

**OUR HERITAGE
THE FALCON FOUNDATION**

A History of Service, Dedication and Giving

2007-2010

By

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Chronicle of our yearly updates on the Falcon Foundation History

2007

At the start of 2007 the Trustees of the Falcon Foundation were concerned with clearly understanding our purpose and mission as a non-profit organization. Trustee Mike Dugan wrote an excellent white paper on the future of the Falcon Foundation. In addition, Trustee Jack Chain submitted a second white paper on the scholarship programs available at the other two service academies by which our Trustees could draw a comparison of our Falcon Foundation scholarship programs with the foundation scholarship programs of the Naval Academy and that of the West Point Military Academy. It was requested that these white papers be posted on the website so that the Trustees could comment, as desired. This year also saw us incorporate a fourth membership category of Associate Trustee. Associate members would not count against the upper limit of 200, but would allow Trustees to stay connected to the Falcon Foundation without the obligation of attending our semi-annual meetings. These Associate Trustees would pay their annual dues, would not, however, be allowed to vote, but would be kept in communication with newsletters and e-mails by the Foundation throughout the year. Immediately upon creating this membership class, nine Trustees volunteered to be categorized as Associate Trustees. It was also decided

that the membership authorized the President to contract for a commemorative DVD on the History of the Falcon Foundation which would be viewed at the 2008 Fall Banquet to commemorate the 50th anniversary of the Falcon Foundation as a support organization to the USAF Academy.

At our spring meeting, we finalized the procedure of nominating and appointing new Trustees at the spring meeting so that they would attend the fall meeting and banquet as their first experience as Trustees. Nine new members were inducted into our membership. Moreover, we voted Trustee Bart Holaday as our new Vice President and selected Trustee John Kelly as our Assistant Treasurer. In the world of finance, the scholarship amount was raised from \$4,000 to \$5,000 to be effective in academic year 2008-2009. Our former Executive Assistant to the President, Mrs. Pearl Swofford donated \$100,000 as a gift to the scholarship fund upon her retirement from the Falcon Foundation. It was also at this time that we made our move away from Smith Barney as our portfolio/investment manager and went with Vanguard and TIFF, The Investment Fund for Foundations. The portfolio was divided with approximately 2/3 going to Vanguard with 50% invested in indexed funds and 50% in actively managed funds, and 1/3 going to TIFF's actively managed fund.

During the second half of the year, we successfully concluded another Chaney King Bike Ride/Run which netted the Falcon Foundation approximately \$10,000. It was at this time that internal strife in the Association of Graduates was beginning to surface. While we had an exclusive agreement with the AOG for all third party fund-raising, there were indications even this early that the AOG was either stalling out or shut down their Capital Fund Campaign and not able to come close to raising the target of \$100M. It was suggested that the President and Chairman of the Falcon Foundation send a letter to the Association of Graduates President/CEO attempting to terminate the exclusive fund-raising agreement that was signed in 2003. The letter, however, was never sent and we took a "wait and see" approach to the internal problems brewing in the Association of Graduates.

At our fall meeting the Chairman was elected for a second term with the proviso that he would not complete a full five years as Chairman. In the Trustees meeting we also began using more standard financial reporting forms, such as a profit and loss statement, a balance sheet and a budget vs actuals for the annual expenses

of the foundation. These standard forms replaced the more informal budget vs actuals form that had been used for the last 20 years.

In the afternoon strategic session, a lengthy discussion was entered into by the Trustees with regard to increasing diversity in our Falcon Scholar pool of applicants. Trustee Howard, the Diversity Sub-Committee Chair, gave an account that over 40 congressional districts did not have any cadets at any of the service academies and that most of these 40 congressional districts were in high minority areas. The Diversity Sub-Committee thought it prudent to target these congressional districts with the idea of starting a Junior Falcon Scholar program that would provide 6th, 7th and 8th graders in these 40 congressional districts with academic tutoring grants to increase their potential of becoming cadets at the United States Air Force Academy. It was further noted that in comparing our scholarship program with those of Army and Navy, the other two service academy scholarship programs included more athletes whereas our Falcon Foundation program totally excluded athletes from our pool of applicants. These last two points gave rise to two initiatives that might be implemented by the Falcon Foundation for the future. One was to look at hiring on an Educational Consultant to regulate and manage a grant program for the Junior Falcon Scholar Program, and the second was to request from the Admissions Office early in the planning calendar, if they wanted the Falcon Foundation to consider sending non-pilot qualified candidates to our five Prep Schools in order to increase the minority candidates and athletes coming into the Academy each year.

