



BOARD OF DIRECTORS MEETING

Meeting Minutes

4 August 2017

APPROVED

Board Members Present: Cathy McClain '82, Chair; Wally Moorhead '69, Vice Chair; Ginny Caine Tonneson '80, Secretary; Jack Fry '67, Treasurer; Hans Mueh '66; Robert Munson '73; Steve Mueller '79; Frank Gorenc '79; Will Gunn '80; Tamra Rank '83; Glenn Strebe '87; Kathleen Rock '98; Garry Dudley '68, President, Class Advisory Senate.

Board Members Absent: Larry New '76

AOG Staff Present: Marty Marcolongo '88, President and CEO; Gary Howe '69, Executive Vice President; Alton Parrish, CFO and Senior Vice President for Finance; Bob McAllister, Senior Vice President for Communications; Corrie Grubbs, Senior Vice President, Business Operations; Emma Ross, Executive Assistant; Johnny Bollman, Help Desk Specialist.

Members and Guests Present: Superintendent Lt Gen Michelle Johnson '81; Commandant Brig Gen Kristin Goodwin '93; Mike Peterson '87, USAFA/CM; Bart Holaday '65, Interim Chair, USAFA Endowment Board; Stephen Lorenz '73, Interim President and CEO, USAFA Endowment; Tom Hayden '74, Class Advisory Senate; Dick Sexton '60, Class Advisory Senate; Terry Storm '61; Dick Rauschkolb '70.

Members and Guests Present via Teleconference: Mark Rosenow '03; Emma Przybyslawski '10; Rod Henneck '75, Chair, Investment Subcommittee.

I. Call to Order/Chairman's Welcome

Chair McClain called the meeting to order at 8:31 a.m. MDT, Friday, 4 August 2017. There were no changes offered by the Board to the Chair's agenda.

II. Chair's Comments

Chair McClain briefly discussed the focus areas for the meeting, including: 1) the requirements and must-haves for the next USAFA Endowment (UE) MOU; 2) AOG/UE synergy, the status of the single CEO initiative, and other potential options; and 3) AOG Ends and where we want to end up in the next five to ten years.

III. Consent Agenda

The consent agenda included:

- Special Meeting Minutes from 13, 15 February 2017; 6, 7, 8, 14, 16, 20 March 2017; 13-14 April 2017;
- 5 May 2017 Board Meeting Minutes (Atch 1);

- 18-19 May 2017 Special Meeting Minutes; and
- 1 June 2017 Electronic Vote for CEO Employment Agreement.

The consent agenda was approved with no comments.

MOTION: Director Tonneson moved and Director Munson seconded that the below minutes be amended as shown.

- 6 March 2017 Special Meeting – was not a Board meeting, but a voting certification. Delete minutes and add the following to the 5 May 2017 Board Meeting Minutes under ‘Secretary Report.’ “On 6 March 2017, Board Chair Carleton, Secretary Rank, and SVP McAllister met to review the election results for the five new Directors. Chair Carleton was to notify the five graduates elected, while the Nominating Committee Chair, Director New, was to notify the non-selected candidates. Secretary Rank certified the results.”
- 7 and 8 March 2017 Special Meeting Minutes – combine into one set of meeting minutes since the same discussion took place on both days and a quorum existed on both days.
- 14 and 16 March 2017 Special Meeting Minutes – combine into one set of meeting minutes since both meetings authorized the Chair to offer Marty Marcolongo the CEO position and quorums existed both days.
- 20 March 2017 Special Meeting Minutes – delete paragraph III Open Session discussion since this action took place on 14 and 16 March.

The motion passed unanimously. Atch 2 includes the approved, modified minutes.

IV. AOG Updates

a. CEO Review of AOG Performance/Brief Operational Plan (Atch 3)

CEO Marcolongo briefed the Board on the Operational Plan for FY18. As the AOG works on the plan for FY18, they will complete relevant items from the previous plan (FY15-18):

- Emphasize on the Affinity Groups because there is a lot potential and an opportunity to get them better connected.
- Continue to work on how to get in touch with the young alumni by using social media.
- Introduce a program that connects the Firsties to a chapter near their first duty station.
- Increase graduate awareness of Career Services, webinars, and one-one-counseling.

For FY18 the AOG will continue to:

- Increase cooperation/synergy between the AOG and our USAFA Endowment. Some of the things we can do are to develop a process to integrate Major Gift Officers (MGOs) with Chapter Events in regions – push rather than pull.
- Increase the partnership between our respective Parent Coordinator with the USAFA Endowment and continue to build on initial steps taken in Spring/Summer 2017.
- Co-brand/Plan with the Endowment and Athletics to maximize engagement with tailgates and golf.

