



BOARD OF DIRECTORS MEETING

1 December 2017 Meeting Minutes

APPROVED

Board Members Present: Cathy McClain '82, Chair; Ginny Caine Tonneson '80, Secretary; Jack Fry '67, Treasurer; Hans Mueh '66; Larry New '76; Robert Munson '73; Steve Mueller '79; Will Gunn '80; Tamra Rank '83; Glenn Strebe '87; Kathleen Rock '98; Mark Rosenow '03; Emma Przybyslawski '10; Garry Dudley '68, President, Class Advisory Senate.

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; Steve Simon, Vice President, Academy and Non-profit Relationships.

Members and Guests Present: Lt Gen Silveria '85, USAFA Superintendent; Lt Gen (Ret) Mike Gould, President/CEO, USAFA Endowment; Doug Brower '72, CAS Vice President; Mark Volcheff '75, Backup CAS Senator; Terry Storm '61; Mike Peterson, USAFA/CM; Steve Hochstetter, Stockman Kast Ryan & Co LLP; Lt Gen (Ret) Jay Kelley, Falcon Foundation President/CEO; Mick Erdle, President/CEO Academy Research and Development Institute; Dr. Nancy Hixon, President/CEO, Air Force Academy Athletic Corporation.

Members and Guests Present via Teleconference: Wally Moorhead '69, Vice Chair; Frank Gorenc '79.

I. Call to Order/Chairman's Welcome

Chair McClain called the meeting to order at 8:30 a.m. MST, Friday, 1 December 2017. There were no changes offered by the Board to the Chair's agenda.

MOTION: Director Gunn moved and Director Munson seconded that the agenda be approved as is.

II. Chair's Comments

Chair McClain briefly discussed the focus areas for the meeting, including the fact that the heads of several of the USAFA supporting foundations would be joining us for lunch.

III. Consent Agenda

The consent agenda included:

- 1 June 2017 Special Meeting Minutes (Atch 1)
- 4 August 2017 Meeting Minutes (Atch 2)
- 12 September 2017 Special Meeting Minutes (Atch 3)

The consent agenda was approved with no comments.

IV. AOG Updates

a. AOG Staff Update

CEO Marcolongo provided updates on AOG activities from August through November (Atch 4). The AOG did the standard fall activities: reunions; tailgates; golf tournaments; two career conferences. However, when the Chapter Presidents met, it was in conjunction with the Parents Club Presidents. This is the first time these two groups have met together. With a lot of cross talk, this should be of benefit down the road. You can see information about them in AOG newsletters.

There was a non-standard activity in which the AOG participated in Washington, D.C. with the Endowment. This was a short notice activity. The Board of Visitors (BOV) was meeting in D.C. and the Superintendent requested an event. The event was held at the National Press Club. Directors Mueller and Rock were there as well. Something similar is planned for December. The AOG, the Endowment, and the AFAAC will have an event around the Army/Air Force Game at Madison Square Garden.

There will also be an unbudgeted activity in June 2018. Every year there is a Joint Service Academy Alumni Executive Conference (JSAAEC). The AOG was to host this in 2019, but the Royal Military College asked if the USAFA AOG would move up a year to be the host. We will have the Merchant Marine, Navy, Army, Coast Guard, and Canadian contingents here. There will be expenses associated with this, but once it is over, the other service academies reimburse per person for the people they send.

Chair McClain asked what is the purpose of JSAAEC? CEO Marcolongo informed the Board that it's for the service academies to cross talk and learn about the various programs each association has, discuss best practices, and discuss any common topics of interest and cooperation.

CEO Marcolongo prefaced his next update by informing the Board that he will start doing "Overview Financials" during his CEO updates. He expressed that if the Board members are only looking at our newsletters, they should know what we are doing on a day-to-day basis, so he wants to point out some high-level items from the financials that he looks at. To see how a quick snapshot on how the AOG is doing, he recommended the Board look at the "Total Revenue" and "Total Operating Expenses" from the financials (Atch 4).

CEO Marcolongo next mentioned an item of concern from the financials which was the “Subsidy from Endowment,” which will fall significantly short from the fiscal-year budget. This is something the AOG will need to keep an eye on and address for the next three quarters.