2008

At the beginning of the year, the Foundation investigated establishing two new committees, a Diversity Committee and an Audit Committee. The former was to investigate committing the organization to supporting the diversity goals of the Academy, and to look at ways to increase diversity on our Board of Trustees and in the Cadet Candidates that we accept for our Falcon Scholar Program. The objective of the Audit Committee was to ensure that our operations, and stewardship of our portfolio, were consistent with the best practices recommended for Non-profit organizations by the Internal Revenue Service. Both of these committees were approved by the Executive Committee and Board of Trustees during our Spring Meeting in May.

With the disruption that occurred with Association of Graduates (AOG) fund-raising during the past year, the Falcon Foundation felt it was essential to clarify the terms of the Capital Fund Agreement with the AOG. It was finally agreed that the Falcon Foundation would take one action and issue two requests in order that the two organizations could continue working together to raise funds for the Foundation's scholarship endowment. The one action taken was that the Falcon Foundation denied the AOG's request that they be the sole solicitor of funds for the Foundation, thus opening the door for other organizations to fund-raise on behalf of the Falcon Foundation. The first request was that upon receipt of the letter rescinding the AOG's sole solicitor request, they would provide a full accounting of all funds collected and pledged for Falcon Foundation use. The second request was that a Memorandum of Understanding (MOU) would be drafted after a complete report of the funds collected and pledged. The MOU would set out procedures for any future fund-raising effort on the part of any outside organization like the AOG.

During and after the fall Meeting in 2008 we made a number of commitments with regard to the work being done in our committee structure. The Audit Committee had recommended that the Foundation require conflict of interest statements be signed by all our Trustees annually. This provision was followed by a suggestion that, in accordance with IRS best practices, the Falcon Foundation would consider a new governance model, which involved the establishment of a smaller Board of Directors, henceforth called the Board of Governing Trustees. This smaller Board would be responsible for all the business and investment activities of the Foundation while the larger Board of Trustees would be responsible for the membership requirements, the appointment of officers, members of the Governing Trustees, and the strategic direction of the Foundation. The Foundation agreed in principle to the new governance model and set the fall meeting of 2009 as the formal approval date.

The Diversity Committee began to seriously discuss the idea of using academic grants for our Junior Falcon Scholar Program. It soon became apparent that the academic grant concept was going to be difficult to implement because of our lack of grant experience, the need to hire on an Educational Consultant, and the requirement to supervise and oversee the entire grant operation for the foreseeable future. The concept of a Junior Falcon Scholar Program, however, was still approved by the Board of Trustees with the proviso that we spend

\$50,000 per year for the next four years for a total investment of \$200,000. In searching for a more “turn-key” diversity program, the Reach for Tomorrow program was suggested to the Diversity Committee as a possible candidate by a number of Trustees who were familiar with its Director, Mr. Peter Underwood, USAFA 1973. The decision was made to give Reach for Tomorrow the initial \$50,000 in order to initiate our Junior Falcon Scholar program with the goal of increasing the pool of qualified minority/diverse cadet candidates applying to the Air Force Academy.

