EAP ASSOCIATION

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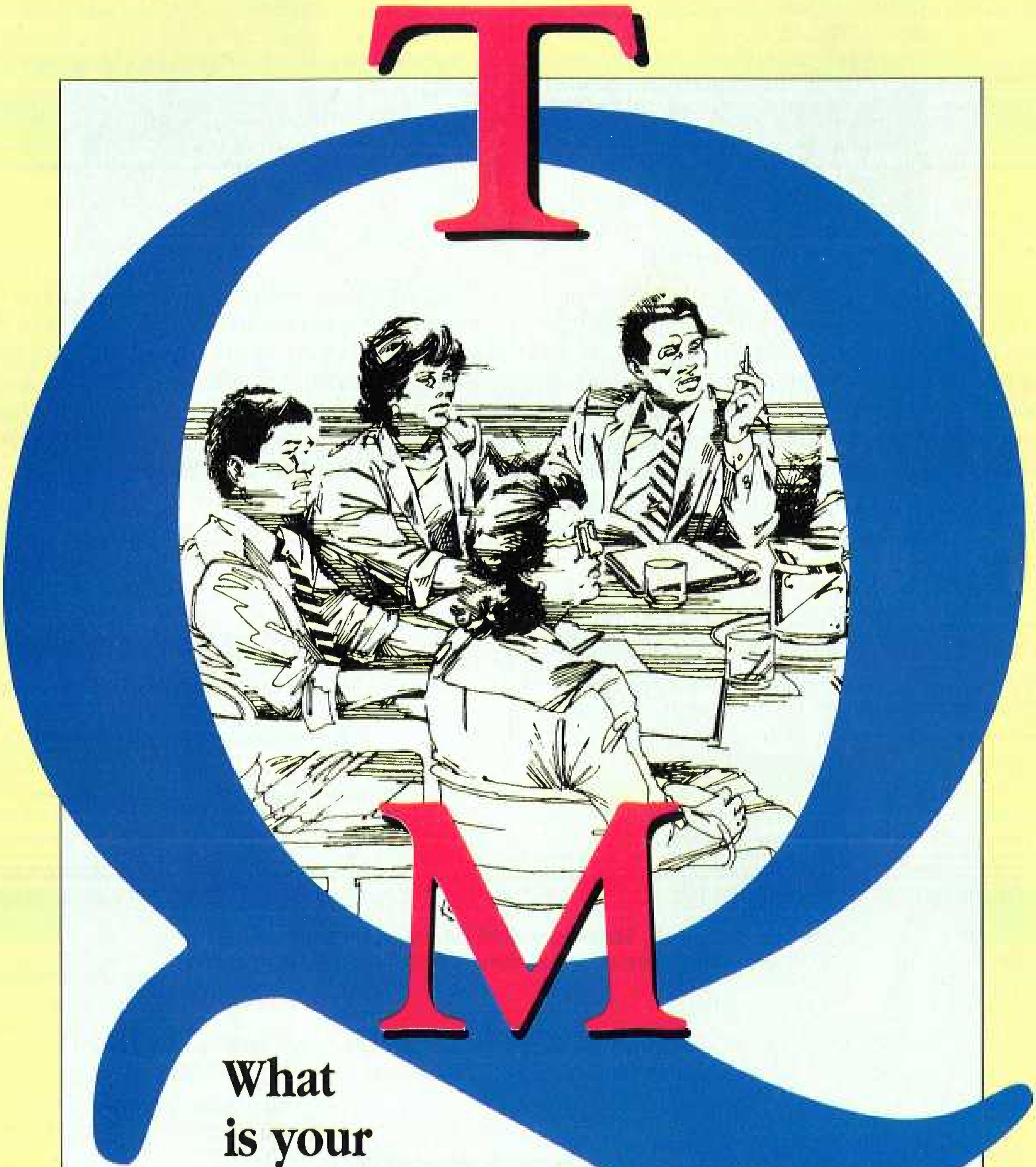
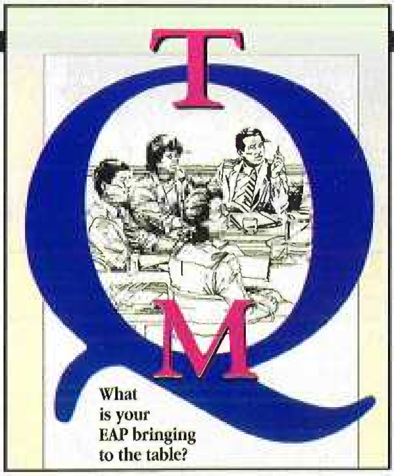


What is your EAP bringing to the table?

