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## **OAH Treasurer's Report, Fiscal Year, 2009**

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### **Introduction**

This is my second report as OAH Treasurer and covers the fiscal year that ended on June 30, 2009, during which the organization has experienced the full force of the "great recession." As a consequence, there is considerable bad news to report, especially the recession's devastating impact on the OAH endowment and the resulting reduction in income from investments. The impact of this precipitous decline is reflected in a dramatic decrease in the OAH's net assets, and will require very difficult decisions in the years immediately ahead. But before proceeding, let me remind readers of the OAH budget process.

### **The Budget Process**

The first draft of the annual budget is prepared by the executive director, who submits it to the Finance Committee in February. The Finance Committee is comprised of the president, past president, president-elect, and treasurer, as voting members, and the executive director, the JAH editor, and the co-chair of the OAH Leadership Advisory Council as nonvoting members. Once approved by the Finance Committee, the budget then goes to the Executive Board for action at its Spring meeting. The OAH fiscal year ends on June 30, after which our accounting firm reviews our books and procedures and prepares an audit and summary report on the past fiscal year. The Executive Board reviews and discusses this report during its fall meeting in which our external financial consultant also participates. The Board also reviews the current budget and approves any necessary changes. The Finance Committee continues to monitor the organization's finances throughout the fiscal year. Thus, the FY2009 was initially approved by the Executive Board at the 2008 annual meeting in New York, and subsequently revised downward at the Executive Board's October 2008 meeting in Salt Lake City.

### **FY2009 Operating Budget**

As the result of continued financial discipline exercised by the Board and implemented by the OAH staff, the FY2009 operating budget ended 2009 with a \$61K surplus (compared with a prior year surplus of \$94K). As a result, the organization's cash position was the strongest in over three years - (cash vs. short-term payables ratio was 1.46 in FY2009 compared with 1.21 in 2008 and 0.25 in 2007). A higher ratio indicates a stronger budget fund for the association. Similarly, the organization's unrestricted net asset deficit (for services, mainly subscriptions, paid for but not yet delivered) which I called attention to last year has declined (e.g., improved) from \$623k in 2007, to \$529k in 2008 and now to \$468k in

2009. Reducing this deficit remains a high, multi-year priority for the organization.

Table 1. **OAH Operating Results to Budget FY 2009**

	Results	Budget	Variance
Total Revenues	2,978,394	3,106,644	(128,250)
Total Expenses	2,916,982	3,042,894	(125,912)
Net Income	61,412	63,750	(2,338)

Table 2. **OAH Operating Revenues to Budget FY 2009**

Revenues	Results	Budget	Variance
Contributions	\$772,661	\$889,604	(\$116,943)
Member Dues	602,404	635,635	(33,231)
Subscriptions	503,848	574,465	(70,617)
Sales & Advertising	255,728	248,600	7,128
Program Fees	213,477	207,900	5,577
Event Revenue	306,908	283,390	23,518
Investment Income	647	3,000	(2,353)
Other Revenue	148,551	89,880	58,671
Budgeted Transfers	174,170	174,170	-
Total Revenues	2,978,394	3,106,644	(128,250)

Table 3. **OAH Operating Expenses to Budget FY 2009**

Expenses	Results	Budget	Variance
Personnel Costs	\$1,452,014	\$1,444,360	\$7,654
Professional Fees	560,237	593,518	(33,281)
Program Costs	33,132	41,550	(8,418)
Committees	35,773	39,880	(4,107)
Advocacy & Alliances	62,005	62,125	(120)
Administrative Costs	324,660	363,565	(38,905)
Facilities & Equipment	265,413	299,262	(33,849)
Travel & Entertainment	151,736	157,354	(5,618)
Marketing	7,761	11,000	(3,239)
Other Expense	24,251	30,280	(6,029)
Total Expenses	2,916,982	3,042,894	(125,912)

Unfortunately, this is where the good news ends.

## The Decline in Investments

It is here that the formidable impact of the recession can be best measured. As readers of these annual reports are aware, the OAH's endowment is invested in pooled funds managed by the Indiana University Foundation. In FY2007 these funds totaled \$2,002,776. By June 30, 2008, as the recession got underway, they had dropped slightly, to 1,914,908; however, by the end of FY2009 on June 30, 2009, they had declined precipitously, to \$1,384,639, a decrease of almost 28%. The decline in investments, along with a drop in contributions, is reflected in an overall decline in net assets of \$628,042. [For details, see Auditor's Report, Note 4.] On the one hand, much of this loss is unrealized; it would be realized only if the OAH sold its assets at the current low prices. There has also been a modest rebound since the end of the fiscal year. Nevertheless, the impact of reduced income from these investments has had an immediate impact on the current budget (including our ability to sustain our annual prizes) and will continue to do so in the years ahead during what economists are predicting will be a long and slow recovery.