The Strategic Planning and Operations Committee completed work on the Foundation’s first strategic agenda. The three action items, to be completed by the end of 2009, were: 1) Develop options for expanded Foundation support of the Air Force Academy mission; 2) Launch the Junior Falcon Scholar Program by the spring of 2009; 3) Develop specific guidance for funding USAFA Diversity Admissions Programs that were not included in the Junior Falcon Scholar Program. Moreover, in the Trustees’ after-lunch strategic session of the fall 2008 meeting, it was also decided to develop a performance assessment of our current Preparatory Schools and to have a procedure in place in the event an existing Prep School is placed on probation for marginal or poor performance. The procedure would include the selection of a new Prep School from a reserve list of acceptable and qualified schools to take the place of the poorly performing Prep School. It was further decided to look for ways that interested Trustees could interact with any one of the three mission elements at the Academy; the Dean of the Faculty, the Commandant of Cadets and the Director of Athletics.

In November of 2008, a MOU was signed by the new President/CEO of the AOG and the President of the Falcon Foundation, which outlined provisions for any new fund-raising endeavor between the Falcon Foundation and the AOG or any other fund-raising organization. Moreover, the MOU stipulated a dissolution clause to the original agreement with the AOG; more detailed requirements for financial reporting on the part of the AOG with regard to performance of investments; maintaining distinct reports between funds raised by the AOG and challenge funds donated by the Ackerman Trust on behalf of the Falcon Foundation; and finally, a further clarification of the five percent rule as it pertains to the original agreement with AOG.

At our fall meeting, the Chairman of the Falcon Foundation announced that he was resigning his position and asked that a search committee be formed to find his replacement. Trustee Natalie Crawford was selected as the Chair of the Search Committee with the goal of selecting a new Chairman by the spring 2009 meeting. This would be followed by an additional search committee to find a replacement for the President's position by the spring meeting of 2010.

2009

Two issues dominated the Falcon Foundation at the beginning of 2009. The first was preparing to change a governance structure of the organization that had worked exceedingly well for the last 50 years. There was mounting pressure from the Internal Revenue Service (IRS) to establish smaller governing boards in non-profit organizations. While work continued on this issue, a second emerged to occupy the Foundation; the revelation by the Association of Graduates (AOG) that they were involved in the Madoff financial scandal due to investments with Madoff feeder funds twice and three times removed. This revelation led the Chairman to immediately establish a Special Ad-Hoc Committee, chaired by the Vice Chairman of the Falcon Foundation, to negotiate this issue with the AOG. As a start, the Ad-Hoc Committee issued a letter requesting that all funds held on behalf of the Falcon Foundation, initially some \$800,000, be transferred to the Falcon Foundation as soon as practical. This request was denied by the AOG, resulting in further discussions on how we might work more effectively in the future to prevent the reoccurrence of anything like another Madoff incident. Of the \$800,000 held by the AOG on behalf of the Foundation, \$300,000 was owned by the AOG and came under the fund-raising agreement signed by both organizations. The remaining \$500,000 was also managed by the AOG under a separate agreement with the Ackerman Trust. The Falcon Foundation, therefore, had little legal recourse other than to persist on the transfer of funds from the AOG to the Falcon Foundation.

Also of concern early in the year was the newly established Chairman's Search Committee, chaired by Trustee Natalie Crawford. This group reviewed the nominations of a number of Trustees and selected Trustee Greg "Speedy" Martin as the organization's next Chairman. As per our normal operating procedures, the new Chairman would formally take over his duties and responsibilities at the Open Session of the fall 2009 Falcon Foundation meeting in November. In anticipation of a new governance model, the Compensation Subcommittee of the

Executive Committee was elevated to Standing Committee status and given the responsibility not only to calculate and propose the yearly compensation of the President, but also evaluate the performance of the President annually. The Compensation Committee was formally approved at the spring 2009 Falcon Foundation meeting with Trustee Jack Chain as the Chair.

In addition to the new Compensation Committee, other major changes to the governance of the Falcon Foundation were drafted. The most important change was the creation of a Board of Governing Trustees. This body would consist of 15 members, who would be responsible for the direction and performance of the Foundation's management and business affairs. The larger Board of Trustees, approximately 160 members, would then be responsible for the mission, goals, membership, and strategic direction of the Foundation. The goal was to vote this significant governance change at the Falcon Foundation fall meeting in November.

