

Treasurer's Report
Libertarian National Committee, Inc.
December 9, 2000
Prepared by Mark A. Tuniewicz, Treasurer

Key Issue: Revenue Shortfalls

I continue to have concerns about our ability to reach our revenue goals. As the table below shows, *our revenue shortfalls vs. budget have grown larger in each of the three past years, both in absolute dollars and percentage terms.* Reasons include shortfalls in major donor fundraising variability in direct mail prospecting, and reduced unsolicited donations.

Given this recent history, I have concerns regarding our ability to execute a revenue plan. Three suggestions I have on this issue:

- 1) We as a board must *monitor budgeted vs. actual revenues monthly* going forward in 2001, and take immediate corrective action early on if revenues appear to be falling short vs. budget.

- 2) We should also constructively question the underlying assumptions relative to 2001 budgeted revenues to insure they are realistic given our last 3 years results.

- 3) In 2001 we should establish a *formalized major donor program*, complete with multiple levels of participation awards, regular major-donor/LNC events, and a "finance committee" type structure that allows participants to donate or solicit a large sum annually in order to participate. I expect that working together the National Director & I can create a proposal for approval at the Spring LNC meeting.

<u>Year</u>	<u>Budgeted</u>	<u>Actual Revenue</u>	<u>Shortfall</u>	<u>Shortfall as % Budget</u>
1998	2,669,000	2,434,405	-264,405	-10%
1999	3,644,000	2,689,006	-954,994	-26%
2000	5,119,000	3,500,000 (est)	-1,619,000	-32%

Note: As the table indicates, over the last three years we have increasingly fallen short of our budgeted revenues both in dollar and percentage terms. This is a trend that bears close watching by LNC members.

Key Issue: Liquidity

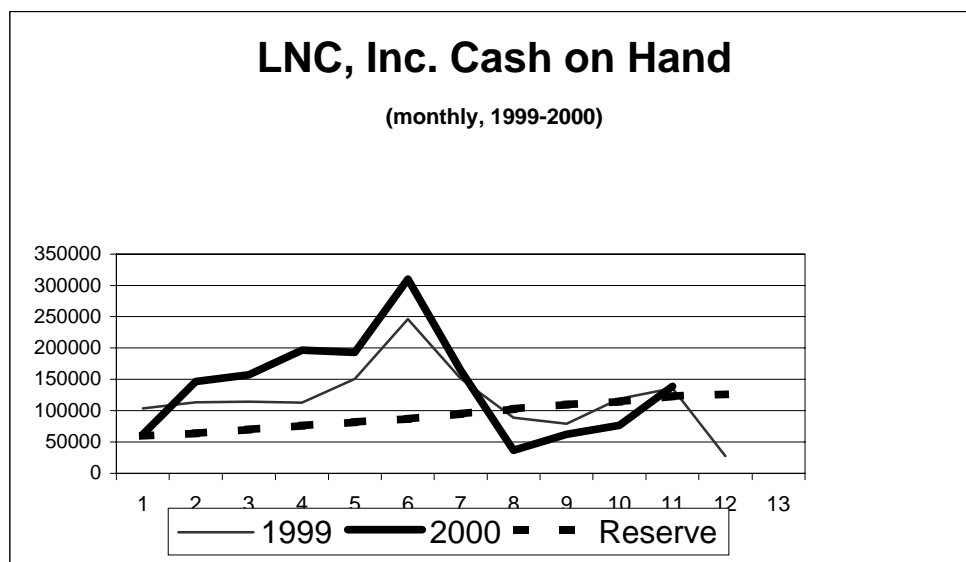
While we attempt to improve our revenue shortfall situation, I feel it is particularly important that the LNC promote prudent cash and payables management until such time as our revenue forecasts have a dependable, proven track record.

Over the last two years, the Committee in its wisdom passed three Reserve Policies intended to address this issue. The original policy called for maintaining a small (less than 3%) portion of revenue in cash, allowing for drawdowns with the approval of the LNC or EC.

