Memorandum

Date: June 22, 2015

To: APS Council

From: Meredith Hay
Chair, Finance Committee

Subject: Finance Committee Report

Action Item: Approve the 2014 Audit Report

On June 2, 2015, the Finance Committee met via conference call with Darrin Rogers and Marina Polyakova of Rogers & Company, the Society’s audit firm. Rogers explained that the 2014 audit began with preliminary work done by the auditors in November 2014 and they returned to complete their fieldwork in April 2015. Based on their work, Rogers & Company rendered an unqualified opinion (i.e., clean opinion) on the Society’s financial statements affirming that the statements presented fairly, in all material respects, the financial position of the Society at December 31, 2014 and 2013. The 2014 audit report noted no material internal control weaknesses or other areas of concern with respect to the Society’s financial processes.

Rogers discussed the audit report and an accompanying letter to the Finance Committee, Council, and Management of APS (board letter). The board letter is a required communication from the audit firm to the client. Rogers explained that the Society’s financial statements were audited in accordance with generally accepted auditing standards and included a review of the Society’s records in accordance with government auditing standards and OMB Circular A-133. The additional audit work under Circular A-133 was performed because the Society’s federal grant income exceeded $500,000 for the year—the dollar threshold which triggers the additional audit work.

Rogers discussed all sections of the audit report including his analysis of the financial statements. He explained that the statements reflected a positive year financially for the Society. Net investment income in 2014 was $3.5 million which more than offset a loss from operations of $462 thousand, resulting in an increase in net assets from $55.8 million at the end of 2013 to $58.8 million at the end of 2014.

A motion was made and seconded to accept the 2014 audit report by Rogers & Company. The motion carried unanimously.
APS Budget
The Finance Committee met in March to review 2014 financial activity and review the Society’s 2015 budget. **2014** revenue was $19.4 million, which included $1.6 million in support from reserves, and expenses over the same period were $18.1 million resulting in a surplus for the year of $1.3 million.

The **2015** operating budget has revenue of $19.7 million, expenses of $19.5 million, and a surplus of $234,000. The charts below represent the sources of revenue and the allocation of expenses, respectively, in the 2015 operating budget.
Investments
The Society’s long term invested funds at December 31, 2014 totaled $58.8 million. Of those invested funds, approximately $38.2 million is set aside as reserves, a portion of which is used to support the annual operating budget. The remaining $20.6 million is used to support the Society’s numerous award programs and sections. It should be noted that, in 2014, Council authorized moving $9.95 million from reserves to the APS Endowment Fund to support award programs previously included in the operating budget. The chart below reflects the overall growth of the Society’s investments from 2010 to 2014 and the allocation between reserves and the award programs, including the $9.95 million transfer in 2014 from reserves to the award programs.
Development Office

The creation of the new development program recognizes the need and desire to cultivate additional philanthropic support for the numerous programs and awards offered by the Society. The newly added Development team, John Van Ness and Megan Mitzelfelt, is working with the Society’s leadership and staff to build relationships with individuals, corporations, and private foundations so that gifts and grants can be solicited for the Society’s current endeavors and, ultimately, build the Society’s endowed funds. Thus far, the Development Office has revamped the donation portion of the APS website which includes a section dedicated to planned giving opportunities.
The Development Office produced the Society’s first *APS Annual Report* which provides a comprehensive review of the Society’s 2014 accomplishments and a listing of its financial supporters. In addition, a new leadership annual giving program has been created, The Founder’s Circle, to encourage and recognize members who contribute $250 or more annually to the APS. Soon, a legacy society will be announced, which will recognize donors who have made formal plans to include the APS in their wills. Also, major gifts and grants from corporations and foundations will be pursued, thus a list of giving opportunities for such donors has been added to the donation web pages. Finally, the Development staff has also begun advising sections on their sponsorship efforts.

**Information Technology**

The IT Office has numerous projects underway to improve the efficiency and effectiveness of the Society’s information systems. IT recently implemented Higher Logic’s online community platform to enhance information sharing and collaboration among groups of members, staff and other customers by allowing users to create secure forums. IT is in the process of upgrading the Society’s enterprise-wide association management software, Personify. The upgraded version includes, among other things, significant improvements to the e-business or online purchasing function. A number of projects are underway or in the evaluation stage for improving the Society’s capabilities for disaster recovery, business continuity and office anywhere capabilities. The projects include replacing staff desktop computers to laptop configurations, implementing various Microsoft Office 365 services (e.g. Microsoft hosted Exchange, Skype for Business, OneDrive for Business), and evaluating having our server infrastructure hosted at a colocation site.