

NASDCTEc/NCTEF Finance and Audit Committee

**MINUTES**

CONFERENCE CALL

November 12, 2013

4 p.m. – 5 p.m.

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**Attendees:** Rod Duckworth, Tim Hodges, Lee Burket, Bernadette Howard, Mike Mulvihill

**Staff:** Kimberly Green, Karen Hornberger

**Guest:** Mark Friese, Merrill Lynch Advisor

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

**Approval of Finance Committee Minutes:** Duckworth presented the minutes from the June 5, 2013 Finance/Audit Committee conference call.

**MOTION: Approve the June 5, 2013 Finance/Audit Committee minutes.  
Howard; Burket.  
MOTION ADOPTED.**

**Overview of Finance Committee:** Green 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 the Career Cluster Institute, with a majority of the funding coming in late May and June.

In terms of the annual committee 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 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 finance contractors – 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.

**Overview of Investments:** Friese explained that Merrill Lynch has served as the investment advisor for NASDCTEc and NCTEF for nearly 20 years. Friese 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.

Friese stated that our average rate of return varies based on the market and our accounts are in better shape than most due to the sectors that we have our investments in. 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.

Question: Do we need to update the investment policy? Friese shared that our investment policy statement is still appropriate. Because the NASDCTEc/NCTEF investment policy statement includes ranges for the different types of investments, there is flexibility to respond to market conditions and needs of the organizations.

Review of Financials: Duckworth gave a brief overview of the financials sharing that the written report goes into more detail.

- Review of FY 13 - NASDCTEc: Income in good shape receiving 103% of its reported income. Expenses were at 62% due to reduction in staff costs and continued vigilance to be fiscally conservative. Duckworth noted that that we were over expenses in the legal fees due to the HB1 visa – which was previously noted in the last committee call.
- Review of FY 13 – NCTEF: Duckworth noted that the Foundation income was under budget, at 91% and regrettably fixed expenses resulted in NCTEF spending more than it brought in through revenue. NCTEF fell short of the budgeted Institute registrations by \$80,455.51.

**Omni Ft. Worth Penalty:** Green shared that the staff has worked hard to seek alleviation from the Omni Ft. Worth hotel attrition penalty. After significant effort, including review of the contract by the attorney, requesting additional documentation from the hotel, a plea to the hotel owners and hotel staff, staff was successful in reducing the penalty by \$3,026.58. In addition, staff requested that to be able to re-pay the penalty over a six-month period, with no interest penalties. The hotel agreed and repayments will begin in October 2013. A budget modification is required to authorize the payment of this attrition penalty, which totals \$43,458.90.

Green also mentioned that due to the low income and high expense that we might want to be strategic in how we share core organizational expenses between the association and foundation. Right now the split is 1/3 foundation, 2/3 association. Staff will continue with this distribution of these expenses this year.

**Investment recommendations: NASDCTEc:** The FY13 time weighted return for the portfolio is 4.48%. This fiscal year the portfolio is doing slightly better at 4.95%. The equity portion of the account is doing well compared to the index. The cumulative rate of return for last fiscal year was 20.60% compared to the S&P index of 17.92%. To date, the FY14 rate of return is 23.37% compared to the S&P index of 19.88%.

The NASDCTEc investment accounts are recommended for adjustment to bring the funds into alignment with the investment policy statement and projected cash flow needs.

**Recommended action:** Reduce bond balance by \$193,932 and add to the equity position. No direct costs are associated with making these changes.

**NCTEF:** The FY13 time weighted return for the portfolio is 4.77%. This fiscal year, the time weighted return is slightly better at 5.07%. The equity portion of the account is doing well compared to the index. The cumulative rate of return for last fiscal year was 19.09% compared to the S&P index of 17.92%. To date, the FY14 the rate of return is 21.10% compared to the S&P index of 19.88%.

The NCTEF investment accounts are recommended for adjustment to bring the funds into alignment with the investment policy statement and projected cash flow needs.

**Recommended action:** Increase cash reserves by \$25,000 by reducing equity and fixed income. No direct costs are associated with making these changes.

**MOTION:** To accept the investment advisor's recommendations for NASDCTEc.  
**Howard; Mulvihill.**  
**MOTION ADOPTED.**

**MOTION:** To accept the investment advisor's recommendations for NCTEF. **Hodges; Burket.**  
**MOTION ADOPTED.**

**MOTION:** To accept the FY 13 year-end and FY14 NASDCTEc and NCTEF financial reports as presented.  
**Howard; Burket.**  
**MOTION ADOPTED.**

**State Account update:** Hornberger shared that the states holding state accounts are on target to deplete the funds in their state accounts by the December 31, 2013 deadline.

**Lost Product and Claim Status:** Hornberger shared the insurance claim that Vivayic submitted to State Farm for the loss of Career Clusters products was denied. Reason for denial:

1. We will not pay for loss to:
  - a. Property that is missing, where the only evidence of the loss is a shortage disclosed on taking inventory, or other instances where there is no physical evidence to show what happened to the property.

Vivayic/Relevant Classroom is following up with the warehouse before taking next steps to start possible litigation.

Action item: Do you think we should push for a settlement or support Vivayic going forward with litigation? Mulvihill suggested that we send a letter with a settlement amount avoiding legal fees. The committee consensus was to try for a settlement first.

Green suggested that she could draft a letter and have the attorney approve the letter before mailing.

**MOTION: To approve the sending of a formal letter, to be reviewed by NCTEF's attorney, to Vivayic asking for the full amount of the product that has been lost in the warehouse, citing the contract terms as grounds for such request. Mulvihill; Howard.**  
**MOTION ADOPTED.**

Green stated that a copy of the letter will be sent out to the finance committee after it has been sent.

**Next meeting:** The Finance/Audit Committee meeting has been rescheduled for January 23, 2014. The auditors and the accountant will join the call and share the draft audit report and the 990's for consideration.

**Adjourned at 4:05 p.m.**