

ASSOCIATION OF GRADUATES

UNITED STATES AIR FORCE ACADEMY



BOARD OF DIRECTORS MEETING

May 7, 2010

Provisional Meeting Minutes

DRAFT

Board Members Present: Terry Storm, '61, Chair; Brian Binn, '72, Vice Chair; '63; Bob Munson, '73, Secretary; Howard Jack Fry, '67, Treasurer; Michael "Rip" Blaisdell, '62; Roger Carleton, '67; Tom Lockie, '79; Pat Rosenow, '76; Frank Schmuck, '88; John "Wild Bill" Stealey, '70; George Van Wagenen, '67; Jim Wheeler, '64

Board Members Participating By Phone: Vic Andrews, '66; Mark Rosenow, '03

Board Members Absent: Steve Beasley, '93 (currently deployed)

AOG Staff Present: William 'T' Thompson, '73, President & CEO; Gary Howe, '69, Executive VP; Alton Parrish, CFO; Marty Marcolongo, '88, Senior Vice President for Alumni Relations; Jack Mueller, '70, Director of Information Systems; Ruth Reichert, Executive Assistant

Members and Invited Guests Present: Dick Sexton, '60, President, Class Advisory Senate; Dr. Erv Rokke, '62, President, USAFA Endowment; Mark Hille, '97, Vice President of Development, USAFA Endowment; Lt. Gen. Michael C. Gould, '76, USAFA Superintendent; Steve Simon, '77, Graduate/Donor Liaison Development and Alumni Programs USAFA; Ron Scott, '73, Bylaws Review Task Force member; Tom Hayden, '74, Bylaws Review Task Force member

I. Call to Order

The Chairman, Terry Storm, called the meeting of the Association of Graduates Board of Directors to order at 0800 hrs MST, Friday, 7 May 2010.

II. Pledge of Allegiance

Board of Directors and guests recited the Pledge of Allegiance.

III. Introduction

The Chairman asked all directors and guests to introduce themselves, since we have new Board directors among us.

IV. Approval of Consent Agenda

MOTION: Director Munson moved to approve part A of the consent agenda, the minutes of the February 5 Board meeting. The motion was seconded by Director Pat Rosenow and passed unanimously.

Director Wheeler expressed his concerns with part B, the Capital Campaign Final Report. MOTION: Director Stealey moved to accept an amendment to the campaign report. The terminology will be changed from “Final Report” to “Summary”. The motion was seconded by Director Binn and passed unanimously.

MOTION: Director Munson moved to approve the Capital Campaign Summary as presented, seconded by Director Carleton, and the motion passed unanimously.

MOTION: Director Wheeler moved that the minutes for the Nov 2009 Board meeting, approved within the consent agenda at the last meeting, be amended with his statements on the AOG/Endowment MOU (Atch 2). The motion passed unanimously.

V. AOG/USAFA Endowment Update - Part I

General Rokke said that the last four months went very well. For unrestricted funds, of the \$1.8M MOU target for the year, over \$1.1M has been raised. Fundraising for the Indoor Training Facility is nearing completion and groundbreaking can be expected this summer. The next challenge will be the Center for Character and Leadership Development with an opening date of mid July 2012. The first quarter was the most successful in Academy history, and the cooperation with the AOG is great.

VI. Committee Reports

Government Committee

Bylaws Task Force (BLTF)

Director Binn expressed his thanks to Directors Blaisdell (Chair), Mark Rosenow, and Storm; members-at-large Ron Scott and Tom Hayden from the Senate; “T” Thompson and Gary Howe representing the AOG staff; and Senate President Sexton. The Bylaws have been adjusted and the document is more readable, and hopefully, these will be long-standing Bylaws.

