

Nebraska Water Environment Association



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November 2, 2016 Business Meeting NWEA FY 2015-2016 Ad Hoc Finance Committee Report

Ad Hoc Finance Committee:

Lyle Christensen, Chairperson
Dale Jacobson
Gary Brandt
Jim Condon

There was a lot of activity with the Ad Hoc Finance Committee (Committee) during Fiscal Year 2015-2016. NWEA is now signed on with a new conservative investment program through the Mutual of Omaha Wealth Management Group financial advisors. The following will highlight the original investment drivers and goals and various sequential actions that ensued throughout the fiscal year that enabled the new investment program.

Investment Drivers and Goals:

Beginning with the Fall 2015 Annual Conference and continuing with the Great Plains 2016 conference and internal Committee communications, the pros and cons of re-allocating a portion of our cash assets to something other than certificates of deposit (CD's) and NWEA's money market account (MMA) were discussed. The following key drivers were identified concerning management of NWEA cash assets:

- CD's and the MMA for the most part were only earning fractional percentage rates of return.
- NWEA's checking account has enough working cash value to cover our annual maximum needs by roughly a factor of two. Therefore, the basic "risk" for a conference cancellation or other unexpected loss of income is low.
- NWEA's cash accounts have continued to grow from net earnings from conferences and sponsored events, but bank investment CD and MMA account earnings were not providing a meaningful portion of that growth.
- Our overall financial condition is good and our accounts essentially have no risk, but there was an expressed desire to investigate other forms of low-risk investment that could pave the way for additional improvements in scholarships awarded and other program enhancements.
- It was judged that approximately \$100,000 could be made available from roll-overs of the CD's and the MMA for investment reallocations. Half of that amount should be considered for a very conservative, low risk type of investment, yet with net returns that would still equal or exceed the likely rate of inflation. The remaining half should be considered for a still conservative type of investment, but one that would be more

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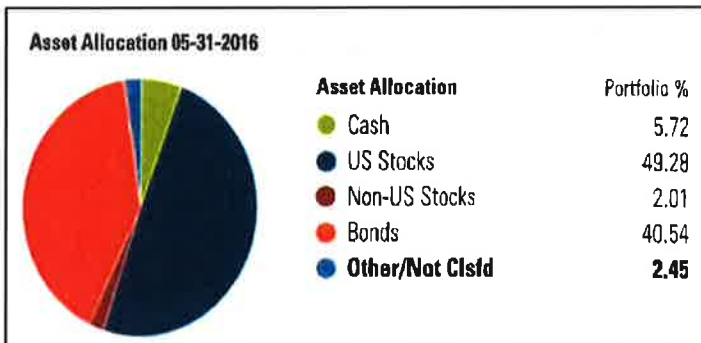
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growth-oriented to yield higher net returns on investment, well beyond the rates of inflation.

- It was agreed that alternative forms of investment should be targeted for a minimum of a 5-year commitment in order to “smooth” out market fluctuations.

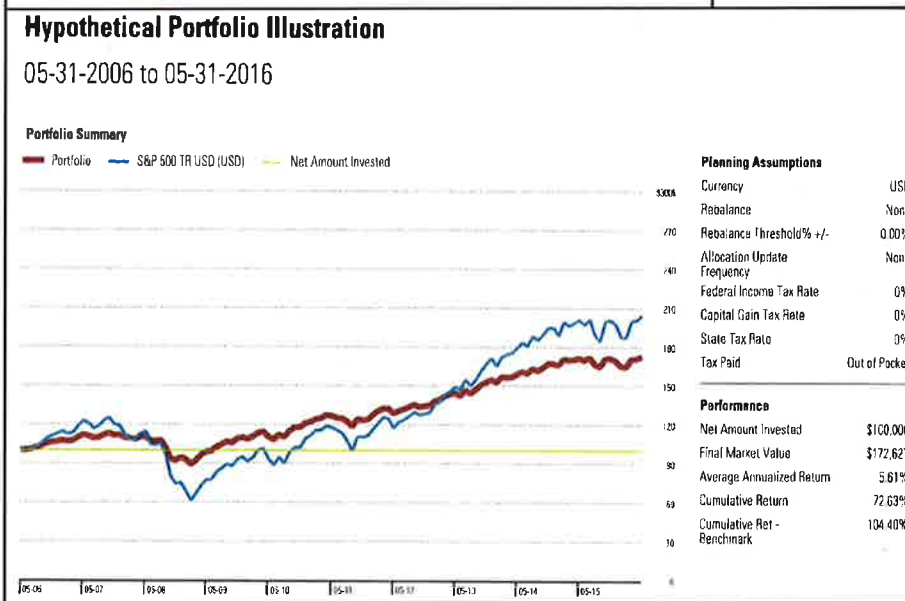
Actions:

- Given the above considerations, and with supplemental input received by the Committee, Dale Jacobson and Lyle Christensen met with the Mutual of Omaha Wealth Management Group on April 8, 2016 and received an encouraging response that our basic “50-50” game plan could be accommodated with strategic diversifications within groups of funds that have shown well above standard average market indicator performances and with limited risk. Consequently, the Executive Board during the Great Plains Conference unanimously directed the Ad Hoc Finance Committee to request a formal proposal from the Wealth Management Group in time for the Heartland Conference. The Executive Board would then have the option to approve the proposal, deny the proposal, or defer further action until the 2016 Fall Conference.
- An example “portfolio” was received from Scott Fuhrman of the Wealth Management Group on June 22, 2016 that modeled five investment components for the previous 10 years ending in May 2016, which, of course, included the infamous 2008 market crash. The investment components were illustrated as follows:



Basic explanation from Wealth Management Group:

- Much lower market volatility than S&P Index.
- Assuming 1% fees, the net 10-year earnings for NWEA through the 10-year period would have been approx. 4.6% per year



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- On June 20, 2016, with input from the Committee, Lyle Christensen drafted a letter to the Wealth Management Group seeking responses to the following questions. Responses were echoed back to our Committee in red, as indicated below:
 - With the proposed "50-50" conservative – growth type package, would this require two separate accounts within one overall proposal or two separate proposals? – This would only require one account. Part of the overall allocation process is to earmark funds for certain time periods.
 - For accounting purposes, would there be any advantage of "earmarking" each account for specific intended NWEA purposes or just leave them as undesignated? The latter option would simply assume that NWEA would continue to specify the allocation percentages for each account under its own action. – Earmarking would not be necessary. All transaction during the calendar year (including interest and dividends) would be reported on a year-end 1099 form regardless of end use.
 - Please address basic account "liquidity" and process for periodic fund withdrawals:
 - Would such withdrawal authorizations be via standard hardcopy forms and/or could they be made directly on-line by our Treasurer and/or President, given appropriate account user name(s) and password(s)? – we have the ability to transfer funds directly in an out when linked to a checking or savings account. If given authorization, no extra paperwork is required
 - What would be the expected lead time needed to receive a check or electronic transfer to our NWEA checking account? – first transaction, 3-5 business days, trades settle in 3 days, cash moves next business day (ACH at no cost)
 - Would there be any restrictions on withdrawal amounts as a percentage of the current account value? – withdrawals would be unrestricted
 - Could NWEA continue to transfer in additional funds to these same accounts from time to time as revenue is generated from other sources? – additions can be made at any time
 - Please provide a basic summary of the proposed account performance "track records" in comparison to standard historical indexes and averages (such as S&P 500, Dow Jones Industrials, etc.) for the most recent continuous 10-year period that involves both gains and losses. List the percent high – low deviations from the means and averages for each proposed account. These should represent the relative changes without inclusion of fees. – I will attach a separate proposal [Note: The graphics above were extracted from the "proposal"]
 - What will be the fees for each proposed account, and on what basis will they be assessed? – fees will be 1% annually, to be billed quarterly from account balance. Fee is based upon account value. Hence, the better the account does, the better we do (both in growth and in preservation).
 - Will hardcopy statements be sent to NWEA and on what frequency will they be available? Will NWEA also have direct on-line access to transaction histories and be able to download statements in PDF format? – you will receive quarterly hard copies and also have 24 hour online access to all account values.
- The above responses were considered encouraging by the Executive Board at the Heartland Conference, as highlighted by Dale Jacobson. The authorized next step was to secure an actual proposal for signature by the NWEA president and treasurer and to also submit a "letter of good standing" as a non-profit organization. [Note: This is covered under Section 501(c) of the United States Internal Revenue Code (26 U.S.C. § 501(c)) in order to qualify for tax exemptions.]

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- Dave Sykora obtained the “letter of good standing” document through our CPA, Bill Collins (the IRS response document noted that the previous letter of good standing was traced to 1982).
- Final Steps:
 - Dave Sykora proceeded to close out of all CD's and the MMA and transfer the same to our First National Bank checking account for subsequent transfer to the new investment account.
 - Scott Aurit as president and Lyle Christensen met with Scott Fuhrman, CRPS, CMPC (Advisor) and David Carroll, CRPC, CWS (Vice President, Market Leader) of the Wealth Management Group on August 30, 2016, and Scott signed the formal proposal. The next day Dave Sykora did the same.
 - The investment account resides with LPL Financial, Inc. (LPL), with offices in San Diego and Boston. By Dave Sykora's co-signature action, the account was initiated on August 31, 2016 in the net amount of \$100,000 as desired by NWEA Executive Board.

The Ad Hoc Committee is pleased that NWEA is now on track to potentially generate additional reserve funds for beneficial purposes. The investment plan and performance will, of course, require some periodic reviews through the Wealth Management Group advisors.

Final Recommendations:

- The work of the Ad Hoc Finance Committee should be declared complete as of this business meeting.
- Consider the creation of a standing committee among the Executive Board members and perhaps other MA members to review the investment program performance on at least a semi-annual basis; and, if deemed necessary, meet with the Wealth Management Group advisors the review any details, with the recognition that the original intent was to engage in at least a 5-year program.

Respectfully Submitted,



Lyle R. Christensen
Ad Hoc Finance Committee Chairperson