Timmy King's Position Paper on Our Financial Situation

Background (it's long, but it's worth reading if you don't know how we got into this mess)

In 2007, the Net Assets of American Mensa were $440,171.

Net Assets = Total Assets – Total Liabilities.
An important value used to measure the overall financial health of a nonprofit organization.
You might think of it as a rainy-day fund, or a special project pool of money. It is money we can use to improve American Mensa or survive financial challenges.
In 2007, our Net Assets were about 14% of our annual Operating Expenses. Many would say that is a very healthy ratio – that our 2007 financial position was strong.

Unfortunately, in 2007 the AMC decided to file a trademark lawsuit against Inpharmatica (Google provides all sorts of lawsuit details if you're interested).
After 2+ years both sides agreed to withdraw their lawsuits against one another.
We did not win nor lose – but we did spend roughly $2,000,000 in legal fees over the course of two years.

American Mensa's audit financials for 2010 showed our Net Assets to be (1,649,891).

To pay the legal fees, the first roughly $440k came from Net Assets, but the rest of the money we "borrowed" from ourselves.
I think (but please do not quote me on this) that we first borrowed the money from the Lifetime Members account (the investment account used when people pay for a lifetime membership).
I also think that at some point we paid back the Lifetime Members account by "borrowing" from the 3-5 Year Membership account.

In 2009 the AMC developed an action plan.
They would budget a repayment of $150,000/year for 14 years (or until the debt is repaid).
The following are from the Agenda and Meeting Minutes of the October 2009 AMC meeting…

Agenda American Mensa Committee Meeting October 23-24, 2009 Arlington, TX

B6 Life Dues Fund loan authorization Moved Finance Committee: The Executive Committee is authorized to borrow up to _______________ from the Life Dues Fund Investment account at a rate required to fund current operations through __________________. The amounts borrowed shall be repaid by ____________________, from the annual dues receipts for FY ____. Interest shall be paid to the Life Dues Fund Investment account at an annualized rate of ____ percent. EXPLANATION: Additional monies are required to fund current operations. INANCIAL IMPACT: Over the long run, little to none, given that the amounts orrowed will be repaid with interest. F b {Secretary's note: Certain areas of the motion have been intentionally left blank. The Finance Committee will meet via conference call the week of October 12, 2009, and will finalize the wording of the motion following that meeting.}

Meeting Minutes American Mensa Committee Meeting October 23-24, 2009 Arlington, TX

ASIE 2009-034 Item B6b Life Dues Fund transfer authorization Moved Finance Committee: The American Mensa Committee authorizes the use of up to $600,000 from the principal of the Life Dues Fund Investment account to fund current operations through December 31, 2009. The principal must be repaid to the Life Dues Fund, and lost interest shall be paid at an annualized rate of 2.5 percent by December 31, 2010. 13 EXPLANATION: Additional monies are required to fund current operations. FINANCIAL IMPACT: Over the long run, little to none, given that the amounts borrowed will be repaid with interest. DISCUSSION: SANFORD asked what current return on investment (ROI) and historical ROI are and have been. KUYPER said that up to almost 2 years ago, the ROI was almost 5 percent on bonds; after that, the bond ROI changed to 1.5 percent. SANFORD suggested the interest rate be increased to 5 percent; subsequent discussion did not favor the suggestion. LEDERMAN asked that a reasonable end date be added to the motion. KUYPER accepted a 1-year end date as a friendly amendment. APPROVED: 18-0-1 (CONTI abstaining, chair not voting) {Secretary's note: The motion as presented reflects amendments made during the discussion.}

ASIE 2009-035 Item B6c Moved Finance Committee: To eliminate the deficit net assets resulting from the AML v Inpharmatica litigation, the AMC shall budget to allocate a minimum of $150,000 a year over 14 years or shorter term as needed. This shall be reflected beginning with the 2010-2011 budget year, which shall show a budget expense line called "Equity Restoration." EXPLANATION: This develops a plan to replace not only life principal funds used, but also other reserves as well. The Finance Committee, working with investment advisors, will determine which investment funds shall be rebuilt first based on the current state of the market in line with current investment policies. FINANCIAL IMPACT: $150,000 per year with return of all funding within 14 years. This schedule may be accelerated based on other strategies that result in additional net income to the organization. DISCUSSION: SANFORD said that 14 years seemed to be a long time. KUYPER said that the easy math reflected 14 years, but that the Finance Committee anticipated a much shorter period of time. Donahoo said that the motion does not take into account that AML is rebuilding net assets; it is an allocation of an expense. She said that the account would be repaid in approximately 6 years. PANNKE-SMITH asked why there was no maximum or range indicated; KUYPER replied that the flexibility permitted earlier repayment. MATTSON expressed concerns about deficit budgeting; KUYPER assured him that this would not happen. 14 APPROVED: 18-0-1 (CONTI abstaining, chair not voting)

If you look at our Net Assets from 2010 to 2015 you will see that our financial situation improved every year for several years – but only once did the AMC reach the ASIE stated goal of $150,000 .

