

Information

To: NACUA Board of Directors

From: Gerald W. Woods, Chair, Committee on Finance and Audit
Paul L. Parsons, Staff Liaison

Date: June 5, 2007

Subject: June 2007 Report
Committee on Finance and Audit

Charge to Committee:

The Committee is responsible for general oversight of all financial activities of the Association, including monitoring and making recommendations to the Board for approval of dues and other revenue-producing activities; recommendation to the Board for approval of an annual operating budget; ongoing oversight of the approved budget during the year, based on reports issued by management; monitoring of the Association's Investment, Spending, and Reserve Policies through its Subcommittee on Investments; and oversight of the Association's annual financial audit and annual review of executive compensation through its Subcommittee on Audit. The Committee works closely with Officers and management of the Association to monitor the above activities as well as the Association's strategic planning activities and initiatives from a long-range financial planning context, in particular its programmatic needs and objectives.

Work Plan for FY 2006-2007:

Audit:

1. Final *Statement of Activities for the Year Ended August 31, 2006 and Statement of Financial Position as of August 31, 2006* to be completed by the end of September.
Status: The final statements for FY 2005-2006 were completed and issued to the Association's external auditors in preparation for the annual audit. A final year-end report on Highlights of Fiscal Year 2005-2006 was presented to the Committee and Board of Directors for their meetings in November.
2. Orientation Call for Subcommittee on Audit in late September.
Status: The orientation call of the Subcommittee on Audit was held on October 2, in preparation for the annual audit.

3. Preparation for Audit of Fiscal Year Ended August 31, 2006:
 - a. Field work to commence on October 2;
 - b. Conference call of Subcommittee on Audit to review draft audit report and any management comments in late October (see separate list of responsibilities for this subcommittee)
 - c. Final audit report issued to Subcommittee, Committee, and Board of Directors in November

Status: Final copies of the audit report were delivered to the Committee and Board of Directors in advance of their meetings in November 2006. The Association's auditors rendered an unqualified (clean) opinion on this year's audited financial statements, the highest level of opinion given on an external audit. The auditors issued one "management comment" regarding external review of the CEO's travel expenses; management suggested that steps should be put into place to address this comment during the course of the audit, and the Treasurer now receives and reviews reports on all expenses incurred by the CEO on a quarterly basis.

4. Implement external review of executive compensation in the spring.

Status: The Subcommittee on Audit received a report from the firm of Quatt Associates regarding its independent, external review of executive compensation (in accordance with IRS Intermediate Sanctions guidelines for nonprofit 501c3 organizations), in April of this year. The Subcommittee met by conference call on May 16 to conduct a review of this work. Using comparative data and analysis that was provided by Quatt Associates to assist in this review, and in accordance with NACUA's Guidelines for Review of Executive Compensation, the Subcommittee determined the compensation of the Chief Executive Officer and the Deputy Chief Executive Officer to be reasonable within the guidelines set by the IRS regulations on intermediate sanctions. The Subcommittee was unanimous in its determination. The Chair of the Subcommittee, Thomas Cline, has provided a separate written report to the Board of Directors for its discussion during executive session in June. NACUA will continue to engage an independent consultant to assist in the review of executive compensation each year, and the Subcommittee was very pleased with the report and analysis that was provided by Quatt Associates this year.

Investments:

5. Orientation Call for Subcommittee on Investments.

Status: The Subcommittee on Investments convened by conference call on October 27 to review the Association's investments report as of the end of the third quarter, September 30, 2006.
6. Ongoing review of NACUA's investment portfolio and the Association's Investment Policy, Spending Policy, and Reserves Guidelines through the Subcommittee on Investments. Quarterly review of investment statements by the Subcommittee, and annual evaluation of The Olcott Consulting Group in the spring.

Status: The Subcommittee reconvened by conference call on February 7 to review the Association's investment report as of the end of the fourth quarter, December 31, 2006, and again on May 9 to review the investment report as of the end of the first quarter,

March 31, 2007. During the February call, the Association's external investment consultant recommended two changes to the Association's Investment Policy; these changes were issued to the full Committee for its consideration and recommendation in late February, and final proposed changes were submitted and approved by the Board of Directors during its meeting in March. During its May call, the investment consultant recommended several changes in the management of the Association's Long-Term Reserve Fund, most notably to move a portion of the various actively managed funds into indexed funds, beginning this spring. The Subcommittee approved each of the recommendations, and the Chair of the Subcommittee, Jaffe Dickerson, has provided a separate written report to the Board of Directors as additional background information regarding the above recommendations.

The annual evaluation of The Olcott Consulting Group was conducted in early May, and the Subcommittee received the results of the evaluation as well as the self-evaluation that was submitted by The Olcott Consulting Group. The results this year were again very positive, and the Subcommittee determined that NACUA's investment advisors at The Olcott Consulting Group have continued their effective working relationship with management, the Subcommittee, the Committee, and the Board; they maintain adherence to the objectives and requirements within the Association's Investment Policy; they provide regularity, clarity, and timeliness of reporting on the performance of NACUA's investment portfolio; their fees remain competitive for services rendered; they maintain effective oversight of individual money managers; and they provide effective overall management of the Association's portfolio, including investment objectives, asset allocation, manager criteria, risk management, and rebalancing.

7. Formal review by the Board of Directors regarding the Association's investment philosophy, policies, objectives, risk tolerance, and asset allocation to be completed in the winter (possibly as part of the "Finance 102" session), with assistance from The Olcott Consulting Group. Results of the review to be presented at the March Committee and Board meetings. *Status: The Board of Directors convened a special meeting by conference call on January 17, 2007, during which it received information and background materials regarding the Association's overall investment philosophy and a review of current policies and practices in place regarding the Association's investment management. The session was well-attended and there was consensus among the Board that the current investment approach is a fiscally prudent and responsible one.*

Finance & Budget:

8. Continue process of long-term financial planning and projections, which stem from the Association Work Plan and corresponding financial and strategic planning documents, for fiscal and budgeting purposes. *Status: Ongoing, in conjunction with the work of the Committee on Strategic Planning.*

9. Develop materials for “Finance 101” orientation session to be held in November. Develop materials for follow-on “Finance 102” orientation session to be held by conference call in early January.

Status: The “Finance 101” orientation session was held on Tuesday, November 14, 2006 prior to the regular meeting of the Committee on Finance and Audit. Orientation notebooks for this session were distributed to all new members of the Committee and new members of the Board (and others upon request) in late October. In lieu of a “Finance 102” orientation session, a special session of the Board of Directors was held in January 2007 to review the Association’s investments (see item # 7, above).

10. Develop Budget Climate Statements in preparation for FY 2007-2008 for the March Committee and Board meetings.

Status: A budget climate statement for FY 2007-2008 was prepared and presented to the Committee and Board for consideration and discussion during their meetings in March 2007.

11. Consider issues related to NACUA’s compensation plan and philosophy.

Status: The CEO worked with NACUA’s external compensation consultant, Quatt Associates, to review NACUA’s compensation plan and philosophy during the past year.

12. Develop and present proposed General Operating Budget for FY 2007-2008 for the Committee’s consideration in May, with final approval by the Board in June.

The final proposed General Operating Budget for FY 2007-2008 was presented to the Committee for its review in mid-May, and was unanimously recommended for approval during its final conference call on June 4. The final proposed General Operating Budget has been issued to the Board for its approval in June.