

NAC TREASURERS REPORT NO. 2
January 5, 2018

Depending on the negative effects of the lawsuit filed by Directors Ibbetson and Warwick, the NAC financial condition, as well as the overall day-to-day NAC operations, should continue uninterrupted in 2018. The NAC has never been in a stronger financial position than it is now, and the majority of the NAC Board, Executive Director and Staff are confident that together they can make that strong financial position even stronger and more efficient in 2018. With a view to providing NAC members and the interested public with the progress of the NAC, a monthly Treasurers Report will be prepared in collaboration with the NAC financial consultants and will be located on the NAC website under "Resources".

CURRENT FINANCIAL CONDITION OF THE NAC AS OF DECEMBER 31, 2017

CASH IN THE BANK

combined total as of 1/3/2018:	\$ 188,000.27
Undeposited Funds: (approximately)	\$10,000.00

ESTIMATED INCOME FOR JANUARY, 2018:

Auto Debit (to be processed 1/25):	\$53,500.00
Rental Income	\$3,000.00
Expected Annual Membership (not Auto Debit):	\$10,000.00
Monthly Checks (Members and Jr. Rowing):	\$1,000.00
Other departmental income: Groups, monthly membership	\$3,000.00
Jr Rowing team Dues - Spring payments:	\$140,000.00
Other income (Merchandise, Lessons, Donations, Events, etc.):	\$5,000.00
Total expected income remainder of month:	\$215,500.00

ESTIMATED EXPENSES FOR JANUARY, 2018:

Uncleared Checks (checks that haven't been cashed yet)	
Hudson & Vespoli- sent 12/27:	\$35,000.00
General operation (insurance, maintenance, etc):	\$15,000.00
Payroll (1/3, 1/17, 1/31):	\$129,000.00
Credit Card Payments to be made:	\$20,000.00
Other expenses estimate (misc expense to be safe):	\$10,000.00
Total estimated expenses remainder of month:	\$209,000.00

Approximate Available Balance 1/31/2018:	\$204,500.27
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TAG FINANCIAL CONSULTING COMPANY OVERSIGHT AND MANAGEMENT

On November 20, 2017, the NAC retained TAG Management, Inc. ("TAG"), who is a financial consulting company. TAG is a completely independent, professional financial consulting company and came highly recommended for non-profit corporations like the NAC. TAG has agreed to provide financial consultation directly to the Board as an independent contractor. The initial scope of work for TAG is to review the current financial operations and management of the NAC and provide a report to the Board that contains its findings and recommendations. The Board is looking forward to reviewing, and acting on if necessary, this initial report and to working with TAG in the future to insure that the NAC financial operations and management are in accordance with current best practices for California Nonprofit Public Benefit Corporations such as the NAC.

CASH RECEIPTS ISSUES UPDATE

TAG has been specifically tasked with reviewing the cash receipts procedures at the NAC and providing a report to the Board with its findings and recommendations. The Board is looking forward to this portion of the report due to the differing opinions of some Directors about the management of the NAC's cash receipts procedures.

FINANCIAL REPORTS FOR 2017 and 2018

The following financial Reports for 2017 will be prepared in collaboration with TAG personnel, and published in February, 2018 in Treasurer's Report #3:

Income and Expense Statement for calendar year 2017.

Profit and Loss Statement for the calendar year 2017.

Cash on Hand Statement as of 12-31-17.

Asset list as of 12-31-17.

Based on TAG recommendations and in collaboration with the Finance Committee, the above financial data and additional financial information will be posted periodically.

BUDGET FOR 2018

President Bill Grant, Treasurer Jon Van Cleave, as members of the Finance Committee, and the Executive Director, Office Staff, and TAG personnel will collaborate on and prepare a proposed 2018 budget to be presented to the Board for review and approval at the Board meeting in February, 2018.

FACTS REGARDING PAST NAC FINANCIAL OPERATIONS REVIEW

1. For the years 2015 and 2016, the NAC received unqualified audits of its books and records from Wertz & Company, Certified Public Accountants in Irvine, California. Wertz & Company specializes in audit, tax preparation services and tax related consultation for non-profit corporations. Those audits did not include any findings that the auditors uncovered any wrongdoing or misuse of the funds belonging to the NAC. Management is confident that the NAC audit process for 2017 will result in an unqualified Audit Report for the calendar year 2017.

