

March 09, 2005

To: Al Linden

## Subject: Request for Approval of Investment Plan

This package, forwarded for your approval, contains our plan for investing the proceeds of selling our Hall. Why we sold the Hall is explained in this cover. The **Investment Plan** is at attachment 1. Supporting documentation is in attachments 2 through 5.

Through the early 1990's, the Chapter relied on Saturday night bingo to generate the bulk of its operating funds, supplemented by other activities such as Golden Corral and Forget-Me-Not fundraisers. Total annual donations were enough to support our services to the disabled community, to support our recruitment efforts, and to maintain and improve our Hall.

Unfortunately for our fund raising efforts, the Florida State Legislature approved commercial Bingo Halls in 1991. Our income from bingo began a slow and steady decline. By 2001, it had declined to the break-even point. By April 2003, bingo could no longer support itself or contribute to our operating expenses and our gross monthly income averaged less than our operating expenses.

Reluctantly, we decided to discontinue bingo and pursue other means of generating income. We expanded our Golden Corral and Forget-Me-Not efforts and tried Corporate fund raising letters, member fund raising letters, Hall rentals, and donations for a free weekend getaway at a Gulf resort. Our Golden Corral and Forget-Me-Not programs proved to be our only consistent fund-raisers, but could not replace the lost bingo income by themselves.

After an exhaustive analysis of our financial status (attachments 5a and 5b), and with great reluctance, the Executive Committee decided to ask for a General Membership vote on selling the Hall. The problem was discussed in our newsletter (attachment 4), as was a request that members attend the November 2004 meeting to discuss the problem and vote. The results are at attachment 3. All present voted to sell.

Humphrey and Associates, a licensed commercial appraiser, was commissioned the following week to evaluate the Hall and real estate. The Appraisal (attachment 2) was presented to the Executive committee January 31, 2005. It places the Hall plus real estate value at \$525,000.

The Listing Agreement with Century 21 Wilson Minger Agency, Inc. was signed February 1, 2005.

A full price offer was accepted on February 9, 2005.

At this point, we have two options, that of buying a suitable property for cash, or leasing. The analysis at attachment 5b considered four options. The other two, purchasing a property on a mortgage and leasing on either Hurburt Field or Eglin, were rejected. The mortgage was rejected as it projected a negative cash flow. The lease on base option was rejected as disabled veterans seeking our services may not have access to the bases.

The Investment Plan (attachment 1) addresses both viable possibilities. We are energetically pursuing both. To date, we've considered and rejected two properties as possible purchases, and have compiled a list of 10 potential leases for consideration. We are, of course, exercising due diligence to assure that we use our funds as beneficially as we can. The sales contract on the Hall will close no later than May 9, 2005, our target date for moving into a new facility. We are, however, allowing for the unlikely event that we have not found a suitable facility by that date, and are making contingency arrangements to continue our services at another service organization such as the American Legion, VFW, or Masons until we are installed in a new facility.

I'd appreciate a response as soon as possible so we can proceed with our plans.

Thanks for all you've done for us.

With Warmest Regards,

Gordon Ward, Commander

# INVESTMENT PLAN

## Introduction

An investment counselor, W. Steve Prowse at Smith-Barney, was contacted through our Equity Line of Credit account manager at Peoples First Community Bank. He and our Treasurer developed the investment strategy. Briefly, we will immediately put the proceeds from the sale, estimated at \$461,000 after closing costs (Attachment 1a) into a cash reserve that has checking privileges. That reserve, currently earning 2% interest, will be our working fund. From it, we will pay off our credit card (\$3000) and set about \$25,000 aside as our permanent liquid cash balance. The bulk of the funds will be allocated and invested as shown in the following **Investment Plan**. The **Cost and Cash Analysis** that follows the **Investment Plan** develops both the property purchase and property lease scenario, showing that both are feasible.

## Investment Plan

We will use a laddered approach to help protect against unexpected rising interest rates. 25% of our funds will be invested each quarter until we are \$100% invested. Our allocation model will be:

1. LIQUID: \$25,000 in a money market fund currently yielding 2%,
2. SHORT TERM: 25% of investment funds in the Van Kampen Senior Loan Fund with yields related to short term LIBOR rates.
3. SHORT TERM: 25% in Ford Corporate bonds- 5 year maturity.
4. INTERMEDIATE TERM: Government agency step-up bond- 14 ½ year maturity.

Specifically, our investment portfolio will include:

1. \$25,000 in a Money Market currently at 2%. We expect that the return will move higher if short rates increase.
2. Twenty five percent (25%) of our funds in Van Kampen Senior Loan Fund . It invests in adjustable rate commercial loans. The current yield is 3.90%. It should move higher if short rates move higher. We will stay with the Van Kampen Fund until rates peak and then move into something else that by that time will hopefully be at 5% or higher.
3. Twenty five percent (25%) in Ford Corporate Bonds. Maturity- 1/15/10. The current yield to Maturity is 5.5%. These bonds are investment grade rated, offered at a premium and are non-callable. The 5.7% coupon is fixed until maturity.
4. Fifty percent (50%) in Government Agency Step Up Bonds that have a 5% coupon that steps up as time passes. We will use FNMA Bond- Maturity: 9/24/18. This bond has an interest ladder as follows:
  - 5% for 6 years
  - 5.5% for 3 years
  - 6.50 for 3 years
  - 7.5% for 1 year

We buy at par and these are callable at par. Currently this is callable after 3/24/06. If it is called, we'll get our money back and look for something suitable at that time, possibly at a higher rate.