



WORLD FLOOR COVERING ASSOCIATION

EXECUTIVE/FINANCE COMMITTEE MEETING MINUTES

March 28, 2019

Loews Ventana Creek Resort, Tucson, AZ

Attending: Jason Fromm, Chairman
Maryanne Adams, Immediate Past Chairman
Deb Degraaf, Chair-Elect
Dean Howell, CFO/Treasurer
Sam O'Krent, Secretary
Jim Walters, Vice-Chair
Adam Nonn, Vice Chair
Don Roberts, Vice Chair
Wendell Prescott, Finance Committee
Mitchell Brown, Finance Committee

Absent: Donny Phillips, Finance Committee

Legal Counsel: Jeff King

Staff: Steve Abernathy
Scott Humphrey
Tom Jennings
Kay Wiley

Guests: Meredith Etherington, Litman Gregory
Craig Keller, Litman Gregory

CALL TO ORDER

Fromm called the meeting to order at 8:05 a.m. mountain standard time.

ANTITRUST AND FIDUCIARY RESPONSIBILITIES

Legal Counsel, Jeff King, discussed the fiduciary responsibilities of the executive/finance committee members.

APPROVAL OF WFCA EXECUTIVE/FINANCE COMMITTEE MEETING MINUTES FROM OCTOBER 25, 2018– (Becomes a permanent part of the minutes)

M/S/C O'Krent/Brown to approve the executive/finance committee meeting minutes from October 25, 2018.

FINANCIAL REPORT

Abernathy gave the financial report using data ended December 31, 2018. WFCA ended 2018 with \$35,908,233 in total assets versus \$41,734,130-year end 2017. This decrease is contributed to the decline in the value of the WFCA portfolio. The statement of activities report indicated the total operating revenue for YTD 2018 at \$1,585,830 against a budgeted amount of \$1,899,350. This shortfall was due to lack of membership and training revenue. The 2018 operating revenue was up compared to 2017 totals of \$1,385,102. The operating expense for 2018 came in at \$4,546,466 against a

budgeted amount of \$4,985,942. WFCA lost \$2,966,032 in total investments for 2018. This loss includes dividends of \$814,924, unrealized losses of \$4,015,925 and realized gains in the amount of \$234,969.

Trade scholarship awards were up in 2018 by \$11,402. There were 291 awards granted and the average amount of the awards was \$302. The CFI organization was the top user of the trade scholarships for 2018.

ACCEPTANCE OF FINANCIAL STATEMENTS – Ended DECEMBER 31, 2018

M/S/C Walters/Degraaf to accept the preliminary financials and financial statements for the year ended December 31, 2018 (pre-audit) as presented after modifications are final.

INVESTMENT PORTFOLIO UPDATE

Meredith Etherington began the presentation with Litman Gregory's investment approach stating LG builds and manages investment portfolios by considering both short-term downside risk and potential long-term returns. The current portfolio building blocks are made up of stocks, bonds and alternatives. The WFCA portfolio is globally balanced. (Strategic allocation 40% bonds and 60% global equities) The portfolio is underweighted on investment grade bonds and US stocks due to unattractive valuations and medium-term return potential. The portfolio experienced positive returns from US equities in 2018. Nearly all asset classes ended negatively in 2018. Both global stocks and US core bonds were negative for the first time in over 40 years.

Craig Keller stated LG expects low single digit annualized returns for US stocks in our base-case scenario over the next several years. Historically international stocks have delivered strong when US stock returns have been low. He added with interest rates expected to rise resulting in low returns for core bonds over the next few years. Litman Gregory selected active bond managers who can provide higher yields and less sensitivity to rising interest rates. WFCA fixed income managers have delivered strong returns despite recent performance.

