

The Advance CTE Finance/Audit Committee Meeting

March 26, 2021

3-4 p.m. EST

Zoom Meeting

ATTENDEES: Laura Scheibe, Bernadette Howard, Katie Graham, Whitney Thompson, Victoria Crownover

STAFF: Kimberly Green, Krissy Haynes

INVITED GUESTS: Mark Friese, Merrill Lynch

Welcome: Scheibe welcomed everyone to the meeting. Scheibe asked for approval of the minutes.

MOTION: To approve minutes from January 22, 2021, as presented.

Graham; Crownover.

MOTION APPROVED.

Investment Update: Friese discussed the markets. The market went down 25% when COVID-19 hit, and this is why the organizations are diversified with money in both stocks and bonds. The market went up at the beginning of the year with the Association up over 6% and the Foundation up over 8%. This year the market has been volatile. The investment policy statement gives the Board guidelines on how the organizations investments need to be divided up. There are four categories: equity, equity income, fixed income, and cash. Cash is only invested for short term purposes, so it is not included in the investment policy. Our current policy has the minimum investment for equity at 20%, 0% for equity income, and 30% for fixed income. 30% for fixed income is high right now. Fixed income has a 0.4% return right now, which is the lowest ever. When interest rates rise the bond prices decline in value, which means that having a large investment in bonds does not make sense in this environment. Due to this, Friese recommended lowering the fixed income minimum to 10% so there is latitude to adjust with the market. Vanguard did a study that states that interest rates are expected to only rise from 0%-2% in the next 10 years, so there will be very little returns from fixed income. Equity Income have done very well this past year. Corporations paid more in dividends last year than normal. Due to this, Friese proposed changing the maximum equity income to 70% up from 20%.

Green asked Friese to explain the risk or cost of making this change. Friese explained that there is no cost to make changes. The risk is exactly the same since it just increases the range to make the necessary adjustments to the investments. This could actually lower the risk as they have a greater range to make adjustments.

Scheibe asked how the stock market is affected by tax policy changes. Friese says it wouldn't be good for the stock markets. Green asked about corporate taxes going up and how that affects the stock market. Currently the stock market is on the rise, but that Merrill Lynch would pivot our investment portfolio as soon as it goes down.

Scheibe asked if we are losing money on our bond investments due to the rate of inflation. Friese said that inflation is close to 2%, so the organizations are not making much return on bonds.

Friese summarized by saying that the proposed investment policy change isn't more risk and doesn't cost anything. It is just cleaning up the paperwork to make the investment policy statement to align with the current investments.

Scheibe noted that the investment policy has been in place since 2014. Scheibe opened the floor for final questions. Thompson asked if this policy would be indefinite. Green said that it would be the new investment policy going forward with no end date. Friese summarized the proposed changes:

- Equity income changes the max amount from 20% up to 70%
- Fixed income minimum would go from 30% down to 10%.

Scheibe asked for approval of the investment policy change.

**MOTION: To change the investment policies.
Howard; Graham.
MOTION APPROVED.**

Advance CTE and The Center to Advance CTE Financial Reports: Haynes walked through the Advance CTE FY21 financials, which have been reconciled through February 28, 2021 or 67 percent of the fiscal year. Advance CTE has received 100.3 percent of its budgeted income for the year, which is above target due to receiving membership dues from Indiana which was not budgeted. The organizational and associate memberships continue to grow due to interest in the Spring Meeting. 45 percent of the budgeted income has been received for the Spring Meeting. Interest is 26 percent above the budgeted target for the year.

Advance CTE's expenses are only at 41.6 percent of the budget, which is lower than anticipated due to a larger portion of salaries and subscriptions being covered by grants. The primary expenses are staff related costs, consultants, audit and accounting fees, rent and the New State Director Institute. The investments continue to do well with a 23.79 percent equity only return and 14.33 percent overall rate of return.

Next, Haynes gave an overview of The Center to Advance CTE's FY21 financials, which have also been reconciled through February 28, 2021. The financials contain a new budget amendment that was approved by the Board of Directors at the March 10, 2021 Board Meeting. The budget amendment recognized several new grants and contracts that the Center to Advance CTE received. The Center has received 97.5 percent of its budgeted income. Interest is 185 percent above the budgeted target for the year.

The Center's expenses are at 51.6 percent of its budget, which include salary and benefits, rent, consultants, technology subscriptions, and audit and accounting fees. Four projects are below

budget due to travel restrictions and restrictions on in-person meetings: New Skills ready network, Joyce 2, Board and Development. The Gates 2 grant received a no-cost extension through May 31, 2021 to help spend down the remaining funds. The investments are doing very well with a 20.94 percent equity only rate of return with a 11.66 percent overall rate of return.

Green added that The Center was asked by the Gates Foundation to submit a proposal for a \$500,000 one-year grant, which will support the Career Clusters revision and supporting states in the implementation of the Vision. The Lumina Foundation also invited The Center to submit a concept paper to continue the Area Technical Centers work. This shows that the organizations have built strong relationships with the funders.

Scheibe asked for approval of the FY21 financial reports.

**MOTION: To approve the Advance CTE and The Center to Advance CTE FY21 financial reports, as presented.
Howard; Thompson.
MOTION APPROVED.**

Audit Firm Selection: Haynes started by walking through the process to select the audit firm finalists, which included seeking recommendations from similar organizations and the accountant. Advance CTE received five proposals, of which 3 met the minimum RFP requirements. Haynes recommended GRF CPAs and Advisors as the audit firm for FY21-25 due to their vast experience with similar organizations as well as our organization, minimal impact on staff time, and minimal time required for fieldwork. Other benefits of choosing GRF CPAs and Advisors include their excellent communication, ease and experience conducting virtual audit, and complimentary advisory services year-round. GRF CPAs and Advisors also has staff diversity, which aligns well with Advance CTE's core values.

Scheibe opened the floor to questions. Crownover stated that she also liked the GRF Proposal due to their more robust techniques in sampling and more transparency in the staff.

Scheibe asked for approval of the Audit firm for FY21-25.

**MOTION: To approve the audit firm for FY21-25, as presented.
Crownover; Howard.
MOTION APPROVED.**

Scheibe announced the next meeting will be held on June 18, 2021.

Scheibe called the Advance CTE Finance/Audit Committee Meeting to a close at 3:52 p.m. EST.