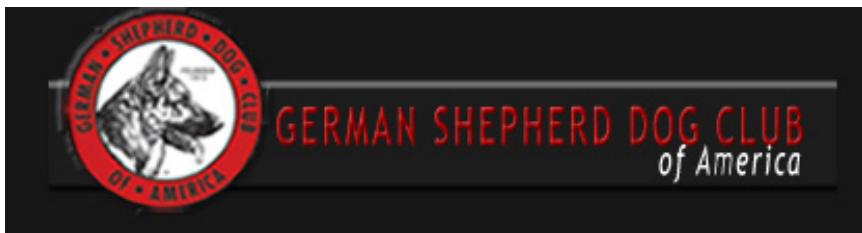


# German Shepherd Dog Club of America (GSDCA)



## Financial Review & Recommendations

**Prepared By:**

Van A. Dukeman

Bill Hope

Sam Israel

January 27, 2012

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## Executive Overview

**To:** Gary Szymczak, Budget & Finance Committee  
German Shepherd Dog Club of America (GSDCA) – Board of Directors

**From:** Van A. Dukeman  
Bill Hope  
Sam Israel

**Date:** January 27, 2012

**RE:** Review of GSDCA Financial Information: 2006-2010

The purpose of this memo is to provide the Board of Directors with the following items related to our review of the GSDCA's financial condition for the period 2006-2010. The following items are included in this packet of information:

- Description/Observations of the primary factors that caused the decline in the GSDCA's Net Worth/Liquidity during the 2006-2010 time periods.
- Recommendations related to Financial Best Financial implemented in organizations similar to the GSDCA.
- Observations of possible changes that could enhance the financial condition of the GSDCA.
- **ADDENDUM:** Initial Memo to the GSDCA dated 7/28/2011 describing our understanding of the Scope of Work, a request for additional information that was needed in order for us to fully complete this work, and an initial update on the progress of our financial review at that time.
  - *It should be noted that we did not receive all of the information requested, including any Audit Adjustments for the 2008-2010 period, and any information regarding Debit and/or Credit Card usage/reconciliation.*

We appreciate the opportunity to submit our review and recommendations to the GSDCA, and look forward to discussing our review and recommendations in more detail with you.



## Decline in Net Worth/Liquidity: Primary Drivers

The Net Worth of the GSDCA declined from ~\$687k at 12/31/2006 to ~\$528k at 12/31/2010, a drop of ~\$160k. At the same time, the Liquidity declined from ~\$837k at 12/31/2006 to ~\$585k at 12/31/2010, a drop of ~\$250k. The reason for the difference between the declines in Net Worth & Liquidity (~\$90k) is primarily declines in Accounts Payable & Deferred Revenue, which are associated with the decrease in Membership, and the overall operations of the Club.

*Please see Table 1 and related graphs for further detail and illustration of the balance sheet.*

Table 1	Comparative Balance Sheet					2010 vs. 2006
	2006	2007	2008	2009	2010	
Cash	269,852	208,869	177,068	410,010	326,509	56,657
CDs	567,310	602,616	533,753	274,925	258,580	(308,730)
<b>Total</b>	<b>837,162</b>	<b>811,485</b>	<b>710,821</b>	<b>684,935</b>	<b>585,089</b>	<b>(252,073)</b>
Other Assets	40,892	49,815	46,280	26,832	61,575	20,683
<b>Total Assets</b>	<b>878,054</b>	<b>861,300</b>	<b>757,101</b>	<b>711,767</b>	<b>646,664</b>	<b>(231,390)</b>
Accounts Payable	47,821	46,647	34,353	22,435	26,686	(21,135)
Deferred Revenue	143,191	144,970	117,855	111,399	92,421	(50,770)
<b>Total</b>	<b>191,012</b>	<b>191,617</b>	<b>152,208</b>	<b>133,834</b>	<b>119,107</b>	<b>(71,905)</b>
<b>Net Assets</b>	<b>687,042</b>	<b>669,683</b>	<b>604,893</b>	<b>577,933</b>	<b>527,557</b>	<b>(159,485)</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>878,054</b>	<b>861,300</b>	<b>757,101</b>	<b>711,767</b>	<b>646,664</b>	<b>(231,390)</b>