When the Diversity Committee's request for \$50,000 per year for four years was approved at the Foundation's fall meeting in 2008, a Diversity Review Subcommittee under the Executive Committee was also formed with Trustee Jay Kelley as Chair. Their charter was to supervise and provide Executive Committee oversight on the expenditure of all funds for the implementation of any portion of the Junior Falcon Scholar Program. The Diversity Committee then selected the "Reach for Tomorrow Program" (RFTP) as our initial project of choice for the Junior Falcon Scholar Program. The RFTP was allocated \$50,000 for the first year. The Diversity Review Subcommittee then required the RFTP to develop a financial plan of how they were going to use the \$50,000 throughout the following year. The Director of the RFTP, Mr. Peter Underwood, enlisted 40 Junior Falcon Scholars in Denver, 12-16 years old, to join the RFTP and work with the Academy Admissions Office to do on-line academic course enhancement, and to visit both the University of Colorado, Colorado Springs, and the US Air Force Academy (USAFA) as their reward for completing the on-line academic program.

In these turbulent economic times, the Finance Committee worked diligently to establish a portfolio base line of \$15 million to allow the Foundation to provide 100 scholarships at \$5,000 each and stay within its 4 ½ % spending limit. Any valuation of the portfolio lower than \$15 million would require the Foundation to reduce the number of scholarships provided or lower the scholarship amount

below \$5,000 each. The portfolio base line and possible alternative actions would be considered at the beginning of the calendar year at a Falcon Scholarship Strategic Session with the President, the Chair of the Finance Committee and representatives from the USAFA Admissions Office all in attendance.

At the spring meeting the President presented a proposal by local Daedalians, and the family and friends of our deceased Trustee Bud Breckner to establish a named endowment, the Bud Breckner Memorial Fund, in his honor. The proceeds would provide for a "warrior" leadership lecture series at the Annual Leadership and Character Symposium held at the USAF Academy each February. The Trustees approved the proposal with the stipulation that the Fund would be managed by the Falcon Foundation provided the sponsoring group collected a minimum of \$50,000, one-third or approximately \$16,700 of which would be required to establish the Falcon Foundation account. At the start of the Foundation fall meeting, Trustee Bill Begert graciously donated \$15,000 from Pratt and Whitney Company for the Bud Breckner Memorial Fund.

The most significant decision made at the fall 2009 Foundation meeting was to approve the new governance model of a Board of 15 Governing Trustees to manage the operations and conduct the business affairs of the Foundation. The new Chairman also stipulated that all the current Officers and Committee Chairs would be extended until their terms were renewed, or replacements were named and approved by the Board of Trustees at the spring 2010 meeting. Under the new Bylaws and Articles of Incorporation, the Foundation would also have to select individuals for Governing Trustees and morph the Nominating Committee into a more complex Nominating and Governance Committee. The new Chairman also requested that the President conduct a survey to determine Trustee willingness to serve in the positions that needed to be filled by the spring 2010 meeting.

The Audit Committee Chair instituted new procedures for the completion and review of the IRS form 990 & Schedule O that are normally filled out and submitted by the Foundation's auditor. The new form 990 & Schedule O were more detailed in listing the purpose and mission, in addition to the major program service accomplishments, of the Foundation. Also new to these procedures was a more complete annual review of the IRS Form 990 and Schedule O by the

Governing Trustees/Executive Committee members before the documents are submitted.

At the end of the year, the interim Diversity Committee Chair reported that \$39,000 of the authorized \$50,000 was spent by the RFTP. Due primarily to the departure and retirement of the USAFA Director of Admissions, Colonel Chevy Cleaves, and the vacancy that existed in the new USAFA Chief of Diversity position, all funding for our Junior Falcon Scholar Program was suspended for 2010! It was further decided that the Chair of the Diversity Committee and the President would meet with the new Director of Admissions, when that person arrived on station, and the Chief of Diversity, after that person was named, in order to achieve consensus on the type of programs that the Falcon Foundation should be supporting in our Junior Falcon Scholar Programs. With that in mind, the remaining \$11,000 that was not spent by the RFTP was allowed to be spent for the following year. Mr. Peter Underwood will send a corresponding report to the Diversity Committee Chair on how the \$11,000 was spent in 2010. The Chair of the Diversity Committee also recommended that the Diversity Review Committee be dissolved as there would be no additional funding directed at the RFTP in 2010. The Executive Committee and the Board of Trustees approved the recommendation.

