Treasurer's Report
Libertarian National Committee, Inc.
September 21, 2002
Deryl W. Martin, Treasurer

Financial Update

At our July meeting, I reported our continued revenue downturn that started in March. I also reported that:

- Our static and dynamic positions had deteriorated significantly since our March meeting,
- We would be under our budget by approximately $1 million,
- It was doubtful we would be able to reach our goal by year-end of an $83,000 reserve,
- May revenue was disastrously low,
- Receipts were well under previous July convention year trends,
- Our liquidity and reserve positions were markedly worse,
- Our payables were increasing in response, and
- Our budget processes were faulty.

Instead of getting better, our position has gotten significantly worse. Much new information has come to light during and since our convention that is of a sensitive nature, around which the surrounding facts are continually being uncovered. Due to such ongoing discovery and because time constraints beyond my control prevent a complete and factual disclosure, this report will necessarily have to be brief. I will continue to forward LNC members more information as it becomes available in the next two weeks.

Bank Accounts & Accounts Receivable

At the convention, you remember our discovery that accounts receivable (totaling over $33,431) were in poor collection shape with approximately $22,305 in the "Over 120 days" past due category. This prompted a visit to the national office from the Chair and myself for several days beginning July 14th. During our visit, we discovered that bank signature cards had not been updated since December of 1998. After correcting this oversight, we further required that only the Chair, Executive Director, or Political Director signatures would be valid for dispensing Party funds. We also discovered that several entries in accounts receivable were in error and the validity of the accounts receivable aging report was in doubt. There was general confusion over correct balances and proper procedure for handling monies owed to us for LPNews. While discounts for multiple insertions were granted beyond our written policies, we could find no bias to such concessions. It appears that misapplications of written policies were uniformly applied without regard to the purchaser of the ads. Due to potential legal ramifications, we chose to not release the report until a complete reconciliation could be performed, one that is ongoing as of this writing. The Chair and I delineated the following accounts receivable policy and procedures for immediate implementation:

LPNews Accounts Receivable Policy

- there are *no exceptions* to all aspects of this policy

Bookkeeping:

- accounting will be notified and booking implemented *immediately* when an ad is placed
- ad payments go to accounting (not the editor) for immediate booking
- payments applied to oldest bills first (FIFO)
- staff will forward date invoices and mail them on those future dates
- dunning letters start 60 days past due
- one dunning letter sent certified mail after 90 days past due
- phone call efforts commence after 90 days past due

General Terms (all ads):

- intent to advertise (ad placements) should occur one month before payment due date
- payable on 1st of the month *before* the issue month (April ad payment due March 1)
- ad placement less than one month before payment due date at discretion of management
- ad placement after normal payment due date but before printing date at discretion of management but must be paid up front (no credit)
- 1st time advertisers receive no credit; if not paid by due date (e.g., March 1), ad doesn't run
- cancellations must be received by due date, else ad is subject to run and payment is due
- 5% discount for paying when single ad is placed, if placed before normal payment due date
- no 5% discount for single ads placed after normal payment due date; 100% payment is immediately due
- candidates for internal office or nomination receive no credit
- ad changes after placement subject to artwork charge at discretion of management
- artwork charges must be paid in advance (no credit)
- contracts reflect fact that all accounts more than 90 days past due are subject to collection agency efforts
- collection agency referrals require Chair approval

- running contracted ad for any customer > 30 days past due requires Chair approval
- late fees can be put into contracts at management discretion

Multiple Insertion ads:
- contracts in writing and on file with accounting
- 5% additional discount for paying entire contract up front; else no additional discount
- discounts are granted according to the following schedule:

Issues:	2	4	6	12	18	24
Discount:	10%	20%	30%	35%	40%	45%

- All invoices will be billed on a sliding scale such that upon failure to pay, and subsequent ad stoppage, we will have received up to that moment proper payment including discounts appropriate for the number of ads which did run

These policies, if executed properly, should prevent a recurrence of this problem as we continue to unravel the correct A/R balances. After much collection effort by staff, the total accounts receivable as of this writing is down to $16,674 (in theory).

Special Event Account

The Executive Director informed me by voicemail on approximately August 13th (received by me August 16th) that we would probably need to not renew the last $25,000 CD in reserve scheduled to mature on August 30th. The purpose was to pay bills and not go over the 60-day hard aging requirement. Upon talking with staff on Monday, August 19th, I became aware of two disturbing developments: 1) Not all revenues for the convention were run through the Special Event account, and 2) some expenditures from the Special Event account were made that did not relate to the convention. Apparently, staff had used Special Event funds for working capital instead of for their intended use and bills from the convention were now being submitted and becoming due. The result is that as of August 31st, our total cash was $10,880 and our trade payables were $216,327 despite having cashed the CD via Executive Committee approval at its meeting on August 21st.

