

2020 Finance Committee Budget Meetings

Committee Name:	Finance	Session #:	2
Committee Chair:	Jeanne Ensign	Vice Chair:	Guy Davis
Minutes recorded by:	Teddy Decker	Date/time of meeting:	11/10/20 8:00PM EST

Motions Passed:

MSA: Approved Sept 17 meeting minutes as corrected.

MSA: Approved Nov 5 meeting minutes as corrected.

MSA: Approved and recommended to the BOD the 2021 budget at the 40k membership level.

Number of committee members present: 13	Absent: 1	Number of other guests present: 12
Committee Members Present: Jeanne Ensign (Chair), Guy Davis (vice chair), Tom Boak, Ashley Braniecki, Ralph Davis, Phil Dodson, Brandon Franklin, Jill Gellatly, Homer Lane, Laura Winslow, Teddy Decker (Treasurer, Ex-Officio), Susan Kuhlman Parker (CFO, Ex-Officio), Dawson Hughes (CEO, Ex-Officio)		
Guests Present: Paige Buehler, Chris Campbell, Ed Coates, Chris Colburn, Nadine Day, Mel Goldstein, Peter Guadagni, John King, Donn Livoni, Britta O'Leary, Carrie Stolar, Jeff Strahota,		
Committee Members Absent: Elyce Dilworth		

Minutes

The Zoom meeting was reconvened at 8:00pm EST.

1. Jeanne welcomed everyone and asked if there were any conflict of interest declarations. There were none. She noted that we would not be taking questions from BOD guests, but rather would be focusing on the discussion of the FC.
2. **Motion to approve 9/17/20 Finance 2 minutes as corrected. Passed. Motion to approve 11/5/20 minutes of first budget session. Passed.**
3. 2021 Budget Discussion:
 - a. The committee is discussing two budgets prepared by National Office staff, one predicated on 40k members in 2021, and one on 50k members. By mid to late January, we historically have 70% of the year's membership registrations so at that time will be able to adjust spending based on the expected membership numbers. The 40k membership budget has a net deficit of \$532,755, and the 50k a net deficit of \$364,014. Total cash outlay, taking into account depreciation (non-cash), capital expenditures, and the approved investment spending transfer will result in a net change in cash from operations for the 40k budget of (\$790,919) and for the 50k budget of (\$606,487). The national office historically prepares a quarterly forecast based on income and expenses to date and what is expected for the remainder of the year. Most likely forecasts will be prepared more often during 2021.
 - b. What is an acceptable deficit? Is FC being asked to approve a deficit budget without much guidance from the BOD on the front end? Peter indicated that yes, FC is being asked to recommend something, and that can be a deficit. Dawson reminded us that the budget assumptions were presented to the BOD and at the annual meeting. The BOD is already aware that we are looking at a \$300-\$500k deficit budget.
 - c. The committee discussed the pros and cons of approving a budget now or waiting until January to approve the 2021 budget. If a budget is approved during this meeting, it will need to be revisited in early 2021 due to the extreme uncertainty of membership in the coming year. We have built up the reserves for the purpose of weathering a catastrophic year, such as we have now. It was suggested that we prepare a graphic presentation of budget compared to actual for the last several years to present to the BOD. Nearly every year we have budgeted a deficit we ended the year better than budget. The difference between the two budgets is about \$170k. Is it worth delaying the budget approval for that amount when the BOD is already aware that it is going to be fluctuating?
 - d. Members spoke to the financial and fiduciary responsibility that the BOD has, and that it is their fiduciary duty to have a budget in place before the end of the year. FC in turn has that same responsibility in making a recommendation to the board. The duty of the FC is to recommend a budget. It is the BOD's responsibility to pass a budget.

- e. The goal of the 2021 budget is to preserve our membership services and infrastructure as much as possible until we can get back to "normal" operations in 2022. Preserving our infrastructure will prevent USMS having to take the time to rebuild when things become more normalized. If projections for 2022 turn more negative, changes will need to be made, but for 2021 we can plan that 2021 will be an anomaly year that can be weathered based on our current level of reserves. 55k members is actually a conservative "normal" amount, but realistically it is unlikely that we can get back to the 55-60k membership by 2022. We need to maintain a certain level of services in order to continue to attract members and regain our membership. Our real asset is our goodwill and relationships with and services to members and we need to maintain that. Response to ongoing circumstances will determine which services should be supported and those to be deferred.
- f. The current budget is built based on assumption that we need to maintain a certain level of services. If this deficit is too large, what services should be reduced to decrease it? Suggestions were provided and the national office provided some details.
 - i. Convention expense (The 40k budget forecast already includes a 50% reduction in traditional annual meeting cost for a scaled back in-person event - \$75k total expense).
 - ii. Capital expenditures (Capital expenditures are a long-term investment project to support future operations and growth. Unless there is a change in organizational direction significant reduction will create additional operations expenses not projected for an unknown duration).
 - iii. Coach and club services (Coach and club services programming is currently being restructured. The 2021 budget contemplates a plan being formulated with revenues that offset expenses or better. Expenses cannot be viewed in a silo).
 - iv. Magazine - consider cutting down on number of issues (The 40k budget forecast already includes cutting SWIMMER to digital only in the 2nd half of 2021. This plan would necessitate IT expenses that are already contemplated but should be considered if discussing cuts to capital expenditures and/or IT/contractor costs).
 - v. IT Costs - what is the impact to services of cutting this? (The staff/contractor resources put in place in 2017 have set USMS on a path for reduced long term infrastructure support expenses. The 2021 budget has reduced costs of \$20k from projected compensation of previous 3 full time developer staff. That savings does not include the 6 full time and 2 part time technical staff that were suggested would be needed to continue to maintain and develop the in-house systems).

Ultimately the BOD will need to strategically determine what services should be cut if they believe the deficit is too large.

- g. The commonly recommended amount of operating reserves for a non-profit is about 6 months. USMS has approximately \$3.3MM (net of restricted funds). While we don't want to spend more than is needed, reserves are for just such a situation as this.
 - i. Addendum - Susan reported in the Zoom chat that a 6-month reserve for USMS would be \$2.135MM. This number represents 6 months of expenses from the original 2020 budget forecast. This number will be less with lower expenses in the 2021 budget. In addition, the national office would be considering adjustments to budget and strategy well in advance of spending down to the 6 months of expenses threshold.

We have had investment fluctuations before, e.g. in 2008, but we have not had a membership dip like we are seeing now. We have never had to dip in to reserves like we will need to do in 2021.

- h. Dawson noted the amount of time being spent on the budget by the national office staff. The staff has essentially been working on the budget since May, and they need to use staff resources on things other than budgeting. Once a budget is approved, staff can start working on strategic plans that will further the organization and move things forward instead of being strictly reactive.
- i. Jeanne suggested that we consider adopting the budget at the 40k membership level with the understanding that the forecast will be updated as the reality comes to light in 2021. **Motion to approve and recommend to the BOD the budget at the 40k membership level. Approved.**
- j. Discussion ensued around the comfort level of the BOD for deficit reserve spending. If the level of the deficit on the recommended budget is too high for comfort, BOD guidance will be needed in order to change strategic planning and budget levels. Members discussed the amount by percentage of reserves that we are comfortable spending in one year.
- k. Jeanne offered further support for the BOD and staff as needed.

4. The next meeting will be in January or early February.

The meeting was recessed at 9:38 pm EST.
