

**American Library Association
2009 Spring Meeting
Finance and Audit Committee
Report to the Executive Board
Saturday, April 25, 2009**

Below are some of the highlights of the committee's meeting activities during this Spring Meeting.

- Indirect Cost Study – EBD Information #2
- Post Retirement Benefits
- Business Development Framework – EBD #12.45
- FY 2009 Budget Update – EBD #14.6
- FY 2010 Preliminary Budget Overview – EBD #14.7
- FY 2008 final Audit – EBD #4.9
- Controller's Report – EBD #4.13
- Endowment Trustee Selection – CBD #14

Indirect Cost Study Assumptions – EBD Info #2

K. Brown summarized for the committee the results of the FY 2008 Indirect Cost Study. The resulting rate from this year's study was 24.0%, which compares to 23.9% last year. This rate will now be applied to the 2010 budget. Total direct/indirect costs for the year increased by \$601,547 or 3.3% to \$18.7 million. The most significant change occurred in General Administration (\$711,790) related to professional services (\$211,000), taxes (\$140,000) and post retirement benefits (\$377,383). Also contributing were ITTS (\$148,337) related to the use of professional services and Fiscal Services (\$103,462) which operated FY 2008 fully staffed. These increases were offset by declines in Membership Services (\$180,942) resulting from lower subscription equivalents (\$177,904), as well as Human Resources (\$101,444) due to reduced recruiting related activities i.e. advertising, professional services, miscellaneous etc.

Post Retirement Benefits Discussion with RMS McGladrey

Since post retirement benefits are the Association's largest liability, members of the committee have wanted to get a better understanding of how these benefits are calculated, those factors that have the greatest impact on its growth and how other institutions are dealing with this obligation. The committee met with Brian Blalock, ASA, AAA, who is the Director and Actuary for RSM McGladrey. He stated that ALA has a good plan but that there were some options available that might help mitigate some of the growth in the obligation. He laid out the general parameters of the ALA plan, which includes age and service requirements and which participants are covered

i.e. current employees, retirees and dependents. He noted that plan design can have a major impact of the cost of the obligation, particularly in relation to things like cost sharing provisions i.e. out of pocket limits, lifetime maximums, co-pays, deductibles etc. Retiree contributions were identified as another way to manage costs. He noted that ALA had already applied for Medicare Part D, which has reduced ALA's out of pocket contribution. Staff will consider several modifications and ask that Brian develop models that will predict the resulting liability.

Business Development Framework EBD #12.45

With help from Jim Neal, last summer Rod Hersberger began developing a framework for new business development. At Midwinter he presented the outline to Council and PBA. Management has expanded the concept to what you see in EBD#12.45. F&A is interested in new business development moving ahead as expeditiously as possible.

FY 2009 Budget Update and Projections – EBD #14.6

G. Calloway led the committee through a discussion of the adjustments that have been made to the FY 2009 budget since February. General Fund revenues are projected to reach \$27.1 million which is \$2.9 million less than budget. Publishing revenues are projected to be \$2.3 million less than budget due to cuts in library materials budgets and as companies continue to consolidate, reduce staff and cut advertising. General expenses are projected to be \$28.7 million. The result is a projected net loss of \$1.6 million. Due to significant input from unit managers, management is forwarding a plan that it feels confident, at this time, will end the year with a balanced budget. Accounting adjustments that were reported in the February report include items such as the BC/BS refund (\$186,000), unclaimed checks (\$115,000) and unclaimed subscription revenue (\$196,000) and reversal of the vacation accrual (\$244,000) for a total of \$741,000. Subsequent budget adjustments include five rolling furlough days for staff (\$250,000), electronic only Handbook (\$17,000), Publishing related expense reductions (\$105,000) and not funding the .5% individual incentive (\$75,000) for a total of \$447,000. The balance of the projected shortfall will come from a request by management to use \$441,500 from the General fund net asset reserve. The Treasurer noted that using the Reserve is not the preferred avenue to take, but due to these extraordinary circumstances and timing in the fiscal year it is necessary as a bridge to making structural changes in the 2010 budget.

