EXECUTIVE DIRECTOR REPORT
Executive Council Meeting – March 4, 2017
Saint Louis, MO

Brother SWGP and Brothers:

Incredibly it has been a year since I took on the role of Executive Director and it's been quite a ride. Where there are always "those days" overall it's been fun and has been a great opportunity for me to utilize my skill sets in a new industry and market. That said, I certainly feel I still have much to learn and am told by my peers that never changes – which is great.

Given it has been a year I thought it would be valuable in this report to reflect back on what has been accomplished in that year and where we are going for the coming year as we continue our execution of what remains a projected three-year (six semester) implementation of our transformation strategy. Thus far we have one complete semester under our belt, so it is still early days, but substantial progress have been made none-the-less.

This report specifically covers the following topics:

1. Operational results
2. Financials
3. Other topics of interest

1) Operational Results

As with any business activity it is important to set goals & standards and track progress towards those goals. Based upon the five-year strategic planning exercise undertaken in 2015 we have set targets for where we want to be in 2020. Below is a table that breaks down those metrics further year by year. As with any program we will adjust as necessary based on the operational realities we encounter. However, at this point we appear to be on track for achieving our targets this year.

		Before Strat	Last Year	This Year	Next Year		
		Actual	Actual	Forecast	Target	Target	Target
Operational Performance Metrics	**Goal**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
Risk Management (# chapters closed / year)	3 or less	6	3	3	3	3	3
Risk Management (average duration of closure)	30 months or less	37	36	32	30	30	30
Expansion (# of new colonies / year)	6	2	2	7	7	6-8	6-8
Programming							
- % of UG in-person touch points with ALA		18%	8%	N/A	N/A	N/A	N/A
- % of UG in-person touch points without ALA	25%/year	12%	2%	8%	15%	20%	25%
Growth (# of total UG population Spring Census)	5% yr/yr	6390	6390	6285	6800	7200	7600
Chapter Finance Service (% of chapters on OmegaFi)	80%+	N/A	22%	50%	75%	80%	85%
Chapter Metrics							
- Total number of chapters & colonies	125	108	101	108	114	120	125
- % of chapters in the top quartile in grades	95%	N/A	15%	30%	50%	75%	95%
- % of chapters in the top quartile in size	95%	N/A	37%	50%	75%	85%	95%
- % of chapters/colonies with 3+ man advisory teams	95%	N/A	75%	83%	95%	95%	95%
- % of chapters/colonies with 5+ man advisory teams	85%	N/A	25%	42%	60%	70%	80%
- Median service hours / man / year	40	N/A	0.9	10	20	30	40

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As you can see, there were quite a few metrics we didn't even have access to back in 2014/15. Now that we do have them, we have started putting services and programs in place to start moving those metrics in the direction we want. A few examples include:

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- *Chapter Finance service* – We have partnered with OmegaFi to help our chapters increase their collections to 98%+, reduce their days outstanding and better manage their finances overall. When the year started we had 22 chapters on OmegaFi. Our target this year is to get to 50% and we're currently at 39%. The current service agreement provides a price reduction when 50% of our chapters are on the service and again after 80% are participating. There are also substantial advantages to how HQ staff can better support and serve our chapters if we can have access to view accounts. This is something staff brought up on the EC call last Tuesday and we should discuss the benefit of requiring all chapters to move to OmegaFi except perhaps those who are required to manage their finances through their host institution or other means.

- *Expansion service* – This service is provided by our internal expansion consultants. It consists of a 12-month plan whereby we have two consultants on site of expansion chapters for the first term and one all year. We execute a proven and repeatable process that will be adjusted as appropriate for the greatest success on each unique campus. A current snapshot of our expansions this year is below.

Colony	Current Members	Required GPA	Colony Advisory Team
Auburn University	24	3.00	Full Team (5/5)
Texas A&M	46	3.00	3/5
Virginia Tech	68	3.00	4/5
West Virginia University	55	2.85	Full Team (5/5)
Denison University	17	2.80	Full Team (5/5)
Texas Tech University	72	2.80	Supervisory Team (1/3) *Need EC Approval
University of Missouri	5	3.00	Full Team (5/5)

In addition, we already have four expansions prepared for next Fall including: Arizona State University (AZ Beta), Indiana University (IN Beta), James Madison University (VA), Towson University (MD). Historically we've expanded at 1 – 3 universities each year. We're currently on track to successfully expand at 6 – 8 for the foreseeable future or 2x – 3x our historical expansion rate.

- *Risk Management service* – Our Risk Management service supports chapters who have had risk management violations in order to: (a) save the chapter or (b) significantly reduce the suspension / university punishment. It can be seen as the counterweight to our expansion group. In the academic year before we launched our new strategy and established a standards team we closed six chapters. Last year we closed three and in the first half of this year zero. While we unfortunately won't have zero closures for the year, the best performing organizations still close 1 – 3 chapters each year so we have definitely shifted ourselves from one of the more poorly performing groups to be in line with best practices.

- *Programming* – This is really the cornerstone of our strategy as we look to help better educate our undergraduate members with skills that will stand them well for their entire lives. This also augments what we're doing from a Risk Management perspective because the better trained our undergraduate members are the more likely they are to make "good" decisions versus "poor" ones. It is the poor decisions that lead to Risk Management violations and chapter closures. The

way we do this is by having as many face-to-face training interactions as possible. Best practice today are organizations who are interacting with 20% of their undergraduates each year. We're targeting 25% by 2020. Last year we only interacted with 2% of our undergraduate members face-to-face if one does not include ALA. This year we're at 8% and next year we should easily hit 15% or over 1000 undergraduate members. The key to this success will be ensuring there are adequate funds available and provided from our Foundation grants to sustain our growth in this critical area.

