



WFCA BOARD OF DIRECTORS MEETING MINUTES

Friday, October 27, 2017

Rosemont, IL

GUESTS

Kathryn Baird, TK Fusion LLC
Tony King, TK Fusion LLC
Stacy Eickhoff, Willis

CALL TO ORDER

Freadreacea called the meeting to order at 9:00 am central.

ROLL CALL

Dean Howell performed the roll call (becomes a permanent part of the minutes).

ANTITRUST AND FIDUCIARY RESPONSIBILITIES

Legal Counsel, Jeff King, reviewed the fiduciary responsibilities of the board of directors with those present.

Humphrey introduced and welcomed Adam Nonn, Andrea Dobbins and Li Huang to the board meeting. Nonn is a new board of director member that fulfilled the vacant position of Scott Appel, Andrea Dobbins is the Executive Director of the Floor Covering Industry Foundation and Li Huang is the Director of Operations in Asia for MBS.

APPROVAL OF WFCA BOARD OF DIRECTORS MEETING MINUTES DATED 03/24/2017

It was **M/S/C Jacobi/Degraaf** to approve the minutes from the WFCA board of directors meeting that was held in La Jolla, CA on March 24, 2017.

APPROVAL OF THE MINUTES AND APPROVAL OF ACTIONS OF THE EXECUTIVE COMMITTEE DATED 01/17/2017 and 03/23/2017

It was **M/S/C Walker/Fromm** to approve the minutes from the executive committee meeting on January 17, 2017 and March 23, 2017.

FINANCIAL REPORT

Abernathy began by stating WFCA has had a phenomenal six to nine months of the year financially. WFCA is performing well when it comes to the financial side of things, both from an operational standpoint as well as the investment portfolio. Abernathy presented the audit for 2016 and explained it took a little longer to get that audit done this year because it was an 18-month audit versus a 12-month audit. The 18-month audit was due to the change of converting from a fiscal year to a calendar year. The Finocchiaro & Co reported the 2016 WFCA audit was clean. As Abernathy reviewed the financial statements through June 30th he gave a sneak preview of the performance through September.

WFCA's total assets have moved up to 40,741,887 versus 39,194,598 at December of '16. This increase is a result of operational income, operating expenses and changes in the investment portfolio. WFCA had a net asset gain of 4% for the first half of 2017. Abernathy noted a change in the investment bank accounts. WFCA moved approximately \$4 million out of the Fifth Third's account over to the Fidelity accounts. This change was to reduce the collateral for the line of credit on WFCA Services Inc. There was \$6 million originally set aside to collateralize the line of credit for the insurance captive. WFCA continues to see substantial improvement year over year in revenue. That improvement is coming primarily from membership dues and CFI revenue. WFCA is tracking under budget essentially in every category. Abernathy stated for the last six month reporting period, investment gains are up \$2.8M including dividends and capital gains. He added Litman Gregory has done a phenomenal job positioning the portfolio with the right strategic mix. Portfolio gains through the third quarter are now sitting at \$4.3M for 2017. The portfolio grew from \$2.7M at the end of the second quarter to currently \$ 4.3M representing a 12% portfolio performance for the first nine months of 2017. The WFCA portfolio is operating on a global balanced strategy with a mix of stocks and bonds. Abernathy gave an update on the Aurora Fund. WFCA had \$6M positioned in a hedge fund in the Cayman Islands called the Aurora Offshore Fund. WFCA submitted a redemption request but it was decided a week later to liquidate the fund. WFCA only has \$56,000 left in the Aurora fund which poses very little risk.

ACCEPTANCE OF FINANCIAL STATEMENTS – Ended June 30, 2017

It was M/S/C Degraaf/Lewis to accept the financials and financial statements ended June 30, 2017.

2018 PROPOSED BUDGET

Abernathy made the board of directors aware the proposed 2018 budget had been approved by the finance and executive committees. WFCA is projecting nearly the same revenue in 2018 that was received in 2017. He also added the liquidity account needs to be topped back up to \$2M the beginning of 2018 to cover operating expenses for the majority of the year. The proposed budget reflects aggressive reductions by the association. The consolidation of the Anaheim and Dalton facility saved a large amount of money. CFI is in the process of consolidating the Lenexa, KS and Forney, TX offices as well. There has been a significant reduction in brochures and publications. The \$100,000 reduction was possible since that number was increased in 2017 for the re-launch of WFCA. To summarize, WFCA has projected approximately a \$400,000 decrease in expenses and a flat revenue. O'Krent questioned the \$301,000 budgeted amount for Surfaces. Staten responded explaining the items that were included in that dollar amount such as booth rental, the hall of fame booth, food & beverages and internet/electrical expenses. Seifert asked for details regarding the increase of the staff development line item. Abernathy responded a portion of the increase is to provide management coaching to senior staff. The balance of the increases is to host two WFCA staff meetings per year.