The AOG will take on new initiatives:

- Soft launch first state of Business-Centric Graduated Interaction which will provide ability for grads to find other grads who own businesses.
- Work with the Endowment to offset operational costs.

b. Financial Statements for the Fiscal period ended 30 June 2017.

- CFO Parrish presented the financial report for the period ending 30 June 2017. Detailed management discussion and analysis of all significant line items were included (Atch 4). Key points included the following items: Total assets increased \$4.1 million year-over-year to \$52.6 million which is an 8.5% increase from the previous year. Total net assets increased about \$3.75 million. Preliminary total operating revenues are \$3.092 million. This is a \$324 million increase from the previous year primarily due to \$174,000 in additional depreciation. Also, there was a \$75,000 increase year over year for salaries, benefits, and taxes and a \$62,000 increase due to the Annual Operating Contract with the USAFA Endowment. The operating deficit is \$1.274 million, which is a deficit of \$671,000 from the previous year. The investment returns allocated \$4.692 million to operations. The net change year over year of \$6.91 million is because of the substantial operating losses in the previous year.

V. Committee Updates

a. Heritage and Traditions Committee

Committee Chair Mueller informed the group that Sue Ross has resigned from the Heritage and Traditions Committee. He then provided an update on the committee's discussions pertaining to the Distinguished Graduate Award. The committee felt it did not have a sense of the Board about whether the Distinguished Graduate Award should continue as it exists today. He pointed out that how to memorialize the Distinguished Graduates changes when the number selected each year is greater than one or two. Chair McClain reminded the group that the Heritage Committee should focus on how to memorialize the Distinguished Graduates, not how many of them should be selected. Director Mueller also commented that the committee needed a sense from the AOG of what was economically feasible and what they would recommend as the best plan to memorialize future Distinguished Graduates. CEO Marcolongo indicated that the AOG would be able to price various memorialization options.

MOTION: Director Munson moved and Director Mueller seconded that the AOG come up with options for honoring the Distinguished Graduates in perpetuity.

A discussion ensued pertaining to the number of awardees. Director Mueh requested that the Distinguished Graduate Award Committee determine the future number of Distinguished Graduates to be selected. Director Rank pointed out that it would not be possible to make such a determination because it depends on the number and quality of submissions. Chair McClain reminded the group that there is a USAFA regulation pertaining to the Distinguished Graduate Award, but it does not specify the number of recipients. Likewise, the AOG process does not include a specified number of award

winners. Nominee packages are considered for three years and the nominator can revamp the package as needed. The motion passed unanimously.

Secretary Note: On 12 July 2017, Director Mueller asked the Board via email for consideration of plaques on the C-123 and F-105 to be placed in the SEA pavilion. There were some recommendations and questions that the Heritage Committee needed to address, but the overall sense of the emails was that the Board considered the plaques appropriate.

b. Finance and Investment Committee

Rod Henneck '75, Chairman of the Investment Subcommittee, gave a quick overview of the qualifications of the committee members, including William Jennings, Ph.D., Kathleen Barchick '89, Jerry Bruni '70, UE Treasurer, and Jack Fry '67. He discussed how the markets have been abnormally low in volatility. The largest peak-to-trough decline in 2017 is only -2.8%, which is significantly lower than the historic normal. The most recently released quarterly earnings (Q1 2017 result) were the best year-over-year earnings for the S&P 500 since 2011. The weak growth a year ago has set the stage for continued strength into 2018. Foreign earnings, particularly emerging markets, appear to be rebounding from a cyclical low. Foreign equity valuations and future earnings growth outlook are favorable versus domestic equities.

The total amount in the investment portfolio grew by almost \$7 million and the weighted returns were 20.87% as of 30 June 2017. We are slightly over-allocated in domestic stocks and limited partnerships, only because our performance has been so prolific, beating the S&P 500 by over 9%. We are under-allocated in fixed income because of our concern with interest rates going up. We have established a short-term pool of 15-20% of total invested assets, which are currently all in the Vanguard Admiral Fund. In equities, we added U.S. and international index funds to reduce sector volatilities. For fixed income, we added the Vanguard Bond Index Fund to reduce volatility and we disposed of underperforming FPA New Income I shares. In real estate, we added a Vanguard REIT Index Fund.

