

To: Investment Committee, SDS

Finance Committee, SDS

From: Eliot Rich, VP Finance

CC: Exec Director

Subj: Guidance on investment goals

Date: 9/3/2021

Now that the conference is over, and our financial situation is clearer, I'd like the Finance Committee and the Investment Committee to start structuring our investment goals for next year.

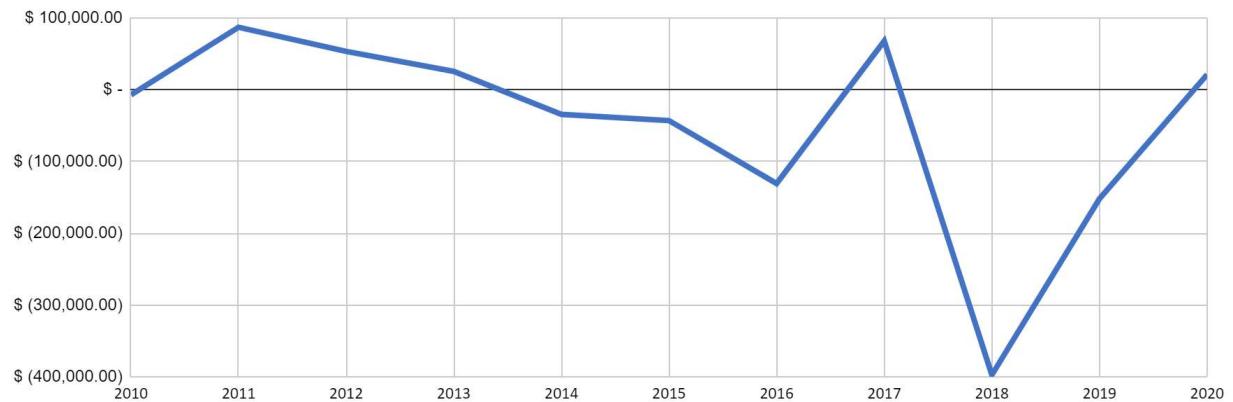
This guidance has been reviewed by members of both committees and the ED.

### Overview

The operating fund supports our conference, programs, awards, and office operations. We routinely create a deficit operating budget, as our membership and conference income do not cover our office and program expenses. Most years, our investments have spun off sufficient returns to cover the deficit.

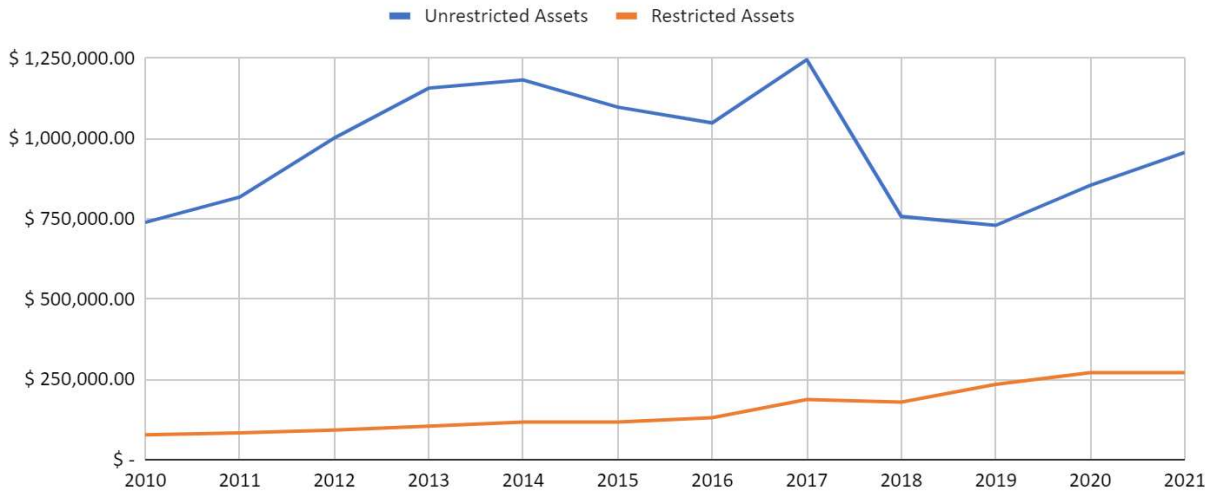
### Net Operating Income

2009-2019 Audited/Reviewed



## SDS Net Assets

Unrestricted Assets available for designation (current year estimated). Restricted for information only



