

ASSOCIATION OF GRADUATES

UNITED STATES AIR FORCE ACADEMY



BOARD OF DIRECTORS MEETING

3 May 2013

APPROVED Meeting Minutes

Board Members Present: Roger Carleton, '67, Vice Chair (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; Drew Miller, '80; Kevin Chilton, '76; Dick Sexton, '60, President, Class Advisory Senate.

Board Members Absent: Steve Beasley, '93

Board Members Attending via Teleconference: Mark Rosenow, '03

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; Jack Mueller, '70, Director of Information Systems; Corrie Grubbs, Vice President, Alumni Affairs, Hadassa Muñoz, Executive Assistant.

Members and Invited Guests Present: Lt Gen Mike Gould '76, Superintendent USAFA; Gen (Ret) Steve Lorenz, '73, President & CEO USAFA Endowment; Brian Binn, '72 USAFA Chief, Development and Alumni Affairs.

I. Call to Order

The Vice Chairman called the meeting to order at 0845 hours MDT, Friday, 3 May 2013.

II. Moment of Silence & Pledge of Allegiance

III. Notified Absences & Introductions

The Board Vice Chair welcomed each member of the Board and notified the Board that Directors Steve Beasley would be absent due to travel and Director Mark Rosenow would be joining via teleconference. He also introduced and welcomed new Directors Mike Torreano; Larry Fariss and Drew Miller.

IV. Election of Board Chair

Director Mark Rosenow, representing the Nominating Committee in Director Beasley's absence, informed that Board that the committee had only received nominations for Roger Carleton as new Board Chair. The Board was asked if anyone else wished to place another name in nomination; none were offered.

MOTION: Director Andrews moved to nominate Roger Carleton as Board Chair. Director Fry seconded. The motion passed unanimously.

V. Chairman's Comments

Board Chair Carleton informed the Board and AOG staff that board meetings will continue as one day meetings. Local Directors will continue, on a voluntary basis, the policy to pay for half the cost of board dinner for out of town directors. He reminded the Directors of the policy that the Board speaks with one voice; Directors are expected to voice their opinions but when the Board approves a motion then the entire Board supports the decision. He also asked that all Directors turn off electronic devices during the meetings.

VI. Approve Agenda

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

VII. Consent Agenda Approval

CEO Thompson asked that the Board change the wording of the provisional minutes of the 1 Feb 2013 meeting (Atch 1) with regard to the motion passed that approved the positions; held by Gary Howe, Corrie Grubbs, Marty Marcolongo, Bob McCallister, and Alton Parrish; be designated as AOG corporate officers. He asked that the names be removed leaving only mention of the office titles to more clearly state that the intent of the Board was to designate the positions, rather than the persons, as corporate officers. This was recommended by the AOG's insurance company.

Secretary Munson moved, and Director Andrews seconded, that recommended to remove the names of Corporate Officers from the 1 February 2013 minutes and only leave their titles.

MOTION: Motion to amend the 1 February 2013 provisional minutes, section XIII C, be amended to read as follows:

“Director Munson moved, and Director Andrews seconded, that under the authority granted by Bylaws, Article IV, Sec.1, the Board appoints the Executive Vice President, Senior Vice Presidents, and Vice President, as additional corporate officers of the AOG having the authority to control, supervise and manage the business affairs of the corporation as delegated by the President and Chief Executive Officer. The Motion passed unanimously.”

The Motion passed unanimously.

MOTION: Director Sexton moved and Director Wright seconded to approve the minutes, as amended, of the 1 February meeting.. Motion to approve passed unanimously with Director Miller abstaining.

VIII. Nominations of Board Officers

Chairman Carleton provided the Board with his nominations for Board Officers and asked for a motion.

MOTION: Director Torreano moved and Director Sexton seconded that Board approve the following as officers: Vic Andrews, Vice Chair; Steve Beasley, Secretary (to commence on or about 1 July 2013); Jack Fry, Treasurer. Motion passed unanimously.