APPROVAL OF THE WFCA PROPOSED 2018 BUDGET

It was M/S/C Bowler/Campbell to approve the WFCA proposed 2018 budget.

FLOOR COVERING INDUSTRY FOUNDATION

Dobbins referred the board of directors to a brochure that was in their books. She began by telling the board the foundation is 36 years old. FCIF was started in 1981 and was chartered in Washington, DC. It was moved to Chicago, then on to California and is now in Dalton, GA. The FCIF helps people who are impacted by life-altering medical conditions. The FCIF board of directors isn't solely focused on raising more money they are also focused on helping more people by giving out additional grants. There are three criteria that must be met to receive a grant. The first thing is a life-altering medical condition. The second is someone in the household has to have worked in the industry for five or more years. Then, the third thing is the applicant must be in a financial crisis. The foundation does in-house financial review. FCIF currently has a free intern that's works 15 hours a week to help with the grant application process. She is an intern from Dalton State College Social Work Department. Some of her tasks include: tracking down applicants monthly bills and compiling medial information. At the end of her presentation, Dobbins invited the WFCA board of directors to help her in giving to the Floor Covering Industry Foundation. Everyone was given a pledge card.

Humphrey recognized Nick Freadreacea and Keith Campbell publically as their terms were expiring with WFCA. He thanked them and presented both a plaque. Nick received a chairman's jacket.

MEMBERSHIP/MARKETING

Staten began her presentation saying 2017 has been a busy year for marketing, communications, and membership. She stated the WFCA has a new website and a new membership structure in place. The PFR magazine has also been redesigned. The membership team is in the process of sending out renewals for membership. There has been an increase in members renewing their membership online. Staten announced she and her team are focused on bringing on new members, engaging current members and reaching out to the members who have lapsed. WFCA will continue with multiple marketing initiatives which includes increasing the number of press releases sent out. WFCA will continue to advertise through the trade magazines. The membership team is also attending multiple industry events and will be attending the Abbey convention event in 2018 for the first time. Results from an industry study determined the top reason company's join an association is to have access to networking opportunities. It was determined the most effective way for associations and to gain new members is word of mouth and recommendations. With word of mouth being the number one effective method of recruitment, WFCA will be launching a "One More Voice" campaign in January. It's a referral recruitment program. WFCA is planning to incentivize their members to reach out to potential members. The WFCA website contains a members only forum. Members are encouraged to begin using that tool to discuss different things with each another such as industry issues. This is a community where WFCA members and staff can get involved. A WFCA member will be highlighted each month on the website. Staten reported the sustaining level of WFCA membership is made up of 621 members, the leader level 263 members, the advocate level 98 members and the executive level has two members. The total number of primary members is 1,334. (984 members with 350 branch locations)

PROFESSIONAL DEVELOPMENT UPDATE

Jennings gave the board of directors an overview of the future direction of the WFCA University. The online portion of the WFCA University has been brought back in house. The online university currently has 46 modules. Jennings said he is in the process of developing new modules. The current cost is \$99 a month which is about \$1,200 a year to get access to all the online training. This cost poses a hurdle for most people. To address this issue WFCA is going to break the charges up going forward. The modules will be consolidated and broken down into two different categories, management and sales training. The new cost will be \$199 per year for each set of modules. Certification programs will also be tied to the new training modules. Jennings welcomed the board of directors to submit ideas/suggestions for topics and things they wanted to learn via Toms Tips.

CFI UPDATE

Varden started by giving a brief history of CFI saying it was established in 1993. CFI began declining and WFCA purchased them in 2016. Varden described it as a rebirth of the program. In the past two years CFI is up in all aspects. Their membership is up, trainings and revenue are also up. More importantly though, their presence and brand is more relevant in the industry than ever before.