*Note: 2006 - 2010 per annual audit report*



GSDCA's operations on the Revenue side have diminished—specifically membership and the national specialty show—while the major expense categories have not. The losses have mounted since 2008, and the GSDCA's net worth (retained earnings) and liquidity have essentially “carried the club”. **Please see Table 2 and related graphs for further detail and illustration regarding performance of GSDCA profit centers/operations.**

**Table 2 Profit Centers/Operations**

National Specialty Show			
	Revenue	Expenses	Income (loss)
2006	141,626	117,042	24,584
2007	137,019	96,744	40,275
2008	91,259	120,909	(29,650)
2009	124,622	144,234	(19,612)
2010	89,857	112,461	(22,604)
<b>2010 vs. 2006</b>	<b>(51,769)</b>	<b>(4,581)</b>	<b>(47,188)</b>

Futurities			
	Revenue	Expenses	Income (loss)
2006	56,221	40,464	15,757
2007	37,936	50,704	(12,768)
2008	41,739	31,319	10,420
2009	35,217	33,732	1,485
2010	25,716	38,438	(12,722)
<b>2006-2010 Avg</b>			<b>~+0</b>

Review			
	Revenue	Expenses	Income (loss)
2006	277,785	219,754	58,031
2007	242,806	240,224	2,582
2008	226,768	209,595	17,173
2009	186,075	189,659	(3,584)
2010	179,884	170,294	9,590
<b>2006-2010 Avg</b>			<b>+17</b>



**EXAMPLE:**

*If you average the net income from the National Specialty Show for 2006 & 2007, combined with the average net loss during the period 2008-2010, the annual net income swing is ~\$56k.*

*In essence, the average annual net income in 2006/2007 was ~\$32k, and the average annual net loss for 2008-2010 was ~\$24k, or a \$56k swing in net earnings per year.*



General			
	Revenue	Expenses	Income (loss)
2006	209,004	174,577	34,427
2007	196,991	244,439	(47,448)
2008	178,565	241,298	(62,733)
2009	164,988	170,237	(5,249)
2010	153,649	179,884	(26,235)
<b>2010 vs. 2006</b>	<b>(55,355)</b>	<b>5,307</b>	<b>(60,662)</b>

Additionally, GSDCA's membership is currently ~2,700 – a significant decline from its 2006 membership of ~3,300, causing a decline in membership income. Membership income has decreased ~\$15k since 2006.

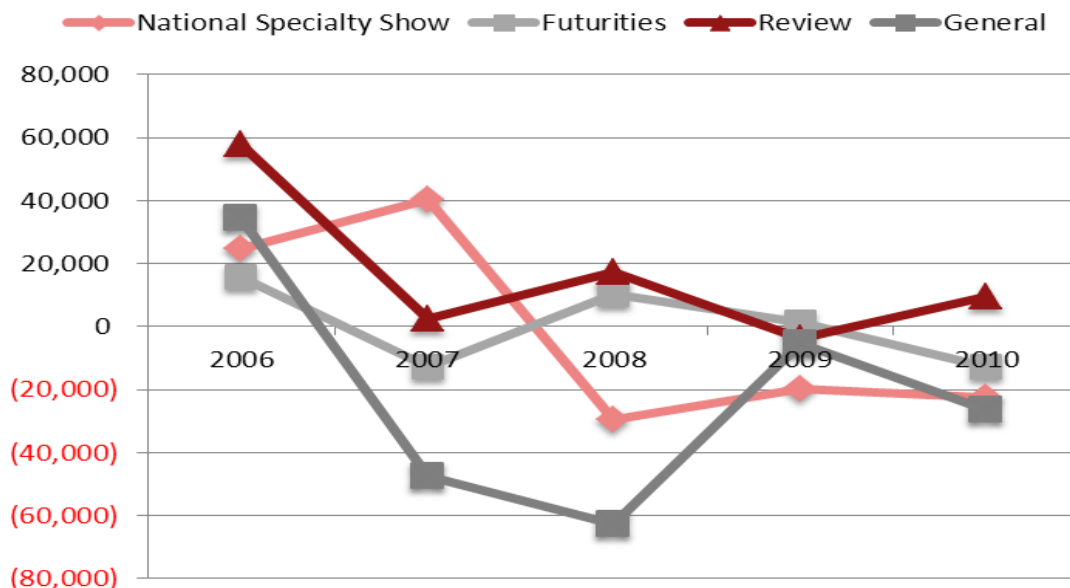
Other operating expenses, such as Board expenses, also have contributed to the decline in income.