Table 4. OAH Endowment Fund Balances

	FY 07	FY 08	FY 09
Reserve Fund	\$582,821	\$519,565	\$355,703
Fund for American History	865,319	825,658	593,990
Prize Fund	445,783	466,052	352,864
Highman Prize Fund	11,541	6,383	2,768
Second Century	97,312	97,250	79,314
Total Endowment	\$2,002,776	\$1,914,908	\$1,384,639

## Auditor's Report

In October, 2009, the OAH again received a positive report from its auditors Crowe Horwath, LLP, an indication of the continued improvement in the organization's financial management. Auditors routinely identify problems in ascending order of seriousness, from "deficiency" to "significant deficiency" to "material weaknesses." They also recommend "best practices." Thus, two years ago, in FY 2007, our auditors identified two deficiencies and five significant deficiencies and made recommendations regarding four best practices. At the end of FY2009, they identified no material weaknesses or significant deficiencies. They made recommendations regarding three deficiencies and offered recommendations regarding two best practices. The first of the deficiencies noted grew out of the OAH's own review of the prize fund and its efforts to better identify and describe donor intent. The auditors recommended that "management clearly communicate donor intent with

all donors, and maintain detailed documentation that clarifies any purpose and/or time restrictions on the funds.” The auditors also recommended that the OAH develop a formal written fraud risk assessment and a written cost allocation plan that documents the organization’s methods of allocating expenses. Former CFO Tim Murphy disagrees that this represents a deficiency, writing that: “our budget details allocations of staff resources, and our general ledger properly breaks down departmental activity between Program and Supporting Services (Administration, Member Services & Fundraising).” Among best practices, the Auditors recommended that the OAH obtain signed conflict of interest statements from all Board members and that, as a general rule, it continue to codify in writing its various policies and procedures. As noted above, OAH staff was already working on most of these issues before the audit and will continue to do so.

### **Improved Financial Policies and Procedures**

Among the most important developments of the past year has been the continuing reorganization of OAH financial operations, a key part of the overall reorganization of the organization mandated by the Executive Board and implemented under the brilliant leadership of Interim Executive Director Katha Kissman, working closely with Executive Editor Ed Linenthal, the new Director of Operations, Nancy Croker, CPA Michael Crouse, and in particular with enthusiastic and dedicated support from the entire OAH staff. Among the many changes introduced over the past year, I would like to call particular attention to the development of a Financial Policies and Procedures Manual, the recruitment of a new external Financial Advisor (Karen Kennelly), and the improved monitoring of many internal processes. We've have also established a line of credit with the Monroe Bank in Bloomington, to help better manage the cash flows resulting from our growing work on behalf of the National Park Service. The OAH is today a far more efficient and professionally organized association than at any time in its recent history.

### **Outlook for FY2010 and Beyond**

In this part of the report I address issues beyond FY2009. Since the close of the fiscal year our net cash position has improved with and interest and dividends and unrealized gains and losses growing by \$142k as the result of market gains (as of December 2009 reports). Excluding transfers from other funds, income is down by \$75k compared to the same time last year; expenses are down by \$70k; the net bottom line difference between this year and last YTD is better by approx. \$5k. The outlook for the remainder of 2010 is less clear and it we anticipate that we will not end the year in balance due to, among other things, expenses incurred in connection with 1) the search for a new executive director; 2) the necessity of paying the

contract of the Interim Director while also carrying for several months the cost of the former Executive Director; and 3) a short-term overlap with the new Executive Director for transition and on boarding purposes.

Looking ahead to FY2011, the staff continues to work diligently to bring in additional income and hold down expenses. And we anticipate being able to share some positive news within the next month or so with regard to a new partnership that will bring in additional revenues and further enhance our publications efforts. However, even with this positive development, I am concerned both by the impact of our investment losses and the impact that will have on both our operating budget and our ability to sustain the payouts on our various prizes and awards. Moreover, the current recession has deepened and accelerated long term negative trends. I believe we should anticipate a continuing decline in annual meeting attendance, as well as the revenues generated by advertising and sponsorship. Perhaps most ominously, as I warned last year, we continue to lose membership and subscriptions. Since 2006, institutional subscriptions have declined by almost 16%, as have subscriptions by individual members. Thus, in preparing a budget for FY2011 (and beyond) we will face the dual challenge of both the “great recession” and the long term trends identified in the new strategic plan.