Asset Class Return Base Case Estimates Over Next Five Years:

Equity Asset Classes:

US Larger Cap	3.3%
Developed International-Europe	16.6%
Emerging Markets	11.3%

Fixed Income Asset Classes:

Investment Grade Bonds	2.8%
High-Yield Bonds	3.3%
Floating- Rate Loans	6.1%

Based on projected five-year annualized returns and current asset allocation WFCA's expected returns as of 12/31/18 was 6.3% and as of 3/21/19 is 5.1%.

Litman Gregory proposed an investment opportunity to the WFCA executive and finance committee. Litman Gregory has been investing with Prana Investments for over 30 years. Prana Investments is a private equity real estate firm founded in the early 1980s by Kurt McCracken. Prana City Finance Company II, LLC invests in rent regulated markets in inner city neighborhoods. Their focus is primarily multi-family though sometimes they own buildings with street level storefronts. Their markets tend to be densely populated and working class with large immigrant populations.

Keller proposed WFCA make a \$1M investment into Prana Investments in September when the issuance is available. The minimum investment amount is \$200,000. After lengthy discussion, the executive/finance committee agreed unanimously to allow Litman Gregory to invest \$1M or more if possible in Prana Investments.

M/S/C Brown/Walters to invest up to \$1M or more if possible in Prana City Finance Company.

M/S/C Degraaf/Walters to accept the investment portfolio update for the year ended December 31, 2018 (pre-audit) as presented.

LEGISLATIVE/REGULATORY REPORT

King reported on the current legislative action items.

- Credit Card Fees- WFCAs has monitored legislation and court cases challenging the varying credit card fees.
- Minimum Wage- There has been a minimum wage proposal made. The Raise the Wage Act was introduced in the House of Representatives to raise the minimum wage incrementally until it reaches \$15 in 2024.
- Management Overtime- When overtime is paid many things must go into consideration in determining the overtime rate.
- Family Leave Reform- WFCAs is researching a healthy small business exception.
- Retirement Pensions- WFCAs continues to monitor this.

TRAINING UPDATE

Jennings was pleased to announce that the online University usage is increasing. WFCAs trade scholarship dollars are being utilized to pay for online training. There will be a new group of modules added to the current offerings titled, "Products and their Applications". Jennings is revamping older material already created and putting a new spin on them. The videos are approximately seven minutes long. These are materials that have never been seen. Jennings and Humphrey have a meeting with NAFCD to explore opportunities for them and WFCAs to work together to offer joint training. Jennings made the committees aware that budget cuts would impact the online university content.

Humphrey mentioned offering a membership price of \$399 which includes the online training for free. If a member joins at the \$399 rate they would not have access to trade scholarship dollars. This membership level would be geared toward new members.

Humphrey proposed that WFCAs stop allowing trade scholarship funds to be applied towards any organizations events that do not allow WFCAs to attend their shows at no cost. The executive/finance committee agreed to discontinue the use of trade scholarships for members of groups that do not allow WFCAs to attend the meetings at no cost.

fcB2B UPDATE

Abernathy made the group aware that Phil Zolan resigned from WFCAs and he has accepted a position with a rug mat company. Zolan said the offer was one that he could not pass on. WFCAs will begin the interview process immediately.

Software companies and manufacturers are in the process of implementing web services across their platforms. Zolan formed a committee and began defining certification definitions. This would allow members to take tests and become fcB2B certified.

The WFCAs app is complete and was launched at Surfaces in January 2019. The app is called askHOWi. This app was designed for retailers that do not have software services. The app provides hands on warehouse information, WFCAs member status, access to registration for online classes and training. This will be a single subscription service.

An installer scheduling app is also in the process of being developed. This app will allow installers and retailers to connect with each other through mobile capabilities. This tool will assist in online scheduling and invoicing.

