

NASDCTEc/NCTEF Finance and Audit Committee

MINUTES
CONFERENCE CALL
September 18, 2014
3 p.m. – 4 p.m.

Attendees: Jo Anne Honeycutt, Tim Hodges, Eric Spencer, Bernadette Howard, Mike Mulvihill, John Fischer

Staff: Karen Hornberger, Kate Blossveren

Guest: Mark Friese, Merrill Lynch Advisor

Welcome: Honeycutt welcomed the Finance and Audit Committee and thanked them for joining the call and for their service.

Approval of Finance Committee Minutes: Honeycutt presented the minutes from January 23 and June 12, 2014 Finance/Audit Committee conference calls.

MOTION: Approve the January 23, 2014 and the June 12, 2014 Finance/Audit Committee minutes. Howard; Fischer.
MOTION ADOPTED.

Overview of Finance Committee: Hornberger shared the basic overview of the Finance/Audit Committee. She explained that it is a joint committee for the Association and the Foundation. Each organization is a separate and individual organization with its own accounts but they have a shared governance through a common set of officers. This shared governance allows us to combine audit and annual financial statements between the two organizations. Because each organization has its own tax ID number, the taxes (990's) must be filed separately. The primary source of funding for the Association is the membership dues and related conferences. Honorariums for staff and Board members will also bring in additional revenue for the organization. Primary funding for the Foundation are products sales and revenue shares.

In terms of the Committee's annual plan of work, generally there are four meetings a year. In January, the Committee will be presented with the draft audit and the 990s. Upon Committee approval, both will be moved forward to the NASDCTEc and NCTEF Boards for final approval. In late May, the Committee will work with the staff on the following year's budget. Interim calls present an opportunity review financial statements, investments and financial policies/procedures. The contracted professional expertise – accountant, auditor and investment advisor – work on behalf of the organizations; the staff encourages the Committee to be briefed by these consultants throughout the year.

NASDCTEc Financial Reports: Hornberger provided an overview of the NASDCTEc FY14 year-end financial reports.

FINANCIAL SNAPSHOT: FY14 - This report provides summary financial information for the period of July 1, 2013 through June 30, 2014 or 100% of the fiscal year.

INCOME: At fiscal year-end, NASDCTEc received 109% of its budgeted income. Of note is that memberships in both categories (state and associate) exceeded targets, as did conference registrations and sponsorships. Overall, NASDCTEc met its budgeted income targets due the higher than projected sponsorships and registrations. Hornberger noted that the accountant and the investment advisor disagree on the interest/dividend amount. The investment advisor reports the interest/dividend as \$61,216) and the accountant reports \$55,406.74. The accountant takes in consideration the bond amortization which is the difference between the two numbers. For consistency in reporting, the budget reflects the accountant's figures.

EXPENSES/LIABILITIES: Overall, NASDCTEc expended 90% of projected expenses. Meeting/meals and AV expenses were slightly over budget due to the increased registrations. The general and administrative expenses are primarily under budget due to staff transitions and conservative efforts of the staff to keep costs down. Hornberger stated that the other over-budget expense to note is the fees for Merrill Lynch. The charges are slightly higher than our target estimates due to the increased value in the portfolio. The Merrill Lynch charges are applied quarterly and are equal to 1% of the investment portfolio at this time.

Discussion: The Committee asked how we were able to come in under budget for the awards/gifts as we were at 63% of budgeted expenses. Hornberger responded that with the additional research we were able to find the State Director Emeritus, Congressional and Star of Education awards cheaper with another vendor.

NCTEF Financial Reports: Hornberger provided an overview of the NCTEF financial reports.

FINANCIAL SNAPSHOT: FY 14 - This report provides summary financial information for the period of July 1, 2013 through June 30, 2014 or 100% of the fiscal year.

INCOME: At fiscal year-end, NCTEF received 83% of its budgeted income however it's important to note that \$189,000 of this "income" is actually reserve withdrawals. Hornberger noted that \$44,000 of that \$189,000 was used to pay for the attrition for the 2013 Career Cluster Institute; the rest of the reserves were used to balance the budget and for the Common Career Technical Core alignment study project.

Hornberger also stated that despite significant marketing and new additions to the National Career Clusters Institute (CCI) program, regrettably, NCTEF did not meet its targeted income mainly due to the lower than projected 2014 CCI attendance and sponsorships. While income for the CCI was down, staff was very attentive to expenses. As a result, expenses were reduced significantly. The approved budget for the CCI had the expense to income ratio at 57%; meaning NCTEF would only expend 57% of the projected income. With conservative efforts, NCTEF was able to further reduce this to 43%. This means NCTEF expended only 43% of the CCI – related income. Please note this ratio does not include staff time and benefits.

Another note to the income is that product sales were at 99% of the budgeted income. This includes the revenue share for the sale of the Career Pathways book, which has been slower to sell than projected.

EXPENSES/LIABILITIES: Hornberger shared that even with the conservative efforts of the staff, there were a couple of areas where expenses exceed budgeted targets. The shipping and credit card fees were over budget due to the way products are bundled, as well as an increase in UPS postage fees that occurred in December 2013. The use of credit cards as a method of payment has become more commonplace, resulting in greater fees. Hornberger also noted that legal fees were over budgeted targets due to Board-approved action for the attorney to review and offer a legal opinion on the funds on account from Microsoft.

