

ASSOCIATION OF GRADUATES

UNITED STATES AIR FORCE ACADEMY



BOARD OF DIRECTORS MEETING 2 August 2013 PROVISIONAL Meeting Minutes

Board Members Present: Roger Carleton, '67, Chair; Bob Munson, '73, Secretary; Howard Jack Fry, '67, Treasurer; Vic Andrews, '66; Bruce Wright, '73; Kathleen Rock, '98; Bebe O'Neil, '83; Mike Torreano, '70; Larry Fariss, '75; Mark Rosenow, '03; Kevin Chilton, '76; Dick Sexton, '60, President, Class Advisory Senate. Change by position and Class

Board Members Absent: Drew Miller, '80

Board Members Attending via Teleconference: Steve Beasley, '93

AOG Staff Present: William 'T' Thompson, '73, President & CEO; Gary Howe, '69, Exec. VP; Alton Parrish, Senior Vice President for Finance and CFO; Marty Marcolongo, '88, Senior Vice President for Business Development; Bob McAllister, Senior VP for Communications; Corrie Grubbs, Vice President, Alumni Affairs; Jack Mueller, '70, Director of Information Systems; Hadassa Muñoz, Executive Assistant.

Members and Invited Guests Present: Lt Gen Mike Gould '76, Superintendent USAFA; Mr. James J. Martello '03, USAFA Endowment; Brian Binn, '72 USAFA Chief, Development and Alumni Affairs.

I. Call to Order

The Chairman called the meeting to order at 0910 hours MDT, Friday, 2 August 2013.

II. Moment of Silence & Pledge of Allegiance

III. Notified Absences & Introductions

The Board Chair welcomed each member of the Board and notified the Board that Director Drew Miller would be absent due to scheduling conflicts and Director Steve Beasley would be joining via teleconference.

IV. Consent Agenda Approval

Director Torreano moved and Director Andrews seconded to approve the Consent Agenda. (Minutes of the Board meeting for 3 May 2013). Motion to approve agenda passed unanimously.

V. Approve Agenda

There were no changes offered by the Board to the Chair's agenda.

VI. Committee Updates

A. Secretary's Report

Director Munson, acting on behalf of Secretary Beasley, offered a motion to recognize the service of the Board's previous Chairman and Directors.

MOTION: Director Munson moved, and Director Rosenow seconded, to resolve "The AOG Board of Directors gives its sincere and heartfelt thanks to their departing Directors for their selfless service to the Board, and especially to the membership of the US Air Force Academy Association of Graduates. These Directors: Terry Storm, '61, Rip Blaisdell, '62, and Frank Schmuck, '88; served well in a period marked by the AOG growth in size, expanded services to the Academy and graduates, and maturation of this Board under a performance oriented governance model. Under their collective leadership the AOG is now a stronger organization than it has ever been; due, in no small part, to the outstanding service of these directors." The motion passed unanimously.

Director Munson briefed the Board on the formal process to recognize the Chairman and Directors to include a slab of terrazzo, engraved, for Chairman Storm.

MOTION: Director Munson moved, and Director Andrews, seconded that the Board approve Director O'Neil as Board Secretary. Motion passed unanimously.

B. Governance Committee

i. Director Wright introduced the minor changes to Chapter 2, Executive Limitations. Outlined reducing Chapter 2 from 13 pages to 4 pages. The motion to change any By-Laws was tabled until scheduled review.

MOTION #1: Director Wright moved, and Director Torreano seconded that the entire Chapter 2, of the policy manual be reformatted by removing the redundant first page (except for the overarching policy narrative) and then condensing the subsequent pages into a single point-paper narrative. The motion passed unanimously

MOTION #2: Director Wright moved, and Director Chilton seconded, to change the Chap 2 Policy narrative to read "The CEO shall not cause nor allow any practice, activity, decision or organizational circumstance that is either unlawful, in contravention of AOG Bylaws or these Board Policies, imprudent, or in violation of commonly accepted business and professional ethics and practices." The motion passed unanimously.

MOTION #3: Director Wright moved, and Director Andrews seconded, to change Policy 2.2 #4 from "Prevent staff from grieving to the Board (through the chair) to read "through the Chair of the Audit Committee". The motion passed unanimously.

MOTION #4: Director Wright moved, and Director Andrews seconded, to change Policy 2.4, #11, to remove the phrase “or loans of any type” so that the limitation reads “Allow there to be any un-auditable transactions”. The motion passed unanimously.

MOTION #5: Director Wright moved, and Director Fariss seconded, to insert into 2.9 Board Awareness and Support (and renumber subsequent limitations): 1) Fail to have a current plan to achieve the Board’s Ends. The motion passed unanimously.

