CAPITAL DISTRICT KIWANIS INTERNATIONAL

Quarterly Committee Report & Committee Evaluation

Committee: **Finance** **Date:** April 29, 2021

Chairperson: Bob Wright

To be completed by the Committee Chairperson and submitted to the District Secretary and supervising District Trustee no later than 21 days before each quarterly District Board Meeting.

1. COMMITTEE MEMBERSHIP

Committee fully staffed: Yes ☑ No ☐ [Note: Regions without representation below.]

All members informed that they now have the right to vote following the Board's August 21, 2020 meeting that changed policy.

2. KIWANIS YEAR GOALS (list all committee's annual goals)

GOAL	% Complete
1. Prepare with the District Secretary-Treasurer, review, amend as necessary, and submit to the Board the recommended annual budget. *The committee met on August 31, 2020 (6 of 10 members present and met quorum of 5) to review all CapDist K Family budgets for 2020-2021 and unanimously recommend the approval of all as submitted.*	100%
2. Review the proposed budgets for all Kiwanis family district conventions and conferences (CDKI DCON, Midyear; CDCKI DCON; CDKCI DCON) and submit recommendations to the Board. *Same as #1 above.*	100%
3. Review the proposed annual budget for Service Leadership Programs (i.e., CDCKI, CDKCI) and their Administrators and submit recommendations to the Board. *Same as #1 above.*	100%
4. Review recommendations with financial implications from any committee, especially Long-Range Planning, and provide recommendations to the Board. Review recommendations with financial implications for Board actions and provide recommendations to the Board. *The committee completed formulating district investment strategy that will align policy and practice.*	100%
5. Monitor and review investment activities and report to the Board quarterly. *Prepared a summary of investments as of January 29, 2021.*	75%

3. **CHALLENGES OR ASSISTANCE NEEDED** (use continuation sheet if necessary):

The committee once again will refer recommended changes to district policy to the Bylaws and Policy Committee. The latest change involves the name and more realistic size of an Operational (formerly Mandatory) Reserve given the district's current financial position.

4. **COMMENTS** (use continuation sheet if necessary):

On the committee's recommendation the Treasurer created a separate account at Edward Jones for the Mandatory Reserve. That account still contains tax-exempt bonds, which yield a lower return than other types of investments in the the district's investments--this is unnecessary given all of the district's investment income is tax-exempt by law.

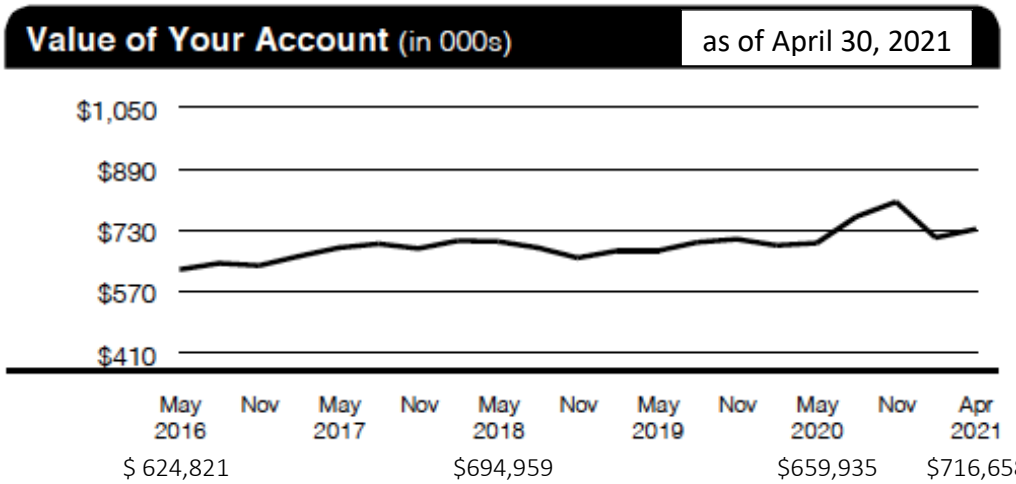
On February 15 the committee met to consider changes to the district's investment mix. Current investments are heavily in equities; the committee recommended a change to 60% equities and 40% fixed income and an appropriate blended benchmark. The committee referred these changes to the Bylaws and Policy Committee.