Chair McClain offered that the budgeted \$1,045,172 from the Endowment has previously been much lower and that the AOG Staff was directed by the Treasurer to bump this up. Director Fry explained to the Board that he directed this since the Investment Committee limited the AOG investment distributions to fund operations at \$600K to achieve a balanced budget.

Director Mueller expressed a concern on the financials related to manpower. He felt that there is turnover in manpower which creates gaps. We should be ensuring that we are adequately funding the manpower requirement and that we are executing the mission with that manpower.

CEO Marcolongo felt the AOG is short in one or two areas and that we need to get the MOU resolved because it will impact funding. We need to be beefed up in history/heritage, and reunions. Director Mueller asked if we are budgeting enough. CEO Marcolongo informed the Board that we are not. Director Mueller asked that CEO Marcolongo provide the shortfall and gaps he sees that need to be addressed in the next CEO update February Board meeting.

Chair McClain pointed out the “Board Governance cost” in the financials and asked what this was for. CFO Parrish explained that a few years ago, the previous Board asked what it cost the Board to run the organization. They wanted a breakdown separate from the “Salaries and Wages” line. CFO Parrish reported a large portion is allocated from salaries and benefits for the AOG senior staff. Chair McClain and Director Strebe did not agree that this should be a separate line item and that it should be included in “Salaries and Wages”.

MOTION: Director Strebe moved and Director Mueh seconded to take the allocated “Board Governance Costs” line and put it into the “Salaries and Wages” line, as appropriate.

A discussion ensued. Director Munson indicated that it would be good to know what it costs to support the Board. SVP Alton noted that there will be a change in accounting procedure that may alter how we report functional expenses, but specific guidance would not be forthcoming until 2019. The motion passed unanimously.

b. CEO Monitoring Report

CEO Monitoring Report. CEO Marcolongo reported he is in compliance with the following items: 2.8 Compensation and Benefits, 2.10 Program/Events/Services, 2.12 Official Opinions or Recommendations, and 2.13 AOG/USAFA Endowment MOU

c. Quarterly Financial Update

CFO Parrish presented to the Board a graph view of the assets and the ownership of those assets (Atch 5).

V. Committee Updates

a. Heritage and Traditions Committee

Committee Chair Mueller began by noting that Amanda Hess is back working for the AOG on a part-time basis, which is helpful to the Heritage Committee because of her background on past decisions and her research abilities. He then talked about the Distinguished Graduate pedestals. Considering the cost and alternative ways to recognize the award recipients, the AOG recommends that they continue to honor the recipients with a pedestal. The Heritage Committee agreed that there would be space to continue with the current recognition scheme.

Committee Chair Mueller then discussed the plaque process in relation to the Southeast Asia Pavilion plaque. The Heritage Committee is charged with ensuring what is put onto the Heritage Trail meets appropriate standards. He indicated that the plaque process has been streamlined. By the time the committee is ready to approve the plaque, it has already gone through a huge amount of research, and has been reviewed by the donor, the AOG, and the committee. Rather than asking the Board to vote on the final plaque, because of the tremendous amount of rigor the plaque has already gone through, the committee will just inform the Board that the new plaque is going up.

He then talked about the Graduate War Memorial and how some graduates have questioned why a particular classmate is not listed. He discussed a case where two names had been brought forward for reconsideration. One name had already been considered twice. Although the committee wants to be inclusive, if someone did not meet the criteria and there is no new information, the decision will be to stand with the initial decision. Committee Chair Mueller mentioned that the original criteria for the War Memorial was essentially whether the graduate was shot down, or more recently, died in a combat zone. One reconsideration related to a graduate who passed away from exposure to Agent Orange, which is recognized by the VA as an attributable cause of death. The original War Memorial criteria did not cover this, so it was not approved. Director Dudley commented that although this was a very emotional issue, it was very thoroughly discussed by the committee. Committee Chair Mueller commented that they need to revisit whether the criteria is keeping rightful people off the wall. Director Munson commented that the criteria was of a higher standard than the Vietnam War Memorial. The criteria for the Graduate War Memorial is on the AOG website, but the approval process is not. It is a formal process whereby the committee establishes formal communication with the advocate, and writes a letter back with the results. Committee Chair Mueller will work with CEO Marcolongo to ensure the process is housed in an appropriate place. In addition, he mentioned that some of the early cases do not have all the documentation, so they are tightening up on keeping track of the discussions and the data on why they made the decisions. He proposed that they amend the procedure minutes to the Heritage Committee minutes.

