

Presentation to Administration Workshop Oct. 15, 2005

by Harold E. Crosby, Grand Treasurer

At the 2003 Annual Administration Workshop, I made a presentation on financial matters. It may seem early to again have me address you on the same subject. However, recent developments in the administration of the financial affairs of Grand Lodge have caused the Grand Treasurer, and the Finance Committee, to become very concerned about the financial health of the Constituent Lodges in the jurisdiction.

Because of this concern, it was determined that the matter was important enough to again include it on the agenda for this meeting, in order to bring before the leadership of the fraternity, the need to have solid financial procedures in place for the administration of the Constituent Lodges.

The matter which is causing concern is the number of Lodges in the jurisdiction that have yet to fully pay their Per Capita Assessment for 2005.

In past years it had not been unusual for some Lodges to fail to pay their Per Capita Assessment within the time limits set out in the Rules of Grand Lodge.

However, this year, for the first time in the twenty years that I have served as Grand Treasurer, we had at the end of August, eleven Lodges with outstanding balances. The amount owing at that date was slightly in excess of \$ 10,000, or 6.5 % of the total annual assessment.

Since that date several of the delinquent Lodges have made partial or full payment, but as of today there is still in excess of \$ 5,000 outstanding.

In the business world, the failure of a customer to pay its financial obligations as they come due, is a sure indication that the customer is experiencing financial difficulties. Our situation is no different. When Lodges are many months behind in meeting their financial obligations, one must conclude that they are experiencing financial difficulties.

In order for any institution to be strong and survive, it must have its financial house in order. Whether we like it or not, in the management of Grand Lodge and the Constituent Lodges, we must have financial stability if we are to survive. It is the responsibility of the leadership in Grand Lodge, and in the Constituent Lodges, to insure that financial stability.

Any reference to financial matters in the by-laws of Lodges is usually restricted the duties of the Secretary and the Treasurer.

Unquestionably, the Treasurer of a Lodge has the primary responsibility for its financial affairs. But all the Officers, as the leaders of the Lodge, must also accept responsibility for the financial soundness of the Lodge. They must insure that proper procedures are in place to provide that financial soundness.

The Ceremony of Installation states that the duties of the Treasurer of a Lodge are to:

“Receive all moneys from hands of the Secretary; keep just and regular accounts of the same and pay them out by the order of the Worshipful Master and the consent of the Lodge”

To insure the financial stability of the Lodge the Treasurer must do more than receive the funds from the Secretary, deposit these funds in the bank, pay them out as directed and make the appropriate entries in the financial records of the Lodge.

The Treasurer needs also to be looking ahead and planning for the future, as well as monitoring the finances on a regular month to month basis, to insure that the Lodge does not become financially embarrassed.

How does the Treasurer do this?

The financial statements of the Lodge are the vehicle used to report on the financial operations and the financial position of the Lodge. It is not good enough to simply prepare financial statements after the year is over, perhaps, only to discover that the year's operations has produced a deficit.

Financial statements should be prepared on a monthly basis, and these statements should be used to regularly monitor the Lodge finances.

To place the Lodge in a position to regularly monitor its finances, the first question that must be answered is, “ what format will be used to present the financial information to the officers and members of the Lodge” ?

The financial statements for a Lodge do not need to be complicated, because the financial affairs of a Lodge or not complicated.

Generally speaking Lodges have but one principal source of revenue. The annual dues paid by its members. The number of categories of expenses of a Lodge would normally not exceed ten or twelve. If the Lodge owns real estate, then the number of categories would slightly increase.

Having decided on the format that is to be used, one then needs to design a "Chart of Accounts", i. e. the revenue and expense categories into which the financial transactions will be collected, and that will enable the financial information to be assembled in a way that will facilitate the production of the financial statements.

Another decision which will be required is whether the accounts will be maintained on the "accrual" or the "cash" basis.

The cash basis is pretty straightforward. The transactions are recorded on the basis of the cash received and the cash paid out. While the "cash" basis is the simplest method it does not provide a completely accurate record of the operations and the financial position of the Lodge.

The "accrual" method, while requiring extra, effort will give the most accurate picture, and is certainly the preferred option. The principal difference between the "cash" and the "accrual" methods will be the setting up of the accounts receivable from the members and insuring that any financial obligations incurred, whether paid or not, are included in the accounting for the operations.

This method will also require certain entries to be made at year end, to deal with such items as writing off any dues which will not be collected as a result of deaths or suspensions; setting up unpaid accounts; etc.

