

**Minutes of the Meeting of the
Finance Committee of the
Board of Directors of the
Arizona Historical Society**

Mission: Connecting people through the power of Arizona's history.

Virtual meeting, held at 9:30 a.m. on Tuesday, September 15, 2020.

1. **Call to Order** – Chairman, Jim Snitzer

Meeting called to order at 9:36 a.m.

2. **Appointment of Recording Secretary** – James Burns
3. **Roll Call** – Recording Secretary
4. **Introductions** – Committee members and guests

All members introduced themselves and shared some of their biographical information. Jim Snitzer, Chair, Greg Scott, Santa Cruz County board member.

Deborah Bateman – new to committee; served on Central AZ Chapter board and Friends of AHS Board; banking executive (National Bank of Arizona), leadership coach.

Shawn Moreton – new to committee; manages capital portfolio for Bank of America; executive coach for women in leadership; started a social justice not-for-profit, Leading with Equity.com

Sandy Navarrete – new to committee; regional manager National Bank of Arizona for 25 years; located in Yuma.

Jim Straight – new to committee; independent financial advisor in Flagstaff; degree from NAU; has been in business for 14 years now.

Dave Lyons – new Native Tucsonan; banker with National Bank of Arizona for 26 years; was with Valley Bank previously.

5. **Approval of minutes of prior meeting**- no minutes presented; last meeting several years ago
6. **Call to the Public** – Members of the public wishing to address the Committee should identify their interest at this time via the Chatline on Zoom. Those wishing to address an item

not on the agenda will be allowed up to three (3) minutes. Such items may not be discussed by the Committee but may be directed to Staff for study and consideration at a later date.

Those wishing to address an item on the agenda will be called upon when that item is being discussed and given up to five minutes.

Bruce Gwynn present as a guest – AHS board secretary.

Linda Whitaker present as a guest – AHS board president.

Neither wished to speak.

7. **Role of the Treasurer and Finance Committee** – Review and discussion of proposed draft materials circulated prior to meeting

Snitzer discussed the existing set of financials and acknowledged they need to be clarified to be easier to understand.

ROLE OF THE FINANCE COMMITTEE

OPEN MEETING LAW APPLIES: if this is unfamiliar to you, you can Google it and read some info. For right now, this means a few simple things:

- We will take minutes of our actions in the Finance Committee meetings
- DO NOT "reply all" to emails or hold sidebar conversations. If you have something to bring before the group please send to the Treasurer (Committee Chairman) and he will see that staff sends it out to the committee members.
- Our meetings will be open to members of the public and anything we say or do can be considered public.

HISTORY:

- AHS has had its funding significantly reduced by the AZ legislature. The COVID19 situation has made things even worse by eliminating most revenue. AHS is gradually depleting its reserves, but has been slow to take action.
- The AG of Arizona conducted an audit of AHS, and conclusions included a lack of responsiveness to fixing operational problems and concerns about using funds properly - pretty fundamental criticisms.
- The role of the AHS Finance Committee has not been clear and it has made almost no significant contributions to the Board.
- The 25-member Board has struggled to be effective in becoming informed on key issues and taking appropriate actions in a timely manner.

OUR ROLE:

Right now, today, this meeting:

- Understand some basics about AHS's financial issues and develop ways to present our understanding of them to the Board in a way that is truthful, understandable and calls for action.

Long Term:

- We need to define our role and present that to the Board for approval.

ARTICLE VII, Section 5 - Duties of Treasurer

The Treasurer shall monitor the disbursement of non-appropriated funds by the Society Administrative Staff in accordance with Arizona Revised Statutes and fiscal Rules.

ARTICLE IX, Section 1, D.: Finance Committee

The Committee shall have the responsibility to make recommendations and advise the Board of Directors on matters involving the financial policies, budget and finances of the Society consistent with and in compliance with statutes and regulations of the State of Arizona. The Committee shall consist of the Treasurer who shall be the Chair, and other such members of the Board as are deemed necessary.

The role of the Finance Committee is primarily to provide financial oversight for the organization.

- Work with Staff to provide financial controls, develop budgets, monitor and report progress.
- Work with Staff and the Board to anticipate problems and opportunities, and develop strategic plans and alternatives.

Although the entire Board carries fiduciary responsibility for the organization, the Finance Committee serves a leadership role in this area.