During trainings and certifications around the world Varden noticed the installers were aging and there wasn't anyone from younger generations coming into the trade. The decision was made to build a school in Forney, TX. Programs and classes were developed to attract younger generations and the intent was to take a student and train them from beginning to end and prepare them to be a certified flooring installer. Even though Varden was told numerous times by people in the industry how badly a program like this was needed, the school didn't take off as planned in the first year. As the installer crisis worsened retailers began sending students to the school in early 2017 and CFI recently graduated their sixth class in Forney, TX. The five week class was made mobile to allow training to as many people as possible that were interested in becoming a certified flooring installer. Four classes have been completed in Ohio to date. The cost of tuition for the five week class is \$5,000. This is a big expense for someone exiting high school. Varden began asking retailers if they would consider financing the fee for these students if the students gave them a two year commitment. Every person he asked said yes. The first pilot student was picked up immediately by a contractor. This allowed a student

the opportunity to get training they couldn't otherwise afford and also helped a contractor add a fully trained and certified installer to his team.

CFI had their 24th annual convention in August and saw significant growth in attendance. The number of booths purchased by vendors was up to 32 from 24 the prior year. The majority of the convention revenue comes from the vendors that attend and showcase their products in these booths. There were 48 first time attendees at this convention. The unique thing about the 48 new attendees is that most of them were recently graduated students. The next CFI convention (the BIG 25th) will be held August 15 – 17, 2018 at Rosen Shingle Creek in Orlando, FL.

Varden has taught four training sessions in Brazil. These are two week classes filled with nine hour days. The average class size is 20-24 per class. CFI recently opened a division in Shanghai, China. The goal is to begin trainings in China the first quarter of 2018. Installation trainers from the U.S. will travel to China to train other trainers to begin training classes there. CFI receives revenue from international training sessions but the real advantage is the fact that CFI is expanding its reach and teaching individuals a skill that the entire flooring industry can and will benefit from.

Varden is in the process of creating a voucher program for 2018. This voucher program would encourage retailers to send students to the five week training classes by offering the retailer vouchers from vendors for installation supplies they are already purchasing. For every student the retailer sends to CFI classes they receive a certain amount of dollars to spend with various suppliers.

TRADE SCHOLARSHIP

Abernathy performed the WFCA trade scholarship report. The year-to-date number of awards granted through June 30th was 202. This number is down compared to the same time last year which was 301. The average dollar amount of the award has gone up markedly to \$279 versus \$208 in the prior year. The total amount of our awards are \$56,272 versus \$62,497 in the same period in 2016. WFCA budgeted \$150,000 for trade scholarship awards in 2017 and Abernathy does not anticipate that number will be reached. CCA continues to be the predominant user of the scholarship funds. They use in excess of 50% of the total.

CEO REPORT

Humphrey updated the board on the FCLC by reporting the associations have decided to go together and have research performed regarding the current installation crisis. An RFP has been issued and people are responding. That research is needed to prove the existence of the installation crisis and its potential impact on all parties, not only on retail but also to the manufacturers.

Humphrey mentioned the term the perfect storm. He referred to three things happening in the flooring industry. One of those is obviously the installation crisis, the crisis that retailers are feeling right now. The second is the impact of millennials in buying, and the third is online-only sellers. People that sell not from their own website because they have a retail store but those who simply sell online. Humphrey said WFCA is aware of the situation and is looking at multiple ways to battle it. Humphrey mentioned Just-In Floors saying, "WFCA feels that having a platform that allows retailers to sell online and compete with an Amazon but uses the retailer for fulfillment at a pretty high margin is an option being considered." There is no formal contract between WFCA and Just-In Floors at the moment.

WFCA has more global reach than is realized. Humphrey made a presentation in China recently and launched MBS China. A map was utilized to compile and compare every member with WFCA, every member with CFI and potential relationships with MBS, and found that multiple countries are already being represented. WFCA expects to expand that reach in the future through CFI, fcB2b and especially the MBS platform. The United States is viewed as the leader in the flooring industry and that encourages others to want to tap into our resources.

Humphrey shared with the board an exercise the WFCAs staff participated in during a recent staff meeting. The staff was divided into groups to discuss BHAG's. Big Hairy Audacious Goals typically refer to a clear and compelling target for an organization. Often, the outside does not see BHAGS's as being achievable. But those in the inside know that it is. It's a statement that is so audacious that people go, what are they thinking? But internally, you know you have all the mechanism in place to achieve success related to each goal. A BHAG is a long-term goal that everyone within the company can understand, clearly stated, and they can get behind. BHAGs are meant to excite and energize people where quarterly targets and lengthy mission statements often fail.

