

**ASSOCIATION OF GRADUATES**  
UNITED STATES AIR FORCE ACADEMY



**BOARD OF DIRECTORS MEETING**  
**May 9-10, 2008**  
**PROVISIONAL MINUTES**

**Board Members Present:** Jim Wheeler '64, Chair; Pat Rosenow '76, Vice Chair; Bill Stealey '70, Treasurer; Bill Boisture '67; Mike Flynn '95; George Van Wagenen '67; Allison Hickey '80; Steve Finch '65; Steve Dotson '63; Kevin Carmichael '77; Terry Storm '61

**Board Members Absent:** Fred Gregory '64

**Corporate Officer Present:** Mike Banks '92, Secretary

**AOG Staff Present:** Gary Howe '69, CEO; Leslie Frank, CFO; Alton Parrish; Jeff Mielke '80, Marty Marcolongo '88; Bob McAllister; Teri DeBellis; Ruth Reichert; Jack Mueller, '70

**Members Present:** Dick Sexton '60, President, Class Senate; Bees Kellenbence '78; Dick Rauschkolb '70; Jack Fry '67; Susan Hirst '83; Steve Hirst '81; Mike Jensen '84; George Pollard '72; Steve Simon '77; Jon Shaffer '59

**I. Call to Order/Welcome and Opening Remarks by Chairman**

Jim Wheeler called to order the meeting of the Association of Graduates Board of Directors at 1300, Friday, May 9, 2008. Jim welcomed the directors, staff and guests. Gary Howe introduced the staff. Jim Wheeler offered a moment of silence for Fred Gregory and his family due to the recent passing of his wife.

Jim Wheeler stated that there were three main goals for the meeting. 1) Approve the FY09 Budget, 2) Work on Development Strategic Plan; 3) Discuss relationships with other USAFA Fundraising Groups.

**II. Approval of Consent Agenda**

- a. February 8-9, 2008 Meeting Minutes**
- b. March 26, 2008 Meeting Minutes**

**MOTION:** Terry Storm moved that the Consent Agenda be approved as presented. Bill Stealey seconded the motion. The motion passed unanimously.

Jim Wheeler – Accept Agenda as working agenda.

### **III. Lt Gen John Regni '73, Superintendent**

The Superintendent was accompanied by Capt D'Anne Spence '99, USAFA/CC Aide-de-Camp, and Steve Simon '77, USAFA/CMA.

**MOTION:** Steve Dotson moved that the meeting move into closed session for the meeting with the Superintendent under IAW By-Laws Article 12.2.b. Steve Finch seconded the motion. Terry Storm opposed. The motion passed and the meeting moved to closed session.

The Directors and the Superintendent discussed private funding needs for support of Academy programs and the operation of the AOG. There was an exchange of information and discussions on how the AOG can continue to be a major player as new nonprofit entities come into existence. It was agreed that future exchanges of information and continued cooperation among all interested parties would serve the interests of the Academy and the AOG best.

### **IV. John Martin '69**

Mr. Martin's attorney, John V. McDermott, of Holme Roberts and Owen, accompanied him.

**MOTION:** Steve Finch moved that the meeting move into closed session for the meeting with John Martin. Pat Rosenow seconded the motion. The motion passed unanimously.

Mr. Martin briefed the Board on his personal views related to private gifts accepted by the AOG. He has been a major donor in the past and is concerned about how the new governance changes in the AOG will impact future donors. He expressed concern that the current Board lacks fund raising experience and may not be able to administer major fund raising efforts effectively. Mr. Martin also requested that his funds being held by the AOG for a future Class of 1969 project be transferred to the USAFA Endowment. He indicated to the Board that he would consider legal action if the Board does not honor his request.

Speaking on behalf of the Board, the Jim Wheeler thanked Mr. Martin for his past support and explained some of the practical and legal issues that the Board must consider in addressing his request to move the donated funds to the USAFA Endowment. Jim Wheeler assured Mr. Martin that a full accounting of the funds he donated would be provided in a timely manner.