Personal Leave Accrual

Continued concern over large employee leave accrual has come to a head. We understand that the existing policy dates back to the early 1990's wherein no distinction is made between vacation and sick leave. Moreover, the accrual rate seems to be quite generous to employees. The Chair has/is circulating a proposal that will address this problem prospectively. I hope to have more information about this concern at our meeting.

IRS Penalty

On Tuesday, August 27th, I received notice from staff that the IRS was fining LNC, Inc. $570 for late filing of miscellaneous 1099's in early 2001 for the 2000 tax year. After verifying the facts, it appears that the stated reasons from the IRS were correct. Because this involved an oversight of staff, the Executive Director has offered to pay this fine personally. After consulting with the Chair, I accepted the Executive Director's offer.

Auditors' Comments

From EC discussions about these developments, the following occurred:

Givot moved that Martin be directed to request the following from the party's outside auditors in time for distribution for the September 2002 LNC meeting:
1. A written statement from our auditors as to exactly what was included in *each* of their past three audits to confirm the accuracy of the accounts receivable on our books as well as the effectiveness and propriety of the accounting controls in place by staff to accurately record and report such information. This should include an explanation of whether or not an allowance for doubtful accounts was taken. If so, how much? If not, why not given the aging of the accounts receivable? This statement should also include any comments the auditors made (to anyone) regarding the procedures in effect to accurately track accounts receivable.
2. A written statement from our auditors as to exactly what was included in *each* of their past three audits to confirm the accuracy of any accrued liability for vacation or sick time as well as a quantification of how much of each appeared on our financial records in the audited statements. (These are not broken out separately.) If the auditors did not check or test these figures, an explanation as to why this was not done. If they did review these numbers, did they review the policy underlying these accruals? If no, why not? If so, then what conclusions did they reach regarding the propriety of these policies?
Martin seconded.
The motion passed without objection.

Below is the response from our auditors at Rubino & McGeehin:

Accounts Receivable
The A/R balance for 12/31/99 was $4,162, which was receivables for the LP News. Included in that balance was $3,264 of payments received in advance for the LP News. So technically, there was a receivable of $7,426 and deferred revenue of $3,264. After reviewing the A/R schedule provided by LNCI to determine if there were credit balances (deferred revenue), we determined that the balance was immaterial and did not test the

items for collectibility. We also looked at receipts after the year end to determine whether any payments in the following year were for items that were receivable at 12/31/00 but that had not been recorded as receivable for some reason. We did not find any additional receivables that should have been recorded. Other tests such as observation, inquiry, etc., are performed as deemed necessary or in conjuntion with testing of other areas that may provide evidence concerning receivables.

In 2000, we performed the same tests of A/R, $14,107, and also traced selected items on the A/R schedule to their eventual collection in 2001.

In 2001, we performed the same tests of A/R, $19,895, and also had the communications director review the list of receivables and evaluate the collectibility of the items.

Pledges receivable
Concerning pledges receivable, we analyze the collection history of pledges and take an average of the prior 4 years collection percentage. That average percentage is applied to gross pledges to estimate what will be collected in the future and to determine the allowance for uncollectible pledges. We also compare what is actually collected each year to what our estimated pledges receivable was in the prior year. We also perform other tests such as inquiry, observation, etc. to gain an understanding of the controls over pledges and how they are recorded in the accounting system. Based on these tests we may or may not perform additional work, depending on our evaluation of whether procedures in place to record pledges are sufficient to ensure proper recording in the general ledger.

Accrued vacation and sick
In order to test accrued vacation, we obtained payroll reports from the outside payroll service. That service calculates the balance of accrued payroll based on information provided by LNCI. The accrual is based on the hours accrued by each employee as of 12/31/00 and is multiplied by an hourly salary rate that is calculated based on each employee's approved salary at 12/31/00. We selectively looked at employee's salary rates and agreed those rates to the employee personnel file in order to verify that the rate used to calculate an employee's accrual is based on their approved salary. To test the hours accrued by each employee at the end of the year, we relied on our payroll testwork which involved reviewing timesheets for certain attributes to verify that information on timesheets was being reported appropriately to the payroll service.