Director Fry mentioned that the Finance and Investment Committee sets a target rate (over and under) and the Investment Subcommittee works within those guidelines. In response to a question about the Madoff payoff, Subcommittee Chair Henneck mentioned that there was a significant possibility that a portion of the money (amount unknown) will be returned between now and the end of the year. Director Strebe asked whether we were looking at rebalancing the portfolio among various assets. Subcommittee Chair Henneck replied that the subcommittee is cognizant of the target rates that are established by policy and will do rebalancing as necessary, keeping an eye on the timing.

Director Strebe mentioned that we may possibly be out of compliance in allocation of investment assets. Director Fry said the reason is because we expect a payout within the next quarter which will bring it down. They will look at this during the next Finance and Investment Committee meeting and if it did not happen, they will rebalance.

Chair McClain called for a Board Meeting (in person or via telecon) in September for a financial update. The Finance and Investment Committee will give their targets and recommended range for the for the UE MOU discussion.

c. Governance Committee

i. Ends Task Force

Task Force Chair Munson indicated the members of the Ends Task Force have talked to the AOG staff, UE, and other Directors get an idea of the vision for the AOG's future with an eye toward redrafting the Ends Statements. He pointed out that we already have direction in terms of why we exist and who we serve from the mission and vision statements. Director Mueller mentioned that we voted on a new vision statement that failed the Bylaws change and wondered how that applied here. The proposed vision statement was a much shorter and higher-level statement. Task Force Chair Munson stated that Task Force used the current Vision statement, but the Board can always propose to the membership to change the Vision statement.

Task Force Chair Munson discussed the distinction between who we serve and to whom we provide services; we only serve the members of the AOG, while we provide services to members, graduates, and the Academy. CEO Marcolongo commented that there is a constant push and pull between those groups. He used the newsletter as an example. Improving communication with non-members impacts the budget, but if we pull the newsletter back from non-members, it takes away revenue and a potential touchpoint for UE. A discussion ensued about the importance of considering whether the UE and AOG services align.

Task Force Chair Munson then focused the discussion on the Ends Policies, which are written with a long-term perspective. He pointed out that we needed to update the Ends Statements for several reasons including the fact that the Board is required to look at Ends every two years, plus the CEO needs updated Ends to translate into the AOG Business Plan, the Board needs the Ends to guide changes in its own governance policies, and the Bylaws-established committees, MOU Task Force, and Umbrella Task Force need Ends to work toward. He showed two versions of Ends Statements, one with a more general aspirational list ("Terry Storm version"), and the second with more specificity in the areas of a) communications and services, b) Academy programs/initiatives, c) financial management, d) operations, e) fundraising, f) partnership building, and g) governance/board relations ("Task Force Consensus version").

A discussion ensued related to the CEO evaluation and the fact that that the Ends Statements are aspirational, subjective, and don't have metrics, while the Executive Limitations are more detailed. Task Force Chair Munson pointed out that from the Ends, the CEO will deliver an Operational Plan with goals. The CEO is evaluated on the Ends and the Executive Limitations. Chair McClain wondered whether anything was stopping us from rating the CEO on the Operational Plan. She suggested that it might be worth actually picking apart the CEO Operational Plan to make sure it maps to the Ends statements, and then at the end of the year, rate the CEO against the Ends, Executive Limitations, and the CEO Operational Plan.

The Board then compared the formats of two versions of the Ends statement. After a discussion about the importance of trust and unity of effort with other organizations, Chair McClain suggested adding an additional item to the “Terry Storm version” along the lines of “foster trust and unity of effort with the other six nonprofits for the support of the Academy.” Chair McClain then took a sense of the Board between the two versions of the Ends Statements. Eight liked the “Terry Storm version,” while three liked the “Task Force Consensus version.” The Ends Task Force will refine the “Terry Storm version” so that the Board can vote on the Ends at the September meeting/telecon (if possible), or at the December meeting.

ii. Executive Limitations

Director Gunn discussed each of the Executive Limitations contained in the Board of Director’s Governance Policies. He pointed out that their purpose is to define limits of CEOs’ authority, and the differences in the Board’s role from the CEO’s role. He recommended updating the official version of the Executive Limitations to reflect the changes made in December 2016 (Limitation 2.4) and February 2016 (Limitation 2.6).