Net income (loss)	
Year	Net Income
2006	132,799
2007	(17,359)
2008	(64,790)
2009	(26,960)
2010	(51,971)

Neither the Futurities nor Review net income/loss have been material contributors to the issues described. While Futurities did show a loss in 2010, it is our understanding that expenses have been cut in this area, and the Futurity business line has returned to a slight profit or break-even point. Again, neither the Futurity nor Review business lines are material drivers in the declines of Net Worth & Liquidity.

Note: 2006 - 2010 per annual audit report

### Net Income by Profit Center



During this precipitous decline in revenue, there has not been a corresponding decrease in net expenses. For example, General Operating expenses were ~\$215k in 2006 and averaged ~\$214k in 2009 & 2010. There was some expense increase in 2007 & 2008; however, it is clear that the Club has not reduced expenses in the face of declining revenues.

*Please see Table 3 and related graphs for further detail and illustration regarding General Operating Expenses.*

**TABLE 3 - Selected General Operating Expenses**

(\$000s)	2006	2007	2008	2009	2010	2010 vs. 2006
Director/President	40	47	44	54	46	6
Accounting	33	33	23	13	37	4
Election	18	22	18	18	21	3
Membership	7	32	10	8	4	(3)
National Specialty	117	97	121	114	112	(5)
<b>Change (2010 versus 2006)</b>	<b>215</b>	<b>231</b>	<b>216</b>	<b>207</b>	<b>220</b>	<b>+5*</b>

*\*In the above Selected Expense Categories, 2010 expenses were \$5k higher than 2006.*

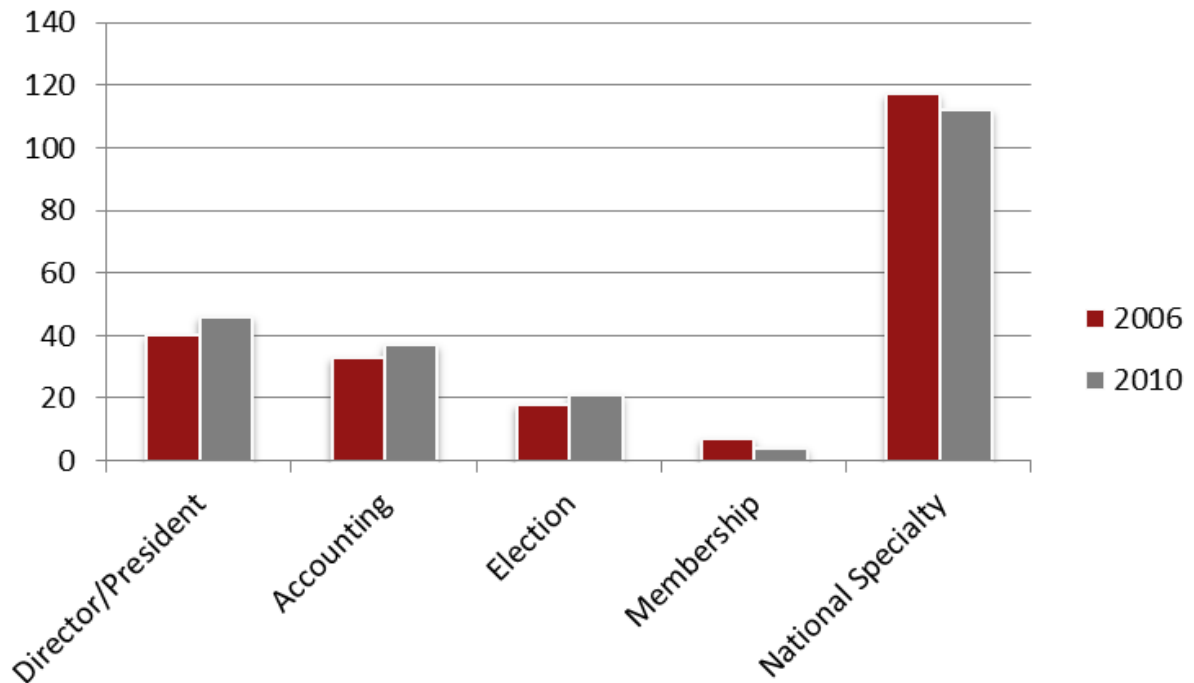
*Total General Operating Expenses were \$14k higher in 2010 versus 2006.*