IX. Secretary Report

Board Secretary requested that Directors provide their motions in writing and give to Executive Assistant. He also explained that board minutes according to the Bylaws need to capture the sense of discussions; Directors are asked to review the minutes prior to approval to assure accuracy.

EVP Howe explained that the Conflict of Interest Statement is handed out once a year in the May Board meeting and requested the Directors to review, sign and turn in to him or the Executive Assistant. EVP Howe then briefed the Board on his report regarding the election of Directors. There was an 11% turnout, about the norm for Director elections. Only two members asked for paper ballots, only one used a paper ballot. Fifty percent of the ballots were cast in the first seven days, the remaining half were cast in the subsequent 25 days; he suggested consideration to shorten the election for next time. Ninety-four percent of the voters were satisfied with the process used (details at Atch 2).

MOTION: Director Munson moved, and Director Andrews seconded, that the AOG Board expresses its profound thanks to the parting Board Chair Terry Storm, and Directors Rip Blaisdell and Frank Schmuck, who served all the graduates, cadets and USAF Academy as members of this Board of Directors. The Motion passed unanimously.

A. Governance Committee

Chairman Carleton reviewed his recommendations for appointment of Committee Chairs and Director committee-members (Atch 3). He then asked that for a motion of approval.

MOTION: Director Sexton moved, and Director Miller seconded, that the Board approve the Committee Chairs and Director committee assignments contained in Atch 3. The motion passed unanimously.

B. Finance & Investment Committee

1. 2014 Budget

Committee Chair Fry presented the 2014 budget (details at Atch 4) to the Board for review and approval. The AOG 2014 budget will grow by 13.1% (on a CASH basis) over the 2013 budget to expand on existing programs. The budget includes growth in current income programs but baselines the income from the Endowment at \$600,000; which has been exceeded in the last year. It includes a 6.3% projected return on investment pool of \$27.9M, of which approximately 60% should accrue to operations; the committee believes that the market recovery will stabilize to a more normal return. The AOG reserve should reach its goal of \$1.5M by the end of this FY two years ahead of schedule. He also mentioned that the budget included \$14,400 for director travel should the Board decide to approve covering this expense.

To the question of what are the risks to the budgets, the CFO and CEO explained that in the past the AOG relied on investment income that is now down. The pool of invested funds from which the AOG can draw investment returns has been shrinking as Classes use the USAFA Endowment for holding class gift funds and remaining Class Gifts held

with the AOG are expended. To make up the shortfall, the AOG has grown its business income while adhering to the current MOU that prohibits fundraising, but growth there is limited. Therefore, the biggest risk to growth and security is that the AOG cannot seek donors and donations itself, but must rely on the Endowment which has competing priorities. The AOG use of Investment income and Distributions has dropped 16.73% between 2013 and 2014 (\$912,276 to \$764,230), and it is the intent to continue to reduce the AOG reliance on unrestricted investment returns. One of the reasons for the AOG RESERVE is to offset these unrestricted funds in years of poor investment returns.

MOTION: Director Wright moved to approve the AOG FY 2014 budget. Director Sexton seconded. The motion passed unanimously.

2. Reimbursement for Director Travel

MOTION: Director Sexton moved, and Director Fry seconded, the following: Whereas the AOG Bylaws allow for travel expense reimbursement, and BOD Policy authorizes travel reimbursement, and the AOG has budgeted funds to support reimbursement for travel. The AOG BOD approves reimbursing directors for expenses incident to travel from outside Colorado to the USAF Academy to attend BOD meetings not to exceed \$500. Administration and approval for these travel expenses will be managed by the Treasurer. This approval will remain in effect for FY2014 – 2015 unless amended by the Board.

