



BOARD OF DIRECTORS MEETING

9 November 2018 Meeting Minutes

APPROVED

Board Members Present: Cathy McClain '82, Chair; Jack Fry '67, Treasurer; Ginny Caine Tonneson '80, Secretary; Hans Mueh '66; Larry New '76; Frank Gorenc '79; Steve Mueller '79; Will Gunn '80; Glenn Strebe '87; John Vargas '96; Kathleen Rock '98; Mark Rosenow '03; Emma Przybyslawski '10; Garry Dudley '68, President, Class Advisory Senate.

Board Members Absent: Wally Moorhead '69, Vice Chair.

AOG Staff Present: Marty Marcolongo '88, President and CEO; Steve Simon '77, Executive Vice President; Alton Parrish, CFO and Senior Vice President for Finance; Corrie Grubbs, Senior Vice President, Operations; Emma Ross, Executive Assistant; Daniel Kuhn, IT Support Specialist; Toby Lortz, Director of IT.

Members and Guests Present: Lt Gen Silveria '85, USAFA Superintendent; Lt Gen (Ret) Mike Gould '76, President/CEO, USAFA Endowment; Terry Storm '61; Doug Brower '72, Class Advisory Senate Vice-President and President-elect; Mark Volcheff '75, Back-up Senator, Class of 1975; Stephanie Brown '98; Steve Hochstetter, Stockman Kast Ryan Company; Jena Shueth, Stockman Kast Ryan Company; Lt Col John Easton.

I. Call to Order/Chairman's Welcome

Chair McClain called the meeting to order at 8:30 a.m. MST, Friday, 9 November 2018.

II. Chair's Comments

Chair McClain mentioned the Director who was absent and introduced the guests. She played the AOG-produced *Service for a Lifetime* video.

III. Consent Agenda

The consent agenda included the 3 August 2018 Meeting Minutes (Attachment 1) and the 31 August 2018 E-vote Minutes on the AOG CEO Incentive Compensation Agreement (Attachment 2). The consent agenda was unanimously approved.

IV. Agenda

Chair McClain went over the agenda and discussed the fact that the Directors would be attending the Blue and Silver Club Luncheon and the Jabara Airmanship Award presentation and dinner.

MOTION: Director Tonneson moved and Director Mueh seconded to approve the agenda as is. The motion was unanimously approved.

V. Executive Session

The Board went into executive session IAW Bylaws Article V Section 8 at 8:39 a.m. MST to discuss the Single CEO required/desired attributes, the Single CEO Selection Committee candidates, and the Nominating Committee Director candidates.

MOTION: Director McClain moved and Director Mueller seconded to come out of executive session. The motion passed unanimously.

VI. Open Session

The Board went into open session at 10:40 a.m. MST. The Nominating Committee made a motion, which is reflected below under *Section VII, Committee Updates*.

VII. Committee Updates

a. Nominating Committee

MOTION: The Nominating Committee moved that the following candidates be placed on the ballot for the 2019 election of Directors for the Board. *Note: During the executive session, the Nominating Committee provided a list that did not include three of the names below.*

MOTION TO AMEND: Chair McClain moved and Director Rock seconded that we amend the motion to include the entire list, not the truncated list. The motion passed by a vote of 6-5.

The amended motion reads as follows: The Nominating Committee moved that the following candidates be placed on the ballot for the 2019 election of Directors for the Board.

Derek Oaks, Class of 2001
Stuart Fleming, Class of 2000
Dennis Dabney, Class of 1989
Stuart Hixon, Class of 1983
Ravi Chaudhary, Class of 1993
John Buckley, Class of 1977
Bob Lowe, Class of 1971
Michael Puch, Class of 1995
Dan Vician, Class of 1972
Craig Hancock, Class of 1996
Brian Bishop, Class of 1983
Nancy Taylor, Class of 2001

Allen Myers, Class of 1978
Diann Boyle, Class of 1983
Andrew Hendel, Class of 2009
Will Gunn, Class of 1980
*Mark Volcheff, Class of 1975
*Garry Dudley, Class of 1968
Mark Tobin, Class of 1996
Richard Lesan, Class of 1991
Patrick Yanke, Class of 1993
Omar Ebarb, Class of 1999
Johnny Whitaker, Class of 1973

*Note: *Petition Candidate (required on ballot)*

The amended motion passed unanimously.

b. Audit Committee

Steve Hochstetter and Jena Shueth from Stockman Kast Ryan Company discussed the governance letter and draft audit report. No new accounting policies were adopted, and the application of existing policies was not changed during the fiscal year that ended 30 June 2018. The auditors did not note any difficulties in dealing with management in performing and completing their audit. There were two corrective adjustments as a result of the audit. The first was to recognize a subsidy receivable from the USAFA Endowment of \$400,000 and related contribution revenue due to the new MOU. The second recognized a contribution receivable of \$250,000 from a trust and related contribution revenue. We already have received \$180,000 of that amount.