The subcommittee of 3 members--Dave Heppner, Tim Gillette, and Bob Wright--continued to review Policy language. At an April 28 meeting the committee agreed to recommend to the Bylaws and Policy Committee a change in the mandatory reserve from insured fixed income investments to a $50,000 operational reserve without investment restrictions. The committee also decided at the April 28 meeting to rebid the district's investment account management from a commission-based broker account to a fixed-percent of assets-based fiduciary manager account. The target for presenting the recommendation to the Board of Trustees is the August meeting so the new manager will be in place for the new Kiwanis Year. Bidding will be open, to include our current investment manager--Edward Jones.

On a separate note, the governor asked the committee to review a request from the Key Leader Committee to have the district pay for background checks for adults and chaperones for the upcoming May virtual session. The committee held an email vote, and unanimously recommended approval of the request to the Board in 2-1/2 hours!

SIGNED: __ *Robert C Wright* _____

CDKI Edward Jones Account Overview



$734,282.79 (after transferring $142,610 to reserve account)

Assets

		Share
Cash, *Insured* Deposits, Money Market Funds[1]	$ 0.52	0.0 %
Exchanges, Closed End Funds	$ 7,180.60	1.0 %
Mutual Funds	$ 727,101.67	99.0%
> Equities	*$388,053.08*	*53.4%*
> Fixed Income (CDs, bonds)	*$339,048.59*	*46.6%*
	$ 734,282.79	100.0 %

Income

	Interest	Dividends[2]
2021	$ 0.94[3]	$ 1,568.12
2020	$ 49.44	$ 19,018.25
2019	$ 21.60	$ 18,735.84
2018	$ 210.96	
2017	$ 1,469.75	

[1] Insured portion not broken down on statement
[2] Includes year-end dividends reinvested in subsequent year
[3] Year-to-date

Investment of Reserves	Per Policy	Reality	
Insured Fixed Income	$ 150,000	< $141,808.27	close
Equivalent of adjusted annual operating expenses (estimated)			
Income	$ 367,141	$ 346,229.71	close
Equities	$ 367,141	$ 388,053.08	close
Up to 50% of remaining investments		$ 876,091.06	
Maximum in any industry group/sector	10%		**up to 20%**
Average security maturity	5 years		**7 years**
Maximum security maturity	10 years		**12 years**

Analysis: Account growth trends follow the market. **Equities and income are now realigned to roughly correspond to what policy calls for. The investment account still generates tax-free dividend income—unnecessary for a nonprofit that could put the money to better use earning a higher yield.**
Additional proposed changes to policy, once adopted, will give the investment manager greater flexibility to manage the account. **With no change in the fund mix, sector targets and bond maturities remain out of line with policy.**

Kiwanis CAPITAL DISTRICT

Information for Board

Update to Capital District Investment Strategy-2

for the Board Meeting on May 16, 2021

Background

The Agenda Item--Information for Board for the March 6, 2021 meeting identified changes to district investment strategy that were referred to the Bylaws and Policy Committee for action.

On April 27, 2021 the committee completed recommendations on remaining issues identified during its review of district investment strategy in the fall of 2020.

- Policy mandates a reserve in insured fixed income assets equal to the annual operating budget, less budgeted revenue from self-supporting events, in other words roughly $140,000 per the Secretary. That is way more than needed to cover any major contract cancellation penalty or other significant unanticipated expense.
- The term "Mandatory" reserve obscures its purpose. "Operational" better reflects the reserve's purpose.

Furthermore, the current investment manager at Edwards Jones has held the commission-based contract since April, 2010--11 years. Such contracts typically are recompeted every 5-8 years to reflect the account holder's latest investment strategy and see if whether another financial manager might offer a fresh perspective. Hence, the committee decided it is time to recompete the investment management contract. The committee will issue a request for proposals for a fixed management fee conract, with a schedule to bring a recommendation to the board at its August, 2021 meeting.

Additionally, the committee identified key processes for the Finance Committee and Treasurer to use to monitor the investment manager's performance. These will be implemented internally.

Recommend to the Bylaws and Policy Committee to

- Replace the current policy on Reserves in District policy [Policy Statements, Section 11, A.a] with one requiring the Capital District to retain funds in an operational reserve in the amount of $50,000, not necessarily in insured fixed income assets.
- Change all references to a "Mandatory" reserve to the term "Operational."

Impact

Of current policy

Current policy yields very little return by restricting the reserve to fully insured fixed income assets, essentially losing money for the District.

Of recommended change to policy

Reduces the reserve from $150,000 to $50,000, a level more consistent with its purpose, thereby freeing more of the District's investments to take advantage of market conditions and yield a better return.

Leaves the decision regarding which types of funds to invest in up to the investment manager.

Required Board Action – ***NO ACTION NECESSARY. This is for information only.***

Submitted by the Capital District Finance Committee, May 1, 2021