Director Sexton reiterated that the Class Advisory Senate has consistently supported reimbursing Director travel. Director Andrews questioned if there is a conflict of interest in this Board authorizing itself this reimbursement. Director Chilton said his experience on other boards is consistent with Directors approving a recommendation for reimbursement from a committee; Director Miller agreed and added that he had not served on a board where directors were not reimbursed for expenses. Director Rock restated her opinion that reimbursement will attract candidates for the board who find the \$2000/year cost to volunteer as an impediment to serving. To Director Torreano's question of whether we have a policy against reimbursement, Secretary Munson said that the Bylaws had been changed and then approved by the membership to allow reimbursement. Accordingly, the Board Policies had previously been changed to allow reimbursement, and the Board had approved a budget with funds to reimburse, so that this vote was merely to release those funds. CEO Thompson cautioned that Endowment Board members will use this action to argue that the AOG does not need funds raised by the Endowment; Director Chilton countered he was ready to negotiate that point.

The motion passed 9-1 (opposed: Andrews, abstained: Wright, Rosenow).

C. Heritage & Traditions Committee

Director Mike Torreano updated the Board on the status of the SEA pavilion, reporting that it had just gone through a program review. The pavilion is organized around three pillars: history of the Viet Nam war, Air Force operations in SEA, and accomplishments of Academy graduates in that war. The first 55" monitor will be live on May 17th and set up with a touch screen menu that visitors can use to see programs that relate to locations marked on an artistic bronze wall map. The second screen will be live in July. The Academy lost 150

graduates in that war; he encouraged the Board to visit the pavilion that recognizes and honors all grads who served there.

D. Nominating Committee

Chairman Carleton asked that the Committee provide recommendations for appointed Directors prior to the next meeting.

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

Lt Gen Gould announced that Lt Gen (select) Michelle Johnson will become the next Superintendent on 12 Aug 2013. BGen Dana Born will be retiring and leaving this summer as well and will take a position at the Kennedy School at Harvard. Her replacement will be announced as soon as he/she is approved. Maj Gen (select) Greg Lengyel will be staying on as Commandant for another year before reassignment. He estimated that the Air Force Academy Athletic Corporation will be fully up to running by July or Sep, but there are still some legal questions such as whether it will be able to receive funds from the NCAA. The CCLD building is a vision becoming a reality and is on schedule to be completed by Sep 2014. He discussed the vision for renovating Falcon stadium to become a heritage display while improving the facilities. Lt Gen Gould then discussed the effect of sequestration, which will have a big impact over the long term on the Academy. This includes cuts to infrastructure improvement, civilian hires, civilian furloughs, travel, grounds maintenance, loss the Thunderbirds at graduation, etc. The Academy decrement in the FY 2015 POM is \$50M out of the current \$450M budget, a miniscule amount compared to the overall AF bogey of \$70B, but a big hit to the Academy. He pointed out that the only way to meet that shortfall is largely from manpower, and will force changes that will dramatically alter how the Academy operates. He ended by reporting that eliminating sexual assault receives daily attention; three cadets were convicted by courts martial recently.

XI. Endowment Update, Gen Steve Lorenz '73

Gen Lorenz, Endowment CEO, updated the Board on the status of fund raising for the first quarter of their FY. Some key points include that they have an initial donation to allow initial design work on upgrading the 50-year old football stadium; which they are doing on behalf of the AFAAC. He acknowledged that the Long Blue Line Endowment goal last year was \$150K based on what they thought they could raise; Gen Lorenz feels that this fund's primary source will be from bequests. He briefed the Board that his biggest challenge at present was replacing personnel, particularly his VP for Development.

XII. Senate Update

Director Sexton reviewed the history of the Class Advisory Senate provided recommendations to the Board via its "Moving Forward" white papers. The CAS recently produced its third "Moving Forward" white paper and is now presented to the BOD (Atch 5). The Senate consensus is that the working relationship between the AOG and Endowment is the biggest challenge facing the AOG, and makes recommendations to that end.

MOTION: Director Sexton moved, and Director Andrews seconded, the following: "The Board acknowledges receipt of the Moving Forward, 2013-2015, and takes Recommendation #1 for action. Recommendation #2 will be referred to the President/CEO. The Board tasks its CAS Director to report outcomes back to the Senate at the first CAS meeting 2014."