Director Blaisdell explained the changes which have been documented in an executive summary as well as a roadmap. In his overview he added that a 25% vote is needed and that he and EVP Howe will mark substantial changes to the Bylaws for everybody to review. CEO Thompson recommended polling the membership. Director Binn suggested that all Board directors take the opportunity to read the draft before the August meeting. Senate President Sexton mentioned that the Class Senate will be extremely useful in getting out the vote. The Senate can act as a filter, process it, and get back with the Board. Chairman Storm said that there won’t be a vote at this meeting, and that the committee members should come back to Director Binn for edits before the vote in August, and it is ok to present it to the senators. Director Schmuck suggested adding the word “draft” to every page of the Bylaws. Director Binn requested that the deadline for the Board input should be June 15. EVP Howe said that the draft needs to be presented to the Senate and not mailed to them. Chairman Storm confirmed that the Board needs the Senate’s input first, before starting a survey to the membership, however, the final say is with the Governance Committee.

Nominating Committee

Director Binn gave an overview of the 2011 elections followed by a discussion of the document *Charge to the Nominating Committee 2011 Elections*.

MOTION: Director Pat Rosenow moved to approve the draft of the *Charge to the Nominating Committee*. The motion was seconded by Director Fry.

Director Stealey suggested a friendly amendment to the Board charge to recruit more civilians and to encourage the Nominating Committee to increase diversity incl. geographical diversity and there were no objections. The motion passed unanimously.

Heritage and Traditions Committee

MOTION: Director Binn moved to approve the members of the Heritage and Traditions Committee as proposed by the Committee Chair. The committee members are: Vic Andrews, '66 (Chair), Brian Binn, '72, Andi Biancur, '60, Ron Yates, '60, Steve Beasley, '93. The motion was seconded by Director Schmuck.

The motion passed unanimously.

Committee Membership for New Directors

The Chair proposed that the Board consider Director Lockie for the Governance Committee and Director Schmuck for the Finance and Investment Committee.

MOTION: Director Fry moved that Director Lockie become a member of the Governance Committee and Director Schmuck a member of the Finance and Investment Committee. This motion was seconded by Director Stealey. The motion passed unanimously.

MOTION: Director Fry moved that Travis Lauritsen, '98, be appointed as a member of the Finance and Investment Committee. This motion was seconded by Director Stealey.

The motion passed unanimously.

Finance & Investment Committee

Director Fry began his briefing with a budget review (though deferred details to the CFO briefing to follow) and provided an update on the overall investment picture. Overall the AOG investments are continue to recover nicely, up approximately 19% fiscal year to date.

Director Fry reported that the Finance Committee recommended re-characterizing two unrestricted-designated endowment accounts to 1) combine the Cadet Leadership Enrichment account with a like permanently restricted account, and 2) to take the 'AOG Endowment Fund' and establish an AOG Reserve fund by combining it with part of the earnings from the Life Membership Fund. Director Fry's rationale for the first part of the motion is that there is no documentation for the source of the \$256,000 nor for the purpose other than the name; it is therefore a sensible proposal to combine accounts and use it for that cadet program. There was general consensus on the need for an AOG Reserve fund and no argument on using LMF investment income as one source of funds. However, there was considerable debate over Director Fry's initial recommendation that the CEO would need to get approval from the Board to use these funds. CEO Thompson pointed out that the auditor's assessment was that investment income from the LMF was properly unrestricted income, and therefore it was improper for the Board to levy a restriction on operations by restricting his use of his operating funds. A number of the directors offered that requiring the CEO to obtain permission to use the funds was in contradiction to governance policy while other directors argued it was necessary to carry

out the wish of the Board to grow a reserve fund. Director Carleton offered that an Executive Limitation be put into the policy manual to ensure that the Reserve be used for the intended purpose; Director Munson offered language for the Policy manual that would do just that. The Chair concluded that Director Fry's motion not address the issue of restricting the Reserve and that the matter be determined at the next meeting.