When these basic decisions have been made on the format to be used for monitoring the financial affairs, financial projections should be prepared which will help to chart the financial course of the Lodge.

These financial projections should preferably look out for a five year period. Projecting the finances out over that period, will help to avoid unpleasant surprises and provide the management of the Lodge with information which will enable them to take the necessary steps to meet the financial challenges of the future.

The projections will of necessity require the preparer to make assumptions on the many matters which will impact the finances of the Lodge. Such as the impact of inflation on the expenses; if the Lodge owns its Lodge building, the probable level of major maintenance and repairs; and the likely level of membership in the future.

At a very minimum the Lodge should prepare a financial plan for the next fiscal period, and have the plan formally approved by the Lodge. It is against this plan the the operations of the Lodge will be measured.

Preparing these projections will not guarantee that the actual results will be exactly the same as the projections, but they will help to highlight potential problems and enable the leadership of the Lodge to make plans to deal with its financial affairs in a timely fashion.

Treasurers who are not trained accountants might say that they do not have the skills necessary to prepare the projections. To this I would say that the preparation of the projections is not nearly as difficult as one might think.

Common sense and an adding machine are the essential elements to undertake this task. If one is computer literate, the projections could be prepared on a spread sheet (Lotus 123 or Microsoft Excel) thereby removing much of the mathematical calculations and helping to simplify the task.

The projections should be prepared well in advance of the start of a new years operations, in order that any by-law amendments which may be required to alter the level of the annual dues can be dealt with on a timely basis.

The first step in preparing projections is to examine the financial records of the Lodge for the past several years. This will provide a very solid indication of the types of expenses that are incurred by the Lodge in its operations, and will serve as the basis for projecting expenses into the future. In projecting the expenses it will be necessary to consider, in addition to the inflationary impact on the normal expenses, any unusual items which may arise.

Once the expenses are projected it will necessary to determine the source of the funds required to cover the expenses.

The principal source of revenue will be membership dues. There may be other sources, such as investment income or rental income. If so, these revenues would then be deducted from the expenses to determine the level of revenue required from members dues, in order to produce a balanced budget.

It is quite possible that this financial planning exercise will disclose that the current level of dues is inadequate to cover the projected expenses, and a dues increase will be necessary.

From my many years as a member of the fraternity, I know that talk of dues increases causes great consternation among a large percentage of our membership. We all grumble about price increases for the many products and services we purchase for our personal needs. The reality is that if we are going to continue to purchase those goods and services we must pay the price.

It is no different with our Lodges. A lodge must have an adequate cash flow, to enable it to purchase those goods and services necessary to its operations. This cash flow of a Lodge, as I stated earlier, comes from one principle source, annual membership dues.

If we value our membership in the fraternity, and desire to keep our Lodges in existence, we must be realistic and be prepared to fund the cost of the Lodge operations. If we are not prepared to do this, then it is inevitable that the lack of adequate financial support will insure that many of our Lodges will be unable to survive.

If the accounting records of the Lodge have been adequately set up to permit the timely preparation of the financial statements, it will be possible to monitor the actual results in comparison to the projections on a monthly basis. By doing this, any significant deviation from the projections will become evident, and the necessary decisions can be made to try and avoid having the financial operations produce a deficit for the year.

It has been stated on numerous occasions that there should be a standard set of accounting records for the Lodges. The form of accounting records maintained by the Treasurer may vary from Lodge to Lodge and this does not matter.

The important thing is to know what it is desired to be disclose in the financial statements and then to design the chart of accounts to permit the financial data to be collected in a way which will permit the easy preparation of the statements.

Depending on the computer skills of the Treasurer it would be possible to computerize the record keeping and thus facilitate the comparison of actual with projections. There are a number of inexpensive computer software programs available on the market. For example, Quick Books; Simply Accounting; Peachtree; M.Y.O.B.

For those Treasurers, who are not trained accountants, and who feel that they need some assistance, I expect that they could secure this from

accountants living in the community, whether or not these accountants are masons. If however there are situations where assistance is desired, but not available in the community, contact me and I will provide guidance.

Before concluding my presentation on financial matters, I want to spend a few minutes addressing another topic, but one which is closely related to finances. That topic is liability insurance.

The Laws of Grand Lodge at Chapter IV, Section 2 (k) states:

“ The Finance Committee may place upon Grand Lodge itself and upon any or all of its constituent Lodges, a policy or policies of insurance against liability to the public of such Grand Lodge or such Lodges under the conditions of such policies, and may assess all or part of the premiums therefore upon the funds of Grand Lodge and such Lodges in such proportions as it may deem equitable.”