XIII. Review of Policy Manual 2.0 Executive Limitations

Prior to addressing the task of reviewing the Executive Limitations, Director Wright asked the Board to consider the Bylaws and consider re-working the Purpose/Mission/Vision statements to broaden those statements so as to provide better context to our organizational purpose and to provide a more common basis for our graduate members. His recommended changes (Atch 6) provided for considerable discussion. Director Chilton cautioned about including word-for-word mission statements of the AF or Academy as the AOG would have to go through Bylaws approval process every time a commander decided to amend a mission statement. To Director Munson's question as to whether the proposed changes were meant to change what the AOG does or just to provide context; Director Fry also asked if it would change anything we're doing now. Director Wright answered that the changes were more for context and meant to answer the question as to 'why we support the Academy.' Also, by including mission elements of 'mutual support' and 'service before self' in the purpose of the AOG we would be appealing to common experiences of our graduates who've served on active duty. CEO Thompson pointed out that changing the Bylaws requires considerable time and effort and resources as it takes 25% of the membership voting before a change can take place. Director Wright then turned the Board's attention to the Ends statements in the Policy Manual and recommended that they also be changed in tandem with the Bylaws changes (Atch 6); the Boards' interest was directed toward the last Ends statement that suggested the AOG would work toward gaining the respect of the Air Force as well as the AOG. Director Miller pointed out that the AOG should have an interest in interacting with AF leadership as the AFA could be at risk with coming budget cuts. CEO Thompson said that the proposed Ends statements would change what he does. Director Rock wondered if that would include lobbying; Director Sexton and the CEO pointed out that the AOG cannot lobby, as a 501c3. Director Wright then turned the attention to the changes proposed to Chapter 2 of the policy manual (Atch 6) and asked the Board to look over the proposals for changes to the Executive limitations. The Chair asked Director Wright that these be circulated around and asked that they be put into proposed changes for the next meeting.

XIV. Staff Report

A. Quarterly Financial Update

Senior Vice President for Finance and CFO Alton Parrish presented the quarterly financial report for the period ending 31 Mar 2013. Detailed management discussion and analysis of all significant line items was included (Atch 7). Key points included the following items. Operating results for the three quarters include \$2.586 million in revenues, against expenses of about \$3.035 million, with an operating deficit of about \$449,000, versus a budgeted deficit of \$598,000. Cash and cash equivalents decreased by over \$1.4 million, as those funds were largely used to pay out the Friends of the Library agency funds. (Note: The Friends of the Library moved their funds to the USAFA Endowment.) Investment income of approximately \$1.885 million reflects the much-better-than-expected recovery of the markets through February. Membership dues continued strong through the three quarters and exceeded expectations for the budget, by about 11.4%. Merchandise sales through March dwarfed the year-to-date budget by more than 88%. Royalty income exceeds the previous year results by 19%. Board governance costs being reported reflected the costs of meetings and activities, as well as allocated salaries, payroll taxes and benefits of supporting staff, and

were well below the budget through the third quarter. The Board had no issues with the content of his report. Chairman Carleton complimented CFO Parrish on the financial report presentation.

B. CEO Monitoring Report: Policies 2.1, 2.3, 2.9

The CEO briefed the Board on the following quarterly monitoring items: Treatment of Members & Other Constituents, Financial Planning Budgeting and Board Awareness & Support (Atch: 8, 9 & 10). He summarized the reports as saying he remained within the Executive Limitations set by the Board in its Policy Manual.

C. AOG Operations Update

1. Legacy Class Program

VPAA Corrie Grubbs briefed that the AOG has merged the 40 year Legacy Class program and the 50 year gold bar presentation into a single 50 year Legacy Class program. The goal is to connect classes and promote camaraderie. The cost, at present, is nil unless the 50 year class wants to do something special as the Commandant now pays for Contrails, and the Endowment intends to raise funds to pay for the gold bars. Brian Binn added that the Supe's discretionary fund covered costs related to the Exemplar program. Director Munson noted the problem that though the Commandant is now paying for the Contrails, in the past they have cut those costs out which led to the previous AOG program and that the classes should be prepared to step in with some measure of financial support. CEO Thompson noted that the AOG cannot now solicit funds, per the terms of the MOU with the Endowment.

