

# Recovering from financial trouble: the FTA story



**A detailed look at how the Finance & Treasury Association (FTA) fell into financial difficulty and the steps it took to stay in business, as described by FTA president Mike Dontschuk.**

The Finance & Treasury Association (FTA) is an association for professionals working across all aspects of treasury and financial risk management. It is a Company Limited by Guarantee incorporated under Australia's Corporations Act, and began as the International Treasury Club. In 1982 its name changed to the Australian Society of Corporate Treasurers and in 1998 it changed its name to the Finance & Treasury Association.

When Mike Dontschuk joined the Board of the Finance & Treasury Association in November 2007, little did he know that the FTA would experience its own financial crisis in parallel with the global downturn, but for different reasons. As the world recovers from tough economic times, so has the FTA restructured and moved back to its core business of serving its members and advancing the finance and treasury profession in Australia.

Now the FTA President, Mike Dontschuk was interested for associations and charities to hear the FTA story as a salutary lesson for Boards and wished to thank FTA's members for maintaining their faith in their association.

## How it started

"Our difficulties really began in the 2006/2007 year when our Equity fell from \$250,000 to \$37,000. A loss the previous year of \$30,000 was less significant compared to the huge \$213,000 loss in the year to 30 June 2007. The then CEO departed in late 2006 and his replacement started in January 2007. The new CEO's primary role in the first few months was to develop the new direction for the FTA and restore our financial position." said Mr Dontschuk.

The 2006/2007 audited financial statements state that the most significant factor contributing to the loss was the poor result from the 2006 Congress. The financial result from the Congress was well below previous results. Fewer other professional development and Chapter events were held, and hence income dropped by \$430,000: from \$1,400,000 to \$960,000.

Mike Dontschuk recalls the 2007/2008 year, his first on the Board, as being more stable but not a recovery. "Revenue returned to \$1,454,000 but expenses were higher at \$1,488,000 so our loss was \$34,000. Therefore our Equity position fell from \$37,000 to a perilous \$3,000" says Mr Dontschuk.

## Impact of the Global Financial Crisis on events

The severe impact of the global financial crisis on membership and the disastrous outcome of the SME Money Market Expo events held in Melbourne and Sydney in May 2009, led to the rapid deterioration in the association's financial position.

Up to that time the FTA had experienced a successful 2008 Congress in Melbourne and had hosted 60 profitable professional development events. A number of new service offerings had been developed which had been eagerly taken up.

Further, sufficient sponsorship for that year's Congress had not been secured amid the uncertainty of the financial crisis. By May 2009 the Board took the view that the lack of management confidence in securing future income together with growing contingent liabilities being made from future commitments placed the association's financial affairs in a critical position.

The industry downturn led to a dramatic fall in membership. As at the end of the financial year financial members fell from 1,062 to 861, a decline of 19%.

The CEO resigned 1 June 2009.

## Going into administration

A detailed investigation revealed the potential for insolvent trading as the association's forecasts relied entirely on making a large profit from future net Congress receipts to cover existing liabilities. Urgent discussions were held with a number of parties to canvass the prospect of selling association assets or structuring a mutually attractive merger. Unfortunately there was insufficient interest at the time.

On 18 June 2009 Directors placed the FTA into voluntary administration with Andrew McLellan and Ian Carson of PPB.

On 27 July 2009 the Directors notified members that as at 23 July 2009 the FTA had successfully entered a Deed of Company Arrangement (DOCA) with creditors to return the association as a going concern.

## The road to recovery

The Board had explored a number of potential models for the FTA with the objective of identifying one that would allow the association to retain its independence and member identity whilst at the same time satisfying creditors and allowing it to continue unencumbered as a legal entity.

This ensured that the association is financially viable. To this end, FTA entered into an exclusive agreement with CommStrat Limited for five years for the provision of outsourced secretariat and event management services for FTA members. CommStrat operates Hallmark Editions which specialises in event and conference management, and secretariat services for industry associations.

A Deed of Company Arrangement (DOCA) was entered into on 24 July 2009 that allowed the FTA to emerge from administration, come to an arrangement with creditors and allow the Association to resume its affairs as a going concern. A key feature of the terms of the DOCA has been the execution of an exclusive services agreement between CommStrat and the FTA for a period of five years for the provision of member and educational services.

Mr Dontschuk led the Board to make arrangements to outsource the secretariat operations. "The restructuring of the association's affairs has allowed a significant de-risking of operations as they are now fully outsourced to CommStrat as provided for under the terms of the services agreement", he said.

"The association carries no ongoing liabilities from either past operations or the arrangements with CommStrat save for paying a variable fee for services based on a percentage of retained membership fees. It is expected that a resumption of member services will be made to an equal or better standard following this restructure".

## Lessons learned

Associations Forum General Manager John Peacock commented on the FTA's situation. "One of the primary sources of income for associations is conferences. When the conference profitability slumped in 2006 and equity dropped by an alarming 85%, the FTA actually increased expenditure when radical cost cutting was required. It is a reminder that healthy surpluses and strong balance sheets are required by associations to allow for disastrous years", says Mr Peacock.

"Congratulations go to Mike and his fellow Directors for working hard to see that the FTA stayed in business with brighter days ahead."

Mike Dontschuk concludes his comments on the FTA turnaround by reference to policy development.

"Having removed the risk of events management from the FTA and by outsourcing to reduce costs, it has given us an opportunity to spend more time on developing policies and advocating for what we believe in", he said.

"Now the crisis has passed and the Board has more opportunity to re-engage with the membership, we know we have the solid foundations for an optimistic and vibrant future for the FTA".