TABLE OF CONTENTS



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COVER FEATURES

OTHER FEATURES

DEPARTMENTS

FROM THE C.O.O.

EAPA's Financial Position: Reserves and Budget

by Michael L. Benjamin
Chief Operating Officer

This is the second of two articles on EAPA's financial position.

Although the fiscal history and analyses of our financial position have been presented on other occasions, there continues to be an element of misunderstanding as to our fiscal condition. This, to a large extent, results from — or at least is exacerbated by — how some of our membership use technical terms such as "deficits," "reserves" and "bankruptcy."

It is important that — as we make resource allocation decisions and address budgetary priorities for the balance of this fiscal year and the forthcoming one — we are consistent in our use of terms. With that in mind, I would like to tackle some technical terms that mean very different things to managers, to financial professionals and to others.

There are two fundamental accounting concepts that should be understood:

- debits = credits;

  and, in classifying these,
- assets (debits) = liabilities (credits) and owner equity.

In associations such as EAPA, equity is called "fund balance." An organization's fund balance is normally a credit reflecting the net accumulation of the excess of revenues (credits) over expenses (debits). The balance sheet (or statement of financial position) of an organization reflects the composition of assets and liabilities as well as the organization's capitalization in financial terms (who "owns" the assets).

There have been various uses of the word "reserves" in discussions of our finances. Accountants use the term to reflect the balance sheet recognition of a potential liability, obligation or reduction in the value of an asset (*e.g.*, we use the term in discussing the potential liability for CEAP re-examinations). The technical use does not imply that a specific asset corresponds to the obligation — merely that the obligation is recognized.

A more "popular" usage of the term "reserve" reflects the concept of saving or putting aside of funds not needed for day-to-day operations against potential or unforeseen contingencies ("rainy days"). The decision to do so is an internal decision and, as such, presumes that the organization's net worth is adequate to support that decision. The Association made such a decision to establish an investment account using assets that were not needed on a long-term basis for day-to-day operations. In 1991, the investment account amounted to $548,855, which is approximately equal to our equity of $395,317 plus $121,338 that was the estimate of the potential liability for CEAPs entitled to re-certify through free re-examination. The difference between the balance in the investment account and the Association's equity and the reserve for future re-testing essentially reflects funds not immediately needed to meet operating needs.

From the financial statements presented in the January issue of the *Exchange*, you can see that the equity that had been built up (largely over the two preceding years) no longer existed. Thus, although there is currently $591,000 in the investment account, only $106,000 is truly "reserves" (set aside for CEAP re-examination). Between August and October 1993, the Association used $150,000 of those funds to meet operating needs and then restored the funds to the investment account. We anticipate doing this again shortly — with the same premise that the funds will be restored to the investment account at such time as they are not critical to meet operating needs.

The discussion of reserves, equity and assets is further complicated by the fact that the name of the institution where our funds are invested is *The Reserve Fund of New York*. The potential misunderstanding is that we are dipping into our "reserves" (which do not in fact exist except as noted, above), as opposed to the funds in our bank account at the Reserve Fund.

Financial Position and Budget

In his presentation to the Finance Committee in Anaheim, our independent auditor, Mr. Tony Riggs, noted that although EAPA's total assets are typical of an organization with a $1 million budget, we operate at a $2+ million level. That is, we stretch our resources beyond what is normal for associations with our asset size. In retrospect, perhaps we've been overly ambitious in trying to meet our goals and/or overly optimistic in our expectations concerning revenue growth.

In adjusting our current year's budget to accommodate revisions in our revenue forecast, we have remained committed to the budgetary priorities that are reflected in our long-range strategic plan. The adjustments that have been made reflect the timing of committing resources to our priorities, without adjusting the priorities themselves. These adjustments have included freezing three staff positions. One would have to go back to 1989 before coming upon a similar level of staffing (the budget in 1989 was $1.5 million).

While I remain optimistic that many of the programs and projects that have been developing will bear revenues, I do not foresee any major windfalls for the balance of this fiscal year or next — nor do I see this Association going into bankruptcy. Thus, although our current deficit is not insurmountable, we have a clearer picture as to what is possible and we must implement a program for deficit reduction and rebuild our equity. The Board of Directors has stated that a 15 percent reduction in our deficit is to be a budgetary priority for 1994-95, even as we continue to allocate resources toward our strategic programmatic goals. The ongoing allocation of resources and staff to these programs will be the major concern of the budgetary deliberations by the Board of Directors later this month.