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Approved _____

Virginia Museum of Fine Arts
Minutes of the Fiscal Oversight Meeting
Founder's Conference Room
Tuesday, June 17 2014, 10:30 am

There were present:

Michael M. Connors, Co-Chair
John A. Luke, Jr., Co-Chair
Kelly B. Armstrong
John H. Hager
Jil Harris
Charles Levine
Steven A. Markel
Michael J. Schewel
Harry R. Thalhimer
Lilo Simmons Ukrop
William A. Royall, Jr., Ex-Officio

By Invitation:

Alexander Nyerges
Claudia E. Keenan
Anne Kenny-Urban
Cameron O'Brien
Mark Johnson
W. Birch Douglass, III
Stephen Bonadies
Erin Sheets

Absent:

James C. Cherry
Thomas F. Farrell, II
H. Hiter Harris, III
Dr. Monroe E. Harris, Jr.
H. Eugene Lockhart
Marlene A. Malek
Satya Rangarajan
William D. Sessoms, Jr.

I. CALL TO ORDER

John A. Luke, Co-chair, called the meeting to order at 10:32 am.

II. MINUTES

Motion: proposed by Mr. Levine, and seconded by Mr. Douglass that the minutes of the last meeting of the Fiscal Oversight Committee held on the 20th of March 2014 be approved and distributed. Motion Carried

III. COMMENTS FROM THE INTERIM CFO

Mark Johnson, interim CFO, acknowledged Anne Kenny Urban for her efforts in orienting him to VMFA. Having been here for five weeks, Mr. Johnson noted that the Museum is equipped with great resources and leadership collaboration between finance and other departments of the Museum. He commended former CFO, Fern Spencer, for having laid a good foundation which Mr. Levine echoed, extending best wishes for her recovery from the entire board. He offered the following observations which will shape the efforts of the finance department for the coming year.

- 1) The Museum does not have an operating plan; we need an annual operating plan identifying key priorities, expenses, and revenue on which to base budgeting.
- 2) A formal forecasting process involving cross-departmental conversation is needed
- 3) A calendarized budget incorporating both the Museum and Foundation budgeting processes is needed though will be difficult as each side uses different IT systems.
- 4) There is room for improvement in reporting; information should be provided at the executive level and with sufficient analysis.
- 5) Communication between the Board of Trustees, Board of Directors, Committees, and Division Heads should be standardized and continuous.
- 6) Key finance and operating processes and policies should be reviewed and revised
- 7) The Museum should undertake a comprehensive independent audit in addition to that which is required by the state (this is underway).
- 8) A culture of collaboration and excellence should be fostered among finance and administrative professionals to ensure this team is a valuable and respected asset to the entire operation.
- 9) Finance and administrative resources should be aligned between the Museum and Foundation and deployed to meet strategic plan objectives.

Mr. Johnson's observations encouraged discussion from board members about the complicated nature of the relationship between the Foundation and the Museum; though the Board of Trustees is specifically concerned with the health and preservation of the Museum, the state of the Foundation which supports it is critical. Mr. Nyerges confirmed there is an operating agreement between the two entities; they are inextricably linked so there must be mutual oversight and communication with the Foundation Board of Directors. Mr. Johnson shared that his immediate priorities are the audit and alignment of resources in the finance department.

IV. FY14 FINANCIAL REVIEW

Mr. Johnson shared that our expenses for the year will come in under budget by nearly \$2.2 million but cautioned that much of that is due to timing; some expected expenses will be incurred in the next fiscal year. Some of this money will be spent on strategic initiatives related to building and grounds maintenance and marketing.

There was discussion surrounding several line items on the provided report- specifically those related to the CMS/DAMS project and art acquisitions. Mr. Bonadies explained that due to the nature of the relationship between the Museum and the Foundation, funds can be spent from the Museum budget before being reimbursed by the money from the Foundation which complicates the picture though is a common practice among similar museums. Mr. Connors requested a tutorial for committee and board members so as to better understand all factors affecting the Museum's financial health.

Mr. Johnson then introduced Claudia E. Keenan who provided additional detail on the Advancement budget. She shared that although the budgeted income for the year was \$4.9 million, the actual total year to date is \$7.7 million which includes a large planned gift. Membership revenue is slightly down as compared to last fiscal year as it is closely tied to exhibitions. She noted excellent renewal rates with the lowest rate among student members, though this is not cause for concern as this is consistent across the industry. She shared that *Posing Beauty* has not performed as well as we had forecasted despite various attempts to increase its visibility through marketing. Discussion ensued as board members offered various suggestions for increasing attendance and sharing this important exhibition with the community as part of the Museum's mission. Ms. Keenan promised to consider these and be in touch regarding a plan of action for the remainder of this exhibition and better positioning future ones. She noted a few changes in expectations for *Forbidden City*; ticket prices will be \$20 with an attendance goal of 80,000 and expected revenues of \$1.9 million. She shared that profit and loss statements will be developed for each future exhibition in order to approach decisions strategically.

V. FY15 MUSEUM BUDGET

Mr. Johnson shared the budget for the coming year noting that expenses and revenue will both increase, and discretionary spending will be kept lean. There will be no pay increases or bonuses and the Museum is unable to convert part-time employees to full-time at this time. The budget accounts for a reduction in enterprise revenue and expense, particularly in the shop, which is consistent with trends from this year.

Motion: proposed by Mr. Douglass and seconded by Mr. Levine to submit the budget for approval to the Board of Trustees.

VI. AUDIT

Mr. Johnson explained that the Museum is undergoing two audits; one of more limited scope as required by the state and a more comprehensive one administered by an independent firm.

The purpose of the state audit is to ensure compliance with laws and regulations, evaluate financial transaction accuracy, review internal control adequacy and gain understanding of Museum and Foundation relationship. This year VMFA is being audited separately from other museums in the state. Auditors have focused much of their time on revenues and expenditures, the use of charge cards, and IT. Their preliminary findings include lack of timeliness in terminating systems access for ex-employees, some Museum policies are out of date or not adhered to, and small purchase charge card administration needs improvement. We will have time to respond and make corrections before the results are made public. A report will be sent to the state and the Trustees on July 25th before being made widely available on July 28th.

An independent financial audit will be undertaken by the Museum for the first time. Taking place from August to November 2014 with a final report expected in January 2015, they will examine Museum operations from 7/1/2012 - 6/30/2014. Mr. Johnson assured the board that the Museum does in fact have the authority to undertake an independent audit despite being state-supported and that auditors will ensure communication with the Fiscal Oversight Committee. This is an important step towards transparency which has been undertaken by a number of other museums. The cost, estimated at \$50,000, will be paid for by the Foundation.

VII. OTHER BUSINESS

There being no further business, Mr. Luke adjourned the meeting at 12:06 pm.

Recorded by: Erin Sheets
Manager of Leadership Annual Giving