Committee Chair Mueller concluded by noting they had reviewed the Heritage Committee Operating Instructions and had found no areas that needed changed. He asked that the Board think through what they want the committee to do going forward. Currently the Heritage Committee is a process clearinghouse to make sure the heritage stays consistent with Board guidance, but there is more that could be done. However, we need to be mindful of whether there is a manpower and resource disconnect between what the Board wants done and what the AOG is able to do on their behalf.

b. Finance and Investment Committee

Committee Chair Fry informed the group that the restricted fund report will come from the staff in February, so it was not available for the meeting. Prior to the meeting, he had forwarded several motions to the Board to change the wording of one of the Executive Limitations as well as several paragraphs of the Financial Management and Investment Policy (FMIP) with supporting justification. Changes to the current wording of these statements is shown in italics

- i. Executive Limitation 2.6: The first motion had to do with the reserve fund and how it would be used. Committee Chair Fry talked about the fact that we have long since passed the \$2M mark so as it is written, it no longer makes sense. It also implies that we will need to update the FMIP.

MOTION: The Finance and Investment Committee moved to amend Executive Limitation 2.6 to simply state: *2.6 The CEO will not fail to invest in accordance with the current Board-approved Financial Management and Investment Policy (FMIP).*

There was no discussion and the motion passed unanimously.

- ii. FMIP 1.8: Committee Chair Fry explained that if we want additional reports, they will come through the Finance and Investment Committee. For example, we are now getting reports on Board-directed funds on a quarterly basis. Chair McClain clarified that while directors can request reports, those requests need to be funneled through the Finance and Investment Committee and not directly to the staff.

MOTION: The Finance and Investment Committee moved to add the following statement to FMIP 1.8 - Financial Reporting, Paragraph 1: *Additional reports on Restricted or Board designated funds may be requested through the Finance and Investment Committee.*

There was no discussion and the motion passed unanimously.

- iii. FMIP 1.11: Committee Chair Fry explained we have gone back and forth with the reserve fund being a separate entity with earnings and losses accrued to it, to just a stated amount without an earning and losses report to it. We now think it needs to be an individual account again with earnings and loss accrued to it, but invested like the short term.

MOTION: The Finance and Investment Committee moves to modify FMIP 1.11- Operating Funds and Short Term Accounts, Paragraph 1 to read: 1) Assets the AOG anticipates using *within the next 24 months*, or.

There was no discussion and the motion passed unanimously.

- iv. FMIP 1.12: Committee Chair Fry explained we maintain unrestricted net assets and the Finance and Investment Committee and/or the CEO can make a recommendation. The recommended changes expand on the authority and set a minimum, which is now based on our budget expenditures. The Reserve will be in a pot by itself with earning and losses that will be separately tracked.

MOTION: The Finance and Investment Committee moves to modify FMIP 1.12 to read as follows:

1. 12 Net Assets - Unrestricted Funds

Unrestricted Net Assets (as shown in the annual Statement of Financial Position) are separated as Invested in Property and Equipment, Available for Operations, and Board Designated.

Unrestricted – Available for Operations

The AOG may annually allocate any unrestricted-undesignated net assets as shown in the Net Assets of the annual audit (Financial Statements) as Unrestricted Available for Operations to the LBL Endowment, AOG Reserve, or other Board approved purpose. The CEO and/or the Finance and Investment Committee, may make a recommendation to the Board for approval of the amount and use of any unrestricted-undesignated net assets.

Unrestricted – Board Designated

Unrestricted – designated funds are for net assets designated by the Board of Directors for specific purposes. These funds will be reviewed by the Board as needed, *but at least annually*. Board-Designated Net Assets which are no longer being used or needed for the specific purpose specified may be directed by the Board for other designated purposes.