### **V. RESOURCE PLANNING**

#### **a. Development Update**

Jeff Mielke, Director of Development, briefed the Board on the movement of funds and donations from constituents, graduates, and parents through the third fiscal year quarter. Most of the fundraising metrics are flat with only slight increases. Some of the annual gift pledges are currently not being honored. Parent Sabre Society

memberships have declined slightly, while Graduate Sabre Society memberships are about the same. The amount of the average donation has decreased by \$200.00. Jeff gave a report on active, completed, and pending class projects. The Heritage Trail will be paved before Graduation this month. There will be a follow-up phone campaign on Planned Giving starting this month.

**b. CFO Report**

Leslie Frank, CFO, gave the board a report on finances for the past quarter, and for the nine months ended 31 March 2008. Two new staff members have been hired to fill the Controller and HR Specialist positions.

Reunion revenue has improved due to more attendees and increased spending per attendee. The AOG does solicit new members during reunions. However, the conversion of these members to life membership has been poor.

The AOG wrote off \$1.4 million that related primarily to two (2) large donors that did not fulfill their pledges. Only \$200K was written off from other sources.

Investment returns have performed well in a volatile market. The AOG Fund lost 4.3 percent in the quarter performing much better than the other major indices.

The installation of Financial Edge accounting software is progressing. A consultant should be selected soon. The time frame to complete the installation will be 4-6 months. The plan is to have all FY09 data in the new program.

**c. FY09 Budget Approval**

Bill Stealey presented to the board with the proposed budget for FY09. The Finance Committee worked very hard to develop a balanced budget. The goals were to not spend reserves, reduce expenses significantly, market the AOG, implement chapter outreach, improve development capability, and to continue to make gifts to the Academy.

He then explained the revenue sources for the AOG during FY09. The major source of revenue is cash donations. It makes up about 40% of the AOG's total annual revenue stream.

The largest categories for expenses are salaries, professional services, and development costs. In an effort to affect a major savings, the AOG will not print and mail the Register of Graduates this year. The cost savings is almost \$150K. This reinstatement of a policy first adopted in 2005 also addresses privacy concerns and currency of information.

The budget will add money to improve communications with the Graduate Community. There will also be some minor capital improvements to Doolittle Hall, including new carpeting and blinds. The AOG will decrease unrestricted giving to

the Academy by 50% as a concession to balancing the budget and not spending AOG reserves in FY09.

**MOTION:** Terry Storm moved to approve the budget as presented. Pat Rosenow seconded the motion. The motion passed unanimously.

**d. Audit Committee**

Approval of Auditor

**MOTION:** George Van Wagenen moved that the Board approve BiggsKofford as auditor on recommendation from the Audit Committee. Terry Storm seconded the motion. The motion passed unanimously.

**e. Administration of Class Funds**

At the request of the President of the Class of 1980, the Finance Committee reviewed its policies concerning accrual of interest to non-endowed class gift accounts and the payout rate for endowments. The Finance Committee recommended that the Board of Directors reaffirms that:

1. There are two types of funds: endowment funds and non-endowment funds.
  - a. Endowed funds must maintain their historic value (offset inflation) and, thus, interest earned is accrued to the fund.
  - b. Non-endowed funds do not accrue interest, but their principle is guaranteed and they take no market risk.
2. The AOG payout rate for endowed funds is 3.5% annually.
3. The Class of 1980 is not owed any reimbursement for interest. However, because of the unique circumstances surrounding these two class gift funds, the Board authorizes the establishment of a “sunset annuity.” This allows ’80 to pay an established set amount (dollar, percentage or percentage with minimum dollar amount) annually to support the PEER program while allowing the class to see the gains in market growth for their money. However, this is not a formal endowment and the AOG cannot guarantee the historic value of the fund. The fund may very well be depleted over time. This “sunset annuity” is a one-time exception for the Class of ’80 and will not be offered to other classes in the future. Once established, the payout rate may not be changed. Details of the agreement will be worked out between the Class and the AOG staff.

**MOTION:** Terry Storm moved that the current Class Giving policy is unchanged except for the Class of 1980’s specific case. The motion was seconded by Steve Dotson. The moved failed. Allison Hickey and Bill Stealey abstained.

**MOTION:** Steve Dotson moved the Class of 1980 be given specific relief from Class Giving policy as mutual agreed to by the Class and the AOG. The motion was seconded by Terry Storm. The motion passed. Allison Hickey abstained.