Total assets increased from \$52.6 million to nearly \$57 million, an increase of nearly \$4.3million, which was due entirely to an increase in the value of our existing investments. Liabilities increased approximately \$600,000 as a result of an increase in the deferred revenues (dues from life memberships). Net assets increased by approximately \$3.7 million. Mr. Hochstetter then discussed the highlights of the report including the statement of activities and statement of cash flows for the year that ended on 30 June 2018 compared to 2017. He summarized several notes to the financial statements including the summary of significant accounting policies, the MOU with the USAFA Endowment, investments and fair value measurements, Board-designated net assets, restricted net assets, endowment funds, program service expenses, and supplemental schedules.

Director Fry asked about the decrease of \$4 million in program service expenses related to the Academy and other services. Mr. Hochstetter explained that we gave fewer grants to the Academy in 2018 compared to 2017. Director Fry stated that these may have been related to the Moller Fund, but they would look at that over the coming months. He also asked about whether there would be any potential issues from an accounting standpoint should the AOG and USAFA Endowment adjust to having the same fiscal years. Mr. Hochstetter does not foresee any significant challenges from an audit perspective. They would either do two AOG audits covering shorter periods of time or just do a longer audit covering the full period. Director Strebe noted that we would still need two separate audits because we would still have two separate organizations. Mr. Hochstetter closed by mentioning that beginning with the new audit year, there will be new accounting standards aimed at making financial statements more transparent. There should not be a significant impact from this change. The final audit report will be made available on the AOG website.

c. Finance and Investment Committee

Committee Chair Fry discussed a small change which the Finance and Investment Committee recommended to the FMIP. Section 1.15 talks about the maximum we can distribute from the endowments and they suggest changing the 3.5% to 4.5% to better support the Academy, cadets, and AOG. In addition, they have reviewed the quarterly financials and for the February meeting they will review the restricted funds.

MOTION: The Finance and Investment Committee moved that the current final paragraph of FMIP section 1.15: *“Accordingly, the AOG currently uses an appropriation for expenditure of 3.5% of the fair market value of each endowment. The appropriation for expenditure was established by BOD action in 2003 and reconfirmed by the BOD in May of 2009.”* be changed to read:

“The appropriation for expenditure was established at 3.5% by BOD action in 2003 and reconfirmed by the BOD in May of 2009. The AOG Board approved an increase in the appropriation for expenditure to not more than 4.5% of the fair market value of each endowment in November of 2018.”

The motion was passed unanimously.

d. Awards and Recognition Committee

Committee Chair Rock reviewed the background of the new distinguished achievement award to honor graduates who have committed extraordinary acts of bravery, either during or outside of their military service with a strong focus on how they have used their USAFA experience in the performance of the act. They had previously engaged the representative of Chesley “Sully” Sullenberger ’73 with respect to naming the award after Mr. Sullenberger. Sullenberger is amenable with some caveats. He has requested that it be a joint award with the AOG and the Academy. SVP Grubbs has been working with Mike Peterson ‘87, USAFA/CM, to determine whether the Academy would be willing to work with the AOG on this award. The package was staffed through the Superintendent. He was very amenable to working with Sullenberger’s team, to their requests that it be an Academy/AOG award, and that it be housed in a manner similar to the Jabara Award. The AOG is still working with Mike Peterson on an Operating Instruction to outline the details of the plan. They want the feel and implementation of the award to be run in a similar manner to the Distinguished Graduate Award. A key issue is determining Sullenberger’s role in the award. The committee needs to figure out the details before starting to consider nominations.

e. Single CEO Communications Task Force

Task Force Chair Przybyslawski provided an outbrief for the Single CEO Communication Task Force (Attachment 3). She reviewed the original taskings,

members, and deliverables for the task force, including the Executive Summary and Frequently Asked Questions, which are posted on the AOG website. She also reviewed the slogan, *Partners for a Stronger Academy*. The task force actions are complete and so they have been disbanded.