MOTION #6: Director Wright moved, and Director Andrews seconded, to add a new 2.12 “With respect to DoD, USAF or USAFA policies that do not materially impact the AOG, the CEO will not render an official opinion or recommendation on such matters, unless formally cleared to do so by the Board of Directors. The motion passed unanimously.

MOTION #7: Director Wright moved, and Director Andrews seconded, to add a new 2.13 “CEO will not fail to abide by the provisions of the current AOG/USAFA Endowment Memorandum of Understanding as approved by the Board of Directors. The motion passed unanimously.

ii. Review Chapter 3 of Policy Manual

Director Chilton introduced a proposed change to Chapter 3 of the Policy Manual. He asked that the Board review the proposed changes for an informed discussion and motions format to follow at the December meeting. He provided the BOD with the current policy reformatted (Atch 7) and proposed changes (Atch 8). These proposed changes highlight, in his opinion, the need to remove the vague wording and clarify a construct in our governance policy that allows the BOD to develop metrics and assessments to evaluate achieving successful ‘ends’ as well as performance incentives for the CEO. Director Fry asked how this differs from the Strategic Ops Plan. Currently, the Carver model is specific in that the BOD provides the CEO with ‘Ends’ and the CEO then determines how (ways and means) to move the organization towards those ends with an operational strategy. The proposed change differs from Carver. A new idea has the BOD set reasonable expectations and shift from an ‘issue’ end-state concept to a strategy and limitations based concept. A “Governance-Management Connection” (Atch 9) defines Strategy as a combination of ends + ways + means. The CEO and AOG team develop the strategy; the Board reviews and approves the plan wherein it derives metrics to evaluate the CEO on the ends within executive limitations. The end state has the BOD and CEO agreeing on a strategy (ends + ways + means). Those efforts define where the AOG is headed (ends), how it intends to get there (ways) and what it intends to do (means). The strategy is linked to the annual budget; strategy accomplishment is measurable; CEO performance metrics are definable. This different policy is meant to remove any constraints with regards to CEO strategy. Director Munson presented a similar process that remains in Carver wherein the BOD, with the CEO, develops the ends. Assignment for the December meeting, review the attachments.

C. Finance & Investment Committee

1. Alternative for Humanitarian Fund

Director Torreano presented the status of assistance funds available to the AOG community. There are currently two funds held: Cadet Fund (\$14,100) for cadet emergency-leave support and Grad Fund (\$35,700) for graduate support when faced with terminal illness and financial hardship, both of which have not been exercised with any regularity. Director Fry stated the small dispersal would not be very impactful. Director Sexton contributed that the wording would be difficult to adequately cover all contingencies and a vote would, most likely, be an emotional response. Director Torreano pointed out the value to the individual graduate as well as to the Class when dispersals are made. EVP Howe highlighted concerns over defining eligibility and restrictions, fund dispersal, administrative oversight, and donor intent to maintain funds' viability and long term sustainability. Director Rosenow stated the financially responsible thing to do would be to combine the smaller funds to the LBL endowment. CEO Thompson stated no agreement exists that dictates how funds are managed or that the termination requires membership notification.

MOTION: Director Fry moved and Director Sexton seconded, that the Board directed Cadet Fund (emergency leave support) and the Graduate Fund (terminally ill support) be closed and the proceeds transferred to the Long Blue Line Endowment. The motion passed 7-2 (opposed: Fariss, Torreano).

2. Investment Report

Director Fry informed the board that the End of Fiscal Year Report was not available due to final numbers not received for all investments. As of August 1st, it was a good year, up significantly, with all objectives within the FMIP policy guidelines. When June numbers are available, the Finance Investment Committee will report out. The SVP for Finance will provide listing of various funds available for operations, with upwards of 60% of earnings being allocated to operations. The Life Membership Fund is worth approximately \$7.7M of those monies and \$1.158M is the AOG Reserve. We will reach our goal of \$1.5M in AOG Reserve fund in two years. At a subsequent meeting of the Investment Subcommittee it was decided to make equal deposits, approximately \$50K a quarter, over the next 7 quarters to meet the AOG Reserve goal. (Atch 3)

3. FMIP Updates

No changes to the current FMIP. The Annual FMIP Review will be presented at the December 2013 meeting.

Director Fry stated that there was no new information to share about the Madoff investment monies. There was a write-off of approximately \$2.0M in December 2008 on two 2003 investments totaling \$2.26M, plus accumulated earnings through November 2008. Litigation is on-going to recoup losses by the major investors and fund managers; the AOG is not a direct litigant but would hope to receive an award through our fund managers in proportion to our investments.