**Examples of expenses that have essentially remained the same despite a “smaller club” are:**

- Director/President Expenses: \$39k in 2006, and \$55k & \$46k in 2009 & 2010, respectively.
- Accounting Expenses: \$33k in 2006 and \$37k in 2010. *Note: We will discuss this category further in a subsequent section of this analysis.*
- Election Expenses: \$18k in 2006 and 2009, and \$21k in 2010.
- Membership Committee: \$7k in 2006, and \$4k in 2010.
- National Specialty: \$117k in 2006, and \$112k in 2010. At the very time the National Specialty expenses have been essentially flat, the cumulative losses from 2008-2010 were \$70k.



### Graphs Representing Trends in Selected Operating Expenses 2006-2010:



The cumulative net losses for the GSDCA from 2008-2010 have been ~\$140k. One could observe that about half of this loss was attributable to the National Specialty shows. However, the impact of the National Specialty shows is even greater when one takes into account the swing from a once profitable business of the Club to a net loss today. As illustrated, when looking at the average profits of the National Specialty in 2006-2007, and comparing it to the average losses of the National Specialty in 2008-2010, the average annual impact to the Club is a loss of \$56k. **See Table 2 on pages 3-4.**

**In summary, the primary driver of the declines in Net Worth & Liquidity is a declining revenue scenario, primarily in National Specialty and Membership, without a corresponding decrease in expenses.**





## Financial Best Practices

### OUR RECOMMENDATIONS:

- **The Board should be receiving timely and frequent financial information on the Club's financial condition.** These supporting schedules should breakdown each business line – Membership, National specialty, etc... and detail both the revenues and expenses for each line. This information should be provided at least quarterly; during more difficult economic environments, monthly would be preferable.

Reviewing the financial operations with informative, real-time information provides the Board an opportunity to react quicker to changing circumstances. There were references in the Board minutes to “*cash flow problems*”, yet there was not any specific information as to the probable causes or categories of losses. With timely, accurate information, the Board is in a proactive position to make sound decisions regarding the financial condition of the Club.

- The **Full & Complete Audit** has not been published in the Review for some time. While some information has been published, important supplemental information has been omitted. **When the Club is facing difficult financial issues, and it becomes necessary to make difficult decisions, a well-informed membership can make this easier.** In other words, the “unknown” is worse than the “known”.
- **Create a Formal Audit Committee that communicates directly with the outside auditor.** This committee would not include the Treasurer. It could include a non-board member who has had exposure to independent audits and/or audit committees. In the private sector, companies often have a “*financial expert*” that leads the Audit Committee. The committee would solicit bids, review firm qualifications—including the review of the audit firm’s most recent peer review— set delivery timelines, recommend the engagement of an outside auditor to the full board, and oversee the annual outside audit and tax services of the Club (services which we recommend are bid out on a regular basis).

