

FRIDAY, SEPTEMBER 19, 2014
Local Government Center

OSBA Finance Committee members in attendance at meeting start: Chair Sam Lee, Mike Doherty, Cliff Kuhlman, Dave Krumbein, Bobbie Regan.

OSBA staff in attendance at meeting start: Director of Operations and Finance Mike Robison, Executive Director Betsy Miller Jones and Administrative Assistant Vicky Black

OSBA Guests in attendance at meeting start: Brent Peterson and Will Dietz, Royal Bank of Canada (RBC)

Committee Chair Sam Lee called the meeting to order at 1:06 p.m.

I. Welcome and Introductions

II. Approval of Minutes

A. March 21, 2014 meeting

Motion: Sam Lee moved the committee approve the March 21, 2014 Finance Committee meeting minutes; seconded by Dave Krumbein.

The committee voted on the motion and it passed unanimously.

III. Investments and Finances

A. Investment portfolio and performance

Brent Peterson distributed a packet entitled “Consolidated Performance Report” that goes through the end of the second quarter.

He began with the portfolio summary and said as of June 30, 2014 we felt were overweight on equities so on July 8, 2014 we trimmed part of our position equities. We took about \$1,000,000 in gains and repositioned about \$3,000,000 back into bonds to bring it back into our target allocation of 60 percent bonds/40 percent stocks.

Mike commented that we didn’t exceed the allocation that was allowed under the investment policy.

Brent continued that we were approaching about 55/45 percent so we pulled ourselves back. In that process there were realized gains of about \$1,000,000.

Brent said that we are focusing on increasing our cash flow over time. He then went over how we are doing in comparison with our benchmark. Looking at the one year mark, we

are beating our benchmark and also outperforming our benchmark since inception date, July 24, 2012 - June 30, 2014.

He explained that at the one year mark we are also beating our benchmark in bonds by 150 basis points and by a little over 300 basis points since inception. He explained this was due to the philosophy that when bonds get close to one year or less from maturity they are sold and reinvested.

Brent stated the prime income portfolio is outperforming the benchmark in the year to date. It did lag last year, but from a cashflow standpoint it is contributing a large amount of cash to the portfolio. We are trading off current cashflow for price appreciation.

He continued that in dividend growth we are beating the benchmark by about 177 basis points. Since inception, it is trailing just a little bit. He explained that these are stocks that have a better track record over time and, in the long run, OSBA is getting increases. Will Dietz gave an example that McDonald's, a holding in the portfolio, increased their dividends by 5% this morning.

Sam asked for Brent to clarify that these are dividend based stocks but not ones that are dividend growth based stocks and Brent and Will confirmed that these are more of a higher yield, consistent, less likely to fall option.

Brent then spoke about the equity analysis in regards to holdings: the MALP ETF, an exchange traded fund master limited partnership ETF. That fund holds 25 individual stocks and it is diversified. He said we trimmed the MALP space in August by 4%.

Brent continued that almost \$11,500,000 will come due, in essence, within the next calendar year. Almost 25% of the portfolio will mature within the next year.

Sam asked if there was a concern over the telecommunications stocks (Bell Canada) if interest rates were to rise and Brent said they could trim that and bring it back into model. He continued that if there is a stock that is removed from the model, and we own it at a loss, we have been careful to avoid those losses by deviating from the model for a period of time. Brent added that there were a lot of changes in August to bring us back to the current model.

There was discussion about First Energy and Sam pointed out that they had a good dividend yield, so why remove it from the portfolio. Betsy said that we need to stay with the model and only deviate for short periods of time. Brent said First Energy had changes to their business model and there were some questions in a regulatory standpoint and there were other options that were performing better in the same space.

Sam asked if we were heavier in some sectors in the corporate bonds and Brent said that we are still a little overweight in that area and they are aware of that, but in the near future we will be diversifying.

Mike said that the income number for this year, including the gains in July, is expected to hit \$4,100,000, this includes dividends, interest and realized gains. He continued that the realized gains, including 2013-2014 and 2014-2015, have been at a pattern where we have been able to reinvest both on the bonds and equity side, which enabled us to grow the investment on the portfolio.