D. Heritage & Traditions Committee

Exec VP Howe briefed the status of the POW Plaque. The next rendering of the piece will be in October. We will have to coordinate meeting with the artist for concept review. The feedback from the Board was that the subject looked too submissive and the desire was for a more defiant impression.

The policy for engraving/inscribing names on the War Memorial Wall was reviewed. Married women killed would show their married name at the time of death and their cadet name in parentheses in the middle. Established methodology for inscribing name, rank, grad year, punctuation, date of death, etc. would be standardized for future entries and in the event the wall is redone. The Class of 1970 has expressed an interest in perhaps redoing the wall at a later date.

MOTION: Director Wright moved to adopt the new policy for inscribing names on the Graduate War Memorial Wall. Director Fry seconded. Motion passed unanimously

Director Torreano briefed where the 'Wall' would be located in the SE Asia Pavilion.

Director Wright highlighted the value of the Heritage Trail and Director Andrews agreed that it brings younger grads to the exhibit and to the Academy grounds in general, as well as solicit input from the graduate community.

E. Awards & Recognition

Director Rock commented on establishing an award for alumni in addition to the DG Award process. The Committee wants to recognize younger graduates either in the private sector or in Air Force ranks. The Awards Committee established an 'Alumni Achievement Award' and would solicit nominations via the AOG BOD or AOG Chapter Presidents. A narrative of the award selection criteria and selection process would be published in Checkpoints articles written by the AOG CEO and the Chairman, or in a separate article. Nominations would be submitted all year long, but award recipients would be considered semi-annually. Director Fariss, Director Andrews, Director Sexton and CEO Thompson commented on whether or not AOG membership was required for selection. Achievements that merit award selection should occur within the most recent 10 years and AOG membership is a strong consideration but not an absolute requirement.

F. Audit Committee

Director Torreano briefed the Board that there is a contract in place, with auditors, Biggs Kofford, and has been in place for the past several years. The audit committee will meet with BiggsKofford in the next few weeks to prepare for the 2013 audit. We anticipate there will be no material findings in the audit. Director Fry acts as a liaison to the audit committee and members include Directors Torreano and Fariss, as well as CPA's Ev Vaughn ('63), Barry Blackman ('65), and Will Honea ('64).

G. Nominating Committee

Director Munson provided the board with a matrix of several talented individuals and their associated experiences that have expressed an interest in an appointed board director position. We currently have 2 open positions for appointed directors. Those individuals that ran for a position were also included. Directors Munson and Beasley discussed what skill set the board needed to augment this BOD. The board is fairly well constructed, but the nominating committee recommends that only one position be considered. Director Chilton shared that larger boards can be difficult to achieve a high degree of effectiveness. Active duty individuals may need command and legal approval to participate. CAS President Sexton added that General Officers bring additional 'horse power' to the issues. Director Chilton mentioned General Sue Desjardins as an additional consideration. He also expressed the importance of personality as well as experience. Director Chilton recommended a face-to-face interview with a few Directors and potential candidates to get a feel for compatibility with the current board. Chairman Carleton recommended that Director Munson call Heather Wilson to gauge her interest in serving on the board. Director Torreano advocated that approaching one individual versus two would leave some flexibility for the board to add talent in the near future. Director Munson requested any and all additional names not annotated on the matrix be emailed to him for review at the next meeting. Item added to the parking lot.

VII. Guest Speaker, Lt Gen Mike Gould '76, Superintendent, USAFA

Lt Gen Gould updated the status of on-going projects and recent personnel changes at the Academy. BG Andy Armacost, MIT graduate and long term member of the faculty in the Management Dept, took over as the Dean of Faculty replacing BG Dana Born. Col Evan Miller is the current Vice Supt, out of the Maintenance and Material career field, most recently from the Pentagon. Col Stacey Hawkins is the current Airbase Wing Commander, also with a Maintenance background, most recently from Tinker AFB. All three are tremendous leaders. Maj Gen (Lt Gen-select) Michelle Johnson, Class of '81, Cadet Wing Commander, Distinguished Graduate, Rhode Scholar, All American Basketball player, will replace Lt Gen Gould and brings a wealth of knowledge and Air Force experience to the job of Superintendent. Change of Command is scheduled for 12 August 2013.