f. Governance Committee

Director Rosenow volunteered to review Chapter 4 of the Governance Policies and Chair McClain will review the Governance Policies Table 2 calendar. Chair McClain brought up a discussion on member virtual meeting attendance. This would require a Bylaws change to Article V, Section 8 *Access to Board Meetings*, which states: “All Board meetings shall be open to all members who are able to attend in person.” The Board discussed whether the Bylaws should be changed to state that all members may attend all Board meetings, either in person or virtually. The Directors discussed the pros and cons of the idea. Director Rock brought up the fact that the Board meetings could be recorded, while Director Dudley mentioned that this would also cause the Board to open up all the committee meetings too. A discussion ensued about the benefits and challenges of creating an audio recording. Director Mueller pointed out that the Minutes are already the official record of the Board Meetings. The sense of the Board was to keep the Bylaws as is (11 aye, 3 nay).

Director Mueller then discussed the proposed Bylaws change for a Single CEO. The Board needs to put forward what we actually want changed in the Bylaws for the upcoming vote.

MOTION: Director Mueller moved and Director Gunn seconded that the word “full-time” be deleted from the current Bylaw shown below:

ARTICLE IV. Corporate Officers

Section 1. Corporate Officers: “...The President and CEO shall be a non-active duty graduate member who is a full-time, salaried employee of the AOG.”

The motion passed unanimously.

g. Heritage and Traditions Committee

Committee Chair Mueller reported that they have a nomination for a War Memorial inscription for Captain Mark Weber, who was killed in action in Iraq due to an HH-60 crash. He meets the criteria established for the War Memorial, so the Heritage and Traditions Committee recommend he be added to the wall.

MOTION: The Heritage and Traditions Committee recommended that Captain Mark Weber be added to the War Memorial wall. The motion passed unanimously.

Committee Chair Mueller also discussed several changes to the committee. Ron Yates '60, a long-time member of the Heritage and Traditions Committee, is retiring and the committee recommends keeping him on in an emeritus status. In addition, on 15 January 2019, the committee will lose Director Dudley (due to his tenure as CAS President ending). Also, Robin Rand '79 is retiring out-of-cycle, so the committee will come back to the Board to recommend replacements prior to the next Board meeting. The Board went into executive session to discuss the committee membership. See *Section VIII, Executive Session*.

VIII. Executive Session

The Board went into executive session IAW Bylaws Article V Section 8 at 11:16 a.m. MST to discuss the Heritage and Traditions Committee membership.

MOTION: Chair McClain moved and Director Rock seconded to come out of executive session. The motion passed unanimously.

IX. Open Session

The Board went into open session at 11:18 a.m. MST.

MOTION: The Heritage and Traditions Committee moved to switch Director Dudley from a Director member on the committee to an at-large member of the committee as of 15 January 2019. The motion passed unanimously. This change is noted in the Committee assignments in Attachment 4.

X. Class Advisory Senate Update

Director Dudley informed the Board about three new CAS Senators: Jeff Schofield '67, AJ Ranft '73, and Joe Matchette '89. Doug Brower '72 will take office as the CAS President when Director Dudley's term expires on 15 January 2019. His term will be through 12 January 2021. Directly Dudley also informed the Board that Mark Volcheff '75 (back-up Senator) and he would be running for the AOG Board in the upcoming election. As of 15 January 2019, the new CAS leadership team will include: Doug Brower '72, CAS President (and AOG Board member through 12 January 2021); Randy Helms '79, Vice President; and Andi Vinyard '96, Secretary. Additional Executive Committee members include: Tom Berry '71 (new), Tom Hayden '74, Bruce Mitchell '75, Dan Beatty '76, Heidi Schlagheck '03 (new), and a couple of additional appointed members. The CAS Communication Tool has been updated as of September 2018. Director Dudley reminded the Board to use the tool and to distribute it.

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

Lt Gen Jay Silveria provided a thorough overview of where the Academy has been and where they are going. He highlighted the characteristics of Class of 2018 including their academic accomplishments and their career fields. He also talked about the

characteristics of the Class of 2022, highlighting their lowest-ever attrition rate in BCT (2%). He noted that parental involvement is extremely high and Parents' Clubs have grown significantly. He thinks this involvement is an opportunity for the parents to go back to their towns to tell the USAFA story. Lt Gen Silveria then addressed the fact that his first responsibility is the safety and security of cadets, thus they have installed 2,500 CCTV cameras around the Cadet Area. They are not using the cameras for cadet discipline. He then discussed the AFSCs for the Class of 2019 and the fact that they will have pilot slots for all cadets who want to go to pilot training.

