**PERMANENT FUND REPORT**
**Richard Starr**
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St. Louis, Missouri

REPORT OF THE
PERMANENT, SCHOLASTIC, EDUCATIONAL, CHARITABLE AND FRATERNAL FUND

Brother SWGP and Brothers:

The activity of the Permanent, Scholastic, Educational, Charitable and Fraternal Fund Permanent Fund ("PF" or "Permanent Fund") since the last EC meeting has been limited to correspondence with the investment manager and issuing instructions for the quarterly distributions of the interest earned during the 2016 calendar year.

The PF Trustees have reviewed the governing documents regarding the requisite distributions to Phi Kappa Psi Fraternity and have summarized the appropriate elements below. The PF Trustees use this process explanation so that all parties have a common understanding and expectation for the amounts and timing of the distributions.

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**CBR Article XIV, Section 7, Clause 6, Disbursements**

a. The Board of Trustees ("BOT") shall cause to be paid by the agent an amount as decided by the BOT (the *"Decided Upon Amount"*) from the net interest and dividends, but not capital gains, earned from investment of said trust property in quarterly installments to the Phi Kappa Psi Fraternity…. Net interest and dividends shall be available for distribution for one year following the *calendar year* in which such net interest and dividends are earned. Payment of any such distribution of net interest and dividends shall be made to the duly elected and constituted Treasurer of the said fraternity.

   **DISCUSSION**: Net Interest and Dividends shall be defined as Investment Income Received Less Expenses of the Permanent Fund. The investment manager reported that the Investment Income Received for the 2016 calendar year was $124,220; Expenses of the Permanent Fund (Fees) were $13,870. Commissions were netted in the transactions. The Net Interest and Dividends for the period ending December 31, 2016 is $110,350. The BOT determined that the Decided Upon Amount for distribution for the PF operations of calendar year 2016 is $110,000 versus $94,500 distributed for the PF operations of calendar year 2015. The increase in earnings and the Decided Upon Amount was achieved on total assets adjusted for a $1,140,000 extraordinary distribution in 2016.

An amount equal to twenty-five percent (25%) of the *Decided Upon Amount* will be automatically paid to the Fraternity quarterly on the fifteenth day of March, June, September and December of the calendar year (or the next business day if the fifteenth day is a banking holiday) based upon the prior year operations. The quarterly amount to be paid shall be Twenty-seven Thousand Five Hundred Dollars ($27,500) and shall be automatically paid by BMOGlobal per the BOT's instructions.

No interest or dividends earned in calendar years prior to 2016 is available for distribution.

**b.** Upon and affirmative vote of 2/3 of the organizations represented and entitled to vote at a Grand Arch Council *or* 2/3 of the members of the Executive Council, the Fraternity may request and [if requested] the Board of Trustees shall make payment **above** the amount decided by the BOT ("Decided Upon Amount") pursuant to clause 6.a above, to include funds from the principal of the trust property, but in no case shall such a request or payment exceed five percent (5%) of the total amount of total trust assets at the time of the vote.

**DISCUSSION**: At this time the Fraternity has not requested any amount beyond the *Decided Upon Amount* for calendar year 2016.

c. Upon an affirmative vote of two-thirds (2/3) of the organizations represented and entitled to vote at a Grand Arch Council, the Fraternity may request and the BOT **shall** make payment **above** the amount decided by the Board of Trustees *Decided Upon Amount* pursuant to clause 6.a above in an amount exceeding five percent (5%) of the total amount of trust assets at the time of the vote, provided that a proposed request for payment shall have been filed with the Executive Council at least sixty (60) days prior to the convening of such Grand Arch Council.

**DISCUSSION**: At this time the Fraternity has not made any request beyond the decided upon amount. The GAC does not meet in calendar year 2017.

d. In addition to the distribution of net interest and dividends, the BOT ***may*** reimburse the Fraternity for income taxes attributable to the undistributed *capital gains*.

**DISCUSSION**: No disbursement will be made to the Fraternity for capital gains realized by the PF in the 2016 calendar year.

**Indenture**

The Indenture (as amended 11/02/2013) repeats the exact wording of the Constitution Bylaws and Rules ("CBR") as per above.

**Miscellaneous**

Included in the corpus of the trust account are funds that are listed in the PKP Statements of Financial Condition as at May 31, 2016, Liabilities and Net Assets, an amount of $22,692. Note #7 to those financial statements lists the details for the funds that are held in trust for chapters that have gone inactive. The amounts are held for 20 years after which time they become property of PKP. Prior to that time, the chapters can request the return of the funds when the chapter is reactivated. The current amounts are as follows:

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| Texas Delta | $16,870 |
| Arizona Beta | 5,500 |
| Arizona Alpha | 322 |
| Total | $22,692 |

**DISCUSSION**: No reactivations occurred in 2016.

**DISCUSSION:** The Board of Trustees of the Permanent Funds shall instruct BMOGlobal to distribute to the Treasurer Phi Kappa Psi Fraternity the amount of One Hundred Ten Thousand Dollars ($110,000) in four quarterly payments as provided above.

The PF Trustees coordinated the EC ("Executive Committee") distribution requests with the investment managers pursuant to the Trust Indenture and the CBR. The PF Trustees were and remain unanimously opposed to the multiple, concurrent distribution(s).

Only the EC and/or Grand Arch Council ("GAC") have the authority to change the PF Trust Indenture and the CBR. The PF Trustees will, however, coordinate with EC and GAC to ensure any proposed changes to the PF Trust Indenture and CBR are in keeping with the spirit and intent of the PF operations. If changed, the PF Trustees strongly advise that indenture will be amended to prohibit multiple, concurrent distributions.

The communications to the PF from the Brotherhood has been 100% opposed to the extraordinary distribution because of the Fraternity's budget deficit. The Trustees will request a signed statement from the EC that the usage of the funds is in compliance with the use of the funds pursuant to the CBR and Trust Indenture. While there is no requirement in the PF Trust Indenture or the CBR to repatriate the above-detailed distributions, this intent was expressed by the Fraternity Executives leading up to the decisions to make the extraordinary distributions.

Although the extraordinary distributions were not documented as a loan, it is reasonable that the PF should recover the prospective earnings that would have been generated from investment returns had the extraordinary distributions not been made. Whether it is labeled interest or opportunity costs, it is a real impact to the PF and future generations of the Fraternity.

Respectfully submitted,

*Richard D. Starr*

Richard D. Starr, Ohio Delta '65
Trustee and Secretary