Two approaches to handling the future:

- Prediction: everybody tries but nobody does this well. Consider it nearly impossible.
- Mobility and Firepower: structure the organization to constantly monitor developing events and respond quickly and powerfully to threats and opportunities.

Budgeting:

- With Staff, develop an annual operating budget proposal. Present to the Executive Board and Board for approval.
- Monitor actual vs. budget.
- Develop multi-year operating budgets that integrate the strategic plan objectives and initiatives.

Reporting:

- With Staff, develop useful and readable reports showing financial position, adherence to the Budget, allocation of resources vs. accomplishment of AHS mission, and proper support of donated restricted funds.
- Present the financial reports to the Executive Board and Board.
- Highlight the implications of the reports to help the Board focus discussions about expected and possible outcomes in order to maximize opportunities and overcome setbacks.

Internal controls and Accountability

- Make sure policies are documented and followed to ensure AHS responds to compliance and reporting requirements.
- Make sure that policies are documented and followed to protect the assets of AHS.

Long range planning:

- Develop long range financial goals.
- Support Strategic Planning by working with Staff to develop the Financial implications and requirements of various alternatives and opportunities.
- Sound the alarm early and often about threatening financial problems.

Deborah Bateman – is the committee to review financials before they go to the board? How will they be approved? Will the board understand that many expert eyes have reviewed the financials, asked questions, and provided feedback prior to sending them to the board for approval.

8. **Review Budget and YTD Finances** – Ponder, Bittrich

Snitzer reviewed the high level overview of the financials.

Many cost reductions over the years.

Deborah asked if the finance committee should make a recommendation about how to remedy the situation. Recommends presenting worst case and middle ground scenarios.

Looked at monthly narrative from Bittrich and Ponder. Snitzer asked that be updated.

Wants to see year-to-date and budget year-to-date. Introduced new committee members to chapter funding.

AHS Staff person vs. temp vs. volunteer - rough cost comparison

(Example - using a staff person to work the front desk vs. Knowledge Services temp vs. volunteer)

	<u>Staff</u>	<u>Temp</u>	<u>Volunteer</u>
Base Salary	\$2,400	\$1,760	\$ 0
Add on % <u>a/</u>	45%	26%	\$ 0
Add on \$	<u>\$1,080</u>	<u>\$ 458</u>	<u>\$200-1,200</u> <u>b/</u>
TOTAL	\$3,480	\$2,218	\$200-1,200

a/ - 45% fringe benefits and retirement for staff, 26% premium to temp agency for temps

b/ - recruitment, training and added supervision varies greatly for volunteers (estimate)

Jim asked for examples. So what? What do you propose – a solution?

9. Critical Financial Issues:

a. Forecast – Discussion and action, if any.

Discussed above in Item #8.

b. Sunset review and performance audit comments – Discussion and action, if any

SUNSET AUDIT COMMENTS - Finance Committee

The last Sunset Review and Performance Audit was conducted in 2012/13, but AHS is still in the process of responding.

This Committee will be working on Sunset Review and Performance Audit issues for a while. For now, just be aware that the Auditor General (AG) identified many financial issues (highlighted below).

For most of these issues, AHS has responded and AHS may even consider the issue closed. It is clear, though, that the AG does not really feel that AHS has been *fully responsive*. In various communications to State Legislators, the AG has made their concerns about AHS clear. That has directly led to an unfavorable view of AHS by the legislators and a reduction in State funding and other support.

The Finance Committee needs to help the Board remove that disconnect and fully satisfy the concerns of the AG.

In particular it seems that we need to address three areas:

- Fundraising
- The MOU's and AHS money being spent there
- The Chapters and AHS money being spent there.

SUNSET AUDIT - Auditor General Recommendations

1.1	Establish a tax-exempt nonprofit organization.
1.2	Identify ways to reduce its operating costs through partnerships or other means.
1.3	Establish fundraising action plan
1.4	Fundraising action plan tied to other relevant planning documents
1.5	Development officer position
1.6	Board of directors to monitor fundraising performance against goals
1.7	Establish workable fundraising tracking document
1.8	Role of regional chapters
1.9	Allocation of membership dues to regional chapters
1.10	MOUs with support groups
SF 2a-f 2.1a-d	Collections plan & policy
2.2a-b	Collections management manual
2.3a-e	Strengthen controls over collections
2.4a-b	Board of directors should enhance its oversight of collections management needs
SF 1a-h	Controls over cash receipts
SF 2a-f	Capital assets listing
SF 3	Valuing collections in cooperation with State GAO & Risk Management
SF 4a-b	Compliance with State laws regarding depositing of monies
SF 5	Travel claim compliance with State travel policies
SF 5.1	Compliance with Open Meeting Law
SF 9.1	Governor appointed board of directors
SF 9.2	Board of Directors training

c. Memorandums of Understanding – Discussion and action, if any

MOU's

NOTE: This is a controversial issue.