Note that this same test was performed for the audits for the years ended 12/31/99, 2000 and 2001.

There is not and should not be an accrual for sick leave for any of the years as employee's are not paid for their accrued sick leave should they terminate employment with LNCI.

Summary

We are in deep financial trouble. Our LNC discussions at this meeting will determine exactly what went wrong and how we are to proceed from this point. Both the Chair and I (and perhaps others) will have many proposals to address these problems which we will circulate to you as soon as possible. Some will occur over the next two weeks; some may not be in written form until our meeting. I will be sending you more numerical information in the interim and I hope you will allow it to be part of my official Treasurer's report.

The "Balance Sheet Changes" below show exactly how our static position has deteriorated since February due to this downturn. Obviously, our liquidity and reserve positions are markedly worse:

Balance Sheet Changes*						
Report Date >	Dec	Jan	Feb	Mar	Apr	May**
All Checking	$ 29,086	$ 21,517	$ 6,646	$ 23,578	$ 9,982	$ 12,867
plus CD	25,591	25,619	25,646	25,671	25,698	25,698
plus Other	(2,194)	(3,268)	(4,859)	(6,852)	(2,840)	(2,784)
equalsTot.Near-Cash	$ 52,483	$ 43,868	$ 27,433	$ 42,397	$ 32,840	$ 35,781
minus Accts.Payable	50,789	42,547	11,841	26,472	55,352	64,862
equals Calc.Reserve	**$ 1,694**	**$ 1,321**	**$ 15,592**	**$ 15,925**	**$ (22,512)**	**$ (29,081)**
Quick Ratio	1.03	1.03	2.32	1.60	0.59	0.55
* Does not include Special Event acct. ** All statements closed except May						

The effect is also evident in our payables aging:

Mid-month	Current	1-30 days	31-60 days past due
Feb	$ 106	3,903	0
Mar	9,177	13,337	0
Apr	21,667	12,270	0
May	18,755	44,727	5,000
June	36,636	16,558	11,398

To some extent, we're financing current operations through this tough period with increasing payables. We have a hard aging requirement of no more than 60 days in place so I do not expect this aging picture to get much worse. However, operational scale may suffer despite the large recent donation of $50,000 unless our development efforts yield fruit more quickly than anticipated. Development efforts take time, however, and I cannot foresee circumstances improving in the near future without real, solid growth in our membership numbers.

Meeting with Auditors

In conjunction with a professional meeting I had in Baltimore at the time, I met with the managing director of our audit at her office in Bethesda on April 12th. The field work had been performed at that time but the final report was in preparation so no statements or opinion were then available. We generally discussed the fact that there were no observed problems with our procedures. I also brought up the "contemporaneous" accounting issue and related matters that were raised in January and February of this year. The issue was whether we should adjust our own estimates of UMP liabilities and Pledge receivables on an ongoing basis instead of letting the auditors make the adjustments. Her response was . . .

"It's an internal matter, really. Frankly, I don't think you should," and that it was "perfectly acceptable" to continue our current practices. We also discussed the seeming arbitrary nature of some accounting statement values, especially software. In response to whether that number was somewhat arbitrary, she replied . . .

"Oh, yeah," and went on to discuss with me the vagaries of accounting results. This confirmed my thoughts and the additional confirmation from another accountant that I reported to you in an email dated February 13th. To me, this issue is concluded unless and until we grow to a scale of operations several times bigger than our current size.

Comment

While the operating results for the second quarter are not good, as a policy-making body we must remember that we (the LNC) do not generate revenue, only cost. We charge our professionals with goals, yet we also charge them with obtaining the revenue to achieve those tasks. Among other assuredly more eloquent descriptions, our job is to prescribe a general method of operation that we think will promote the achievement of our mission and our goals.

Toward that end, as I have alluded to both publicly and privately, I believe our budgeting processes are faulty and are somewhat to blame for our current dissonance. We have operated on the paradigm that a budget constitutes “spending authority”. As such, our policy manual requires budget adjustments and explanatory reports only in the event of cost overruns, yet no repercussions or consequences ensue for excessively rosy projections as long as expenses can be scaled down commensurately. With our SPT efforts now being implemented, we have evolved to the point where our focus is at its peak and our information needs are at their height, yet our ability to control cost is diminishing and our margin for error is decreasing.

In my opinion, spending authority is not what a budget is about. Rather, a budget is a statement of what we think is realistically achievable. Though I’m not ready to offer recommendations in this report, I intend to have some concrete suggestions when we meet next month.