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To: NACUA Board of Directors

From: Thomas Cline, Chair, Committee on Finance and Audit
Paul L. Parsons, Staff Liaison

Date: February 23, 2009

Subject: March 2009 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, annual review of executive compensation, and other financial compliance matters 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 2008-2009:

Audit:

1. Final Statement of Activities for the Year Ended August 31, 2008 and Statement of Financial Position as of August 31, 2008 to be completed by the end of September.
Status: The final statements for FY 2007-2008 were completed and issued to the Association's external auditors in late September in preparation for the annual audit. A report on Highlights of Fiscal Year 2007-2008 was presented to the Committee and the Board at the November 2008 meetings.
2. Orientation Call for Subcommittee on Audit in late September.
Status: The orientation call of the Subcommittee on Audit was held on September 30, in preparation for the annual audit.

3. Preparation for Audit of Fiscal Year Ended August 31, 2008:
 - a. Field work to commence on September 29
 - 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 early November (by November 4)

Status: The field work for the annual audit commenced on September 29. Drafts of the final audit report were provided to the Subcommittee in late October, and the Subcommittee held a conference call with the auditors to review and discuss them. Final, bound copies of the audit report were delivered to the Committee and Board of Directors in early November 2008.

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

Status: This work will be conducted in April or May 2009.

Investments:

5. Orientation Call for Subcommittee on Investments in early September.

Status: The Subcommittee convened by conference call on October 1 to meet with the Association's new investment advisor, David Duncan from the investment firm of Ferris, Baker Watts and to hear preliminary recommendations regarding the Association's Investment Policy and investment strategy. The Subcommittee reconvened on October 15 and proposed several recommended revisions to the Association's Investment Policy Statement, which were presented to the Committee and the Board of Directors in November. Mr. Duncan met with both the Committee and the Board in November. In November, upon recommendation by the Committee, the Board approved all of the proposed revisions with the exception of adding managed futures as an additional permissible investment under the Long-Term Reserve Fund, pending further background information and additional discussion. In early December, additional information on managed futures was provided to the Committee, and a follow-up conference call was held which included extensive discussion about the merits of adding managed futures to the investment portfolio. The Committee recommended that the Board approve managed futures, and in early January 2009, the Board granted approval of them by fax vote. In late January 2009, existing cash in the Long-Term Reserve Fund was reinvested in managed futures (in the Frontier Funds).
6. Follow-up and Action Regarding Results of 2007-2008 Subcommittee's Recommendation Regarding External Investment Advisory Services

Status: The Committee on Finance & Audit met by conference call on September 16 and unanimously accepted the recommendation from the Subcommittee to engage the firm of Ferris, Baker Watts as NACUA's investment advisors after an extensive process that began last spring.
7. 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 Association's investment advisors in the spring.

Status: The Subcommittee convened in early February 2009 to review and discuss the fourth quarter investment report as of December 21, 2008, as presented by Dave Duncan of Ferris, Baker Watts. The first annual evaluation of Mr. Duncan will take place later this spring.

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: The staff has regularly reviewed revenues and expenses in this changing economic climate and has reduced expenses as necessary and appropriate, while still remaining on track with the Association's strategic plan and annual Work Plan.

9. Develop materials for "Finance 101" orientation session to be held on November 11. 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 11, 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 in late October.

10. Develop Budget Climate Statements in preparation for FY 2009-2010 for the March Committee and Board meetings.

Status: The budget climate statement for FY 2009-2010 has been prepared and will be distributed to the Committee and to the Board of Directors for discussion in March 2009. The document was prepared to plan for the next fiscal year and to reflect the potential impact of the changing economy next fiscal year and beyond.

11. Develop and present proposed General Operating Budget for FY 2009-2010 for the Committee's consideration in May, with final approval by the Board in June.