MOTION: To approve the NASDCTEc FY14 year-end financial statements as presented. Fischer; Spencer.
MOTION ADOPTED.

MOTION: To approve the NCTEF FY14 year-end financial statements as presented. Hodges; Mulvihill.
MOTION ADOPTED.

Overview of Investments: Hornberger stated that annually the Finance/Audit Committee invites Mark Frieese, our investment advisor from Merrill Lynch, to review NASDCTEc and NCTEF's investment portfolios' performance, market conditions and the Board-approved investment policy statements. He has been our advisor for many years and is a trusted professional.

Frieese stated that our average rate of return varies based on the market. As with most associations, NASDCTEc and NCTEF have a fiduciary responsibility to be careful with the invested funds. There is also a responsibility to manage the funds well, so simply keeping the funds in a non-interest bearing account is generally not within the best interests of most associations. The NASDCTEc/NCTEF investment policy statement reflects a reasonable balance between risk and caution. He noted that the purpose of the investment policy statement is to meet all the desired investment goals and provide the Board with a written document that communicates to Merrill Lynch the parameters to manage the investments within, including what we can and cannot do with our investments.

Hornberger addressed the Committee with a couple of questions that we are facing. She stated that Frieese is proposing to increase the maximum amount of equity investment from 60% to 75% (per the attached recommendation report). Increasing the range does not require 75% of the funds to go into equity but it gives Frieese/Merrill Lynch the flexibility to go up to that amount. Hornberger stated that if the Committee decides to recommend an increase the equity range, this will require formal action by the full Board of Directors to adopt an amendment the investment policy statement.

Frieese stated that it makes sense to move the equity range up to 75% as at the current portfolio is at 68%, which is technically out of alignment with the current investment policy. He stated that interest rates rose a bit last year and long-term bonds are having a negative rate of return for the first time in many years. Because of the negative rate of return on the bonds, Frieese stated that this is a very unique investment environment. If we were to sell off the stock to bring us back

into alignment with the current investment policy it would require the Association to invest in bonds that currently have a negative rate of return.

The consensus of the Finance/Audit Committee was that we should not be buying bonds but keeping our investment in stocks.

**MOTION: To recommend to the Board amending the NASDCTEc investment policy to change the maximum amount of equity investment from 60% to 75%.
Howard; Spencer.
MOTION ADOPTED.**

Hornberger Friese had the same recommendation for the Foundation - increasing the maximum amount of equity from 60% to 75%. However, NCTEF is in a vastly different financial position. Hornberger stated that as the Committee looks at the year ahead, the approved budget estimates income of \$76,000 and expenses of around \$187,000. If all goes as planned on the income side, NCTEF will draw down our reserves/investments by \$111,000. NCTEF has \$370,000 in assets of which \$318,000 is able to be made liquid; the balance is equipment and inventory. Hornberger reminded the Committee that this leaves NCTEF with about one year of operating reserves. For this fiscal year, NCTEF won't have to sell any of our stocks until the spring. As the staff considered the status of the NCTEF accounts, they identified three options:

- Keep the funds in the investments per the existing investment policy statement. There would be more risk but also more potential for reward.
- Move all the funds to a low-risk, low-return money market/CD. This would also reduce the cost associated with the investment accounts such as the 1% management fee and the related accounting fees.
- Keep the current investment policy statement in place but direct Friese/Merrill Lynch to be more conservative with the amount of funds invested in equity; keeping a greater percentage in fixed income limiting the amount of exposure.

Hornberger turned it over to Friese to share his thoughts and recommendation regarding the NCTEF investments.

Friese stated that the investments equity for the Foundation is at 73%. This would require us to sell off stocks to bring the account into alignment with the standing investment policy statement. He also stated that as the economy continues to heal and the rates begin to increase, bonds pricing will begin to decline. Specifically for that reason he does not recommend adjusting the portfolio to the investment policy by selling stocks and buying bonds. He stated that he cannot predict the market and no good investment advisor would but we see no indication that the interest rates will be rising significantly in the near term. If in the near future we see that interest rates rising we will be reallocating from equities to bonds. Friese would not recommend moving the investments to money market or CDs as the return would be less than 1%.

It was asked by the Committee what if the market starts to move in a downward trend? Friese stated that they would be monitoring the accounts and would make the adjustments. Honeycutt mentioned to the Committee can revisit this at its meeting. Additionally, if there are concerns,

more frequent briefing can be arranged. Friese stated again that moving the investment policy equity maximum does not mean that NCTEF has to move the equity to 75% but it allows for flexibility.

Hornberger was asked to restate the three options to the Committee.

MOTION: To recommend to the Board amending the investment policy statement to include the NCTEF and change the maximum amount of equity investment from 60% to 75%. NASDCTEc and NCTEF would continue to share the same investment policy. Howard; Hodges.
MOTION ADOPTED.

Honeycutt thanked the Committee for their time and adjourned the meeting.

Meeting adjourned 3:45 p.m. ET