

LNC Executive Committee Meeting

Teleconference November 24, 1998

Present: David Bergland, Chair
Hugh Butler, Vice Chair
Mark Tuniewicz, Treasurer
Steve Givot, Secretary
Joe Dehn

Staff: Steve Dasbach, National Director

Also present: Scott Lieberman (CA), Region 2 Alternate
Muni Savyon (MA), Region 6 Representative

The meeting was called to order by Bergland at 8:33 EST.

Item: Discussion of Policy Regarding Financial Reserve

Givot introduced the topic by acknowledging agreement with the current strategy of growing membership as a top priority. He said that long-term goals such as membership growth were not measured on an all-or-none basis, but rather on a continuum in which more is better. He said that it is important that such goals be given high priority, but not at the expense of completely ignoring other goals.

Givot said that in the past LNC had a history of significant negative revenue variances which impaired the organization's ability to run its business as planned and distracted management and leadership from working on tasks which advance the organization's goals. He said that, from his viewpoint, the primary purposes of establishing a financial reserve are to insure that future significant negative revenue variances are less disruptive of the organization's ability to conduct its business as planned and are less distracting to management and leadership.

Bergland asked whether the current budget process isn't sufficient to achieve these goals or whether that process could be amended to do so.

Dehn responded that he felt LNC does need a financial reserve of some sort. However, he expressed concern that in establishing such a reserve, the organization should not go overboard in setting the size of the reserve or in defining detailed policies for its implementation.

Dehn also said that using the budget process as a means to establish a reserve was attempted during the current year, but that this approach had failed to achieve the desired result. He also said that there is no accounting available to show what funds are considered to be held in reserve. He expressed concern that if we relied on the budget process to establish a reserve in the coming year as we had in the current year that the same results would be repeated.

Givot said that he agreed with Dehn's remarks.

Bergland said that he felt that the additional accounting information he anticipates will be available in the coming year will do a better job of informing the Executive Committee and the LNC of our financial status. He said that this information should result in Executive Committee members asking questions about progress in building a financial reserve and creating an opportunity for better measurement of progress along the way.

Butler said that he has been reluctant to get involved in discussions of setting a reserve policy for a variety of reasons. He said that some of these are old issues. He said that there was some degree of defensiveness given Dasbach's and his past roles as Chair and Treasurer.

Butler said that past policies have not been successful in building a reserve, but that he was hesitant to discard past policies, for example, the prefunding discipline.

Butler said that the problem in the past has largely resulted from inability to monitor financial information in a timely manner coupled with lack of sufficient controls. He said that in the past, the policy was not to set a defined budget item for reserve building.

Tuniewicz said that he agrees with Dehn and Givot. He said that the LNC clearly expressed the desire to accumulate some surplus this year as a means to establish a financial reserve, but that this has not happened.

Tuniewicz said that some sort of financial reserve or other mechanism to achieve greater liquidity is needed. He said that this would be a natural evolution of the existing prefunding discipline.

Tuniewicz said that Dasbach has a management track record with LNC which should enable him to lay out his own detailed means to achieve the desired result.

Bergland said that it is important to take the correct approach to address such matters. He said that he is very sensitive to setting up guidelines or targets that straight jacket the organization or management.

Bergland said that instead of a formal reserve policy, he preferred to have the Executive Committee take on the responsibility of watching budgetary matters closely and ask Dasbach to report regularly on variances between actual and budgeted performance.

Bergland said that this would allow the Executive Committee the flexibility to determine whether -- in each circumstance -- growth of reserves would be more beneficial than alternative uses of funds. If not, he said, the Executive Committee should take a hands-off position.

Givot said that the problem with the method employed in the current year is that the targeted surplus -- which was to have been the basis of a financial reserve -- has been treated as a netting of other results rather than a specific goal. He said that the 1998 year end surplus will be the residual effect of revenues and expenses rather than a specific budget line item which was expected to be achieved. As a result, he said, spending decisions during the year were not made after answering the explicit question of whether incremental spending should be on one item (e.g., Archimedes) versus another (e.g., contributing to the reserve).

Butler asked what others felt was needed. He asked what problem we were trying to solve.

Givot referred back to his initial problem definition.

Tuniewicz said that he felt there were two problems to be addressed.

First, Tuniewicz said, was the issue of liquidity. This relates to what portion of assets is available to pay accounts payable. He said one possible financial goal might be that we should always have a 2:1 ratio of current assets over current liabilities. He said that as a not-for-profit organization, we may want to stretch that somewhat. He noted that this year we failed that test in 9 out of 10 months.

Second, Tuniewicz said, was the issue of building a contingency fund.

Dasbach said that in the past, the contingency established in the budget was used primarily to give management more flexibility in moving funds between different line items.