Next, Lt Gen Silveria discussed improvements in the IT infrastructure, renovations in Sijan Hall, the legislative support for naming rights for donor recognition, the improvements in talent management, and the addition of personnel for faulty and accreditation support. He talked about the Non-federal Entity legislation which would allow USAFA leaders to support the AOG, USAFA Endowment, and other foundations. He also mentioned that the Academy is the number one undergraduate funded research institution in the U.S. and the importance of creating an infrastructure to support that.

When asked what the AOG could do to assist him, he mentioned that the AOG could think about the fact that there are many parents who are interested in supporting the Academy, which may present an opportunity for the AOG. He also thinks there is a way that the AOG and Academy can do a better job in finding opportunities for graduates to connect to the Academy and to other graduates. He closed by discussing the fact that collectively we have not built within the cadets and graduates a culture of giving back.

XII. Presentation by the President and CEO, USAFA Endowment, Lt Gen (Ret) Gould '76

Lt Gen (Ret) Mike Gould gave the Board an update on fundraising efforts. It has been the best fundraising year in the history of the USAFA Endowment. As of 31 October, they have raised \$21 million. Fundraising results are up approximately 250% over last year and class giving has increased 342% over last year's total year-to-date. Total assets are up \$16 million from a year ago. Fundraising for the planetarium and STEM Outreach Center has been completed. Lt Gen Gould also discussed the campaign timeline and draft/pre-decisional campaign priorities in the areas of Heritage, Character Development/Military Training, Academics, Athletics, and Other. He talked about the importance of *Service for Life* and the many ways in which donor support has made a difference. He also showed a graph of the 2017 alumni participation rate. Only 14% of USAFA graduates gave last year, while the percentage for Army was 31% and Navy was 24%. If we are going to be excellent in all we do, it depends on philanthropy. He closed by talking about the proposed "Big Idea" that we rally around for the campaign. He provided the Directors with a short paper written by Dr. Paul Kaminski on the topic and the Superintendent's response to it.

XIII. AOG Update

a. CEO Review of AOG Performance

CEO Marcolongo provided an update on how the AOG is supporting the Academy and cadets, graduates, and history and heritage (Attachment 5). For support specifically to the Academy and cadets, he talked about the AOG's assistance to the Superintendent's travel to Chapter/Parent Club locations, support for the Commandant's quarterly updates, and support for the "Lowry Staff Ride." The AOG supported graduates via the Service Academy Career Conferences in San Diego and San Antonio, nine reunions (with very positive feedback), and the Florida athletic pre-game event and Army pre-game event. They have made a soft commitment to at least do something at all the football events and possibly some hockey and rugby events. Under history and heritage, they dedicated a plaque for display at the Lowry site and completed the Distinguished Graduate screen in Doolittle Hall.

He then spent several minutes discussing the fact that merchandising sales were approximately \$40,000 below budget expectations. He explained that he changed the pick-up and drop-off location for reunion attendees to the Field House area rather than Doolittle Hall because it was logistically the best choice for the reunion attendees. SVP Grubbs discussed how the AOG is already considering ways to increase merchandising in FY20, such as moving the reunion registration to Arnold Hall with merchandising there, having a Field House tent, as well as incentives to shop at Doolittle Hall and extended hours.

CEO Marcolongo next talked about the upcoming initiative, *2019-The Year of Graduates Serving Each Other*. They will challenge graduates to actively serve other graduates, such as helping another graduate get a job or helping a graduate through a challenge in his or her life. The AOG is challenging itself to actively serve all graduates. They will have a list of select services to make all graduates feel "part of the AOG family" while continuing to make members feel special. He talked about the idea of having a USAFA Graduate Society separate from the AOG life and annual members. They would have some limited services, but fewer than the life or annual members. He anticipates unveiling this within the next year. CEO Marcolongo does not think there will be much cost associated with a Graduate Society. Director Fry mentioned that we actually may gain revenue from these graduates as they will now know more about AOG products and services.

b. Quarterly Financial Update

CFO Alton Parrish presented the quarterly update (Attachments 6 and 7). Total assets increased by about \$3.15 million year-over-year to \$57.21 million. Liabilities increased by \$249,700, primarily from life memberships. Total unrestricted net assets increased by \$536,100 year-over-year due largely to market returns on the investment portfolio that are allocated to operations and Board-designated funds.

