

FRIDAY, JANUARY 24, 2014  
Local Government Center

*OSBA board members in attendance at meeting start:* Past-President Terry Lenchitsky, President-elect Dave Krumbein and Vice President Bobbie Regan

*OSBA staff in attendance at meeting start:* Director of Finance Mike Robison, Executive Director Betsy Miller-Jones, Director of Legal, Labor and PACE Services Lisa Freiley and Administrative Assistant Tonya Hammer

*OSBA Finance Committee members in attendance at meeting start:* Russ Allen, Business Director, Greater Albany School District and Mike Doherty, Special Districts Association of Oregon

*OSBA Guests in attendance at meeting start:* Brent Peterson and Will Dietz, Royal Bank of Canada (RBC) and Greg Coffey, Crissie Fortmeyer and Mike Ruff, Russell Investments

**Current committee chair Bobbie Regan called the meeting to order at 1:07 p.m.**

I. Welcome and Introductions

Introductions commenced around the table.

Since the new chair of the Finance Committee, OSBA Secretary-Treasurer Sam Lee, is not at the start of the meeting, the committee began with item IV on Finances.

IV. Finances

A. Current financial report

Mike Robison began by reviewing the OSBA Monthly Financial Report, which reflects a net income of approximately \$950,000. This is significantly higher than budgeted, in part due to the change in the investment policy. He advised that expenses are tracking close to line items.

The unknown in the equation is that the OSBA Executive Committee made a decision to participate in the PERS litigation, authorizing expenditures up to \$500,000 toward the legal portion of the suit. This could have an effect on the income for the balance of the year. Lisa Freiley explained that the bulk of the expense will occur during the fact-finding piece between February and April of this year.

Mike then moved on to reference the Financial reports email that was sent to the Committee in December which reflected a \$340,000 realized gain. This is the result of selling stocks and buying others. A gain was booked on the stocks that were sold and bonds that would mature in a year were traded. These bonds were sold at a premium. The money realized with this transaction was not used for operations, but reinvested in the endowment.

He continued his report, referencing the unrealized value earning on the endowment of \$2.4 million. He explained real market value and the concept behind what is listed on paper and what we have on hand. He has purposely separated the operations earnings from the earnings from stocks and bonds so that this concept is driven home. At the end of the year, this unrealized earning will be shown on the income statement.

The clarification was made that OSBA is on a fiscal year running July 1 - June 30.

Mike then noted that as of January 23, 2014, OSBA has \$79.2 million in investments, with \$33.4 million in equities, \$44.6 million in bonds, and \$1.2 million in cash. Additional explanation was given on the various line items.

A question was asked as to whether the PERS legal fees were captured in this report. Mike advised that the Legal Assistants Trust (LAT) is a separate entity unto itself. LAT has authorized expenditures up to \$250,000, but this will not cover the full scope of the investigation or the litigation. Additional funds will come from OSBA and Association of Oregon Counties (AOC).

Lisa reported that Beaverton School District has still not responded regarding their membership in the LAT.

Reference was made to the LAT financial statement on pages 110 and 111 of the packet. As of the end of June 2013, the bottom line is \$874,000, but this doesn't include the dues for the 2013-14 fiscal year.

A comment was made that the budget for the OSBA legal line item was double what was budgeted. Mike responded that this includes the \$500,000 that was approved by the Executive Committee for PERS litigation and investigation. The initial invoices that were sent in for PERS litigation/investigation were paid by OSBA and will remain as such. These initial invoices will not be split among the other entities for payment.

There was a comment that under the conventions/conferences line item, the delta between revenues is greater than the delta between the expenses. This will be reviewed for the budget for the 2014-15 fiscal year.

The conversation returned to the discussion on PERS. Lisa added that Association of Oregon Counties (AOC) has joined in the PERS litigation and is contributing funds. The funds will be disbursed on a rotating basis between OSBA, AOC and the Legal Assistance Trust (LAT). It is a 50/25/25 split between LAT/AOC/OSBA.

Lisa added that AOC is on the hook for up to \$120,000. If the expenditures exceed \$240,000, a new discussion will need to take place between OSBA and AOC. It is anticipated that the OSBA contribution will be much less than the \$500,000 that was allocated for this expense.