**ACTION:** The staff was tasked to revisit existing policies and to investigate alternate policies for administering Class Funds. The plan was to come back to the Board with recommendations in August.

There was discussion about providing a third option to classes, the sunset annuity. It was suggested that the staff provide an update on how this would affect money in the door.

## **VI. STRATEGIC PLANNING**

### **a. Nominating Committee Report**

Mike Flynn presented to the board the report for the Nominating Committee. The primary focus has been on the bylaws and what an endorsement means. The committee made several recommendations for revisions to the bylaws to the Governance Committee.

### **b. Board Guidance for Nominating Committee 2009 Elections**

Jim Wheeler asked the directors to provide him or the CEO with any inputs concerning guidance and board needs for candidates in the 2009 elections. The committee needs guidance on director skill requirements for the next year's election. The Nominating Committee has lost several members and needs to be reconstituted in accordance with the bylaws.

**ACTION:** The Board must provide instructions to the Nominating Committee concerning the need for a slate of candidates for the 2009 election not later than 1 June 2008.

### **c. Governance Committee**

Pat Rosenow discussed the activities of the Governance Committee. The bylaw review process is still on-going. During the August meeting the committee will present recommendation for changes to the bylaws. The bylaws will require a long term rewrite. Kevin Carmichael said that the bylaws need to be consistent with policy, and be written in clear language that is easy to read and understand.

Gary Howe brought to the Board an Election Proposal from Survey and Ballot Systems (SBS) for transitioning to electronic voting. They proposed three solutions, including costs, for implementing electronic voting. 1) Full Hybrid - \$43,632, 2) Partial Hybrid - \$25,607, 3) All Web with Letter - \$13,868.

In a full hybrid, all members would receive a paper ballot but would be encouraged to vote electronically. The partial hybrid does not send ballots to anyone but allows a member to request a paper ballot. The "all web" proposal requires everyone to vote electronically with no paper option. The Governance Committee's recommendation to the Board was for Option 2 – the Partial Hybrid.

**MOTION:** Terry Storm moved to use the Partial Hybrid voting system for the next election, on recommendation from the Governance Committee. Kevin Carmichael seconded the motion. The motion passed unanimously.

**d. Graduate Dependent Scholarship Results**

The AOG is providing \$20,000 to dependents for college scholarships this year. The AOG wants to remind dependents that they can reapply for the scholarship each year. Allison Hickey, Committee Chair, acknowledged and thanked several graduates and the AOG staff for the work related to selecting the scholarship recipients.

**e. Development Committee Report**

Jeff Mielke briefed the strategic plan for Development. The plan is focused on FY09. The AOG needs to do a better job educating graduates on the costs of fund raising, fund administration and program management and on the philanthropic need to give to the Academy and the Association of Graduates to support alumni programs and operations.

The Board discussed the focus of fundraising and the need to continue fundraising to support an organization with its focus on both alumni and Academy support.

A tiered giving program for the Annual Fund will be presented during the August 2008 meeting.

**f. Joint Working Group Report**

Kevin Carmichael briefed the Board on the Joint Working Group.

**MOTION:** Steve Dotson moved to move to a closed session under IAW Article 12.2b. The motion was seconded by Steve Finch. Terry Storm opposed. The motion passed.

Dick Sexton, President of the Class Senate, was asked to join the session.

**MOTION:** Bill Stealey moved to add Terry Storm to the Joint Working Group. Bill Boisture seconded the motion. The motion passed unanimously.

Joint Working Group discussions related to the draft MOU proposed for consideration by both Boards of Directors were briefed to the Board. Kevin Carmichael analyzed for the Directors the actual costs associated with raising and managing funds donated for Academy and AOG programs. The stated policies of the USAFA Endowment were evaluated and assessed in light of AOG experience in this arena. Practical issues related to the total fund raising process, including administration of the programs being supported, were reviewed and discussed in depth.

It was concluded that the draft MOU was incomplete and could not be accepted in its current form. The Board voted to add Terry Storm to the joint Working Group to keep representation equal for both organizations. The Board requested that Kevin Carmichael continue efforts with the USAFA Endowment representatives on the Joint Working Group to define a course that both organizations can embrace for the future to bring collaborative efforts to bear to support the Academy. It was noted once again that the AOG Board will embrace no policies that will be detrimental to current or long term interests of the AOG or the AOG membership.