In addition, we would also suggest that the Board:



- **Obtain a full review of accounting controls and procedures by a qualified auditing firm, with specific recommendations to be implemented by the GSDCA.**

These areas would include:

- *Cash disbursement and approval*
  - *Controls over Revenues collected at the Specialty, including dinner tickets, trophy donations, seating, stall/space rental, product sales, catalog sales, redbook, and raffle sales.*
  - *Membership Income*
  - *Review subscription and Ad revenue*
  - *Vendor contracts*
  - *National support programs(Purina)*
  - *Debit/Credit card usage: Discontinue usage of the Debit card, and substitute a Credit Card, due to better internal control and record keeping.*
  - *Movement of funds between various business lines (membership, review, futurity, etc.)*
- In the 2010 Audit Letter to the Board (dated 7/25/2011) the accountant notes the lack of timely bank account reconciliation (monthly basis) by someone independent of the cash receipt/disbursement process as a significant weakness to internal controls. The accountant had to spend additional time to ensure the bank accounts were properly reconciled. **Bank accounts should be reconciled monthly by someone other than the person administering the cash receipts/disbursements.**
  - Additionally, in discussing the Club's internal control, the lack of **Segregation of Duties** was considered a Material Weakness by the outside auditor. In publically traded companies, this is considered a very serious issue, and the Security and Exchange Commission forces companies with Material Weaknesses to disclose these to the public.

The above recommendations of best practices should help alleviate any serious issues with internal controls and segregation of duties.



## Observations/Recommendations to Improve GSDCA's Financial Condition

We realize that the Board has worked hard to attempt to deflect further erosion in Net Worth & Liquidity. We do not profess to possess any “magic bullet”; however, we believe we had an obligation to outline suggestions to help improve the financial position and/or stop the erosion of the Club's net worth.

### EXPENSE MANAGEMENT:

We have more questions than answers regarding expenses. As stated earlier, we do note that major expenses have not decreased correspondingly with the revenue decline.

Here's a summary of expense recommendations and/or other items to consider:

- **Board/Director Expenses:** These expenses have stayed relatively high and flat over the recent years. We realize that you devote a significant amount of time to your board role. However, in many organizations similar to the GSDCA (charitable boards/ foundations), the board members personally cover this expense.
  - **Would it be possible for the Directors/President to cover their own expenses associated with board meetings and other activities?**
  - **If not fully, could board members cover a portion of this expense personally and conduct more meetings via teleconference or video conference, offering a more cost-effective option for Club business?**
- **National Specialty:** We understand that in the past the board has contemplated the idea of having the National Specialty at one site for multiple years, rather than rotating it annually. We also realize this is a very sensitive topic; however, it is one we believe should be explored on a regular basis.
  - **Have we negotiated the cost of a 3-5 year site commitment, and do we know what kind of savings we could expect from a multi-year contract?**
  - **Would it be feasible to host the National Specialty show at an outdoor venue, which may reduce expenses related to this event?**

For example, should we have this conversation with a few sites (*e.g. Topeka, St. Louis, Perry*), and see what kind of negotiated deal we could consider? If we disclose the arithmetic of a multi-year contract, including the savings we would generate, along with full disclosure of our current financial condition, the reaction from our membership might be different.

**If the revenue of the National Specialty is not going to increase, then the expenses must be reduced.** As illustrated in Table 2 and the related graphs, the financial success or failure of the National Specialty business line of the Club has a dramatic impact on the overall Club financials.



- **Election Expense:** The Election expense has averaged ~\$20k each year.
  - **If we formed an independent audit committee, could they serve as the entity that tabulated the annual election results?**

We understand that there is always concern about the election process, but this expense is one that could be eliminated.