Sequestration has had far reaching effects across various departments. 11 furlough days remain through the end of FY 2013, and upwards of 20% pay cuts affecting a total of 1496 USAFA employees. Jack's Valley was shortened by a few days due to the civilian employees reduced schedule. Challenges will remain in the future as a result of sequestration. CCLD construction is 17 days behind schedule. Completion is scheduled by Sept 2014. The stadium renovation is being worked by DLR Design Co. The plan is to upgrade the East side of the stadium, getting rid of the metal bleachers and replace with club seating, loge seating, and an enclosed facility for concessions and restrooms. It will have fewer seats (42,000) but a more intimate setting. The UE is actively raising funds. Total of \$50M upgrade. The process usually involves bonds and revenue sharing. There is no air staff support for taking on debt but in revenue generation. Parking will be another source of revenue. The Memorial Garden is planned for the East side and may include the AWCM piece dedicated to Gen Olds. Another proposal is to move the Visitor Center closer to I-25 to draw visitors. Placing the Visitor's Center to the front boundary of the AFA and to move the North gate to the west side of the B-52 to create access, yet provide security. There is a proposal to the city for financial assistance under the 'City Tourism Act'. The proposal is to bundle four projects: AFA Visitor's Center, Museum/Olympic Center, The Medical

Bldg/UCCS, and the SkySox Stadium. These improvements equal about \$82M to improve local tourism.

The reports of sexual assaults have raised concern here and in Washington, D.C. There continues to be criticism regarding the numbers of reported assaults. The DoD has directed a 'stand-down.' The AFA has SARP, Sexual Assault Response and Prevention, which is a model program to address such issues. On 24 June, there was a Sec AF directed stand down. 4000+ USAFA personnel gathered in Clune Arena to get briefed on the issues and concerns.

The Inprocessing for the Class of 2017 was a huge success, and the process improvements noted from the Class of 2016 were incorporated - back at Doolittle Hall for this year's in-processing.

VIII. Endowment Update, Mr. James J. Martello, '03

Jimmy Martello briefed the Board about results of 2013 Q2 as the best in the USAFA Endowment history at \$3.05M. They were successful in developing a case statement and marketing strategy for the LBLE. They have 5 new directors, O'Donnel '66, Lupia '67, Martinson '70, Gilbert and Frient '87. The USAFA Endowment has currently raised \$6.5M for the stadium renovation. JCLI (Journal for Character and Leadership Integration) received a \$2.5M gift to get fund raising efforts started. Some new initiatives include plans for including parents in fund raising and the graduating class' first gift.

IX. Senate Update

Director Sexton provided some feedback from the previous CAS meeting. The CAS has 2 basic questions . The MOU and 'How is the AOG doing?' The intent is to increase awareness of the MOU and ensure that the CAS is meeting expectations of the AOG and the BOD. One comment from the CAS was the length of the MOU of 2 years was too short a time period. However, the general consensus from the CAS is that things are going well with no recommendations for change. Director Fariss lauded Director Sexton for his dedicated service as CAS President for the past 6 years. A CAS participant asked about a USAFA 'post grad program.' Director Munson contributed that UCCS participates in such a program for AOC's. There is a Graduate Leadership Symposium planned in 2014.

X. AOG/USAFA Endowment Joint Coordinating Committee

The AOG presented a financial report to the Endowment at their July board meeting. There were a couple key members of the Endowment that were not present. Chairman Carleton presented documentation of the strong fiduciary performance and management of AOG assets. Director Fry presented the past 8 years performance data to include a current budget surplus of \$269K (GAAP basis); Break-even cash basis after \$764K investment sales/disposals. Mr. Parrish emphatically stated when questioned by an Endowment director, that there is a break-even cash-basis budget after taking into account approximately \$764,000 of expected investment sales and liquidations. Overall, the exchange was worthwhile and consideration will be given for exchanges in the future. Director Andrews and Director Fry both commented on the positive nature of the meeting and the need to continue to grow. Director Torreano, a

first time attendee, noted the collegial atmosphere. Chairman Carleton mentioned that the Endowment has some structural issues that need to be addressed before realizing synergies. What type(s) of capital campaign? What governance protocols to adopt? How to maintain transparent financial fidelity?

CEO Thompson commented on why there may be questions concerning how the AOG handles finances and that they are emotional issues and not based in fact. There are two primary issues that may be misunderstood: the Madoff investment and the Sabre Society. He stated the investments made in the Madoff account were prior to the USAFA Endowment/AOG split but the loss was not evident until years later, after the USAFA Endowment/AOG split. The investment in the Madoff accounts was made indirectly. The second concern is the Sabre Society. The claim was that the AOG was using proceeds generated from the Sabre Society to fund operations as opposed to funding projects at the Academy. Supporting documentation shows Sabre Society money is apportioned to support the Air Force Academy and AOG operations.

The best way to dispel any misinformation is to be transparent in communications and provide empirical data supporting financial statements that are available for review on the website.