2. Graduate Dependent Scholarship Report

Vice President for Alumni Affairs Corrie Grubbs presented the list of the AOG Graduate Dependent Scholarships for 2013 for the Boards' approval. The program began in 1984, provides 20 scholarships of \$500 to children of graduates. There were 85 applicants this year, each application was scored independently by the judges, and the top 20 selected were children of graduates from '67-'94.

MOTION: Director Munson moved and Director O'Neil seconded, that the Board approve the AOG's submitted list of AOG Graduate Dependent Scholarships for 2013. The Motion passed unanimously.

D. Business Development

Senior Vice President for Business Development, Marty Marcolongo, '88, briefed the Board on the growth of AOG business revenue from year to year, FY2010-14. At this point, revenue growth has increased from approximately \$1.7M to \$2.6M.

E. Humanitarian Fund

CEO Thompson raised the issue of two humanitarian funds, the Cadet Fund and the Graduate Fund, that were created by the Board around 2003 but have never been used. Neither fund is large, and their defined criteria for use have made them impractical. The Cadet Fund can be used for emergency purposes but by USAFAI can only be used after five other sources are not available. The Graduate Fund is aimed at terminally ill graduate AOG members, and the use criteria are restrictive enough that no one has qualified. He recommended closing the funds and transferring the assets to the LBL fund.

MOTION: Director Fry moved, and Director Fariss 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.

Director Andrews pointed out that, back in AOG fundraising days, the funds were meant to attract donations. Brian Binn suggested changing the cadet fund to support cadet squadron MWR projects. EVP Howe pointed out that administering these funds will have a staff cost. Treasurer Fry remarked that the amount is too small to have an impact on medical care expenses. CEO Thompson added that our member demographic is generally insured, in good shape financially, and enjoys good health. However, Director Fariss pointed out that our membership is aging and more grads might meet criteria. Director Torreano cautioned against being hasty; he pointed out that the Grad Fund money could be used in small ways to provide some measure of support to help widows. He argued that the AOG promotes 'mutual support' and this is one way to achieve that. Director Munson asked if he would like some time to put his thoughts together on using either or both of these funds, and he agreed.

MOTION: Director Munson moved, and Director Chilton seconded, that the previous motion be tabled until the next meeting to allow Director Torreano to examine the current funds and propose an alternate use/criteria. The motion passed 8-3 (opposed: Andrews, Fry, Miller).

XV. Executive Session

In accord with Bylaws Art V Sec 8c and 8d the Chair went into executive session to discuss negotiations with the USAFA Endowment as well as the annual review of the AOG CEO.

When the Board came out of executive session the following motion was reported out:

MOTION: Director Rosenow moved, and Director O'Neil seconded, that the CEO be given \$7500 in incentive compensation for the year. The motion passed unanimously.

XVI. Other Board Actions

The Chair reviewed the Board schedule for the next three months, leading up to the next Board meeting on 2 August. He asked Director Chilton if he would review Chapter 3 of the Board Policy Manual and present any recommendations to the Board at its next meeting.

XVII. Adjourn

The Chair thanked the Board directors and AOG staff for their efforts. The CEO, on behalf of the AOG staff, thanked the Chair for his service over the past years. The Board will next meet on August 2, 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
Robert Munson, Secretary

10 Atch:

1. [Provisional Minutes of the 1 February 2013 Board meeting](#)
2. [2013 Election Results \(Howe\)](#)
3. [Committee Appointments](#)
4. [AOG 2014 Budget](#)
5. [CAS Recommendations “Moving Forward 2013-2015”](#)
6. [Director Wright’s Presentation, Chap 2 Policy Manual](#)
7. [AOG Quarterly Financial report](#)
8. [CEO Policy Compliance Report 2.1](#)
9. [CEO Policy Compliance Report 2.3](#)
10. [CEO Policy Compliance Report 2.9](#)