

**The Advance CTE Finance/Audit Committee Conference Call**

September 25, 2020

4-5 p.m. EDT

Zoom Meeting

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**ATTENDEES:** Laura Scheibe, Bernadette Howard, Katie Graham, Whitney Thompson

**ABSENT:** Victoria Crownover

**STAFF:** Kim Green, Kate Kreamer, Krissy Haynes

**INVITED GUEST:** Mark Friese, Merrill Lynch

**Welcome:** Scheibe welcomed everyone to the meeting, and had everyone introduce themselves.

**MOTION:** To approve minutes from June 16, 2020, as presented.

**Howard; Graham.**

**MOTION APPROVED.**

**Investment Update:** Mark Friese, Advance CTE's Merrill Lynch investment advisor, shared an update on Advance CTE and The Center to Advance CTE's investments. He started by sharing the asset allocation portfolio. The investment rates are at an all-time low, therefore, money market accounts and bonds are not paying very much. Since a large portion of the organization's portfolio is invested in bonds, there is not a huge return on investment at this time. The investment policy requires a minimum of 30% in bonds. Currently 60% is invested in equities and 40% in fixed income. Most of the returns right now are coming from dividends, which are from stocks and not bonds.

Friese shared a chart that shows that almost every year the market has been down at some point, but then it recovers and goes on to new highs. The market was down almost 25% at the beginning of the year, but is now in a recovery.

Technology is doing really well right now, so earlier this year Merrill Lynch increased our holdings in technology to help performance and is the reason our account is up right now. Most of the organization's holdings are in large companies, which are more secure and pay dividends. Most of our investment income is currently coming from dividends. 70% of the stock portfolio is dividend focused, and produces about \$122,000 a year.

Friese shared additional charts that support the organization's diversified holdings in both stocks and bonds.

This year's rate of return is 0.76%. Green asked if there was a fast way to figure out the rate of return without the contributions. Friese stated that the rate of return column is the net rate of return and does not take into account the contribution.

Finally, Friese shared a chart that shows our stocks are up 306% overall, and have performed better than the Dow Jones, S&P 500, and MSC World Index.

Green asked if we should start budgeting dividends instead of only budgeting interest. Friese said that taxable interest is very secure, which is companies include in their budget. While dividends are not as secure as bonds, he is very comfortable in saying that taxable dividend income is very secure and can be used as part of the budget. He also stated that dividends are currently taxed at a lower rate than income, but that may change with a new administration.

**Advance CTE and The Center to Advance CTE Financial Reports:** Scheibe presented the Advance CTE FY20 financial reports first. Advance CTE ended FY20 on a strong note, and the organization continued to have all states as members and also had an increase in organizational members. Despite the volatile market, Advance CTE exceeded the interest income target by 41%. Advance CTE received 105% of budgeted income if the Spring Meeting is removed from the budget. Two contracts ended in FY20: Iowa and U.S. Chamber. Three contracts are continuing into FY21: ABC, U MASS and NASFAA. The organization was also in a good place at the end of FY20 in regards to expenses as COVID-19 caused shifts in work and also limited the organization's ability to spend on meetings, travel, printing and lobbying. Advance CTE ended FY20 expending only 57% of budgeted expenses. All income over expenses roll into reserves.

Next, Scheibe walked through Advance CTE's FY21 financial reports. The FY21 report covers the month of July or 8% of the fiscal year. For FY21, Advance CTE has already received over half of the budgeted income and retained all states as members. Advance CTE is above targets in both organizational memberships and interest already at just a month into the fiscal year. Green announced a new contract for Opportunity America was just signed. Expenses for FY21 are only at 2.3% of the budget and are primarily staff related costs.

Green gave an overview of The Center to Advance CTE's FY20 financial reports. She explained that The Center also ended the fiscal year in a strong position at slightly over 100% of budgeted income, mostly due to unanticipated Perkins V meeting registrations, sales of Career Clusters products, and interest income. Green walked through the status of The Center's grants and contracts. Four grants ended in FY20: New Skills for Youth, Joyce 1.0, Siemens 2.0 and Oregon. Three new multi-year grants began in FY20 and will continue into FY21 and beyond: New Skills ready network, Siemens 3.0 and ECMC. These grants put the organization into a good financial position moving into FY21. There are also 5 ongoing grants/contracts: PAYA, Lumina, Gates 2.0, Joyce 2.0 and New Skills for Youth Innovation. These grants all end in FY21, but PAYA is expected to be renewed. Gates has also given strong signals that they will give The Center a new round of funding to support additional work. The Center's FY20 expenses were also lower than expected in FY20 due to COVID-19, which caused a shift of work into FY21, as well as put a stop to travel and in-person meetings. The Center expended only 62% of its budgeted expenses. Most grant/contract income over expenses carries over into FY21.

Finally, Green presented The Center to Advance CTE's FY21 financial reports. The report covers only the month of July or 8% of the fiscal year. The Center is already at 81% of income,

which is mostly due to carry forward of grant income. The Center has only spent 6% of its budget for expenses, which is primarily staff related costs. Green informed the committee that the organization is in the process of making adjustments to grants. Some changes include shifting unused travel budgets into adding new staffing.

Green let the committee know that The Center is preparing for the “funding cliff” with Gates, Joyce and New Skills for Youth Innovation ending this year. Advance CTE/The Center has very strong relationships with the funders, and all major funders were sponsors of the Summit. The organizations have received strong signals from almost all funders that new funding will be coming in.

**MOTION: To approve the financial reports, as presented.  
Graham; Thompson.  
MOTION APPROVED.**

**Finance Manual Update:** Haynes presented the Finance Manual, and explained that the proposed changes are to formalize the pivots that have been made due to coronavirus, recognize the larger role Haynes has undertaken, as well as account for changes due to the increased staff size. Haynes outlined the major changes to the finance manual, which include:

1. Waiving the need for approval by the Secretary/Treasurer for bills over \$10,000 that cover operational expenses such as payroll, benefits and rent;
2. Requiring only the Board President and Secretary/Treasurer to have signature authority on the bank and investment accounts;
3. Changing all references of Bookkeeper to Finance Manager.

Scheibe asked for approval of the updated Finance Manual.

**MOTION: To approve the updated Finance Manual, as presented.  
Howard; Graham.  
MOTION APPROVED.**

**Other Updates:** Haynes let the committee know that the audit will be taking place the week of September 28, 2020. She also stated that updates were made to the financial structure to meet auditing guidance from last year, but these changes are behind the scenes and will not affect any of the reporting presented to the Board or committee. Green added that the financials in the audit will look a little different, so it won't be possible to have a one to one comparison between our budget and the audited financials. Finally, Haynes let the committee know that the auditing firm will need to be rebid in early 2021, per the Board policy manual.

Scheibe announced the next meeting will be held on January 22, 2021 at 3 p.m. EST.

Scheibe called the Advance CTE Finance/Audit Committee Meeting to a close at 5 p.m. EST.