*OSBA Secretary-Treasurer, Sam Lee, arrived at 1:28 p.m.*

II. Selection of Committee Chair

**Motion: Past-president Terry Lenchitsky nominated Secretary-Treasurer Sam Lee for chair of the Finance Committee; seconded by President-elect Dave Krumbein.**

**The committee voted on the nomination and it was passed unanimously.**

III. Approval of minutes

A. September 27, 2013 meeting

**Motion: Past-president Terry Lenchitsky moved the committee to approve the September 27, 2013 Finance Committee meeting minutes; seconded by President-elect Dave Krumbein.**

**The committee voted on the motion and it passed unanimously.**

At this time, the new Committee chair, Sam Lee, began conducting the meeting. He took this time to thank the past chair, Bobbie Regan, for her service to the Committee.

IV. Finances

Since a report had already been given, Mike provided an overview. Through December, OSBA has earned \$950,000 through Operations, \$350,000 of that is realized capital gains. As of January 23, the unrealized gain and real market value of the investments is \$2.4 million. Whatever this number is at the end of June will be booked and reflected on the financial statement.

VII. PACE Investments

Mike reminded the Committee that OSBA is the oversight body for PACE investments, but that because there was a different need for the way funds were invested and managed, a separate investment company, Russell Investments, manages PACE investments. He introduced Greg Coffey from Russell Investments to provide an overview of the current financial state.

Greg Coffey began on page 14 of the packet - the review of Capital markets. He reported that the US market rose 33.5% in 2013, but things are more volatile in 2014 and this may not be the case. The year 2013 was a great year for US equity markets, but bonds were down by 2% for the year. As for how this effects the PACE portfolio, he referenced page 17 of the packet that shows the numbers should be stable moving forward.

*Nori Juba, Board Member, Bend-La Pine School District joined the meeting at 1:42 p.m. via conference call.*

Greg continued his presentation with news that the interest rates will rise in 2014 about fifty

basis points. The projection is that the economy will be steady, but with significant volatility.

Russell took possession of the PACE assets on October 31, 2013. Per policy, investments are divided as 60% fixed income and 40% equities. Of these 40%, 30% is in the United States, while the other 10% is held outside the United States. The gain since taking possession of the portfolio is a little under \$850,000.

A breakdown of the performance numbers for each fund rounded out the discussion for Greg.

Mike Ruff then began his presentation by outlining Russell's equity investment philosophy and beliefs, explaining how they blend stocks and bonds to achieve the returns that they realize. He then explained the diversification of a portfolio, to include large and small cap returns.

*Tamara Graham of Pauly Rogers and Co PC joined the meeting at 1:53 p.m.*

Mike continued with discussion around defensive stocks and the strategy that Russell uses to choose these. He then reviewed the growth portion of the Equities portfolio, made reference to fixed income and capital preservation, the way managers within the company choose investments and the risks associated with those choices. He finished his delivery with a discussion around out-of-index exposures and what will happen to a bond portfolio when rates rise and strategies to deal with the outcome.

*Lisa Freiley and all Russell Investments representatives left the meeting at 2:05 p.m.*

*Tamara Graham with Pauly Rogers and Co, PC introduced herself.*

## VI. OSBA Investments

Brent Peterson with RBC passed out a Consolidated Portfolio Review for Period Ending December 31, 2013. The presentation was given by both Brent Peterson and Will Dietz.

He began by reporting how the portfolio has done over the last year. He reviewed the benchmarks and how the portfolio performed accordingly. He also reported on how much of the portfolio is in fixed income and how much is in equities. Because of the investment policy change, the projected income for 2014 is over \$3 million. In comparison, under the former policy, the income would have been between \$1 million and \$1.5 million. With the former policy, the fiscal year end would have ended in the red, whereas now, OSBA will break even or be up several hundred thousand dollars.

A question was asked as to how OSBA is protected from inflation. Brent explained that in the bond portfolio, the maturities are short and have a dividend growth component. RBC is also investing in companies with a long track record of increasing dividends over time.

The presentation continued with explanation on the data in the portfolios, asset allocation, equity analysis, attributes of fixed income and maturity distribution. Will advised that a common theme, as mentioned by Russell Investments, is that 2014 is a year of increased volatility. Last

year was a great year for equity returns, but this year will be the “real economy” and will be a “catch-up year.” He shared information regarding cash on corporate balance sheets and what that means to the economy moving forward. The asset allocation and asset classes were reviewed and it was communicated that the market cannot be consistently predicted.

A question came up as to the meaning REITS, as referenced on page 4 under “Other” in the Asset Class. These are real estate investment funds or property management companies.