MOTION: Director Fry moved, and Director Schmuck seconded,

- 1) that the "Cadet Leadership Enrichment" line within the Unrestricted-Designated account (list at \$256,000 on 2009 account) be re-designated as Permanently Restricted and combined with the "Cadet Leadership Enrichment" line (June 2009 \$154,851) which is currently a Permanently Restricted account. The combined account would be managed as an endowment and the earnings accrue to The Cadet Leadership Enrichment – Temporarily Restricted account.
- 2) That the AOG Endowment fund (\$185,285 in the 2009 audit) be combined with the AOG Endowment – Permanently Restricted account (\$41,732 in June 2009) and with the AOG Endowment - Temporarily Restricted funds (\$40,172 in June 2009) into a new Unrestricted Designated account called the AOG Reserve. The purpose of the AOG Reserve is to cover unforeseen shortfalls in income as well as unexpected expenses that cannot be covered by other means. The intent is to grow the AOG Reserve over time to 50% of the annual operating budget. One source of growth will be investment returns of the Life Membership fund that exceed 8% will accrue to the AOG Reserve. AOG Reserve monies in excess of 50% of the annual budget would be Unrestricted-Undesignated and could be allocated to any purpose.

The motion passed unanimously.

MOTION: Director Fry moved to replace the wording in the appendix of the FMIP on Unrestricted Fund and Life Membership Fund in the Definitions Appendix with the following:

Unrestricted Fund: A fund with no external restrictions on its use, i.e. a fund that may be used by the AOG for any purpose within the context of its not-for-profit status that is approved by the Board through the budget. The AOG maintains unrestricted designated and undesignated operating funds.

A. Unrestricted – undesignated net assets are used in the current operations of the Association and equity in property and equipment. Unrestricted revenues are available to meet any Association expenditures.

B. Unrestricted – designated net assets are funds designated by the Board of Directors for specific purposes. These funds are not subject to donor restrictions and may be expended at the Board's discretion

Life Membership Fund: Fund designated to hold life membership dues used to provide benefits to Life Members during their lifetimes. (see Section 1.10)

Director Pat Rosenow seconded and the motion passed unanimously.

MOTION: Director Fry moved to change Section 1.5 of the FMIP with the following:

The Committee's duties are to:

- 1) Review the AOG's Financial Management and Investment Plan (FMIP), financial condition, investment portfolio and budget, and make recommendations to the Board for modifications as appropriate.
- 2) Review quarterly financial reports prior to staff presentation to the BOD.
- 3) Review the annual budget prior to staff presentation to the BOD with emphasis on:
 - (a) how the budget aligns with the Ends as outlined in BOD Governance Policies and
 - (b) how the budget supports specific friend raising activities, for example, chapter growth and graduate outreach activities.
- 4) Establish the AOG's Investment Policy in coordination with its Investment Subcommittee.
- 5) Appoint a liaison to the Audit Committee.

Director Stealey seconded and the motion passed unanimously.

MOTION: Director Fry moved to change the FMIP Section 1.10 Life membership fund to read as follows:

The first 8.0% of Investment earnings on the Life Membership Fund in any fiscal year accrue to unrestricted – undesignated net assets and are used in the operations of the AOG. Investment earnings of the Life Membership Fund in any fiscal year of greater than 8.0% will accrue to unrestricted – designated funds as the AOG Reserve Account.

Director Stealey seconded and the motion passed unanimously.

VII. Senate Update

Senate President Sexton remarked that the minutes of the last Senate Meeting had been sent to all Board directors by email. He mentioned that communication is more difficult the more members you have to contact. In order to improve this, the Senate is working with the AOG IT department to establish better communications. They are also checking into a way of having some kind of webcast for meetings instead of a pure conference call.

VIII. AOG/USAFA Endowment Update – Part II

Director Carleton reported that the Endowment Board meeting that he, AOG Board Chair Storm, and CEO Thompson attended was successful from a communications standpoint.