At the Open Session of the fall meeting, the Chairman introduced the new Superintendent of the Academy, Lt. Gen. Mike Gould, who was an AFA Preparatory School Cadet prior to attending the USAFA. General Gould talked about the relationship between the AOG and the USAFA Endowment in Academy fundraising, and about his emphasis on increasing diversity in the cadet wing. He then asked the Foundation to form an independent Advisory Group made up of Falcon Foundation Trustees to review the cadet Honor System and report back to him on their recommendations by the summer of 2010. The Chairman indicated that the Foundation would gladly add interest in serving on the Honor Advisory Group to the fall 2009 survey of the Trustees.

At our after-lunch strategic session, the Trustees agreed to five initiatives to begin in 2010. First, the Expanded Roles Subcommittee Chair would form the requested Superintendent's Honor Advisory Group from our Trustees. Second, the Junior Falcon Scholar Program was placed on hold. Third, developing guidance for the funding of other Diversity Programs, as might be suggested by the USAFA Admissions Office, was also placed on hold. Fourth, an evaluation of the

Foundation's Prep Schools was instituted with the calculation of an overall performance average assigned to each Prep School in the same relative proportion as that used with USAFA cadets; 60 percent dedicated to academic performance, 30 percent to military performance, and 10 percent to athletic/sports performance. The final initiative was to develop avenues for increased Trustee participation within the three mission elements at the Academy. Finally, the entire program at the formal banquet conducted at the Falcon Club at the completion of the fall meeting, was devoted to saying farewell to our departing Chairman, General Ron Fogleman. It was a truly memorable event with heartfelt appreciation for a job exceedingly well done.

2010

In the first part of 2010 the Falcon Foundation, with its new Chairman, Trustee Greg Martin, in place, began implementing a new governance model that was approved at the 2009 fall meeting. Based on survey results all the Trustees were given an opportunity to select committee membership and officer positions in which they would be willing to serve within the new organizational structure. The President worked with the Chairman in order to initially set up interim selections for all positions with the intent that these selectees would be confirmed by both the Governing Trustees and Board of Trustees at the spring 2010 meeting. Also, because of the delineation of responsibilities between the Governing Trustees and Board of Trustees it was decided that committee participation for both meetings would proceed along "voting" and "informational" issues. Thus, for the Governing Trustees session, the Audit, Compensation, Finance, and Nominating and Governance Committees would present voting issues, if necessary, for the Governing Trustees to consider, while the Diversity, Strategic Planning and Operations, and Program Planning Committees would present informational issues. Conversely, for the Board of Trustees Meetings the voting issues would be presented by the Diversity, Strategic Planning and Operations, the Program Planning, and the Nominating and Governance Committees, while the informational issues would be presented by the Audit, Compensation, and Finance Committees.

As noted, the new Nominating and Governance Committee would be the only body to present "voting" issues to both the Governing Trustees and Board of Trustees. This committee also would assume a number of additional

responsibilities as referenced in the amended and restated Bylaws of the Falcon Foundation. In the future, when vacancies need to be filled for officers, standing committee chairs, and at-large governing Trustees, the Nominating and Governance Committee will ensure that a slate of nominees will be developed to be voted on by the Board of Trustees. The chairs of the Diversity, Strategic Planning and Operations, and Program Planning Committees will be appointed by the Chairman and reconfirmed by the Board of Trustees at a duly constituted meeting.