American Mensa Net Assets	
2007	440,171.00
2008	286,431.00
2009	(914,063.00)
2010	(1,649,891.00)
2011	(1,625,037.00)
2012	(1,534,988.00)
2013	(1,376,734.00)
2014	(1,311,939.00)
2015	(1,262,527.00)
2016	(1,472,841.00)
2017	(1,704,112.00)
2018	(1,762,930.00)
2019	(1,742,921.00)
2020	(2,206,856.00)

In 2014, the AMC decided to modify the ASIE switching from a fixed dollar amount of $150,000 to a variable amount to be set by the Board each year.

The following are from the Agenda and Meeting Minutes of the March 2014 AMC meeting…

Agenda for the American Mensa Board of Directors Meeting March 29, 2014 Charlotte, North Carolina

H.3. Amending ASIE regarding equity restoration. Moved Finance and Audit Committee: ASIE 2009-090 is amended to read as follows: To eliminate the deficit net assets resulting from the AML v Inpharmatica litigation, each year's budget shall contain a budget expense line called "Equity Restoration." The Board shall set an amount for this line item at its meeting immediately before the one at which the budget is adopted each year, and the budget presented to the Board for approval shall contain that line item in at least that amount. EXPLANATION: Original text: 2009-090 24-Oct-2009 20 March 2014 AML Board Meeting Agenda To eliminate the deficit net assets resulting from the AML v Inpharmatica litigation, the AMC shall budget to allocate a minimum of $150,000 a year over 14 years or shorter term as needed. This shall be reflected beginning with the 2010-2011 budget year, which shall show a budget expense line called "Equity Restoration." Due to several unexpected events and poor foresight, this year's budget falls well short of the desired $150,000 surplus. Rather than just suspend this ASIE, the Finance Committee wants to reaffirm our commitment to meeting its spirit. FINANCIAL IMPACT: To be determined by the Board each December.

Minutes for the American Mensa Board of Directors Meeting March 29, 2014 Charlotte, North Carolina

H.3. Amending ASIE regarding equity restoration. (Secretary's note: This motion was taken out of order, following H.4. below.)
Moved Finance and Audit Committee: ASIE 2009-090 is amended to read as follows: To eliminate the deficit net assets resulting from the AML v Inpharmatica litigation, each year's budget shall contain a budget expense line called "Equity Restoration." The Board shall set an amount for this line item at its meeting immediately before the one at which the budget is adopted each year, and the budget presented to the Board for approval shall contain that line item in at least that amount. The 2014-2015 minimum equity restoration is set at $25,000.
ASIE 2014-005 EXPLANATION: Original text: 2009-090 24-Oct-2009 To eliminate the deficit net assets resulting from the AML v Inpharmatica litigation, the AMC shall budget to allocate a minimum of $150,000 a year over 14 years or shorter term as needed. This shall be reflected beginning with the 2010-2011 budget year, which shall show a budget expense line called "Equity Restoration." 20 March 29, 2014 AML Board Meeting Minutes Due to several unexpected events and poor foresight, this year's budget falls well short of the desired $150,000 surplus. Rather than just suspend this ASIE, the Finance Committee wants to reaffirm our commitment to meeting its spirit. Those speaking in opposition indicated they believed it was important to maintain equity restoration and that deciding the amount of the restoration after the adoption of the rest of the budget does not serve that purpose. 17-2-0 (SAGRAY and SMART voting nay; BURG not voting.)

From 2015 through 2019 our financial situation became significantly worse by over $450,000.