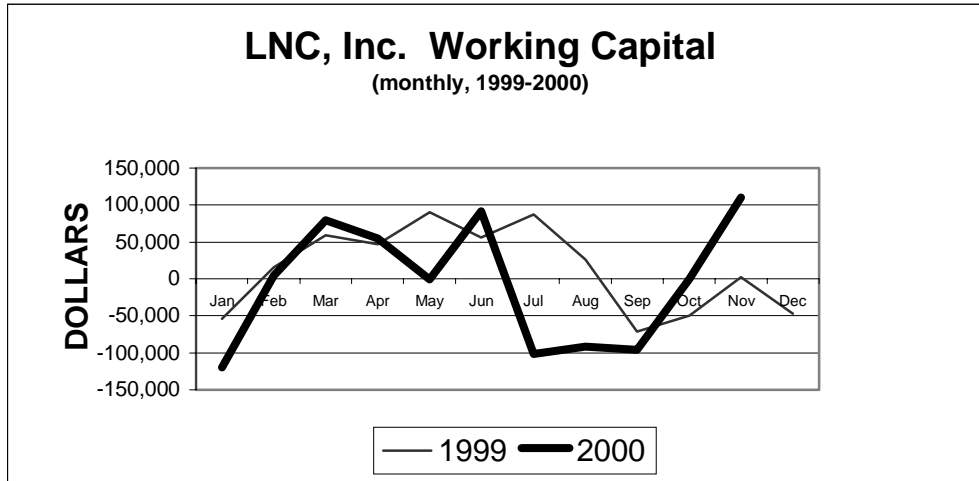
Our current policy is a simple monthly set-aside of 2% of revenues, *with no restrictions on overall spending* and the LNC having the ability to authorize spending into the reserve fund at any time. Since the establishment of the policy, the LNC has never been asked by staff to approve any spending of the reserve.

The reason for the adoption of this policy was based in part on an analysis of our short term liquidity from 1996 forward, which indicated that we regularly spent beyond our means as measured by the Current Ratio (in our case, cash divided by accounts payable).

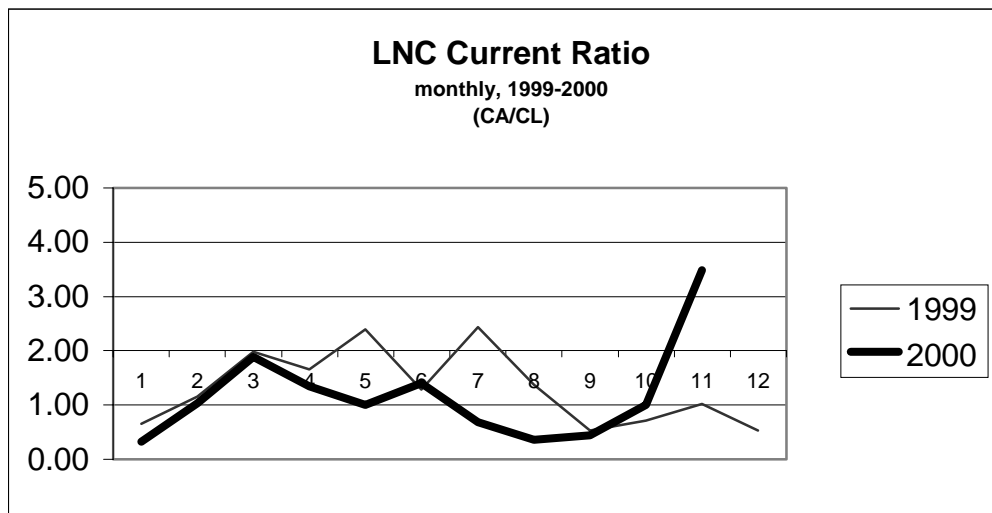
The National Director is on record stating that when the LNC gets below a 2-to-1 ratio that we run into problems, and I agree. In 2000, we have been above that level only one month during the year. *The reserve has been violated during three separate months in 2000 without prior LNC approval.*



Note: Our cash balances fell below the LNC's required reserve level for several months during 2000. These represent violations of the reserve policy as set at the December 1999 LNC meeting.



Note: Of significant concern, our working capital was negative for several months this year, indicating an unbalanced financial condition during those times. Spending was out of line with our cash position.



Note: A key measure of liquidity, our Current Ratio (current assets divided by current liabilities) was below the 2.0 “bellwether” level for most of the year—and for at least four months below 1.0, indicating an inability to cover our payables during those months. The National Director has previously acknowledged that we’ve had troubles in the past when we’ve dropped below the 2.0 level.

Recommendations:

1. **As part of the 2001 and future operations, we permanently incorporate the concept of a Reserve. These funds, segregated from our normal operating funds via the use of staggered certificates of deposit, would be purchased over the next 6 months. As part of the budget process, the LNC can control the amount dedicated to this now, as well as any additional amount added in years to come.**

I propose that for 2001 the amount be at least \$150,000.

2. I recommend the following change to our policy manual to address operational liquidity concerns going forward:

(Proposed new Section 2 D: Liquidity Requirements)

Section 2

Paragraph D Liquidity Requirement

The National Director shall be responsible to insure that the LNC maintain sufficient cash balances to provide prudent coverage of accounts payable. For purposes of this section, a positive working capital position (current assets less current liabilities) measured on a monthly basis is deemed a minimal prudent level.