XI. Staff Report

A. CEO Monitoring Report: Policies 2.4, 2.5, 2.6

The CEO briefed the Board on the following quarterly monitoring items as in compliance: Financial Condition and Activities, Asset Protection and Investment Management (Atch: 4, 5 & 6). Maintaining physical property: due to the volume of merchandise, some inventory is locked up in the basement But outside of the caged area. There are plans to increase the caged area for additional merchandise. He summarized the reports as saying he remained within the Executive Limitations set by the Board in its Policy Manual.

B. Year In Review

CEO Thompson commented that it was a great year across the enterprise. Increases were noted in revenue, membership, merchandizing sales, Chapter growth, Distinguished Chapters, Communications, and member participation. Image and brand all were positive. Plan was \$3M operating with actual revenues of \$3.4, up 10.7%; up YOY 18.6%; Merchandizing was up 52% over budget; up 71% YOY, driven in part by revamping the on-line store, remodel the Doolittle Hall store, and social network advertising. Membership up 10% over budget and up 32% YOY. LMAG (Life Membership at Graduation) for the current year is at 68% with a goal of 70%. LMAG started in mid to late '90's. The enrollment in LMAG has become more cumbersome and not as streamlined as the Naval Academy finance process. Currently, during in-processing, finance personnel are available to facilitate enrollment. CEO Thompson also reviewed gaps in membership, particularly classes '73-'93. There has been limited success with targeting specific classes and individuals providing subsidies for memberships. AOG memberships stand at 58% of AFA graduates currently.

C. Quarterly Financial Update

Sr. VP for Finance and CFO Alton Parrish reported another great year. Total assets over the same reporting period of a year ago increased by 4.7% to \$36.6M. Last year saw an operating loss of \$1.7M. Liabilities decreased primarily due to a payout to Friends of the Library of just over \$1M. Net assets increased approximately \$2.9M. Director Fry complimented the CEO and AOG staff for keeping expenses down and revenues up. A sales agreement with Pentagon Publishing did not meet expectations with regard to ad revenues. The 65/35 revenue split is not ideal.

The Moller Trust had semi-annual distributions in Dec and June. December was invested and June was held in cash. The Superintendent has influence on the use of those funds. Recent Moller funds were used to support the Holaday Athletic Center and CCLD. At the AOG's request a review of the Moller distribution was conducted by Peter Nagle, an attorney who specialized in not-for-profit entities, especially after an IG inspection highlighted some concerns at Navy. It was determined that the AOG has the flexibility, due to trust language, on how to use those funds to benefit the AFA. By the trust language 2% of each Moller distribution is designated for the Superintendent's discretionary use. Over the last 5 years, the AOG has received over \$13M from the Moller fund and distributed to the AFA just under \$11M. (Atch 3)

D. Bed and Breakfast Update

CEO Thompson stated that the B & B program is very successful from both a parent and host family perspective. Parent fee is \$15 tax deductible to defray some program admin costs. (Staff time equates to about 300 man hours/year, mailers, transportation) Director Sexton echoed the sentiment of the success of the program wherein the cadets get to connect with the community and parents get peace of mind that their sons/daughters are in good hands. Information is included in the appointee packet. Director Andrews stated that this program is a 'friend building' opportunity and consideration should be given to reducing the \$15 charge. Chairman Carleton and Director Sexton participate in the B&B program and see the value added over the cadet's four years and beyond.

XII. Executive Session

In accordance with Bylaws Art V Section 8c and 8d, the Chairman went into Executive Session to discuss strategies going forward.

XIII. Unscheduled Business

XIV. Adjourn

The Chair thanked the Board directors and AOG staff for their efforts. Chairman Carleton recognized Director Munson for his stellar service as Secretary and thanked Director O'Neil for serving. The Chair also was appreciative of Directors Wright and Chilton for their efforts in Governance Policy reviews. Director Torreano was thanked for his interest in the Humanitarian Fund. CAS President Sexton was lauded for his six years of dedicated service. The Board will next meet on December 6, 2013. The meeting adjourned at 1600 hours (MDT).

Note: Portions of the minutes have been rearranged from time sequence to topical sequence.

Respectfully submitted,

Hadassa Muñoz, Recorder

Bebe O'Neil, Secretary

1. Minutes of the May 2013 Board meeting
2. Director Wright's Presentation, Chap 2 Policy Manual
3. AOG Quarterly Financial report
4. CEO Policy Compliance Report 2.4
5. CEO Policy Compliance Report 2.5
6. CEO Policy Compliance Report 2.6
7. Chapter 3 Policy Manual Reformatted
8. Proposed Changes to Chapter 3
9. Governance – Management Connection