Brent also talked about unrealized loss/unrealized gain and said that since we have started the equity market has done well. At the 2013-2014 benchmark we had \$4,434,418 in unrealized gains. Betsy brought up that the concept of income is very important because half the operating income of the association is generated from the investments and if the market goes down we will still have that income coming in.

Brent Peterson and Will Dietz exited the meeting at 1:40 pm.

B. 2013-14 Audit Update

Mike said a few checks have made it through without being signed and that we now have a strategy to help prevent that from occurring again. He continued that Betsy approves all salary changes since Sharon and he have the ability to set up new employee and make changes. He said we have taken steps to improve accuracy and processing of our staff credit card system. Also, the accounting manual was last updated in 2007 and will be updated for 2014-15.

C. 2013-14 Fiscal Year-End Update

Mike said we are in a very good position right now and highlighted a few points: our operating revenue exceeded budgeted revenues by \$1,400,000; non investment revenues exceeded budget by \$200,000; Operating expenses were below budget by \$200,000; net income was \$1,600,000; we reinvested \$800,000 in realized gains; real market value of equities and bonds grew by \$4,400,000; revenue over expenses was \$5,400,000; ending balance for OSBA grew from \$79,400,000 to \$84,800,000. Betsy mentioned that the final year-end numbers in January will be a bit different from these.

D. Current Financial Report

Mike continued with the current financial report and said at the end of July we booked \$1,700,000. OSBA dues came in that month, so July was a very good month. He expects we will end up well over budget since we budgeted zero. He said we are still on a very good trend.

Referring back to the Year-End Financial Recap, Sam asked if the real market value, that grew by \$4,400,000, was since inception and Mike said it was for the 2013-2014 year only. Mike also added that it grew by \$600,000 in the previous fiscal year.

Mike Doherty exited the meeting at 1:51 pm

IV. Finance Committee Manual Update

A. Update Finance Committee Manual

Mike began by telling the committee that he made a few minor changes to the Finance Committee Manual after he had sent it out in Boardbook. Betsy added there were no fundamental changes to the manual. Mike went on to say that the manual had not been updated in several years so he tried to bring it into compliance. He said he is recommending that the committee approve the changes at this meeting so we can take it to the board in January for final approval.

Dave asked about the name change in the manual from manager to advisor and Mike said it is because we now have a financial advisor.

Bobbie recommended that there be an amendment on page 7 (page 24 of redlined version) of the Finance Committee Manual to remove “for this meeting” and replace it with “In general, agendas for this committee will include:”

Craig Prewitt entered the meeting at 1:53 pm.

B. Approve New Finance Committee Manual

Motion: Bobbie Regan made the motion to approve the draft of the Finance Committee Manual as amended; seconded by Craig Prewitt.

The committee voted on the motion and it passed unanimously.

V. Other Business

A. Contract for Auditors - Report

Mike Robison reported that the contract for OSBA’s current auditors, Pauly Rogers, expires June 30, 2015. He recommended that we go out for an RFP.

B. Contract for Auditors - Action

Motion: Bobbie Regan moved that OSBA issue an RFP for audit services; seconded by Dave Krumbein.

The committee voted on the motion and it passed unanimously.

Mike Robison asked Sam Lee to ask for the Board to approve the issue of an RFP when he presents his report on the Finance Committee. He then asked for volunteers from the committee to be on the selection committee for choosing the RFP. Dave Krumbein, Cliff Kuhlman and Sam Lee volunteered.

Mike also asked for volunteers, either from this committee or from the board, to review the draft report of the IT Strategic Plan before it goes before the full board. He also reported that OSBA has hired a local architect, Carlson Viet, to help with space planning since we are outgrowing our current space. Dave Krumbein volunteered for the Space Planning. Bobbie said this might be a good way to attract potential new board members. Joel Robe was suggested.

Committee Chair Sam Lee adjourned the meeting at 2:15 pm.

