

OAH Treasurer's Report, Fiscal Year, 2010

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This is my third report as OAH Treasurer and covers the fiscal year that ended on June 30, 2010. The news this year is somewhat better than I reported last year, when the organization absorbed the brunt of the "great recession." Moreover, the ongoing reorganization and professionalization of the OAH's Bloomington office continues to produce positive results, including a surplus in the FY10 operating budget. This is a remarkable testament to the hard work and improved management of the OAH staff. This good news is tempered, however, by two considerations: 1) as with the rest of the country, recovery is slow, as reflected in our endowment accounts where the rebound remains modest; and 2) the OAH, like most scholarly organizations, still faces long-term challenges rooted in the technological, economic and demographic changes that are reconfiguring our culture.

The OAH Budget Process

Before proceeding, let me remind readers of the OAH 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* executive 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 when that group meets during the OAH Annual 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. 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 FY2010 was initially approved by the Executive Board at the March, 2009 annual meeting in Seattle, Washington, and subsequently reviewed at the Executive Board's November, 2009 meeting in Washington, D.C. and again during the Annual Meeting in 2010, also in Washington, D.C.

FY2010 Operating Budget

In my last report (February, 2010), I expressed concern that we might end the fiscal year 2010 with a small deficit, due, among other things, to expenses incurred in connection with 1) the search for a new executive director; 2) the necessity of paying the FY2010 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. I am very pleased to report that this did not turn out to be the case and, indeed, FY2010 ended with a surplus of \$66,773. While FY2010 expenses exceeded budget, as I had predicted, this increase was offset by increases in revenue in a number of areas that had been conservatively budgeted. Particularly

significant was higher participation in the annual meeting, due to the popularity of its Washington, D.C. location.

Other numbers also reflected the OAH's improved financial condition. The organization's cash position continued to improve – the “current” cash vs. short-term payables ratio was 1.87 in FY2010 (compared to 1.46 in FY2009 and 1.21 in FY2008). 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 have called attention to in previous years, has declined (e.g., improved) from \$623K in FY2008, to \$530K in FY2009, to \$468K in FY2010. In other words, we are moving in a positive direction. Reducing this deficit should remain a high, multi-year priority for the organization.

Two additional observations on the FY2010 revenue side: 1) there was a shortfall in unrestricted contributions of approximately \$65,000. Unrestricted contributions for FY2010 were budgeted at a 17 percent increase over FY2009, an unrealistic expectation given the continuing negative economy. We hope to address this in FY2011 through more realistic, reduced expectations, and through a renewed emphasis on fundraising. 2) The OAH experienced a significant increase in revenues from its management of so many projects with the National Park Service (NPS); and the Park Service has renewed its five-year contract with the OAH. While we anticipate an increase in revenues from this source, the administrative costs associated with managing the project also increased. As a consequence, in the coming year we will be conducting a detailed cost benefit analysis of the impact of the NPS contract on OAH finances.

Table 1. OAH Operating Results to Budget FY 2010

| | Results | Budget | Variance |
|----------------|--------------|--------------|------------|
| Total Revenues | \$ 2,849,971 | \$ 2,858,381 | \$ (8,410) |
| Total Expenses | 2,783,198 | 2,843,866 | (60,668) |
| Net Income | \$ 66,773 | \$ 14,515 | \$ 52,258 |

Table 2. OAH Operating Revenues to Budget FY 2010

| Revenues | Results | Budget | Variance |
|---------------------|------------|------------|-------------|
| Contributions | \$ 729,759 | \$ 793,496 | \$ (63,737) |
| Membership Dues | 565,146 | 578,815 | (13,669) |
| Subscriptions | 541,425 | 505,696 | 35,729 |
| Sales & Advertising | 213,155 | 228,875 | (15,720) |
| Program Fees | 216,027 | 200,900 | 15,127 |
| Event Revenue | 388,192 | 286,211 | 101,981 |

| | | | |
|--------------------|-----------|-----------|-----------|
| Investment Income | 286 | 1,000 | (714) |
| Other Revenue | 126,373 | 93,780 | 32,593 |
| Budgeted Transfers | 69,608 | 169,608 | (100,000) |
| | \$ | \$ | \$ |
| Total Revenues | 2,849,971 | 2,858,381 | (8,410) |

Table 3. OAH Operating Expenses to budget FY 2010

| Expenses | Results | Budget | Variance |
|------------------------|-----------|-----------|----------|
| | \$ | \$ | \$ |
| Personnel Costs | 1,361,075 | 1,388,952 | (27,877) |
| Professional Fees | 634,019 | 584,910 | 49,109 |
| Program Costs | 30,748 | 39,300 | (8,552) |
| Committees | 33,347 | 33,810 | (463) |
| Advocacy & Alliances | 63,139 | 63,539 | (400) |
| Administrative Costs | 247,341 | 298,553 | (51,212) |
| Facilities & Equipment | 251,534 | 267,458 | (15,924) |
| Travel & Entertainment | 125,350 | 135,314 | (9,964) |
| Marketing | 6,042 | 5,500 | 542 |
| Other Expenses | 30,603 | 26,530 | 4,073 |
| | \$ | \$ | \$ |
| Total Expenses | 2,783,198 | 2,843,866 | (60,668) |