Acting under this authority the Finance Committee has, for many decades, contracted for liability insurance to protect both Grand Lodges and the Constituent Lodges. Until a few years ago this matter was a non issue, simply because the annual premium was so modest that I expect that many of our members were totally unaware that such coverage was in place.

In 2003, the “you know what” hit the fan when the insurance industry was refusing to write liability coverage without receiving in return a substantially increased level of premium.

Based on messages I receive from time to time, and the criticism frequently leveled at the Grand Lodge administration on this matter, I can only conclude that there are still many of our members who do not have a clear understanding of the need for liability insurance and why the Constituent Lodges are forced to be included in this coverage.

Grand Lodge is a body corporate, incorporated by an Act of the Nova Scotia House of Assembly.(Chapter 91 of the Statutes of 1874). This Act grants to the body corporate the right to enact regulations for its government and management, and Grand Lodge many years ago framed such regulations.

Chapter VII of the Constitution sets out the rules for the formation of Lodges. In “law” the Constituent Lodges are creatures of the Grand Lodge. They are not legal entities separate and apart from Grand Lodge.

Since the Constituent Lodges are creatures of Grand Lodge, any legal action instituted against a Constituent Lodge, will in all likelihood sweep Grand Lodge into the legal action and equally expose it to the financial impact of such litigation.

It is imperative that Grand Lodge, and the constituent Lodges, be protected against the financial impact of defending any legal action instituted, as well as the financial impact of any claim being awarded to a plaintiff.

The only practical and effective way to insure that financial protection is in place, is for Grand Lodge to have liability insurance coverage that totally covers its potential exposure. Hence the inclusion of the Constituent Lodges in the Grand Lodge policy.

Questions have been asked about the manner in which the premium on the liability coverage is allocated to the Constituent Lodges. Why did the Finance Committee discarded the allocation of the premium to the Constituent Lodges on a per member basis and move to a fixed amount per Lodge ?

Until a few years ago the premium on the liability policy was simply a lump sum amount that the insurance underwriter required to provide the coverage. It did not appear to be based on the number of Lodges, or the number of members in the jurisdiction. Allocation of the premium, in those days, on a per member basis appeared to be a fair and reasonable way to do it.

For the 2004 policy term, the insurance underwriters took a much closer look at the exposure they were assuming in providing liability coverage to organizations such as ours.

This resulted in them determining that each Lodge location, and the activities in each of the Lodges, represented risk for them. For them to assume this risk, they demanded a premium per location. In that year the premium demanded resulted in a charge of \$ 265. per Lodge . Since the premium charged for the coverage was on a per Lodge basis, the Finance Committee determined that the premium should be allocated to the Lodges on that same basis.

As our insurance consultant worked with us, he was able to determine that the liability exposure per Lodge was not equal. Some Lodges own real estate while others operate from leased premises. The ownership of real estate, creates for the owner, risks that are not present for Lodges that do not own their property.

Our consultant was able to convince the underwriters that they should adjust their premium calculation for 2005, to reflect the lower exposure on the Lodges operating from leased premises. This resulted in a premium reduction to the of \$ 115. for those Lodges.

He also succeeded in getting a small reduction of \$ 40. in the premium charged to the Lodges that own their premises.

I recently met with our consultant to discuss liability insurance coverage for 2006. He has been having discussions with our current underwriters, the Ecclesiastical Insurance Office, and while he does not yet have a written commitment for 2006, he is confident that they will again agree to provide our required coverage. He is also expects that the premium for 2006 will not increase, although until we received their written confirmation of this we can not be sure.

In 2004, the Board of General Purposes approved the retaining of our insurance consultant to explore the possibility of securing a policy that would provide coverage for all the insurance needs of Grand Lodge and the Constituent Lodges.

To undertake this study, our consultant required detailed information from each of the Constituent Lodges. Sadly, we had many of our Lodges that failed to provide the necessary information, in spite of several letters, one of which was a direction from the Grand Master to comply with the information request.

Initially, it appeared that all Lodges would need to be included in any such plan and the lack of total information threatened to derail the process.

Our consultant is now pursuing this task on the basis that inclusion in the plan, except for liability coverage, would be optional. He continues to discuss this with the underwriters and is hoping to have a definitive answer in the near future.

I will keep the Lodges posted as this matter progresses.