CEO REPORT – Scott Humphrey -

CFI UPDATE-

CFI is not producing revenue as it was expected to by this time. WFCA originally projected a three- year period for CFI division to begin producing break even revenue. The gap is getting closer but not where it needs to be. Much of the focus has been shifted from training to recruitment. Revenue versus cost, WFCA lost \$425,000 in 2016, \$324,000 in 2017 and \$294,000 in 2018. At the time of acquiring key assets of CFI, the intent was not to be a profit center but to send a message to the industry that WFCA was willing to deal with a problem that everyone else just wanted to talk about. WFCA is identified in the industry as the entity that owns the solution to the installation crisis. The feel among the group was not necessarily pro CFI but if not WFCA then who would be working towards a solution to the crisis. The goal is to become revenue neutral. Varden is the person that has the relationships with the installers. Humphrey made it clear he is not looking to get rid of CFI but a solution on how to get it right. One suggestion was to add someone to run the business side and help market the program such as an operations manager. Humphrey proposed to send Varden through extensive coaching/training and hold him accountable. The group felt Varden was too busy with too many initiatives on his plate. Humphrey will discuss the suggestions made by the committees with Varden.

MEMBERSHIP REPORT-

Humphrey reminded everyone aware that WFCA decided it was more important to have engaged members rather than large numbers. Thus, WFCA culled the herd. Some of the decrease in the membership numbers happened by default during the re-structuring of the membership tiers. The current membership is at 10% of potential members and statistics indicate 13% is a healthy number for associations. WFCA has been as high as 13% prior to restructuring the tiers. Humphrey informed the group of a membership call campaign that employees are actively involved in to help drive membership numbers and engage personally with previous members.

FCIF-

The largest challenge with FCIF is that not enough people know about the association. Our goal is to raise an additional \$150,000 each year for the next three years, growing the organization to \$1 million in revenue. The number of applications and grants awarded have increased after the hiring a full- time employee focused solely on FCIF. The actual amount of grants in 2018 was larger than revenue brought in for the first time in history. Adams suggested a flyer or poster be created and distributed to WFCA retailers to post in their employee break rooms to help spread the word.

MBS-

Humphrey reported the MBS booth was very active at the Domotex show in China. While in China, Humphrey met with Harvey Norman and addressed a small issue with the magnetic underlayment not sticking to Teflon paint. There was also a meeting with MetroFlor who is the largest manufacturer currently on board with MBS. MetroFlor sample folders are complete and are being circulated in the market. There are ongoing discussions with Healthier Choice and other large players in the industry. MBS has found a US manufacturer for the underlayment. This company's raw materials are also sourced in the US which now makes the underlayment a "Made in the US" product. This manufacturer from Colorado would also help control cost.

Abernathy reminded the group of the initial joint venture agreement with WFCA providing up to \$2M in the beginning in working capital dollars. Golconda and WFCA have each invested \$2M. That makes both parties equal regarding equity capital contributions. The agreement stated once those funds were exhausted each party would loan capital to MBS equally in proportional shares 50/50 for any subsequent capital requirements needed. It was voted on and agreed to offer supplementary capital funding to MBS up to \$300,000 for the balance of 2018 in the form of a loan. Golconda would also match the same amount. The entire \$300,000 was not fully used in 2018. Additional funds will be needed to conduct business for the remainder of 2019. The MBS revenue stream is anticipated to begin towards the end of 2019. The original approval was for WFCA to supplement funds as needed up to \$700,000. There was only a vote taken for the initial \$300,000. Abernathy stated \$700,000 from each partner would get MBS through the remainder of 2019. The hope and expectation are the revenue will pick up and the entire \$700,000 may not be needed. It was decided to have a

conference call with the executive/finance committee at the end of April to review the first quarter financials and take an official vote for the additional funding needed for the remainder of 2019.

OLD BUSINESS

No old business to discuss.

NEW BUSINESS

No new business to discuss.

ADJOURNMENT

There being no further business to discuss. It was **M/S/C O’Krent/Degraaf** to adjourn the WFCa executive/finance committee meeting at 2:56 pm mountain time.

By Kay Wiley
Recording Secretary

Next WFCa Executive/Finance Committee Meeting
Date: September 19, 2019
Location: Barnsley Gardens Resort, Adairsville, GA