Bottom line first: The Finance Committee can bring this matter before the Board in a clear-eyed and objective way, and support the Board in properly evaluating and responding to the situation.

AHS owns nine properties and financially supports three additional MOU properties *which are not owned by AHS* but have been operated by AHS under separate memorandums of understanding (MOU's):

Arizona Historical Society Downtown Museum, Tucson

Per an April 18, 2000, lease agreement with Wells Fargo Bank (which included a \$125,000 grant to pay for the initial exhibition), this museum, located at 140 N. Stone, was developed to present the history of downtown Tucson. Wells Fargo provides for the utilities and maintenance within the building. The agreement was last updated in 2010. The building is owned by Wells Fargo Bank.

Fort Lowell Museum, Tucson

The adobe structures at Fort Lowell Park were built by the Junior League of Tucson in 1966. The museum has been operated by AHS since 1987. The City of Tucson owns and maintains the land and buildings. The adobe is a replica of the original commanding officer's quarters, which were located near the existing building.

Riordan Mansion State Historic Park, Flagstaff

In January 2010, public concern arose about the possible closure of Riordan Mansion (1904) State Park. If the mansion ceased to be a State Park, after a year and a day, it would have automatically reverted back to the Riordan family. An Interagency Service Agreement (ISA) was developed for AHS to operate Riordan on behalf of State Parks.

Current status: All three properties are currently closed due to Corona Virus.

- Potential for net revenue: even if they were open, only Riordan has the ability to generate revenue. Even then, all three would operate at a net loss. The State of Arizona Accounting Manual regulates checks and balances and limits the ability of AHS to generate revenue at Downtown and Ft. Lowell.
- AHS's financial ability to reopen these facilities is nonexistent.
- If some other entity (local organization) were to step into AHS's shoes and adopt these MOU's, their costs to operate would be lower because they could develop a more flexible operating plan, could use lower-paid or volunteer Staff, and would not have to follow the Arizona State Accounting Manual practices.
- The Executive Committee decided to recommend to the Board that AHS immediately notify the MOU landlords that *in the near future* we would be stopping our support. Important: the intent was to provide an immediate *notice* to give the landlords and local organizations time to find an alternative support system before AHS actually withdrew financial support. Timing was left up to staff.
- That message was totally lost in the public discussion and Board meeting. Most people assumed that the financial support itself was immediately stopping - they were angry at

this "sudden action" (there was no action, just a notice). Many people expressed concerns.

- Unfortunately, the Board lost an opportunity to understand and discuss the issue, because a motion was passed to table the matter. This prohibited the presentation of the MOU historical context as well as the latest financial reports and updated communication with the MOU landlords. Consequently, the Board failed to act on putting the landlords on notice. Later, procedural questions arose regarding the tabling of the three MOU agenda items, but by then the damage was done. The financial clock is still running. The Board confirmed the AG concerns that it struggles to address important issues that come before it.

Q&A on the MOU's

Q - Can the MOU's continue under AHS funding and operation?

A - No. Due to lack of funding, AHS could not re-open the facilities. They will only re-open if some local organization steps up and works with the MOU landlords to adopt and re-open them.

Q - What notice and timing is involved?

A - All three MOU's were *informally* notified in July - no response to date. Hopefully, putting everybody on *official notice* that AHS can no longer sustain the relationship will incentivize some local organization to step up and work with AHS staff to reopen their MOU location.

Q - Who are the landlords and what is the contact info?

A - AHS can provide that information.

Q - What is the approximate AHS current monthly cost for each closed MOU?

A - Riordan - \$17,000. Ft. Lowell - \$250 (plus AHS staff time). Downtown - \$250 (plus AHS staff time)

Q - If a local organization took over a MOU, what would their cost/revenue look like?

A - That would totally depend on what operating plan they adopt - e.g. hours of operations, number and type of staff, etc. In general, their operating costs would be lower, possibly much lower, than they were for AHS, because they would not have to operate under the State accounting rules. Realistically, in any case they would require some level of local support.