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2019	(1,742,921.00)
2020	(2,206,856.00)

In 2020, the AMC decided to delete the equity restoration plan in its entirety. The reason given was that "the current ASIE never did what it intended."
The following are from the Agenda and Meeting Minutes of the March 2020 AMC meeting…

Agenda American Mensa Ltd AMC Meeting 21 March 2020 Alexis Park Resort Las Vegas, NV

A. Equity Restoration Moved: Finance and Audit Committee, that ASIE Article 7, Item N – Equity Restoration, is deleted in its entirety. Current wording: To eliminate the deficit net assets resulting from the AML v Inpharmatica litigation, each year's budget shall contain a budget expense line called "Equity Restoration." The AMC shall set an amount for this line item at its meeting immediately before the one at which the budget is adopted each year, and the budget presented to the AMC for approval shall contain that line item in at least that amount. The requirement for equity restoration for the fiscal year 2019- 2020 is waived. EXPLANATION: This ASIE was created in an attempt to lay out a repayment plan for the self-funded lawsuit in 2009. In practice, this has been completely unsuccessful. It is not the ideal way to present budgetary information. The correct way to restore net assets is through making a profit, not in listing a budget line item for an expense that occurred and was recognized more than a decade ago. The current proposed budget has a net asset increase of $68,172. FINANCIAL IMPACT: Increase or decrease in net assets is included in each year's budget. STRATEGIC PLAN TIE-IN: Finance. Budget for current and future needs of the organization.

Meeting minutes American Mensa Ltd AMC Meeting 21 March 2020 Teleconference

A. Equity Restoration Moved: Finance and Audit Committee, that ASIE Article 7, Item N – Equity Restoration, is deleted in its entirety. Current wording: To eliminate the deficit net assets resulting from the AML v Inpharmatica litigation, each year's budget shall contain a budget expense line called "Equity Restoration." The AMC shall set an amount for this line item at its meeting immediately before the one at which the budget is adopted each year, and the budget presented to the AMC for approval shall contain that line item in at least that amount. The requirement for equity restoration for the fiscal year 2019- 2020 is waived. EXPLANATION: This ASIE was created in an attempt to lay out a repayment plan for the self-funded lawsuit in 2009. In practice, this has been completely unsuccessful. It is not the ideal way to present budgetary information. The correct way to restore net assets is through making a profit, not in listing a budget line item for an expense that occurred and was recognized more than a decade ago. The current proposed budget has a net asset increase of $68,172. FINANCIAL IMPACT: Increase or decrease in net assets is included in each year's budget. STRATEGIC PLAN TIE-IN: Finance. Budget for current and future needs of the organization. Discussion: Treasurer explained fully the rationale behind this, as the current ASIE never did what it intended. Removing this ASIE will not stop reporting on current net assets or equities to the membership. Motion PASSED Voting NAY – GUICE

Side Note - You probably notice that our 2020 Net Assets were (2,206,856.00).
The stock market lost a great deal of value just before we reported our year end numbers.
The market has since rebounded and I believe that our Net Assets are equal to or better than they were at the end of 2019.

Questions and Answers

Here is my high-level summary of the situation – our finances are in bad shape.
They've been bad for over a decade and they are not getting any better.
Nothing we've done yet has solved the problem – we need to do something different.

It is easy for our discussions to get bogged down in terminology, inflation adjustments, historical facts, etc.
But the bottom line is that we have a big problem and we need to take serious, immediate action.

Since we are borrowing the money from ourselves then we aren't actually losing anything, right?

We are definitely losing money. We are losing real cash dollars that are not in our accounts at the end of the year.

There are many ways to calculate the amount that we are losing.
I use the formula ($440,000 – Net Assets) * 3% (the average return on our investments).
I calculate we are losing roughly $50,000/year.
- That means we've lost over $500,000 since this started.
- And we will likely lose another $1 million before this is resolved.

How are you going to solve the problem?

First, and most important, we need a plan.
I will make sure that the AMC develops a plan with real dollar amount and no vague language (such as "some amount").
Our members must have input to the plan and agree to it, and the members must hold the AMC accountable for executing the plan.

Second, we have to cut expenses.
I will drive those conversations and help the Finance Committee and Executive Director make these cuts.
I can't tell you where we will cut expenses because I don't have access to our detailed accounting data. Once I am elected, I will have access to the necessary data and I can make things happen.

I know I won't be alone. Last year, 2 RVC's (one was a member of the Finance committee) suggested that our operating expenses as a percentage of dues revenue were creeping up every year. They proposed that we cut our annual operating expenses by $200,000

Do you promise not to cut (*you the reader should fill in the blank with your favorite expense***)?**

It's important to note - the budget is prepared by the Treasurer with the full support of the Finance Committee and Executive Director.
If I wanted to cut something, I would need to convince them to do it. Then I would need to convince the entire Board to vote for it.

The chairman has only one vote, and they only use it to break a tie.
I will make things happen, but I will need to use my full set of interpersonal skills to drive this change. If I start trying to bully people then I will alienate everybody and I will be no more effective than our current AMC.