Butler said that the liquidity problems that most for-profit businesses have typically occurred because of uncollected accounts receivable which sometimes makes it difficult to meet accounts payable. He said that we do not have this problem because we do not have significant accounts receivable.

Dasbach said that we seem to be losing sight of the fact that LNC's accounting practices are already extraordinarily conservative. He noted that, by policy, LNC does not have long term debt. He also cited Butler's comments that we do not accrue anticipated income as accounts receivable.

Givot said that one problem with the lack of any formalization of financial reserves is that it is unclear how much of LNC's operating surplus is considered by management as part of the financial reserve as opposed to simply an increase in working capital which management plans to utilize in planned activities.

Givot said that he favored management explicitly breaking down accumulated surplus into these two items -- reserve fund and working capital -- so that Executive Committee and LNC members can understand management's thinking regarding these funds. He said that doing so would make it explicitly clear when management had exhausted working capital and was dipping into reserves.

Butler said that he preferred to avoid "legislation" before giving Dasbach a chance, as National Director, to demonstrate his ability to address these concerns.

Dehn said that Dasbach had been a very active Chair, very much involved with these same matters for the first part of the year prior to joining LNC staff. He said that Dasbach had already had an opportunity to do so.

Butler said that he preferred not to have a formal vote on the proposal that Givot had circulated informally.

Givot asked whether there was consensus on simply establishing two new accounts on LNC's chart of accounts called "Reserve Fund" and "Cumulative Withdrawals from Reserve Fund." He said that this would simply provide a mechanism for management to explicitly report what portion of accumulated surplus was deemed to be a financial reserve -- with the remainder of accumulated surplus available as working capital outside the Reserve Fund.

Butler said that he felt that Dasbach's month-by-month budget provides all the information needed to know if we are on target.

Givot said that without setting up the accounts he suggested, the Executive Committee would not have enough information to know if accumulated surplus was deemed part of a financial reserve or just working capital.

Dasbach suggested that the Executive Committee defer action until it has an opportunity to review the new financial reports to see whether the members feel they have the information they need to oversee this. He also said that creating new accounts would take management time away from other matters.

Tuniewicz asked Givot what he would propose doing now, taking into consideration the comments made by others.

Givot said that he would propose setting up the two bookkeeping accounts (not segregated bank accounts) for reporting Reserve Fund transactions.

Dasbach said that almost all LNC current assets are working capital and not held in reserve. He noted that LNC is a not-for-profit organization.

Givot acknowledged the fundamental difference between the two types of organizations, but said that this didn't imply that LNC does not need a financial reserve.

Bergland said that as long as we have funds to use at year end, we should be all right. He said that the upcoming availability of better information will also help. He suggested deferring action on this matter for two to four months to see how things develop.

Tuniewicz and Givot asked Bergland how his proposal was different from the method used in 1998.

Bergland said that the proposed 1999 budget builds in a surplus, that the month-to-month budget shows how it should be building, that we have a better team in place to achieve budgetary goals, and that even after the LNC adopts a budget, it can amend it.

Givot said that a fundamental policy issue remained: how big should LNC's financial reserves be?

Lieberman asked whether we currently have a reserve and, if so, how big it is.

Tuniewicz said that we have no reserve and there is no money in it.

Dasbach said that about \$30,000 to \$60,000 was in the LNC's non-federal account.

Lieberman said that the discussion reminded him of discussions of the Social Security Trust Fund. He said he tends to agree that LNC should have some money set aside.

Tuniewicz asked Dasbach for his opinion on the matter.

Dasbach said that we have a vested interest in having financial reserves and working capital. He said that we also have other objectives. He said that one cost of a strong balance sheet would be some membership growth. He said that no one will care about the strength of our balance sheet if we are not affecting the political system. He also said that preparing for a revenue shortfall is not the real problem.

Tuniewicz asked Dasbach if he would support building a reserve in any amount under the proposal Givot had just made.

Dasbach said that he would not support any such proposal.

(At this point in the meeting, Givot no longer participated due to a telecommunications failure.)

After some additional discussion, a consensus was reached that no action should be recommended to the LNC at this time. Members of the Executive Committee suggested that Dasbach and Tuniewicz to discuss the matter and attempt to present a joint proposal to the Executive Committee in January.

Dasbach assured the Executive Committee that he would be providing monthly reports comparing actual and budgeted results. He also committed to provide monthly reports detailing current assets, accounts payable, amounts committed to prefunded projects, working capital, and reserves. He said that these reports would be presented regardless of whether they could be provided by the new accounting package -- prepared manually if need be.

Item: Discussion of Draft 1999 Budget

There was a general discussion of the budget and various items therein.

Tuniewicz asked Dasbach about several specific budget line items and questioned the basis for setting them.

Dasbach responded to each question.

No changes were recommended. No action was taken.

The meeting was adjourned at 10:48 EST.