(Note: The reserve is a still a current asset, so the net effect of this policy would be that we cannot incur accounts payable greater than cash + reserve, essentially ensuring a worst-case 1:1 current ratio.)

Issue: 1999 Annual Audit

Our annual audit for 1999 was completed with no audit opinion qualifications. Revenues for 1999 were \$2.83 million, basically unchanged from 1998. Audited results show a year-end surplus of 135K, of which 50K was from operations, 74K in increased in pledges receivable. End of year cash was 26K in 99 vs. 43K in 98.

Issue: Purchase of Building in 2005

Our lease at the Watergate is being renewed through 12/2005. In considering the construction or purchase of a permanent home for the LNC's offices, my goal is to have a revenue neutral situation (mortgage payment vs. lease payments).

We could conceivably come out ahead financially either through a well-priced acquisition, or through purchase of a larger facility with the opportunity for subleasing to defray our mortgage costs. This option would allow for future growth as well.

One thought would be to gradually use the Reserve as a way to set aside funds for the eventual building purpose, and the "finance committee" major donor program to help fund our purchase.

Issue: Internal Auditor

Our policy manual allows the Chair to name an internal auditor, which has historically been a volunteer position. The position is currently unfilled.

There has been discussion regarding whether we should look to our outside auditors to fill this role, taking on special projects as deemed appropriate by the LNC. Another approach would be to make a stronger effort to find a qualified volunteer, using our email list and LP News. I would appreciate the Committee's feedback on this issue.

Issue: Misc. Policy Manual Changes

I have prepared some changes for our policy manual relative to the Treasurer's job description. I've essentially attempted to make changes which 1) reflect our current operating realities, 2) formalize the Treasurer's role as the CFO of the LNC, and 3) moving various reporting responsibilities to the National Director's description.

The Committee may wish to defer action on this item, instead including an overall analysis of the Policy Manual as part of our strategic planning process. I would appreciate your feedback on this subject.

(Potential changes to Section 3, Treasurer's job description):

SECTION 3. POSITION DESCRIPTION OF NATIONAL TREASURER.

A. RESPONSIBILITY AND AUTHORITY: The Treasurer is the Chief Financial Officer of the LNC and shall have responsibility and authority to perform all functions in conjunction with that role. In part this includes: ~~the following functions:~~

(1) To prepare and file Federal Election Commission reports and income tax returns as required by law, **directly or through written delegation to staff.**

(2) To supervise and review the preparation of all accounts and disbursements of the Party.

(3) To render appropriate management reports to the Chair as requested.

~~(4) To collect and receive assets and funds to which the Party may be entitled, including membership dues, contributions and other revenues.~~

~~(5) To assist the National Director to develop cost and management controls to account for investments in such projects as are authorized by the Chair and/or the LNC.~~

~~(6) To supervise the bookkeeper currently retained by the Party.~~

(7) To develop and maintain appropriate banking **and contributor relationships.**

~~(8) To make an annual financial report to the LNC on or before April 1st of the following year.~~

B. CHECKING ACCOUNTS: The Treasurer is authorized to set up checking accounts, with the approval of the Chair, in order to carry out the business of the LNC. Approval will be sought from the LNC at the request of the banking institution. Persons permitted to sign will include only the officers, the National Director, and those headquarters staff members to be agreed upon by the joint decision of the Chair and the Treasurer.

~~C. REPORTS: The Treasurer shall provide to the LNC a balance sheet, a statement of revenues and expenditures, a statement of overdue accounts payable and debt outstanding other than LNC authorized mortgages or leases if any on a monthly basis, no later than the end of the month following the month to which these statements pertain, and copies of summary pages of Federal Election Commission reports and income tax returns no later than the end of the month during which these reports were filed. If the Party has overdue accounts payable or has debt outstanding other than LNC authorized mortgages or leases, then the Treasurer shall specifically comment on debt reduction efforts in monthly financial reports. The revenue and expenditure statement shall contain monthly, monthly percent of budget, year to date, and year to date percent of budget figures for each account.~~

(Proposed change to Policy Manual Section 2, B),

Position Description of National Director

B. The Director is directly responsible to the Chair, and reports to the LNC, and in that capacity:

1. maintains adequate and necessary communications with the Chair, and ensures that the Chair is kept fully informed of all pertinent LPHQ and Party activities;
2. submits all contracts of over \$1000 to the Chair for approval prior to any commitment of the Party to the contracts;
3. submits periodic written reports to the Executive Committee and LNC, **including monthly financial statements, annual audited financial statements, monthly FEC summary reports, and monthly accounts payable agings.**