

Audubon Area Community Services, Inc.
Investment/Oversight Committee
MINUTES

January 15, 2009

The Investment/Oversight Committee for the AACCS, Inc. met at 9:00 a.m. in the agency's Board Room in Owensboro.

Members Present:

Mr. Frank Craig **
Ms. Daisy James

Mr. Ronald Logsdon
Rev. Jerry Manning *

Mr. Byron Mayes *
Mr. M. Douglas Smith

*Ex-officio Member

** Alternate to Mr. Smith

Other Person(s) Present:

Mr. Steve Pierce, Investment Broker, BB&T
Mr. Dan Lanham, Transportation Manager, GRITS

Mr. Scott McCain, Owensboro President, BB&T

Board Vice Chair M. Douglas Smith chaired the meeting.

COMMITTEE BUSINESS

General Discussions. The meeting opened with the executive director's brief review of a packet of information prepared for the meeting:

December 19, 2008 Meeting Minutes. The minutes of the previous Committee meeting were circulated and received without alteration.

WellPoint Stock Snapshots. Mr. Logsdon provided a January 13, 2008 Google Finance chart of "WLP" when it reached a "below-trigger" point of \$36.77 per share over night January 12/13. He said that he was sure that a sale of some of AACCS' shares had been triggered at that point. He said he and the CFO had been watching the stock closely the days before the sudden plunge and also provided a January 5 AOL chart when the share price reached \$44.65 and appeared to be heading higher. Then WellPoint came out with a lower than expected earnings projection and The U.S. Department of Health and Services suspended sales of a WellPoint Medicaid product and although many analysts were still calling WellPoint a "buy" the share price took a sudden steep dip. Investor concerns in the financial sector also caused the market overall to fall significantly.

"...Worst Year Since '31". Mr. Logsdon shared a CNBC.com article on 2008 being the worst year for stocks since 1931.

Investment Policy Advisory. Mr. Logsdon shared an article from CFO & Controller Alert concerning questions one should consider when developing or revising an organization's Investment Policy. The AACCS' Investment Policy, effective as of March 1, 2004, was then included in the meeting packet for further Committee review and consideration.

The AACCS Portfolio. Mr. Pierce said that a portion of the agency's WellPoint (WLP) shares did sell as of January 13th. It was triggered at the mark of \$37.50, as had been agreed to at the previous Committee. At the "stop" figure of \$37.50 some 13,500 shares of AACCS' WellPoint stock was automatically submitted for a "next trade after" market order, he said. He reminded the Committee that the "stop" had

been ordered to protect the agency in the face of its soon due half million dollar commitment to the GRITS parking garage, which was committed by the Board in mid-2008.

He lamented that WellPoint's recent bad news, the ongoing recession and recent unemployment numbers had led to the sale, but he stated his optimism that the economy and the market would rebound by late 2009. The AACS stock had sold, he said, in a range of \$37.36 to \$37.10 per share and had garnered the projected sum of \$501,803.88, before commissions. The proceeds presently resided in a 1% interest money market account within the AACS portfolio at BB&T.

Mr. Pierce then inquired about AACS' further expected cash needs this year from the portfolio. He referenced the agency's Investment Policy as the guiding document for the Committee and him to structure the investment from this point forward. Mr. Logsdon stated that it was his intention not to sell any more of the stock the remainder of 2009. Mr. Pierce stated that the biggest worry with the AACS portfolio was its concentrated position in one single stock. He suggested that diversification should be considered at some point soon, but for right now to let the investment remain as is.

Mr. McCain noted that while the cash set it would not be earning much since interest rates were "bad and getting worse." He said he'd never seen interest rates so low, and the banks' margins were being crimped by the actions of the Federal Reserve. Too, the overall (bad) economy and "nonperforming" loans were hurting banks despite the fed's infusions of cash, which many banks, BB&T included, really didn't want but were virtually forced to accept. Although BB&T accepted \$3 billion in "TARP" (Troubled Asset Relief Program) money, it was "forced to take the money." BB&T's prior focus in the distressed economy had been on raising capital for acquisitions. But now it must deploy its capital according to Treasury dictates.