- 2.4: *With respect to the AOG’s actual, ongoing financial condition and activities, the CEO shall not cause or allow the development of fiscal jeopardy or a material deviation of actual expenditures from Board priorities established in Ends policies. Accordingly, the CEO shall not:*
 - 1) *Expend more funds than have been received in the fiscal year taking into account available operating cash on hand.*
- 2.6: *The CEO will not fail to invest operating capital and reserve funds in accord with the current Board-approved Financial Management and Investment Policy (FMIP). Accordingly, the CEO will not fail to:*
 - 1) *Maintain the AOG Reserve at not less than \$2,000,000, and shall not:*
 - a) *Use more than half of the AOG Reserve in any fiscal year without prior Board approval.*

Director Munson pointed out that the changes could be made administratively.

SVP Parish was concerned with the dollar amount listed in 2.6. He pointed out that the policies should outlive specific Boards and specific CEOs, and that if the policy was written so that it did not include a dollar figure, we would not have to keep updating it.

Director Gunn pointed out that the wording of the Limitations was in the negative and that perhaps they should be written in the positive. A discussion ensued. Several Board members thought the wording should be in the positive, while others thought the Limitations could be worded either in the positive or in the negative. A sense of the Board showed that seven Board members wanted to spend the time to look at the Limitations to see if there was a different way to word them, while five did not. Director Gunn took an action to look at the wording in the Executive Limitations.

d. Awards and Recognition Committee

SVP Grubbs provided additional details on the Distinguished Achievement Award. She pointed out that the award was intended to be for a notable achievement in the calendar year, although not everyone agrees that it should be a singular achievement. She recommended it should be Board-directed, similar to an honorary AOG membership. The process is that a recommendation by a Board member is presented to the Awards Committee. The Awards Committee reviews the nominee and makes a recommendation. Nominations are considered in a closed session. The vote is by secret ballot with a unanimous quorum. The AOG would then come up with ways to honor the award recipients (e.g., brunch, dinner, *Checkpoints*), but we need to be careful of how many awards we give so that it does not have a participation award feel. Committee Chair Rock took an action to have the Awards and Recognition Committee discuss questions about whether the award should be for a singular event or a short duration action, with an eye toward the types of singular actions that could be done by people in disparate careers. They will also look at ways we could honor the award recipients.

e. Athletic Liaison Committee

The Athletic Liaison Committee had a very positive meeting with several Athletic Department representatives. Trust was key. They were enthusiastic about joining us in our efforts and integrating with us. For example, we have duplicate data bases. Our data base is self-reported and their data base is from football sales, so they will get more correct data than we will. They are interested in integrating the data bases in the future. The Athletic Liaison Committee plans to meet with the Athletic Department every six months.

f. Umbrella Task Force

Nothing to report.

VI. USAFA Endowment Update

Bart Holaday '65, Interim Chair, USAFA Endowment Board, and Stephen Lorenz '73, Interim President and CEO, USAFA Endowment spoke briefly to the Board. Chair Holaday discussed how the UE exists only to raise money for the Academy and the 501(c)(3)s that support the Academy. Their focus is on how to bring the 501(c)(3)s together to raise money for USAFA. He feels strongly that we need to aim for a single CEO of the Falcon Foundation, UE, and AOG. They are grateful to CEO Marcolongo for his idea of a joint Chief Operating Officer and believe that anything we can do to start working together will help dispel some of the mistrust.

CEO Lorenz talked about the upcoming meeting on 24 August with all of the 501(c)(3) Board Chairs and CEOs to discuss issues and the campaign. The campaign is supposed to be a unifying effort to help support USAFA. Their goal is to have their replacements on board for the meeting. Because of the internal UE situation and the new superintendent, they plan to delay the start of the quiet phase of the campaign by six months, so that it kicks off on 1 July 2018. They cannot afford to not succeed in the capital campaign, so everything needs to be lined up to maximize the chances of success.

Director Fry raised the question about the UE's vision to raise money for the Academy and the 501(c)(3)s and whether the 501(c)(3)s could solicit donors. Chair Holaday said that whatever the donor wants, the UE will do. They will put money where donor wants. For example, if the Falcon Foundation solicits it and the donor wants it to go to the Falcon Foundation, then they will manage it. If the donor wants the UE to manage the donation, they will do so. The experts will help solicit the donors. There will be a booklet to explain the various programs to which they can donate to help fundraise. Chair McClain sought clarification that it will not just be the UE soliciting donors; it will be the UE in lock-step with the other Non-Federal Entities (NFEs) going along as a synchronized team so that the donor will not be repeatedly solicited. CEO Holaday said CEO Lorenz's and his current thinking (but not yet approved) is that the UE should pay for travel expenses. However, because there is a cost to fundraising, they will need some sort of unrestricted gift to reimburse the UE for the cost of raising money.