The AOG Reserve (an unrestricted-designated fund) sets aside funds to be used by the AOG to address expenditures which exceed revenues during the fiscal year (CASH basis). The minimum amount to be set aside in the Reserve will be not less than half (50%) of the budgeted Cash Basis Operating Expenses (including Operating Capital Purchases). The AOG Reserve will be tracked and invested separately, following the investment policies for the Short-Term Account, with earnings or losses accruing to the AOG Reserve.

The CEO is authorized to use up to half of the AOG Reserve in any fiscal year without prior Board approval and will inform the Board of any use of the AOG Reserve not later than the next Board meeting. If during any fiscal year funds from the AOG Reserve are used (which causes the remaining AOG Reserve to drop below the minimum amount) or the AOG Reserve falls below the designated minimum amount) the CEO will plan to replenish the AOG Reserve back to at least the Board-directed minimum amount as soon as fiscally prudent.

SVP Alton pointed out that when we change the titles, the FMIP Table of Contents will need to be changed as well. Director Tonneson will identify these changes. The motion passed unanimously.

- v. AOG Reserve: Committee Chair Fry reiterated that the Finance and Investment Committee and/or the AOG CEO can redesignate any unrestricted, undesignated funds for other purposes within the AOG. The minimum amount in the AOG Reserve was raised to be at least half of the at the budgeted Cash Basis Operating Expenses, so to comply with that, there needs to be at least \$2.25M in the AOG Reserve, rather than the current \$2M.

MOTION: The Finance and Investment Committee and AOG CEO moved that \$500,000 be transferred from unrestricted, undesignated funds into the AOG Reserve.

Director Munson asked for clarification on the level to which the CEO would have to replenish the AOG Reserve if he had to use the money for an unexpected expenditure. Committee Chair Fry stated that it would need to be replenished to the minimum (50% of the budgeted expenses). The motion passed unanimously.

c. Audit Committee

Director Strebe introduced Steve Hochstetter from Stockman Kast Ryan & Co LLP, the organization which had conducted the annual audit. Mr. Hochstetter provided a summary of the Audit Report (Atch 6). He highlighted what he considered to be the three most important points in the Governance Letter. First, the audit went very well and they had no disagreement with management. Second, there were no disagreement with the management respecting any accounting, auditing, or reporting issues. Third, there were no audit adjustments, which speaks to the quality of the AOG Accounting staff and accounting records, and is an indication that the financial information we receive throughout the year and make decisions on is accurate and reliable information. Mr. Hochstetter then talked about how to read the Audit Report. He highlighted the fact that in the auditors' opinion, the financial statements provided by the AOG "presents fairly, in all material respects" which is the highest level of assurance that auditors give. He also highlighted that the AOG's total assets have increased by \$3.2M, mostly due to an increase in investments. Net income was \$2.8M, compared to a loss in the prior year of \$6.7M. The change was primarily a return on investment; the investment income increased by about \$11.7M over last year. Director Strebe indicated that the Audit Committee had reviewed the report and had voted to accept the audit.

d. Governance Committee

- i. Ends Task Force

The Ends Task Force had done a significant amount of work on revising the Ends statements leading up to the Board meeting. Chair McClain and Terry Storm had then fine-tuned the Ends to achieve the preferred format and intent directed by the Board. Chair McClain presented the revised Ends to the Board for comments. The group looked at suggested wording from Director Gorenc to make the wording more active,

but after Chair McClain reminded the group that these were intended to be end states, which are not active, the group decided to leave the wording of the first four Ends statements as written.