2. In an immediate response to concerns expressed by some Directors as to the past financial operations and management of the NAC, in July, 2017 President Grant appointed several persons to serve on a Task Force to investigate. The Task Force met numerous times and then presented the Board with thirteen recommendations for action. Ten of those recommendations were in the nature of NAC operational policy changes and were adopted by the Board, and three were not since they involved employee issues and those issues have been addressed by the Board in a number of executive sessions.

3. In July, 2017 Directors Ibbetson and Warwick presented the Board with a financial analysis Report prepared by David Hanzich, CPA (Hanzich Report). The Hanzich Report was commissioned and paid for by Director Ibbetson, Director Warwick, Scott Richter and Caroline Taylor. The NAC did not commission, agree to, or approve the preparation of the Hanzich Report. The NAC Board did acknowledge that these individuals wanted to have the Hanzich Report prepared and agreed to cooperate by supplying the requested financial data and agreed to review and consider the Hanzich Report when it was presented to the Board.

The Hanzich report discusses 7 areas of concern Mr. Hanzich had about the management of the NAC income and expenses since 2011. Mr. Hanzich discussed each of those concerns and presented recommendations as to what to do about those concerns. As to each of the 7 areas of concern, Mr. Hanzich's recommendation was the same, and I quote " I recommend the Board of Directors conduct additional investigation to determine if there is any potential direct evidence of(for example "misappropriation of NAC funds through credit purchases of gasoline").

4. As the chairperson of the Finance Committee, I took it upon myself to conduct an extensive investigation into the issues discussed in the Hanzich Report, and related financial issues raised by other Directors. As a result of my investigation, and based on my understanding of the facts and applicable law, I have concluded the following:

- 4.1 Directors Ibbetson and Warwick, and others who commissioned the Hanzich Report did not follow the recommendations of their own financial consultant, Mr. Hanzich, because they failed to conduct any interviews of any NAC employee to ascertain the facts surrounding the past expenses issues and whether such expenses benefitted the NAC and in what way the NAC benefitted.
- 4.2 With regard to cash transactions for services provided by the NAC to members and the public, no evidence has been discovered or presented showing any improper handling of cash by any NAC employee for the NAC.
- 4.3 No funds have been misappropriated by anyone at the NAC.
- 4.4 No past expenses are outside of, or in contravention of, any California Nonprofit Corporation law, any NAC policy, any IRS Code Section, any IRS Letter Ruling or any IRS Regulation.
- 4.5 The NAC is not insolvent or in any danger of becoming insolvent. To the contrary, the NAC is in the strongest financial position it has ever been in.
- 4.6 No funds have been embezzled by anyone from the NAC.
- 4.7 There has been no internal misallocation of expenses among the programs at the NAC. Any notion or claims to the contrary are rooted in a basic misunderstanding of the internal allocation of expenses policies at the NAC.
- 4.8 There is no evidence that the NAC pays any employees in cash "under the table."
- 4.9 There is no evidence that any assets of the NAC have been misappropriated, embezzled, neglected, fallen into disrepair, or sold or traded for anything other than fair market value.

5. To my knowledge, based on my investigation and on my interviews with Staff, Director Susan Skinner is the only other Director that conducted any interview of any Staff member (Jose only) to ascertain what the expenses of concern were for and whether those expenses benefitted the NAC.

Having said that, it is common in these situations, and specifically provided for under California Corporations Code Section 5231 (See, Note 1 below), for corporate directors to rely on Committee investigations and reports for information on which to make decisions on issues before the Board. I suspect the other Directors were relying on the Finance Committee to present its report and findings, which report and findings will be presented to the Board on or about January 10, 2018.

Note 1:

California Corporations Code Section 5231 reads in relevant part as follows:

"(b) In performing the duties of a director, a director shall be entitled to rely on information, opinions, reports or statements, including financial statements and other financial data, in each case prepared or presented by:

(1) One or more officers or employees of the corporation whom the director believes to be reliable and competent in the matters presented;"

6. On July 25, 2017, Malia Hohl, who is employed as the bookkeeper by the NAC, gave a two-hour presentation to the Board regarding the credit card usage and cash receipts procedures and demonstrated that there was a robust set of procedures for both designed to monitor the use of the credit cards and to prevent embezzlement of cash by any person employed by the NAC.

7. The NAC facility has not been utilized by any non-NAC business at the expense of the NAC except in one isolated, minor situation in 2016 and in that situation the NAC benefitted substantially as a result. Subsequently, as a result of a Board Resolution in mid-2017, no such business is or will be operated from the NAC.