*Betsy left the meeting at 2:28 p.m. and rejoined at 2:29 p.m.*

*Russ left the meeting at 2:29 p.m.*

Mike Robison explained that the bonds are real market value and if they are “underwater”, OSBA can hold these until maturity and can break even at that point. Brent did point out, though, that OSBA does purchase premium bonds as well. Currently, OSBA has sold bonds with one year or less to maturity and captured the gains.

This concluded the presentation by RBC.

*Russ rejoined the meeting at 2:31 p.m.*

*Brent Peterson and Will Reitz with RBC both left the meeting at 2:32 p.m.*

- VII. Audit Reports
  - A. OSBA
  - B. LGC Trust
  - C. LAT

Tamara Graham of Pauly Rogers and Co, PC reported on all three of the audit reports simultaneously. She explained that the communication to the governing body is the same to all three of the entities because all of the policies and controls are under OSBA. The communication is word for word to each of the entities.

She proceeded to walk the committee through each audit. The process is to determine if the financials of the organization are fairly and correctly presented by management under generally accepted accounting principals.

All three entities received a clean opinion with no modification and no management letter, which is an improvement over last year. There were no errors found in the audit. The policies and procedures were followed and there was no material misstatement whatsoever. There was no note on any of the entities as to a significant deficiency or a weakness in internal controls.

She proceeded through the entire process and the entire communications letter. There was a suggestion for best practice to secure crime insurance coverage. Mike advised the committee that this coverage has been purchased up to the amount approved by the Board.

Tamara continued with the overlay and segregation of duties to include receipting, recording and approving. Two of the three should be segregated. Mike reported that every check register goes to Betsy for signature. On the disbursement side, Mike reviews all bank statements and journal entries.

A question was posed as to the policy for the amount of time that these records must be kept. Mike advised that we follow the archival requirements.

Tamara continued the report, stating that one suggestion was for the internal accounting manual be updated, as it had not been reviewed or updated since 2007. This is on his list to do. Tamara opined that this is not a significant deficiency because there are updated policies and procedures and the accounting manual is an internal document.

She added that the net assets increased by half a million dollars which is a product of prudent management.

Mike provided an explanation of what the Local Government Center (LGC) is. The building is owned by OSBA, League of Oregon Cities and Association of Oregon Counties. The partners own 48% of the building and 33% of the parking lot and the ten apartments next door. All three partners share expenses and reserves. Each entity puts in \$1000 per month to reserve and the expenses are divided out monthly.

The new building and parking lot is owned 100% by OSBA and will appear as an increase in their assets next year.

Tamara advised that the net assets for the Local Government Center also increased by about \$35,000. As for the Legal Assistance Trust (LAT), the net assets increased a little over \$140,000.

The presentation concluded and Tamara left at 2:48 p.m.

#### V. Report on the Legal Assistance Trust

Lisa reported that the Legal Assistance Trust (LAT) is doing well financially. There is strong participation from districts by not many assistance requests are coming in. The Trust met in May and made the decision to move forward with assisting with the PERS litigation. They agreed to provide \$250,000 toward the litigation and investigation.

As for the PERS litigation, OSBA and LAT have joined forces with AOC. It is anticipated that when bills are received, LAT will pay the first \$60,000, then AOC will pay \$30,000 and OSBA will pay \$30,000 of the next \$60,000. Essentially, it is a 50/25/25 split.

*Mike Robison left the meeting at 2:52 p.m.*

*Lori Theros joined the meeting at 2:52 p.m.*

Lisa believes that there will be an additional contribution in dues and in terms of litigation, there is a lot of activity between February and April with a significant number of bills expected during this time.

*Mike Robison rejoined the meeting at 2:53 p.m.*

Discussion continued around the contribution to the PERS litigation and the anticipated cost of such litigation, as well as the attorney that was hired and the individual districts being sued.

*Betsy left the meeting at 2:58 p.m. to conduct the new board member orientation.*

*Lori Theros left the meeting at 2:58 p.m.*

Lisa explained that the LAT meets on an as-needed basis, except for the annual meeting in May. As OSBA President, Lori Theros is the new representative on the committee and Terry Lenchitsky is now off of the committee.

Lisa provided an idea of who is on the committee, providing the following names - Hank Perry, Cheri Helt, David Beeson, Betsy Miller-Jones, Lori Theros and the chair of Council of School Attorneys Jollee Patterson. This concluded the discussion on the LAT.

IX. Other business

There was no other business.

X. Adjourn

**Committee Chair, Sam Lee, adjourned the meeting at 3:02 p.m.**