The Directors had a thorough discussion about the fifth Ends statement, which was originally presented as, “The Academy non-profit organizations work together in assisting the entire Academy community.” Although the group initially was concerned as to whether the AOG really had control over what the other non-profit organizations did, after a short discussion, it was decided that the wording of the preamble to the Ends provided an adequate caveat. Discussion continued as to whether the fifth statement was really an Ends statement. Task Force Chair Munson mentioned that the Ends Task Force thought it was a very important outcome, so it should be included as an Ends statement. Discussion then continued about the wording of the “Academy community.” Director Dudley pointed out that “community” might not be the appropriate word because the AOG does not support things like the housing areas, snow plows, and so forth. The group also discussed whether this Ends statement would resonate with graduates, since it was just talking about the Academy. Chair McClain reminded the group that it was one of the three parts of the AOG’s mission. The Board was satisfied with the intent of the statement, but decided to expand the “Academy non-profit organizations” portion to read “Academy supporting organizations” so that it could include other groups that might want to work together in the future. The final version of the preamble and Ends statements are as follows:

For the benefit of the AOG membership and the extent of its resources, the AOG will act to achieve the following Ends:

1. Academy graduates, cadets, and friends are connected with each other and the Academy.
2. AOG members receive superior services.
3. The Academy, its cadets, and graduates are strongly and enthusiastically supported.
4. Academy heritage, traditions, and the accomplishments of its graduates are of great value to our nation and are publicly honored.
5. Academy supporting organizations work together in assisting the Academy.

MOTION: Chair McClain moved and Director Tonneson seconded adopting the preamble and Ends statements as written. The motion passed unanimously.

ii. Executive Limitations

During the August Board meeting, Director Gunn took an action to review the wording of the Executive Limitations. Director Gunn rewrote the Executive Limitations as positive statements, rather than negative statements, and had proposed renaming them, “Executive Requirements.” During a short discussion on the topic, Director New warned of the possibility of the list growing if the limitations were termed in the positive and Director Fry wondered whether wording it in the positive would stifle the CEO’s initiative. Although Director Gunn had prepared a motion

related to the reworded statements, the rewritten statements had not yet been reviewed by the Governance Committee, so Chair McClain recommended they go through the full committee first and then be put on the February Board meeting agenda.

e. Awards and Recognition Committee

Committee Chair Rock talked through the background, definition, and general criteria for the Distinguished Achievement Award. She showed examples of singular events that might be applicable for the award and alternative ways that recipients could be recognized. She suggested that the recipient could be briefly recognized during Founder's Day, but solicited the Board's opinion. CEO Marcolongo asked the group whether Founder's Day would then be too long or whether it would be worth the time to recognize the award recipient. Committee Chair Rock mentioned that it would entail showing a video that would be less than 5 minutes long, and the award did not need to be given every year. The recipient could be there, but it would not be mandatory. SVP Grubbs recommended that the committee receive the nominations, but the Board decide the recipients. Director Mueller brought up the fact that everything we ask the AOG to do in relation to the award involves the time and resources of the AOG and that we needed weigh that against the value the award provides. CEO Marcolongo said it depends on the "box" we are talking about as far as how extensive the effort would be (creating a video, VIP treatment, etc.). He suggested it needed more discussion. Committee Chair Rock reminded the group that the whole reason why this award was suggested was because of the large delta between the Young Alumni Achievement Award and the Distinguished Graduate Award. A discussion ensued about whether there were other awards that might fill this need. EVP Howe stressed the need for stringent criteria. Director Rosenow indicated that the criteria was more informal by design so that we have an award available if the situation presents itself. Chair McClain asked the committee to come up with a more definitive set of criteria to help inform the submissions and the justification for selection for the February Board meeting.

f. Athletic Liaison Committee

Director Dudley discussed the fact that the Athletic Liaison Committee picked up an action item from the Heritage and Traditions Committee. The task is to ensure a process is in place that allows the Heritage and Traditions Committee to have input to the Athletic Director's office and/or the AFAAC when heritage projects are being discussed for athletic facilities. The approach is to have a heritage update as an ongoing agenda item during the biannual Athletic Liaison Committee meeting with the Athletic Director and AFAAC CEO to ensure coordination is taking place at the appropriate level in the organizations.

VII. Class Advisory Senate Update

Director Dudley announced new three new senators. Roger Hill '70 replaced Chris Dunbar, Derek Hess '80 replaced Mark Reidinger, and Cathy Almand '90 replaced Jay Updegraff. He mentioned the two CAS senators who were in attendance at the Board meeting and the fact that he had shared the foundations letter, which Chair McClain had sent out, with the CAS. He indicated that the CAS would like to know the status of the single CEO so that they could

answer their classmates. Chair McClain indicated this would be discussed in Executive Session.