IX. Visit by Lt. Gen. Michael C. Gould, '76, USAFA Superintendent

General Mike Gould was welcomed and introduced to the new Board Directors by Chairman Storm. General Gould thanked the directors again for the partnership with the USAFA Endowment and all of the work that was put in it. He also reiterated that the Association of Graduates is valuable to the institution and it is important that cadets and graduates become more and more aware of this. Part of their appreciation to their school is to give back in some way. He mentioned the Class of 2010 project of contributing \$20.10 each month to build a fund for their 10th reunion; his Finance and the JAG officers are working on an acceptable mechanism to do just that. The Superintendent visited West

Point and his Army counterpart gave him a tour that showed him, among other things, that West Point has a lot more graduate donor support than USAFA. He also mentioned that the Indoor Training Facility is on track to break ground and plans for the Center for Character and Leadership Development are moving forward. The guest speaker at this year's graduation will be Admiral Mike Mullen, Chairman of the Joint Chiefs of Staff. General Gould made it mandatory that all cadets be present for graduation, rather than start summer programs early, to show their respect for the graduating cadets and the institution.

Director Wheeler suggested the AOG consider doing a video "Message from the Superintendent" to encourage graduation participation.

Chairman Storm expressed his thanks to General Gould for inviting him, "T", and Directors Carleton and Munson to attend the Endowment function at his residence.

X. CEO Report

a. Quarterly Financial Update

The CEO presented the statements showing the AOG's financial position, and the CFO completed with an explanation of the financial statements together with a detailed management discussion and analysis and a budget approach. He pointed out that the documents show that the AOG is no longer in the fundraising business. Details at Atch 3.

There was some discussion around the Finance Committee having received the financial read-aheads too late to provide the Board with a report/recommendation. Chairman Storm asked if anybody would like to move to defer the voting on the budget, until the Finance and Investment Committee had a better view. Director Fry wondered if the May Board meeting was the right time to vote on next year's budget, and CFO Parrish responded that it would not make a difference. He also said that this was an evolutionary period: the first time together with the Endowment. The AOG is focusing on chapter development and a largely static budget.

MOTION: Director Binn moved to approve the budget as presented. The motion was seconded by Director Blaisdell. The motion to approve the budget passed unanimously, and the Finance and Investment Committee will work on scheduling Board guidance.

b. Monitoring Reports

The CEO briefed the Board on the following monitoring reports: Executive Limitations: Treatment of Members and Other Constituents; Financial Planning/Budgeting; Board Awareness and Support, and emphasized that the AOG is in compliance with the above.

c. AOG Operations Update

The CEO provided an operations update (Slides at Atch 1):

1. He described the changes in the organizational structure of the AOG primarily in response to the shift of fundraising personnel to the Endowment and the priority now given to friend-raising
2. The CEO presented the progress of the chapter building program. The program has been revamped to provide direct and indirect support to Chapters as well as to provide incentives for success. Corrie Grubbs has been put in charge and a new hire ('99

grad) is in place dedicated to Chapter development. At the beginning of the year there were 31 chapters. Nine have been added in the last quarter alone and another eighteen are in the process of being established.

3. CEO Thompson also talked about future opportunities for the local community to become part of the Air Force Academy, and told the Board that the AOG is now looking for premier aerospace partners. He reminded the Board about the success of last year's corporate contract with USAA.
4. VP for Alumni Relations Marty Marcolongo provided the recommendations to push for increasing life memberships amongst non-members, targeting classes with low membership rates (~1971-1992), before stepping up life membership rates in 2011. He asked the Board to change from a flat \$700 life membership to a sliding scale that would be less for older graduates. The initial discount would be used to push for increasing membership this year. Also, married couples would get a 50% discount for membership for graduate spouses. The price of life memberships doesn't cover the costs of providing life membership benefits and only 1/55 of life members dues are drawn down annually to cover costs of membership.