- **Membership Committee:** We are not aware of what this expense line item represents, but note that it has averaged about \$8-10k a year.
  - **Can this expense be reduced?**
- **Accounting Expense:** If an audit committee is formed, and adequate dual-controls are established, the Accounting expense should decrease. This would probably not happen in year one, given the Best Practices recommendations outlined in this document.
- **Other Expenses:** We are not sure what is in other expenses, and do not know if there is anything that can be cut in this category.
- **Size of Board:**
  - **Given the material reduction in the “size of the Club”, should there be a corresponding drop in the size of the Board?**
- **Membership Dues:** It should be noted that we discussed the possibility of a dues increase. Ultimately we came to the conclusion that the timing would not be right, and a dues increase would probably result in a corresponding drop in the number of memberships – therefore cancelling out any increase in revenue.



## **Summary**

We would like to thank the Board for allowing us to review the past financial information. We hope that you will find this final work product to be helpful as you navigate through this difficult economic environment. We are all members of this wonderful Club and have its best interests in mind— to see it thrive and be financially viable for many years to come.

Respectfully submitted,

Van A. Dukeman  
Bill Hope  
Sam Israel



# **ADDENDUM**

*July 28, 2011 Initial Memo that outlines our understanding of the Scope of Work, Requests, and Progress to date.*



## **ADDENDUM – 7/28/11 Memo**

**To:** Gary Szymczak, Budget & Finance Committee  
German Shepherd Dog Club of America (GSDCA) – Board of Directors

**From:** Van A. Dukeman  
Bill Hope  
Sam Israel

**Date:** July 28, 2011

**RE:** Status Update: Review of GSDCA Financial Information: 2006-2010

### **The purpose of this memo is as follows:**

1. Commentary on the scope of our work as an ad hoc committee of the GSDCA board.
2. Request for any required additional information to complete our work.
3. Progress update on our financial review.

1. Scope of Work: Earlier this year we received a request from the GSDCA board (through Gary S.) to review the financial information of the GSDCA for the time period 2006-2010. We were also privy to the information that appeared in the minutes from the board meeting discussing and approving the request for us to review the financial information of the Club. It was also clear that the Board is concerned about the shrinkage in the Club's net worth and cash position over the past several years.

Based on your request, we plan to deliver to you a final work product which will include an assessment of the key contributors to the losses (reduction in net worth & cash), and our observations/suggestions on what would be considered best practices for assisting the board going forward. In essence, our goal is to help the Board (and therefore the Club) better navigate through difficult financial issues. It is crucial that the Board be armed with all of the information regarding the financial drivers that impact the Club.

One final comment regarding our scope; it is beyond our scope to provide you with a "forensic audit", in which every aspect of the financials is reviewed over the 2006-2010 period, and therefore we cannot opine as to any claim of misappropriation, malfeasance, etc. However, we can provide you with our assessment of the key drivers of what has happened, as well as our suggestions on what might be helpful going forward.



- II. Information Request: While we do have most of the information necessary to complete our work, we are still in need of the following to complete our report:
- Copy of any Audit Adjustments for the 2008 & 2009 Audits. The accountant should have provided the Treasurer and Board a letter regarding any audit adjustments.
  - If completed, Copy of the 2010 Audit, Audit Adjustments, and SAS Letters. We understand that this information is soon to be provided to the Board & Treasurer.
- III. Progress Update: The committee has had several conference calls, and begun to discuss the financial information received. However, we have just received (within the last two-three weeks) some key financial information necessary to complete our work, and we still need the information in II. above to complete our analysis.

Assuming we can receive the final requested information soon, we should be able to complete our work by the end of August.

Our thoughts would be to provide the Board with a written report, but would strongly suggest that we attend a Board meeting and discuss our findings face to face.

One last comment to the committee members --like you, we are long-time members & volunteers of the GSDCA. Our goal is to assist you (from a financial perspective) in successfully navigating through what has been a difficult time for the Club. We want the Club to thrive and to be financial viable for years to come. We hope you will find our report to be helpful in this regard.