VIII. Presentation by the Superintendent, Lt Gen Jay Silveria '85

Lt Gen Silveria began his presentation by talking about some of the things that have taken place during his first 100 days. One of the first things he had to deal with was the Prep School incident. Although his subsequent staff tower speech on respect and dignity went viral, he had emphasized respect and dignity from his very first meeting with the cadets and permanent party. He expects a culture of: 1) innovation, 2) assessment and feedback, and 3) respect and dignity. He has had 13 outreach events thus far and would like for us to take advantage of where he is. One of his highlights was having the AOG chapter presidents to his house. He has also met the reunion groups and has challenged all the graduates he meets as far as what they are doing for the Academy. General Silveria then provided an update on cadet and Academy events and accomplishments. He talked about three important areas of focus: 1) to develop airmen of character (respect and dignity), 2) to develop airman of warrior ethos (opportunities to do a better job of connecting to the operational AF), and 3) to develop airmen that are innovative at breaking barriers (finding ways to expand research opportunities). He also talked about how we are providing thought leadership in the area of respect and dignity. He discussed the challenge of developing values in an increasingly diverse (in background and upbringing) Cadet Wing. Lt Gen Silveria concluded but mentioning several ways we can work together, such as using him to talk to the AOG chapters and graduates, having him talk to others about USAFA needs and the impact of fundraising, and working together on having more open information for our graduates. He knows the relationship with UE and the AOG is evolving and he asked what he could do to help bring together the 501(c)'s that support the Academy.

IX. USAFA Endowment Update

Lt Gen (Ret) Mike Gould began his presentation by talking about how each of the foundations contributes to the Academy's success and what all seven can do if they are working together for the Academy. He discussed how the UE is a group of professional fundraisers who understand the art of fundraising, the networks, how to steward the gifts, and the entire cycle. However, the UE needs to expand their base of donors, so they do not have to keep going back to the same people. They need to focus more on recent graduates. General Gould then talked about the MOU between the UE and AOG and how there were things included in the original MOU because of trust issues. He commented that we need to trust each other to do the right things for our organizations; consequently, the latest iteration of the MOU is much shorter. It is to our collective benefit to have a robust relationship, and even more important for the Academy.

In response to a comment that one of the reasons people don't give is because they are confused, General Gould mentioned that part of the communication campaign should be to educate our graduate community on what each foundation does individually and how they fit together. He acknowledged that there are a lot of funds and we need to make it less confusing for graduates. He believes it is essential to eventually have a single CEO of the UE, AOG, and probably the Falcon Foundation as there is too much duplication. He views the issue as not about power, but about efficiency and doing the best thing for the Academy. He

commented that if we are not unified in our fundraising effort, we will lose donors. When asked about including ARDI and the Friends of the Library, General Gould commented that they are welcome as well. We are a family of supporting foundations. He is optimistic that the seven foundations can come together to make a better Academy.

XIV. Executive Session

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

XV. Open Session

MOTION: The Awards Committee moved that the Board approve the following additional non-directors for membership on the Awards Committee: Gen Dick Newton '78, Bill Clifford '76, and Brent Wiseman '10.

The motion passed unanimously.

MOTION: The Nomination Committee moved that the Board approve the following five non-directors for membership on the Nominating Committee: Ray Torres '81, Don Avery '76, Wistaria Joseph '93; Bill Clifford '76, and Dave Robinson '76.

The motion passed unanimously.

MOTION: The JCC moved that the CEO be directed to negotiate the MOU with the Endowment. The CEO will seek an agreement that is fair and provides benefit to the AOG and moves the organization toward achievement of the AOG mission and Board's Ends policies. The JCC recommends a 1-year MOU.

The motion passed unanimously.

XVI. Adjournment

Chair McClain thanked everyone for their work. She adjourned the meeting at 5:14 p.m. MST.

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. 1 June 2017 Special Meeting Minutes
2. 4 August 2017 Meeting Minutes
3. 12 September 2017 Special Meeting Minutes
4. CEO Brief to the Board of Directors
5. Quarterly Financial Update
6. Audit Report