Several WFCAs BHAG examples that came from the staff meeting are:

- To build and deploy one all-inclusive interactive WFCAs app
- To deploy the new fcB2B standards world-wide
- For FCIF to be known globally for giving back
 - \$5 million dollars in donations and \$5 million dollars in grants in five years
- To be recognized as certification experts for all phases of the flooring consumers' interactions
- CFI schools and installation crews available in every state
- CFI program accreditation and technical high schools and trade schools in every state
- A WFCAs annual convention that is focused around education and training

Humphrey gave an update report on MBS and presented video of multiple installations of different products. The MBS platform has been launched in China and the platform will be shown at Surfaces 2018. MBS products will be on display in the WFCAs booth at the show also.

LEGAL/LEGISLATIVE REPORT

Tax Reform

King informed the board the Tax Reform House bill is coming out the Monday following the board meeting. That would be the first time anyone has seen it in full form. It was expected to pass in a week. The concerns with the Tax Reform bill are the elimination of deductions, 401K limits and the boarder adjustment tax. There are 50 or more deductions that will be eliminated. The alternative minimum tax would be cut but the standard deduction would be close to \$26,000.

Internet Sales Tax

The Internet Sales Tax bill is stalled in congress. WFCAs will more than likely join an amicus brief already in process.

Independent Contractor

The independent contractor issue is the number one concern with WFCAs members. The problem is inconsistency with the rules and the inability to have a single legitimate, clear standard that applies to everyone. Eighteen states have proposed legislation aimed at construction. In the past two years eleven states have increased penalties for misclassifications. WFCAs has a white paper and met with Congress to propose legislation. The independent contractor issue is not on the current agenda but there's a tremendous amount of state action taking place.

Immigration Reform

E-Verification will soon be mandatory. The verification process requires an I-9 be filled out the day the employee starts and the business has three days to complete their portion of the form. If a mistake is made the error must be corrected within three days to prevent penalties. E-verification corrections are difficult. WFCAs opposed this option because flexibility is desired. King referred the board members to an article he recently wrote for PFR for specifics pertaining to retailers' obligations.

Silica Dust Regulation

The new rule on respirable crystalline silica issued by OSHA went into effect September 23, 2017.

WFCA filed comments regarding the rule and OSHA adopted several of WFCA's recommendations to limit the costs of complying with the rule. King referred the board members to the Q3 2017 issue of PFR for the entire Table 1 regarding new rule requirements.

Affordable Care Act

WFCA would like to see the large business requirement of 50 people reduced. Association plans have been authorized but unless Congress makes a change insurance can't be sold across state lines.

King ended his presentation saying WFCA is well run and well organized. There are no lawsuits pending.

PAST CHAIRMAN'S COUNCIL

Johnson began by stating the WFCA Past Chairmen are very active and engaged in the flooring industry. The council made it clear they support the white paper being discussed to address the manufacturers terms issue. He added the importance of retailers understanding the discount terms and how to effectively use them. The council continues to be concerned with the overall WFCA membership and membership numbers. Adding WFCA needs as many voices as possible especially when it comes to lobbying in DC. The council still feels strongly about the need for an industry standard but does understand the current ramifications surrounding the S600. The WFCA plans to celebrate their 60th anniversary at the fall 2019 board meeting in Adairsville, GA. Johnson informed the board of directors the past chairmen's council would like to see more retailers inducted into the WFCA Hall of Fame.

HISTORICAL COMMITTEE

Blake encouraged everyone to continue to donate historical items to the WFCA museum. The museum was relocated to Dalton, GA after the Anaheim facility was closed. Blake is WFCA's representative for the IICRC. WFCA is one of 19 shareholders of the IICRC. The IICRC represents the cleaning, repair and restoration industry. Inspectors are also represented by the IICRC.

EDUCATION COMMITTEE

Jacobi gave the education committee report. The committee is focusing on re-launching the online university. Certifications will be tied to the online components. Suggestions were made to create combo modules with a mixture of management and sales training.

CONTINUING BUSINESS

No continuing business to discuss.

NEW BUSINESS

No new business to discuss.

ADJOURNMENT

There being no further business to discuss. It was **M/S/C Degraaf/Hadley** to adjourn the WFCA board of director's meeting at 4:50 pm central.

Respectfully submitted,
Kay Wiley

NEXT WFCA BOARD OF DIRECTORS MEETING
May 18, 2018, Rosen Shingle Creek Resort, Orlando, FL