by the donor.

29. Are there safeguards to assure that some individual or group who receives a benefit does not disguise it in some way so that it looks like other income or spending?

(Question needs more specificity.)

30. Is it possible to supplement faculty salaries from the Foundation (e.g., administration and athletic salaries)?

These areas must be addressed through aggressive, program specific, major gift fund-raiseing. There is not anticipated a significant amount of unrestricted income available through the WKU Foundation because of the thrust of the proposed major gift fund-raiseing program will be for academic and educational programs. To the extent other unrestricted gift funds are available the Board of Regents will direct the expenditure of these funds.