Mr. Lanham noted that diesel fuel prices were one of the compounding problems in the distressed economy. Nearly every commodity or product depends in some way or another on diesel fuel, and those prices, unlike gasoline, have not recently moderated. Mr. Pierce accounted that anomaly to volatility and speculation. So because of diesel prices all costs are up in the down economy, and people are finding needed items more unaffordable than ever. Mr. McCain also pointed out the same impact on agriculture. Their commodity costs have spiked, but their commodities' prices have fallen, and the money they need is harder to come by.

Mr. Pierce further noted that market analysts are now getting more and more dubious of the interests who are feeding data to them, feeling that they simply can no longer be trusted. The credit rating agencies have "taken a hit," for example.

GRITS Parking Garage and Near-Term Obligations. Mr. Pierce inquired how AACS would cover the \$850,000 or so needed by May/June 2009 to cover the parking garage construction obligations. Mr. Mayes provided a chart of how those obligations amounts are tentatively scheduled over the next five to six months. Mr. Pierce said that during this brief span ahead when the recent WellPoint stock proceeds will come into play that "cash is king."

Mr. Logsdon and Mr. Lanham advised that Phase II of the parking garage's construction had been submitted through the Downtown Development director to the Kentucky Department of Local Projects for inclusion in President-elect Obama's Recovery and Reinvestment "stimulus" as, to the best of their knowledge, Owensboro's only "shovel-ready" project for immediate jobs-impact under the capital outlays for the recovery Bill. Mr. Lanham said that the amount sought for the project was \$3.3 million. Mr. McCain said that he thought that the by-pass extension was also under consideration for "stimulus" funding.

Portfolio Advice. Mr. Pierce said that he still felt strongly that the AACS portfolio needed to be diversified. Too, the Committee should consider "retesting the lows" for the stock. But he suggested a

broader range be applied for future “stops,” perhaps a twenty percent (20%) variance. The previous “stop,” which ended up being more like a ten percent (10%) below peak fall, did just what we wanted it to do, he said. However, last week’s experience also revealed a weakness in the Investment Policy in that it provides only for the executive director to execute written agreements relative to the portfolio and he was out of state the week WellPoint appeared to be peaking and Mr. Pierce wanted to raise the “stop” level to \$40. Mr. Logsdon said that he and the CFO were in communication that week about the “stop” and also considering raising it if/when it hit \$46, but he agreed that a policy revision should be done to be in a position to provide Mr. Pierce written advice when an advantageous portfolio change was in order on short notice, particularly in this still volatile market.

AACS Investment Policy. Upon Mr. Pierce’s suggestion and Mr. Logsdon’s concurrence, a motion was suggested to amend the AACS Investment Policy to include the CFO to act as instructed/authorized in the executive director’s absence.

Rev. Manning moved to recommend to the Board to amend Section 3, Article A of the Investment Policy to permit the Chief Financial Officer, in consultation with the Executive Director, to sign written agreements as may be needed in the best interests of the agency’s investment portfolio. Ms. James seconded. Motion carried unanimously.

Mr. Pierce also recommended that at least for the foreseeable future, while the economic crisis lasts and until the markets stabilize that the Investment/Oversight Committee meet monthly..

Ms. James moved that the Investment/Oversight Committee meet monthly and include in those meetings its BB&T advisors. Rev. Manning seconded. Motion carried unanimously.

February 2009 Meeting. It was subsequently discussed and agreed that the next meeting of the Committee would be held Thursday, February 12th at 9:00 a.m.

January/February Action Plan. Mr. Pierce recommended leaving the WellPoint stock portfolio exactly where it stands at present. The Committee can revisit that later, he said, should some action be deemed appropriate or necessary.

By unanimous consent, the Committee agreed with Mr. Pierce’s recommendation that no “stops” or further action needed to be taken at present with the agency’s portfolio.

ADJOURNMENT

There being no further business, the Investment/Oversight Committee meeting adjourned at 10:00 a.m.

Mr. M. Douglas Smith
Acting Committee