MOTION: Director Pat Rosenow moved, and Director Stealey seconded, to adopt the life membership rate changes as briefed:

	<u>May-Dec 2010</u>	<u>Jan 2011</u>	<u>grad spouse</u>
<15 years after graduation, cadets	\$700	\$850	+50%
15+ years after graduation	\$620	\$755	+50%
25+ years after graduation	\$540	\$660	+50%
35+ years after graduation	\$460	\$565	+50%
45+ years after graduation	\$380	\$470	+50%

The motion passed unanimously.

d. Graduate Dependent Scholarship

The committee of three graduates evaluated independently a total of 74 applications; the AOG awarded 20 scholarships at \$500 each.

XI. Ends

MOTION: Director Munson moved and Director Blaisdell seconded that Policy 1.0 be amended by removing the current wording and replacing it with Vision and Mission from the Bylaws followed by a rewording of the Ends statement. In the course of debate friendly amendments/rewording suggestions were offered by Directors Fry, Rosenow, Carleton, Binn, Lockie, Munson, and Storm. Director Storm, after asking for floor objections, directed that the secretary incorporate the changes agreed to, as follows:

ENDS: The AOG is the premier support organization for the Academy and its graduates, promoting continued and increased interest in, support of and dedication to the mission, ideals, objectives, activities and heritage of the Academy.

- a. Graduates, cadets and friends are connected to the Academy and each other.

- b. The Academy, its cadets and graduates receive enthusiastic strong support.
- c. Graduates have loyalty to and camaraderie with each other.
- d. The heritage and traditions of the Academy and accomplishments of its graduates are promoted to increase awareness within the graduate community and the nation.
- e. The Academy community values and respects the AOG and its members.

In the spirited debate that followed a number of Directors emphasized that the Ends, as aspirational goals, were not measurable and thus not useful. Director Stealey argued that the Board had a responsibility to provide measurable objectives for the AOG otherwise the CEO could choose his own objectives and declare success with small improvements. Director Fry also pointed out that in managing finances there were no year-to-year measures of success that could be used for assessing the budget. Director Blaisdell pointed out that these Ends were vague and he preferred the current Ends statements. Director Binn countered that the AOG governance policies intentionally leave the means to achieve the Ends to the CEO. Chairman Storm added that the Board uses the Ends to measure the CEO annually and that the Directors determine the measures they will use. CEO Thompson used the example that the Board can decide whether the number of new Chapters opened in a year is adequate or not, and the Board does not have to be specific beforehand. Director Lockie suggested getting a ‘means-oriented’ briefing by the CEO at the end of the year; Director VanWagenen added that it would be nice to see the ‘means’ that the AOG is using. CEO Thompson offered to present them for the next Board meeting.

The motion passed 9-3 (Against: Wheeler, Stealey, Blaisdell)

XII. Unscheduled Business

- Director Pat Rosenow suggested establishing a schedule/slide scale for recognition levels to incentivize younger grads. CEO Thompson will make the suggestion to the Endowment.
- CEO Thompson said he wants to challenge all Board members to focus on the Board’s governance process, section 4.0, that deals with how the Board governs. Chairman Storm tasked the Governance Committee with this.

XIII. Closing Comments from the Chair

Chairman Storm is thankful that “T” is the face of the AOG and the Air Force Academy community. He reminded the Board that the next Board meeting will be August 6, 2010.

XIV. Adjournment

The meeting adjourned at 1730 hrs (MDT).

Respectfully submitted,

Ruth Reichert, Recorder
Robert Munson, Secretary

Attachments:

Attachment 1: Board Presentation Slides

<http://www.usafa.org/about/governance/meetingminutes/may2010/attachment1.pdf>

Attachment 2: Wheeler motion to amend minutes of Nov 09 meeting

<http://www.usafa.org/about/governance/meetingminutes/may2010/attachment2.pdf>

Attachment 3: AOG Financial Summary

<http://www.usafa.org/about/governance/meetingminutes/may2010/attachment3.pdf>

Attachment 4: Board Charge to the Nominating Committee

<http://www.usafa.org/about/governance/meetingminutes/may2010/attachment4.pdf>