When asked about the impact on the campaign of not having a single UE/AOG CEO, Chair Holaday explained that while it would have been beneficial to have a single CEO, the UE will continue to move ahead. CEO Lorenz added that a single CEO would send the signal that we are united as one toward helping USAFA. They are confident that their UE replacements will share the same vision. The UE has been staffing up for the campaign and they are hopeful that they will be able to hold onto their fundraisers while the campaign is delayed, but acknowledge that one or two could be recruited away.

VII. Class Advisory Senate Update

Director Dudley reminded the group that Tom Hayden '74 and Dick Sexton '60 joined today's meeting. He encourages their Executive Committee Members and Senators to attend at least one AOG Board meeting and he invited the AOG Board members to attend a Class Advisory Senate meeting. George Larson '62, has stepped aside to allow Richie Sapp '15 to be appointed to the Executive Committee. Mark Volcheff '75 has joined the CAS as a backup Senator for the Class of '75. Director Dudley spoke highly of the presentation given by Kimberly Tebrugge '92, Director of Strategic Communications, at their 10 July Class Advisory Senate meeting and recommends that she be invited to a future AOG Board meeting to do the same powerful presentation. Director Dudley participated in the 3 Aug New Director Orientation session.

VIII. Presentation by the Superintendent, Lt. Gen. Michelle Johnson and the Commandant, Brig. Gen. Kristin Goodwin

Lt Gen Johnson introduced Brig Gen Kristin Goodwin, the new Commandant of Cadets and then gave a short presentation on the status of the Academy. She commented that the institution is going through growing pains, but is ready to blossom. Graduation went quite well, with 979 graduates. The wing GPA of 3.04 was the highest in 20 years. Four hundred eighty graduates went into rated positions, but there is a need for an increased number of pilots. Approximately 65% of graduates went into operations (space, air, cyber). Lt Gen Johnson talked about wanting to deliver the mission in relevant and modern ways because our graduates are going into a world that is networked, global, and that works in coalitions.

The modern Air Force is a team of teams, so we cannot be just platform-centric. She said this was the same idea with the 501(c)(3)'s--a team of teams. She concluded by talking about the status of various programs in the works and the fact that the Academy of the future should be a state-of-the-art, fully integrated innovated institution of higher education, military training, and athletic achievement, grounded in character and leadership.

Big Gen Goodwin talked about Basic Cadet Training. They in-processed 1,216 basics and had a total of 30 who left, which was only 50% of the previous year. They made a concerted effort to help basics who were having a difficult time transitioning. She talked about how she focused on both the basics and the upperclassmen equally and how they implemented a coin ceremony for completion of BCT. Brig Gen Goodwin then discussed how accountability is her "bumper sticker." She is working with the permanent party on several areas including lateness, needing a good process so the staff is not reactionary, communications, manning (single points of failure and vacant billets), and operating instructions.

IX. Executive Session

The Board went into executive session IAW Bylaws Article V Section 8.

X. Open Session

MOTION: Chair McClain moved and Director Rock seconded to:

- remove Sue Ross from the Heritage Committee;
- add Frank Gorenc to the Governance Committee, Nominating Committee, and Heritage Committee;
- dissolve the MOU Committee; and
- move Director Fry, Director Munson, and Director Strebe from the MOU Committee to the Joint Coordination Committee.

The motion passed unanimously. See Atch 5 for updated Committee assignments.

MOTION: Director Gunn moved and Director Dudley seconded that the AOG Board provide the UE \$500,000 by 1 Sep for fundraising efforts.

MOTION: Chair McClain moved and Director Munson seconded that the motion be amended to read as: "Director Gunn moved and Director Dudley seconded that the AOG Board supply \$500,000 toward the UE fundraising staff by 1 Sep 2017."

The motion to amend passed unanimously. The amended motion passed unanimously.

MOTION: The CEO Compensation Committee moved that the Board approved their recommended Calculated Bonus and the Incentive Compensation.

The Board voted 13-1 to pass the motion (Director Rock against).

MOTION: The CEO Compensation Committee moved to approve the Incentive Compensation Agreement for Marty Marcolongo.

The motion was passed unanimously.

XI. Adjournment

Chair McClain thanked everyone for their work. She adjourned the meeting at 6:13 p.m. MDT.

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

Respectfully submitted,

Emma Ross, Recorder
Virginia Caine Tonneson, Secretary

Atch:

1. AOG Board Minutes, 5 May 2017
2. Consent Agenda Minutes
3. CEO Brief and Operation Business Plan FY18
4. AOG Quarterly Financial Report
5. AOG Board Committee Assignments