

MEMO

To: Board of Directors of the Navy League of the United States

From: Joe Lissenden

Date: 22 September 2015

It is with deep regret that I hereby tender my resignation as National Treasurer of the Navy League, LLC Manager, National Director and participation in the Foundation.

The Navy League is a venerable institution that serves a laudable mission. However, I do not believe that its long-term future is viable unless radical changes are made to address the current slide toward insolvency. I have been unable to establish consensus with the League's management regarding its challenges and critical action needed to improve the financial situation of the Navy League. I have been prevented from fully exercising the authorities granted to the position of National Treasurer in the League's Bylaws, which make the National Treasurer responsible for the custody and disbursement of Navy League funds and property, in addition to reporting on the financial condition of the Navy League.

As the guardian of the funds and property of the Navy League, I have been excluded from numerous relevant discussions with lenders to refinance, which would represent the most significant cash disbursement from the Navy League. In addition, I have not received timely and accurate financial information, and I have been unable to convince management to adopt a budget that would protect the funds and property of the Navy League from insolvency – I thus conclude that the only honorable course of action is to resign.

After volunteering for this organization approximately 20 hours per week over the past 4 years, and serving as National Vice President of Finance introducing fact based decision making with analytical rigor, improving internal controls and heightening alert to our deteriorating financial position I feel I have crystal clear clarity on the problems, the solutions and the sense of urgency required to fix the organization. I ran for the position of National Treasurer on what was very clearly outlined as a reform platform. I made it clear that my goals as Treasurer would be to reform the League's financial reporting and control environment, and to

address the significant financial challenge the League faces. During the 94 days in the role of National Treasurer, I have reviewed the League's finances in detail. I have consulted extensively with a number of certified, experienced financial and accounting professionals and executives. The clear, overwhelming consensus is that the Navy League is unlikely to remain a going concern if present trends are not corrected very soon. A few of the salient facts that lead to this conclusion should sound alarms. On a consolidated basis:

- The League's current ratio — a basic indicator of financial liquidity — has been below 1.0 for several years. Moreover, it dropped from 0.62 in 2013 to 0.48 in 2014. We do not report current information (current assets and current liabilities) monthly, only annually. Therefore, it may be moving from month to month but we do not know. In fact, all of the League's basic liquidity metrics have been trending in the wrong direction.
- Projected current liquid assets over current liquid liabilities – show NLUS in the red in November.
- Liabilities exceed assets. The last year this was not true was 2010. In other words: the League could liquidate every asset and would still be unable to pay its creditors. The deficit has increased in recent years, to \$2.5 million.
- Prior to 2013 the League generated positive cash flows from operations. In 2013 and 2014 the League's operations consumed cash – with deficits of \$1.8 M and \$1.1 M respectively. The outflows of cash were balanced primarily by selling investment assets.
- Days Receivables outstanding has doubled from 23 days in 2013 to 45 days in 2014, indicating the organization is taking longer to collect funds, potentially hurting cash flows.
- Revenues have declined 7% since 2011. This would be manageable if costs were falling accordingly. The opposite would be true.
- Expenses have been more than 100% of revenues in every year since 2010. Actual expenses in 2015 YTD are more than budgeted expenses YTD and also more than last years expenses YTD. They are projected to be \$400K over budget by years end so the trajectory appears unchanged.

Financial professionals unanimously agree on our financial position, at the same time non financial professionals within NLUS say the opposite. You decide. The financial professionals have said.

1. On 6 July one potential lender e-mailed our broker:
“If we strip out the revenue from the office building (rental income & expense recoveries) and deduct building operations from the expense side, it appears the organization has been operating their core business at a deficit. Without the building income and expense line items their activities appear to have cost them \$1.9M in 2013 and \$316,259 in 2014. With this cash burn rate they won’t be able to survive too much longer. In 2014 the Navy League did decrease expenses for Program Services; but it looks like further cuts will be needed.”
2. In August, another lender, Prudential, elected to pass on providing financing after many weeks of diligence. They stated concerns with the League’s organizational structure and financial history.
3. The League’s auditors have expressed concerns since at least 2012. 2014 included a material misstatement and Management Note 13 was required as a precursor to commentary about NLUS as an ongoing concern.

For four years we have discussed the urgency of solving these operational shortcomings in private, public, mathematically and otherwise. We have spoken to every person and committee that would listen, including the Steering Committee in August 2015. We used plain language. We have stated the patient is very, very sick and refuses to take any medicine. We pleaded with you to vote for lower expense budgets, not to allow these expanding operational deficits.

You elected me National Treasurer, along with this position comes great responsibility. Standard job descriptions for National Treasurers operating non profit organizations provide significant, reasonable and very clear authority. After leaving Tampa, I was comfortable that these commonly known authorities and our bylaws would be adequate to implement the necessary reforms. As National Treasurer I can not carry out my duties based on the JAGs interpretation of the NLUS bylaws. I have the responsibility but no power. This puts me in a tough spot as the nominating committee supported my candidacy and many of you

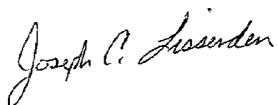
came up to me in person and told me you had the confidence in me to get our financial house in order. Of course, success requires teamwork, knowledge and two willing partners. This leaves me in a precarious situation that I can not accept. I am a volunteer but I do not have a willing partner and simply cannot spend my time volunteering where my efforts to help are rebuffed.

The refinance will help, but the notion that refinancing will solve these problems is misguided.