Temporarily restricted net assets increased by \$2.02 million from investment returns allocations. Total net assets increased by about \$2.90 million year-over-year. There was a net surplus for operations of \$677,200 through the first quarter. As of 30 September 2018, we had cash and cash equivalents of \$490,800. There was a cash-basis net surplus of approximately \$230,900 from operating activities. CFO Parish also provided a breakout of the year-to-date \$384,306 of restricted gifts to/for USAFA by pillar. When asked about the fact that salaries and wages were \$15,100 below expected costs, he responded that it was related to the open Vice President of Communications position.

c. CEO Monitoring Reports

CEO Marcolongo noted that the four monitoring reports (2.8 Compensation and Benefits, 2.10 Program Events Services, 2.12 Official Opinions or Recommendations, and AOG-USAFA Endowment MOU) are in compliance. He provided an update on the new MOU per Chair McClain's request. The main impediment to finalizing it is the \$800,000. The USAFA Endowment is no longer receiving \$500,000 from the AOG for the campaign. In other words, their previous "out of pocket" was \$300,000. He believes the MOU will be completed by 31 December, but he will update Chair McClain on the status on 1 December to decide whether there are any actions needed.

CEO Marcolongo also provided an update on the Communication Plan. He showed the current website and what it will look like after 30 November showing the candidate information. Chair McClain suggested that the Directors review the one-page summary of the ways the AOG supports the Academy and the Long Blue Line for when we talk to other graduates. There was a short discussion about the support we provide to parents and Lt Gen Silveria's comments about how to further connect graduates with other graduates.

MOTION: Chair McClain moved and Director Dudley seconded that the AOG create a task force to look at the issue the Superintendent raised concerning the parent opportunity. The task force will include Directors Przybyslawski, Dudley, and Rosenow. They will provide an update at the February Board Meeting. The motion passed unanimously. The establishment of this task force is reflected in Attachment 4.

CEO Marcolongo also talked about a web application West Point has to show the locations of graduates. He is investigating something similar for the AOG, but it depends on whether we want to release personal information on a phone application. Director Gorenc commented that this would be a relatively low-cost opportunity to answer the question of whether the AOG is just for the members or the graduates. CEO Marcolongo then discussed the 2017 election participation percentages by class, highlighting the classes that fell beneath the 25% quorum. All of the classes from 1991, except for 1996, fell beneath that threshold. The classes from 1985 through 2018 are targets of opportunity. They are looking for find "true influencers"

in these classes. Directors Przybyslawski asked whether at sporting events we if we are doing anything about trying to get people to vote. There is a radio spot at the football game, but it could be expanded to other events.

Per a request from Chair McClain, CEO Marcolongo discussed potential methods for member discourse. For example, there could be an unmonitored AOG Facebook page where members could openly discuss the pros and cons of a Single CEO. A discussion on the pros and cons of this idea ensued. Director Gorenc brought up an alternative idea of having an electronic town hall. Another discussion ensued about the merits of this idea, the frequency of potential town halls, and whether all or some of the Directors should attend.

MOTION: Director Gunn moved and Director Przybyslawski seconded that we use a communication device such as a town hall meeting to increase election participation. The motion passed unanimously.

CEO Marcolongo recommended 15 December, 15 January, and 15 February as potential dates for a town hall. In addition, he talked about the AOG chapters we might visit to discuss the Single CEO issue. Chair McClain believes this is an important opportunity to show that the Board is not a faceless entity. Because there is no budget for the visits, we need to do them as frugally as possible. Chair McClain went through the list of potential chapters to solicit volunteers. CEO Marcolongo then showed a biennial election video that will be presented to the chapters. He also discussed what constitutes a quorum for the Bylaws vote. A short discussion ensued with other ideas on how we might encourage a quorum, including calling members and having a competition for the class with the highest participation.

XIV. Chair's Comments

Chair McClain reminded the Board about the Jabara Award reception and asked Director Mueh to discuss an email he had received requesting that the AOG consider a USAFA Center for MIA Archival Investigation. He pointed out that there is already a Defense POW/MIA Accounting Agency which is the gatekeeper for the official MIA records. A short discussion ensued about whether this was appropriate to pursue.

MOTION: Director Fry moved and Director Gunn seconded that Director Mueh respond that it is not appropriate for the AOG to pursue setting up an MIA Center. The motion passed unanimously.

XV. Adjournment

Chair McClain adjourned the meeting at 5: 35 p.m. MST.

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

Respectfully submitted,
Virginia Caine Tonneson, Secretary

Atch:

1. 3 August 2018 Approved Meeting Minutes
2. 31 August 2018 Approved E-vote Minutes
3. Single CEO Communications Task Force Presentation
4. Committees of the Board
5. CEO Brief to the Board of Directors
6. Financial Statements Presentation
7. Quarterly Financial Update