At the fall 2009 meeting, Trustee Natalie Crawford was appointed as the Chair of the President's Search Committee to select a nominee to succeed President Randy Cubero who was to retire effective at the fall 2010 meeting. When there were only six nominees put forth, the Search Committee allowed Trustees to self-nominate as a way to increase the pool of nominees. Moreover, the Search Committee opened up the nominations process to non-Trustees and placed a job advertisement in the local Denver and Colorado Springs newspapers to obtain a larger pool of potential candidates. The Search Committee's goal was to come to a decision on a qualified nominee(s) by July. The current President prepared for the change of command by updating all policies and procedures of the Falcon Foundation as well as creating a master file of documents for review by and transfer to the new President as background information before assuming the position of President. As per our normal custom, the outgoing President will also be recognized at the fall 2010 Banquet with the change of command occurring at the start of the Open Session of the Board of Trustees meeting on October 1, 2010.

During the beginning of the year, the Expanded Roles Subcommittee also implemented the Superintendent's Honor Advisory Group (SHAG) with Trustee Mark Anderson as the Chair. The Subcommittee was comprised of five USAFA grad members and five Non-grad members for a total of 11. After some initial guidance from the Director of the Center for Character and Leadership Development, the Subcommittee received honor briefings and met with cadet forums before deliberating and formulating their findings on the current health of the Cadet Honor System. Their final report was submitted to the Superintendent in September. The Chairman also appointed Trustee Larry Farrell as the new chair of the Expanded Roles Subcommittee and to the Board of Directors.

At the Spring meeting two new initiatives were approved by both the Governing Trustees and the Board of Trustees. A New Trustees Orientation program will be developed so that new Trustees will have an easier time gaining pertinent information about the Falcon Foundation. To facilitate the learning process, the new Trustee will be "linked up" with an experienced Trustee as a sponsor and sounding board on the organization. The second initiative was the approval of a Flight Simulation Lab Station for Wentworth Military Academy and College. As a test case, Wentworth was authorized to set up one Flight Simulation station using approximately \$3,000 of Falcon Foundation funds with the proviso that they build an additional two stations with their own funds. These flight simulation stations will be used by Falcon Scholars to give them a familiarization with flight prior to their entering the USAF Academy. Furthermore, it was suggested that these flight simulation stations be used on a merit system and that they be actively controlled by the school. It was also announced at the spring meeting that the Bud Breckner Memorial named sub-account had reached its minimum goal of \$50,000. This account will provide approximately \$2,000 annually to the Center for Character and Leadership Development Symposium to bring in a "warrior-lecturer" for the attendees of the symposium.

With implementation of the amended and restated Bylaws there was a new requirement for the President to develop an operations plan for the coming year. It was the opinion of the outgoing President that the operations plan should be formulated in the fall meeting for approval by the Governing Trustees and Board of Trustees for the coming calendar year. The operations plan could be initially developed by using the minutes of each committee as the basis for action items for the following year. Also, in what was previously designated as our fall meeting after-lunch strategic session, the President could present the operations plan for approval by the Board of Trustees in addition to modifying the strategic agenda, if needed.

At the beginning of the fall semester, Trustee Ben Bellis was honored by the US Air Force Academy as the recipient of the Distinguished Service Award for his exceptional service to the Academy as President of the Falcon Foundation from 1982 to 2000. In the citation of the award General Bellis was congratulated for his singular efforts in fund-raising, creating an endowment that allowed all 100 scholarships to be offered in perpetuity. President Randy Cubero also noted that, in his opinion, no other President would ever make as significant a contribution to

the Falcon Foundation as former President Ben Bellis.

At the end of the Fall meeting, Trustee Jay Kelley was recommended for the position of President by the Search Committee. He was unanimously elected by the Board of Trustees to serve a five-year term starting at the open session of the fall meeting. Outgoing President Randy Cubero was appropriately acknowledged for his 10 year service to the Falcon Foundation at the fall meeting's formal banquet. In his retirement remarks he thanked everyone in the Foundation for their support of his presidency, especially the committee chairs and members with whom he worked closely over the years. He congratulated the new President and pledged his full support and counsel whenever it might be requested. As in the case of the Chairman's position the year before, the process of succession in the President's position was implemented with ease and satisfaction at all levels.