My efforts to effect change by getting buy in from management to implement and stick to a cost cutting budget or to address the factors jeopardizing the League's financial viability have not been supported. The in-house accounting staff does not close the monthly books in a timely manner, and is unable to provide real-time financial reporting. The aforementioned Trial Balance is perhaps the most basic statement in any accounting system and should have been an easy request to fill. That info is as critical to the near term future as the refinance. The lack of adequate in-house accounting knowledge, processes and controls led to a material restatement in 2014. The lack of adequate controls and reporting processes create significant risk.

It is my sincere hope that another individual may be found who can work more effectively with the League's management team to address these imminent issues. In my opinion, the window of opportunity is closing.

Very sincerely yours,

A handwritten signature in cursive script that reads "Joseph C. Assenden".

Appendix

If the Board is to fix these severe problems I leave you with a short list of actions that must be done in order to rectify this situation, offered for your consideration. Many of these involve rewriting the Bylaws to:

1. Provide the National Treasurer authority to fix financial problems and ensure continuity from administration to administration

- a. Provide the NT remote access to Great Plains software. In so doing, the NT can pull most of the reports or information they require independently without taking staff time.
- b. Provide the NT with 30 month Trial Balance or any other reports they request. These reports are critical for ratio analysis (easy spreadsheet work for any financial professional quantifying any two lines over a period of time to quantify solvency, profitability to be used as a diagnostic to continue to ensure all of the problem areas have been diagnosed.
- c. Clearly state in the bylaws that the NT distributes financial information unfettered by non financial personnel like the NP and JAG. The NP withheld Variance Reports with critical information pertaining to transparency and explanation of these reports. Specifically, a footnote was requested where the probability of a liability was high and was overridden. The bylaws suggest separation of powers for this exact reason but clearly need rewritten as these are accounting decisions not to be overridden by any NP. The NP also released financials prior to NTs complete review.
- d. Provide the NT authority to appoint Assistant National Treasurers Six ANT's were ready for approval. The first one proposed was a Harvard MBA, CFO and Navy Veteran of which the NP did not appoint after 90- days. Each of the six would have taken on specific tasks in the rejuvenation of NLUS and pick up shareline for the small financial staff thus providing much needed technical horsepower at no cost.
- e. Provide the NT authority to appoint the Investment Chair. On 10 July, the NP was asked to appoint Gerry Motl as the Investment Chair to transition in the coming months and after 90 days no discussion or decision has been had.

- f. Authority to implement timely financial reporting as the current status has now dragged to nearly 10 weeks. The ability to make prompt financial decisions is completely void. The goal the exiting NT set was 21 days from the close of the month to get DRAFT financial reports out and no efforts whatsoever were made.
- g. Unaccrued liabilities and pushing expenses into the next period has been happening since December 2013 and the NT must be authorized to require bills are paid in the period incurred and Notes to the financials are added explaining particulars.

2. Establish Consequences:

- a. There should be review and accountability for compliance with 7.1 of the Bylaws which states National Executive Director shall support the National Vice Presidents and National Treasurer in the Execution of their programs and financial responsibilities. A request for weekly cash flow meetings went unheeded for 8 weeks, a request of 30 Month Trial Balance on 10 July and was finally provided a copy on 17 September, along with countless other reasonable requests needed to diagnose the full extent of our financial condition.
- b. This should extend to any exclusion of the NT on any financial matter.

3. Implement Internal Controls:

- a. Internal finance team should return to historical precedent and provide whatever documentation is requested to the NT to ensure a comfort level of disbursements. I signed one check for \$330K for expenses incurred in April and have not seen ONE expense item from the more than \$2.4M spent in the 94 days as the NT.
- b. Expense Reports – the Finance Process Manual states “Expense Reports for the National President will be reviewed by the National Treasurer or his designee as necessary.” This NEVER happened in my 90 days as NT, a clear process failure.

4. Budget

- a. Budget Committee – The Chair of the Budget Committee is the National Treasurer. The NP has not selected a Budget Chair or any other Chair. This Committee should be established in July, work begin in September, drafts in October, final in November. The Budget Committee should actively participate in the budget review and approve a budget. The NT should brief the annual budget before approval of committees at the Fall Board meetings.
- b. Balanced Budget – unlike prior years there is no Line of credit, LLC distribution or investments. The bylaws must require the budget to balance without exception.
- c. Any expense budgets beyond \$7.5M will lead to the need for excess funding which frankly there are no buckets or reserves anywhere.
- d. Escrow \$1M from the REFI – if and when the refinance takes place original plans included an excess of \$1M that should be escrowed for SAS 2016. NLUS has a severe timing issue caused by the spending of next years SAS revenue on today's bills. McGladrey advised of this problem back in 2013 and this will be the last time this course can be corrected. Execution of such an escrow will realign revenue with expenses and the annual escrow of SAS revenue same process followed in the future to ensure matching of revenues to expenses.

5. Sell majority stake in the Navy League Building

- a. To manage Real Estate investments properly leadership must be disciplined to ensure reserves. Recent leaders have shown this is impossible at Navy League and thus a move to minority share or complete sale is needed. The style of leadership NLUS has ensures maximum risk over the long run. Should a completely different approach to managing the building, such as zero involvement from Navy League personnel and 100% reserves discipline and conservative management this could be done, but not as is. I have seen claims that there will be enough money for distribution as early as 2017. Please resist these temptations.