We will continue to monitor our progress against these goals and will certainly revisit and adjust as necessary based on the operational realities we encounter along our journey.

2) <u>Financials</u>

Over the last 20 years I've been involved in scores of corporate transformations with companies spanning many industries. One of the common themes to all these is funding the transformation and it is always the trickiest and most controversial part. Companies that are world-class at this have learned the key is to front load the investment in order to jump start the transformation. We were able to do that to an extent, but not as much as we would have been liked. However, I've never seen a transformation or any major program for that matter which had all the resources up front it wanted. So we're not atypical in that regard. That being said, it is not out of the question we can live into this model over the next year or two and successfully transform this organization into a true value added partner with our host institutions and start leading the fraternal world with our innovation and execution.

When I joined a year ago we had the illusion of fiscal controls, when in fact none existed. We moved quickly over the first 90 days to adjust the organization in order to address skill set deficiencies and stop issues from occurring. Since summer, we've been striving to bring our financial controls and processes up to best practice standards. This has included a number of substantial changes many of which have never been done in our Fraternity's 165 year history including:

- Hiring an expert in financial accounting to run the business operations organization
- Establishing industry common practices with regard to procedures and controls where historically there were none
- Cleaning up years of erroneous data to ensure accurate reporting that ties and reconciles
- Addressing audit findings and establishing a process whereby the Auditor reports out directly to the EB without management present for greater transparency
- Closing the books and producing monthly financial updates by the 15th of each month with a goal of getting them out by the 10th (something that's already been done twice in the last six months)
- Creation of an 18 month cash flow forecast
- Production of monthly financial reporting process
- Collaborating with the newly appointed Finance Committee which meets to review our financials and progress every 60 days.

The list could go on, but it is important to pause on occasion and recognize our successes while we continue to address the challenges; and as with every transformation there are challenges. The three biggest areas of operational challenge and/or risk are:

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1. **Cashflow** – As we all know we live in a world where we get cash inflow for about four months out of the year and have bills for 12. This is easily managed during times of stability, but transformations are anything but stable. Apart from the constant operational changes that must be funded, there are also the usual external surprises (thus far this fiscal year to the tune of about $375K) and the need to frontload funding to support the change. It is true we are still showing a gap for this coming summer. However, the fact we know it's coming six month in advance gives us the opportunity to address it. To that end, we are actively working on addressing it through a variety of options including bridge loans and cost reductions. Based on current projections this the need for such bridge loans appears to end after another 12 – 24 months. The key to success lies in not abandoning our strategy because of this challenge, but rather working together to address the challenge in a way that best supports our members and our strategy.

2. **Accounts Receivable (A/R)** – Over the last 18 months we've let our A/R drift way too high. Some of that was on staff's end whereby the massive turn over that occurred caused the loss of quite a bit of knowledge. Consequently, many of us (myself included) had a steep learning curve. For example, last fall we should have done a better job of engaging alumni more quickly to help drive down A/R from chapters that were 90+ days delinquent. We won't make that mistake again. Furthermore, we've already taken the step to ensure all chapters who are delinquent are on payment plans and once a chapter goes delinquent one of their workout steps is they must migrate onto OmegaFi in order to help them dig out and hopefully avoid becoming delinquent again. We've also had a number of members from both the EC and Finance Committee volunteer to help with collections. So as this term moves forward we will engage them in helping us collect when chapters don't respond to staff requests.

3. **Foundation Grants** – As we continue to ramp up our programming there is a risk fund raising will not keep pace. This year we submitted over $720K in our first ever annual grant request of which $605K was requested for the Fraternity's current fiscal year to support programs. We are currently projected to receive $360K or about 59% of that request. The risk is as our programming grows we will be submitting substantially larger grants in the coming years and we will need to raise the percentage being reimbursed. The concern is: will fund raising and grant reimbursements be able to keep pace?

At the end of the day, I still hold to my original assessment of our situation which is we primarily have a revenue issue, not a cost issue. This continues to be substantiated by the fact our cost structure is not out of line with other Fraternal groups approximately our size who are doing similar things. In addition, if we want to become an industry leader we need to invest more than others in order to not only catch up, but to set the standard for the rest of the inter-fraternal world.

<u>Other topics of interest</u>

Alumni: This year's Founder's Day events are shaping up for another banner year. HQ is currently aware of 58 events going on, which is slightly down from last year's all time high of 63. However, we had far fewer resources to drive that number this year – meaning these events were more organic in nature and self-generated – and there are probably events going on we are not aware of or may become aware of. Early indications at the time of writing this report are folks are pleased with some of the early operational wins and the responsiveness of HQ staff and look forward to our continued operational improvements.

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DOL Ruling: With the election of Donald Trump to the US Presidency many of the financial rules and regulations the Obama administration were pushing are now on hold. This includes the DOL rule that would have required all persons making less than $47,476 to be classified as "exempt" and be eligible for overtime. While the rule is on indefinite hold, our efforts to support it are not. Primary of these is the rollout of a new time tracking system which will allow all staff to track their time. This will have multiple uses, not the least of which will be to support this DOL rule if it were to be given new life. The roll out of the time tracking system is scheduled to occur in the next 30 days.

In The Bond,

Mark Guidi
Executive Director