Modest Rebound in Endowment Accounts

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, as I reported last year, by the end of FY2009 on June 30, 2009, they had declined precipitously to \$1,384,639, a decrease of almost 28 percent. Since then, there has been a modest rebound, though the endowment still remains far below its 2007 level. As of June 30, 2010, OAH Endowment Fund Balances stood at \$1,482,719. 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. Nevertheless, the impact of reduced income from these investments has continued to negatively impact the organization (including especially our ability to sustain our annual prizes or fund new initiatives) and will continue to do so in the years immediately ahead.

| | FY 08 | FY 09 | FY 10 |
|---------------------------|------------------|------------------|------------------|
| Reserve Fund | \$ 519,565 | \$ 355,703 | \$ 374,039 |
| Fund for American History | 825,658 | 593,990 | 627,832 |
| Prize Fund | 466,052 | 352,865 | 392,092 |
| Higham Prize Fund | 6,383 | 2,768 | 3,161 |
| Second Century | 97,250 | 79,314 | 85,595 |
| | \$ | \$ | \$ |
| Total Endowment | 1,914,908 | 1,384,640 | 1,482,719 |

Improved Financial Policies and Procedures; Reorganization of Responsibilities

As I reported last year, the OAH continues to implement a series of reorganizations and management reforms begun by interim executive director Katha Kissman and continuing under the leadership of the new Executive Director, Kathy Finley. Last year these included the development of a Financial Policies and Procedures Manual; the establishment of a line of credit at the Monroe Bank in Bloomington, to better manage the cash flows resulting from our growing work on behalf of the National Park Service, and the reallocation of responsibilities among the financial staff in Bloomington and our external consultants. The position of Business Manager was eliminated and the role of the consulting Chief Financial Officer role was modified. The resulting revised structure is as follows: 1) An Accounting and Financial Support Specialist (Jonathan Apgar) performs the day-to-day financial and operating activities of the organization (accounts receivable, accounts payable, financial reporting, etc.). 2) Controllorship Services (Michael Crouse) provides oversight and review of the accounting activities of the organization on a contractual basis of approximately 2-3 hours per week. A Financial Consultant (Karen Kennelly) provides consultation on specific accounting and tax issues. As a result of these steps, OAH finances are better monitored and at less cost to the organization. The staff is currently installing a new membership database and fashioning a new membership plan, both of which will, it is hoped, have a positive impact on the organization's financial condition. Finally, I note that in September, 2010, the OAH renewed its External Agency Agreement with Indiana University which governs our relationship with our host institution.

New Contract with Oxford University Press

One of the brightest notes in the past year has been the negotiation of a contract with Oxford University Press to produce and market the *Journal of American History* in both print and electronic format. Thanks to the hard work of the Bloomington leadership, this new contract will result in reduced production costs, significant upfront income, and revenue guarantees. Most importantly, Oxford's global marketing expertise will infuse

new energy and expertise in efforts to market the *Journal* to an expanded audience.

Auditor's Report

In November 2010, the OAH again received an “unqualified opinion” (e.g. a clean report) from its auditors Crowe Horwath, LLP, an indication of the continued improvement in the organization’s financial management noted last year. Crowe Horwath also conducted a separate audit for our work with the National Park Service, triggered by the volume of that work, which has now exceeded \$500,000. This audit also resulted in a clean report.

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. Last year (2009), they identified no material weaknesses or significant deficiencies. They made recommendations regarding three deficiencies and offered recommendations regarding two best practices. This year, they identified five deficiencies, all of them quite minor. They again 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. Among best practices, the auditors recommended that the OAH tighten its administrative control of credit card use. Executive Director Finley and the OAH staff will address all of these issues as part of the continuing professionalization of the OAH’s management.

Outlook for FY2011 and Beyond

Although we entered the current fiscal year in far better shape than in any of the three previous years, I am concerned that the continued meltdown in public higher education will have a negative effect on the March 2011 meeting in Houston. The current (FY2011 budget) will need to absorb the full costs of staff raises mandated for all Indiana University employees. And we will face difficult decisions regarding the Community College Workshops, the funding for which (Second Century Fund) is running out. Moreover, we still face legacy issues remaining from 2005, when the annual meeting was moved from San Francisco to San Jose. In addition to the costs incurred at the time of the 2005 meeting, and as part of the settlement the OAH entered into a series of four contracts for future meetings with the Hilton Hotels. These contracts, which had relatively unfavorable terms for the OAH, now seem even more unfavorable in our post recession circumstances. While our Executive Director, Kathy Finley, has sought, with some success, to renegotiate these contracts on more favorable terms to the OAH, I remain concerned about the future budgetary impact of these agreements.

Finally, and as in prior years, I remain deeply concerned about long term declines in our membership, the result of the long-term economic, technological, and demographic trends that are reshaping our organization and the larger culture of which it is a part, and which have been accelerated (though not caused) by the current crisis. Confronting these challenges remains, in my view, the most important issue before us today.