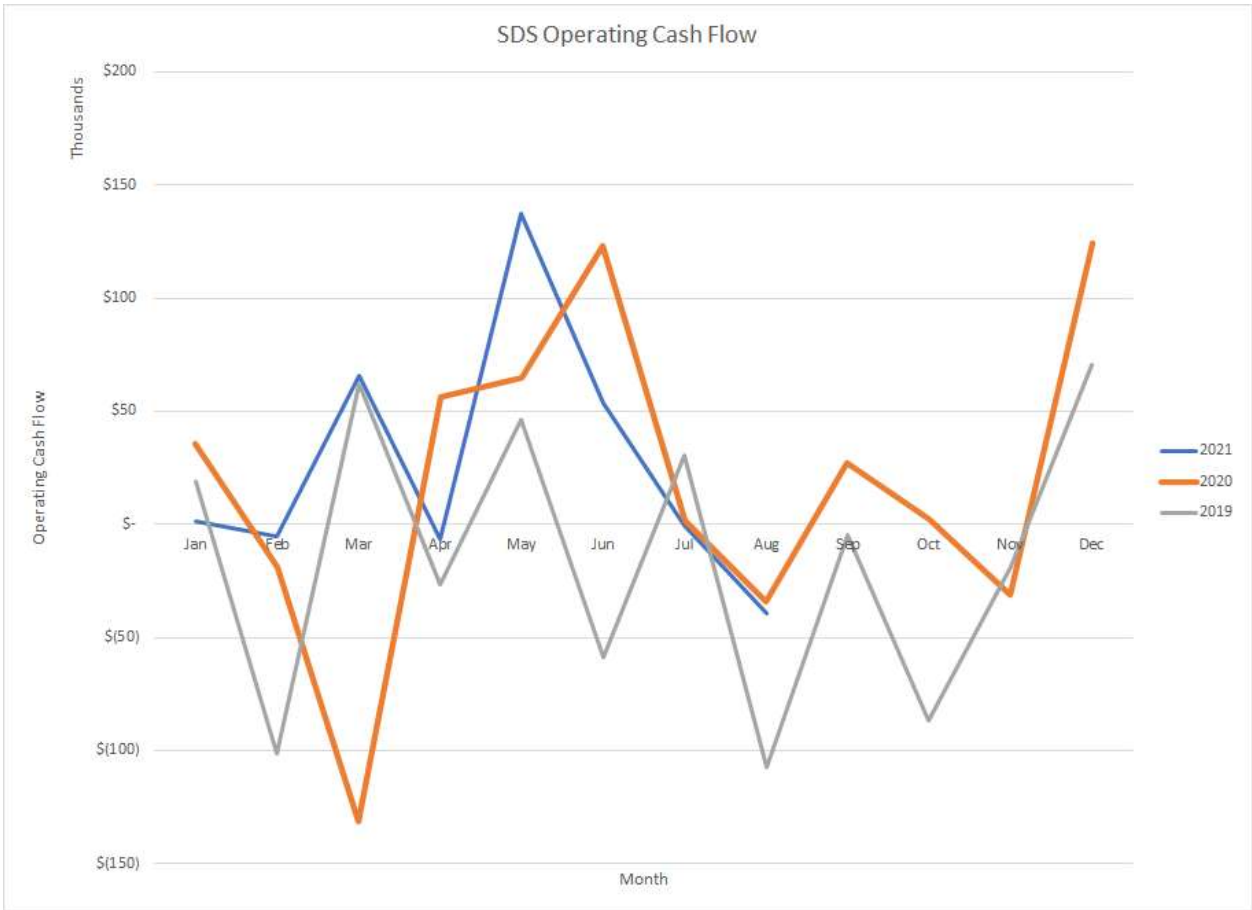
Aside from our 20158 transition year, we've oscillated within a range of +/- 100K. Years 2020 and 2021 have been marginally profitable largely because of low cost virtual conferences. We are still formulating our 2022 budget, which includes costs of a hybrid conference, something we've never attempted.

## Operating Fund

We started the year with \$699,964 in our unrestricted investments. As of June 30, 2021, this balance has grown to about \$800,000. We held another \$287,000 in deposit accounts in June.