Q - Right now this looks like a stalemate. If the stalemate continues and no action is taken, what happens?

A - AHS is required to take certain actions. For example, some collections at each location belong to AHS and are State property. AHS would be required to properly care for those objects, most likely by bringing them into a controlled storage location owned by AHS.

A - AHS would also be required to limit ongoing expenses to the absolute minimum - this would lead to further reductions at Riordan.

A - Once AHS takes the required actions of removing and safeguarding collections and eliminating expenses, the MOU landlords will almost certainly *notify AHS* and terminate the MOU agreements.

Bateman asked if this is a finance committee issue or if it is bigger. Snitzer asked Whitaker to respond. She noted that the discussion began with the executive committee, but that finance also needs to weigh in. Shawn suggested sum total of what we have spent on those properties over time. We cannot continue to maintain this. Snitzer invited Whitaker to discuss the criticisms AHS gets of the way they maintain their collections in these properties.

d. Windfall donations – Discussion and action, if any

Have you heard the story about the guy who won the Lottery - and a year later he was broke again? Well, AHS just won the lottery - we sold a donated piece of land for \$1.6 million.

It will take clear thinking and the combined wisdom of the entire Board to handle this incredible windfall in a constructive way. Here are my comments to aid the process.....

We are already under criticism by the Auditor General and others on two fundamental points - how we handle our operations and how we handle our money.

On an ongoing basis, AHS is running out of money. We need to solve those ongoing problems, not just use this money to go broke slower - that basically rules out using it for most ongoing operations. For example, we could give the staff much-needed and much-deserved raises, but that would just add to the ongoing problems once the windfall money ran out.

Here are four constructive ways that this money could be used toward restoring our financial strength and investing in the future....

Fund Raising seed money: Our biggest need and our highest priority is - money! Hiring professional fund-raisers and supporting their activities has been a path to success for many non-profits. Raising money is a skill set and we need to hire professionals and put them to work.

Market Study: We often think of history as a calling, and may even think that *of course* everybody values history. Sorry - that approach and misconception is slowly killing us. For us to survive, we also have to be in *the business of history*. More importantly, we need to significantly grow that business. That means really understanding our various customer bases in detail. For each one, we need to understand their unique needs and then tailor our response to fill those needs. This is old stuff for corporations - basic. We just need to recognize that for AHS to survive, we have to be much more business-like.

Information Technology infrastructure: Again, some of this stuff is pretty basic - we just need to do it. For example, we know that more and more visitors to museums in the future will be virtual visitors. Not only do we need to enhance that experience for our virtual visitors, but we need to literally capitalize on it. As a simple example, we need to note what virtual exhibits seem to interest a visitor and then direct them to appropriate and interesting items easily available from our *online store*. We also need to capture their contact information and market to them in the future. After all, they are interested in history and we are in the history business.

Safeguarding collections and archives: This is a shortcoming that has been pointed out in audits. An example; that stuff in the shipping container in Flagstaff. We could house those items properly, so in the future they can be valued parts of an exhibit or virtual exhibit.

Snitzer asked for comments. Bruce talked about the Friends of AHS Inc. capital campaign. Deborah Bateman is chair of the capital campaign. Three different entities have been reviewed to determine the feasibility. We need this money to prime the pump for fundraising. Dave Lyons – critical that the board acts. Without the “windfall,” the financials reflect approximately a \$120,000 loss in the last month alone. Burns noted that he had been estimating between \$120,000 and \$125,000 per month loss – close to \$1.5 million per year. That is similar to the amount of earned income that has dried up since the pandemic began. This exacerbated an already tenuous financial situation. Moreton – take the windfall out of the financials so everyone can see just how dire the financial situation is. The financial house is on fire. Express the urgency of the problem. Going to utilize/harness the windfall to move the organization forward. \$1.6 million could be gone or it could become much more. Gwynn made the point that we’ve worked on the capital campaign planning for 2 years and the gift happened to come at just the right moment to give us the seed money we need to launch the campaign.

Recommend that the staff be directed to use the money toward these four areas but the exact amounts be determined by the staff.

Finance Committee Schedule

Tuesday, October 20, 2020

Adjourned at 11:19 a.m.

Dated this 15th day of September 2020

Arizona Historical Society

Jim Snitzer

James Snitzer, Committee Chairman

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