

Las Vegas Corvettes Association

Recommendation for By-Laws/Standing Rules Change

From: Pat Russell

Date: April 7, 2019

Subject: Reduce Reserve Account Amount to \$10,000.

By-Law Ref: Article: 13, Section: 3(b)

Present Wording:

Reserve Account. A separate checking/saving account(s) maintained by the Las Vegas Corvettes Association Treasurer for the purpose of providing emergency cash reserves. The reserves shall be maintained at a minimum level equal to the greater of \$25,000.00, or 55% of the total expense portion of the annual operating budget. Additionally, no major event that poses a financial risk to the Club can be undertaken unless the Reserve Fund balance is equal to, or greater than, 95% of the expenses of said event. The Reserve Account is intended to be maintained in an interest-bearing account. Any expenditure of reserve funds must be submitted in writing to the E-Board and approved before being presented at the next general membership meeting.

Recommended Wording:

Reserve Account. A separate checking/saving account(s) maintained by the Las Vegas Corvettes Association Treasurer for the purpose of providing emergency cash reserves. The reserves shall be \$10,000.00. Additionally, no major event that poses a financial risk to the Club can be undertaken unless the Reserve Fund balance is equal to, or greater than, 95% of the expenses of said event. The Reserve Account is intended to be maintained in an interest-bearing account. Any expenditure of reserve funds must be submitted in writing to the E-Board and approved before being presented at the next general membership meeting. Approval of expenditure requires 2/3 majority of the voting members in attendance at the general membership meeting.

Justification:

Since the decision by LVCA in 2012 to no longer have Corvette Roulette and/or an event having posing a significant financial risk, there is no need to maintain a reserve of \$25,000 or greater. Provided below is the background for the \$25,000 reserve requirement.

Signature: *Pat Russell*

By-Laws Committee Recommendation: Adopt _____ Not Adopt X

Comments: We support the motive for this change; however, we cannot support the approach. We think an arbitrary amount (\$25,000, or \$10,000, or any amount) does not address the basic need for a Reserve Fund. The amount should be based upon an annually assessment of our potential liabilities (including existing and expected contracts, and the potential need for legal assistance). The By-Law should address, or point to guidance in the Standing Rules for, how to establish and maintain the appropriate funding level. We think there is a real need to change this section of the By-Laws; however, this is not it.

By-Laws Committee Chair Signature: *Carl Hestings* Date: 9/9/19

Executive Board Recommendation: Adopt _____ Not Adopt X

Comments:

President's Signature: *Brian Corbett* Date: 9/9/19

Vote at General Membership Meeting: Date: _____ Adopt _____ Not Adopt: _____

Comments:

Recorded in Minutes: Secretary's Signature: _____

PROPOSED BY BY-LAW CHANGE – RESERVE FUNDING by Lennard Grodzinsky – Chair, 2013 By-law Committee – 12/10/13

Background: The intent of our normal budget process is to generally ensure that there is sufficient income to cover anticipated expenses. The intent of the Reserve Fund is to provide a contingency for circumstances where, by virtue of unforeseen circumstances, the income is not sufficient to meet unavoidable expenses. The current reserve funding requirement is 75% of all the expenses shown on the operating budget. Different activities or expenses within the Club carry different degrees of risk, or liability, for the Club. For example, the expenses associated with new member packages and NCCC annual dues cannot occur unless members are joining or renewing and paying the dues that more than offset the expenses. For this expense there can never be any risk of having an unfunded liability and as a consequence no contingency or reserve should be applied. Conversely, an event such as Corvette Roulette, where substantial deposits and minimums may be required by contract, the Club is exposed to an enormous unfunded financial liability if the event is cancelled or does not generate anticipated incomes. In this circumstance it is imperative that a substantial contingency or reserve be applied. Experience over the past couple of years has discovered that the current By-law, requiring a reserve of 75% of all expenses, can be particularly burdensome when preparing the budget and produces a reserve requirement that far exceeds any unfunded financial liability. In order to determine a better formula for our reserve funding it is necessary to categorize all of Club's expenses into seven distinct categories: 1. Membership Packages & NCCC Dues 2. Driving Events 3. Charity Donations 4. General & Administrative Expenses. These are all the administrative expenses plus any other expenses not identified in the other categories 5. Store Expenses 6. Awards Banquet 7. General Events Item 1, 2 & 3 are all expenses that have no risk of unfunded liability and as a consequence no reserve should be set aside for them. Items 4 & 5 have a moderate level of risk for unforeseen and unfunded expenditures and a reserve set aside of 50% of the expense would be appropriate. Item 6 has a significant risk of unfunded liabilities and as a consequence it is recommended that a reserve of 75% of said expenses be set aside. Item 7, General Events, can be broken down into two sub-groups: Events that pose no financial risk for the club. Examples would include: Wranglers Game, Mount Charleston Run & Laps for Charity. For this type of event there is no need for reserve funding. Events that pose a significant risk of financial loss to the club if the event were cancelled or did not perform as predicted. Examples would be Corvette Roulette, Tuachan Trip and Super Bowl Party. For these events a reserve of 75% of the expenses should be set aside. After reviewing all of the events of 2011 and 2012 it was found that 85% to 90% of the General Events, in terms of expense, did pose a financial risk to the Club. To simplify any formula, it is suggested that a reserve allowance of 75 % be made on all General Events' expenses. The following spreadsheet compares the 2013 Budget reserve funding requirements under the existing By-law with the risk allocation approach discussed above. It can be seen that the risk allocation approach calls for a reserve allocation of \$20,769, or 54% of all expenses.

The risk allocation approach may be considered a little too complicated for use by the Club and may give rise to disagreements as to which activities are "no risk" and which are "high risk". To overcome these issues, we recommend staying with the concept of using a percentage of all expenses, but at a level that better matches the Club's exposure to unfunded liability. Based on the foregoing it is suggested that the reserve funding requirement be set at 55% of all expenses. In addition to the percentage of expenses it is recommended that two additional safeguards be incorporated: A minimum reserve funding of \$25,000. This will deter spending our reserves during less active years and will also ensure that the Club has the ability to undertake a variety of events in any year. No single major event, that could place a financial risk on the Club, can be undertaken unless 95% of its expenses are held in reserves. For example, if we wanted to do a Corvette Roulette type event with expenses of \$30,000 then this would require that the club have at least \$28,500 in reserves for it to be considered. This additional requirement is necessary to safeguard the Club because the 55% may not be adequate to cover a very large event. In consideration of the above the By-law Committee recommended the following change to the 2nd (second) sentence of Section 3 (b) of LVCA's By-laws: Delete: The reserves shall be maintained at a minimum level equal to 75% of the total expense portion of the annual operating budget. Add: The reserves shall be maintained at a minimum level equal to the greater of \$25,000.00, or 55% of the total expense portion of the annual operating budget. Additionally, no major event that poses a financial risk to the Club can be undertaken unless the Reserve Fund balance is equal to, or greater than, 95% of the expenses of said event. The E-Board unanimously approved the proposed By-law change at their December 9th, 2013 meeting and has recommended that the matter be formally forwarded to LVCA's membership for ratification at the January 2014 membership meeting.

Above was approved at the General Membership Meeting on January 9, 2014.