- We've released \$30,000 to fundraising operations. This is no longer available.
- We've held \$100,000 for operating cash. This should stay liquid.
- The other designations are based on conservative assumptions of 5% investment growth in the capital to fully fund them. These may be overfunded.
  - We earmark \$104,000 to fund the Forrester Award (\$5,200), The symbolic nature of this award cannot be understated, and we should treat this amount conservatively.
  - We earmark \$200,000 to fund the Chapter Development Fund/Stff (\$10,000). In years past, we earmarked double that amount, reducing it while recovering from the 2018 shortfall.
- The reminder of our operating reserves are undesignated.

# Operating Fund Cash Flow



There are some recurring elements and some transition items in our cash flow. In 2020, operating cash flow went **negative** in three months:

- March 2020 **-\$151K** – a revenue gap as we halted conference registrations to figure out our COVID position. This did not happen in 2021.
- August 2020 **-\$34K** – this is a regular trough when we have payables related to the conference in a period when registrations have ended.
- November 2020 **-31K** primarily from delays in membership and sponsorship revenue due to transition to new website but also due to an increase in accounts payable because two months of ED payments were made in one month. This will hopefully not occur again this year.

The highest levels were in the following months:

- May 2020 – **\$65K** due to summer school and conference registrations
- June 2020 – **\$84K** due to conference registrations and sponsorship payments

- December 2020 - **\$101K**. The change in cash position is due to restatement of capital gains at the end of the year. We've switched to a membership system with auto-renewals, and expect end-of-year payments to continue.

We also carry balances across years for the student chapter, summer school scholarships, and conference scholarships, for about \$15,000. These funds were given to the society to support these activities, and should be held near cash.

There are some policy changes being discussed, including multi-year memberships, which would also boost cash if implemented.

For first cut guidance, I suggest we hold approximately \$200,000 in near-cash, \$200,000 in conservative holdings as ready operating reserves, and \$600,000 in long-term growth positions.

	<b>Current (6/30/2021)</b>	<b>Proposed Amount</b>	<b>Suggested Risk</b>
Approx. total asset balance in bank accounts (June 30, 2021) , unaudited.	\$1,104,000		
Released to operating for Stewardship	\$30,000		No longer available for investment
	\$1,074,000	\$1,074,000	
Operating Cash	\$270,000	\$100,000	Cash/Banking
Award earmarks	\$304,000	\$304,000	Conservative (secondary reserves)
Held for Student/Scholarship	\$15,000	\$15,000	Treated as designated and expensed each year, so keep as cash..
Undesignated reserves in bank accounts	\$485,000	\$655,000	Position for longer term growth

Another way to look at the target is to ask that our portfolio return enough to cover our annual historical operating deficit of \$100,000. I suspect that's aggressive, requiring over a 10% return.. It's reminiscent of our old policies, which did not hold up well when stressed.

## Restricted Fund Goals

At this time we have one major restricted fund supporting the Dana Meadows awards. There are two funds with different endowment rules.

- DMA1 pays for the annual Dana Meadows award. The current award, set by the committee, is \$5,000. The restricted fund balance, as of June 30, 2021, was about \$308,000. We have 60x the current award level in the reserve. As the use of these funds is limited, we should encourage the committee to broaden its mandate so that the funds can be used.
- DMA2 was created by Dennis Meadows to supplement DMA1. It has a specific requirement that the principal be paid out over a ten year period, of which 6 years remain, I believe. As the balance has to be expended over the remaining period, this balance should be retreated with low risk to the principal. The balance as of June 30,2021 was about \$21,000.

	<b>Current (7/1/2021)</b>	<b>Proposed Amount</b>	<b>Suggested Risk</b>
Approx. restricted asset balance in bank accounts (June 30, 2021) , unaudited, Current	\$329,000		
DMA 1		\$307,964	Position for longer term growth
DMA 2		21,000	Conservative growth, as this needs to be expended over next six years.

Future restricted funds will likely emerge from the work of the Stewardship committee. The intent is for income from these investments to be available for a variety of operating and programmatic purposes to be determined. We will know more about these over time.

 [SDS Statement of Financial Position. 20210630](#) (available on request)

 [SDS Cash Flow as of August 2021.xlsx](#) (available on request)