**g. Strategic Planning Committee**

Allison Hickey reviewed the current status of putting together this committee. Several issues have to be settled prior to the full development of strategic plan. Communications with membership has shown a strong desire for business networking programs.

**h. Heritage Subcommittee Establishment**

Mike Flynn discussed the need for a stand alone Heritage Committee.

**MOTION:** Mike Flynn moved to establish a Heritage Committee. The motion was seconded by Bill Boisture. The motion passed unanimously.

**ACTION:** Mike Flynn will nominate a director to become chair of the Heritage Committee.

**i. Legal Counsel**

Terry Storm talked about the current legal counsel needs of the organization. He thinks that the AOG should have legal counsel on retainer. The CEO still has authority to seek legal counsel when needed. The Jim Wheeler noted that there may be times when the Board will need legal advice independent of the operational needs of the CEO and staff.

**j. Policy Governance Manual**

Terry Storm presented a draft of the policy manual. He asked that all directors review the document and provide feedback to either himself or Gary Howe.

**ACTION:** Directors provide input to Terry or the CEO and staff prepare final version for the August 2008 Board meeting for approval.

**k. CEO Search Committee Report**

Steve Dotson discussed the search process. The list of candidates has been narrowed to seven from the 42 considered. Formal interviews will be held from 9 – 13 June. The interview process will consist of a wide range of methods and topics. The committee will recommend their candidate during

the August Board meeting. The Chairman thanked the committee for their thorough preparation and hard work.

## **VII. CEO REPORT**

Gary Howe briefed the Board that the reorganization mentioned at the February meeting has been completed. The reorganization improves efficiencies and devotes more resources to chapter and member services. The AOG lost five employees since the February meeting and all have been replaced. We have filled the Controller position that was authorized in February. Staff have adapted well to the changes despite some significant changes in duties and working environment.

The file project and operations manual projects are proceeding satisfactorily.

The CEO showed a chart of activities since the last board meeting (see Board slides). A concerted effort to visit chapters is underway and the CEO has been to California and North Carolina for Founders Day events and to a chapter meeting in Houston. The Board Chair has been to Dallas and San Antonio. Both the Board Chair and CEO are willing to visit any chapter if an audience of 30-40 people can be assured. The 2009 budget contains resources for greater outreach to chapters. There will be renewed emphasis on chapter visits and support, chapter presidents meetings and surveys, and increased recognition for successful programs.

The CEO underscored the importance of getting the Heritage Committee. A number of issues need to be addressed including Memorial Wall Criteria, annual memorial service brochures and procedures, Doolittle Hall displays, Heritage Trail policies, Distinguished Graduate Award parameters, Mall of Heroes policy recommendations and others.

Reunion support will also need to be reviewed and adjusted as we begin celebrating the 50<sup>th</sup> reunions next year. The staff is investigating how West Point and Annapolis accommodate 14 reunions annually.

The Life Membership At Graduation (LMAG) program is not likely to yield as great a participation rate in the future because the Academy Finance Office has determined that cadets may no longer have their payments made by payroll deduction. The AOG staff is reviewing this ruling to see if an appeal is possible.

## **VIII. OPERATIONS**

### **a. Alumni Relations Report**

Mike Flynn discussed moving the responsibility of the Graduate Dependent Scholarship to the staff. No action was requested at this time.

**b. Human Resources Committee**

Steve Dotson reviewed the work the committee is doing to establish a bonus system for the CEO compensation package.

**IX. UNSCHEDULED BUSINESS**

Jim Wheeler discussed concerns some members have about discussions in the press about altering existing policies related to graduate elite athletes are being allowed to serve in the Reserves while pursuing their athletic careers in lieu of completing their original contract to serve on active duty. The Board noted that USMA has adopted a different policy that has been challenged by USNA. Without taking a formal vote, the sense of the Board was support for recent Air Force press releases and statements from the Academy that call for continuation of current DOD policies.

Terry Storm suggested that future Board meetings should be started by reciting the Pledge of Allegiance. There was no opposition.

The meeting adjourned at 1510 MDT, Saturday, May 10, 2008.