FY 2010 Preliminary Budget Overview – EBD #14.7 and #14.8

K. Fiels and G. Calloway summarized for the committee specific background data and information that will be shared with the Executive Board. The discussion on the FY 2009 budget update provided a bridge to the FY 2010 budget. It was noted that the structural changes in the 2010 budget were made in such a way that member services would not be impacted and remain a top priority of the Association. In addition to the broad institutional strategies which guide the budget development, the key assumptions used to develop the budget were discussed including:

1. Zero growth anticipated in overall library economy
2. Conservative revenue projections in publishing, conference and membership
3. Inclusion of new revenue streams such as CEU and new research publications
4. Significant expenditure reductions in staffing costs
5. Approximately \$305,000 “on hold” pending review of revenue streams in the fall

Key programmatic highlights were discussed which consisted of:

1. A review of conferences for Annual, Midwinter as well PLA and AASL
2. Delivery of a virtual conference
3. Support staff certification program
4. Spectrum Scholarship Presidential Initiative
5. Continuation of PLA Gates Advocacy Training Grant
6. Online publishing product development and launch

The discussion also focused not only the FY 2009 and FY 2010 budget targets but also the potential impact that division overhead and grant overhead will have on the FY 2011 budget.

Action:

F&A recommends to the Executive Board to forward the Preliminary FY 2010 Budget proposal (EBD #14.7) to the Budget Analysis and Review Committee (BARC) for further analysis and review. The Board affirms the strategic directions of this budget and requests that BARC report back on its analysis at the 2009 Annual Conference.

FY 2008 Final Audit – EBD #4.9

G. Calloway and R. Swedowski – Controller, led the committee through a discussion of the issues related to finalizing the FY 2008 audit. As reported at the 2009 Midwinter Meeting, ALA received an unqualified opinion, which is the highest that can be received. The issues under discussion relate to the method ALA utilized by for grant recognition. During the closing process for the 2008 audit, a review of the grant classifications was made and it was determined that several large grants in 2007 originally classified as temporarily restricted should have been classified as an “exchange transactions” and therefore not subject to revenue recognition under FASB 116/117.

Subsequent to the discussions at Midwinter, temporarily restricted net assets for Grants & Awards were reduced by \$1,220,437 and deferred revenues were increased by the same amount. The adjustment has no impact on ALA operations or profitability for FY2008 reporting.

As a result of the exercise, staff has requested that Ernst & Young provide a list of current clients that might be willing to share their classification process in order to strengthen the ALA

accounting process. Additionally, grant accounting processing and revenue recognition will be a major functionality component of the new accounting system under review. Finally, G. Calloway wanted to make sure that both R. Swedowski – Controller and J. Tam – Accounting Manager, were recognized for the significant amount of time and effort they put in to assist Ernst & Young in their efforts to resolve the issues at hand. The following action was taken:

Action:

The Finance & Audit committee recommends to the Executive Board approval of the final FY 2008 audit report as reflected in EBD #4.9.

Preparation for FY 2009 Audit

Action:

F&A recommends to the Executive Board that ALA work on a one-year basis with a new audit firm and proceed with an RFP process to identify a new ongoing audit arrangement. Motion carried.

Controller's Report – EBD #4.13

ALA Controller, Russ Swedowski, presented the Controller's report which included the current status of the inventory, credit & collections and cash and short-term investments.

Inventory – Inventory levels at 2-28-09 for ALA Editions and Products & Promotions were \$656,360 and \$6662,520 respectively. The ALA Editions inventory reflects a \$34,000 valuation for the 11th edition of Guide to Reference books. The largest items in the inventory for Products & Promotions are the “Read” products (50) valued at \$107,000. The excess and obsolete inventory reserves for ALA Editions and Products & Promotions were \$337,000 and \$113,000 respectively, which are appropriate. To date there have been \$10,000 (Editions) and \$11,200 (Products & Promotions) of destruction of excess or obsolete inventory. Testing of reserves was performed as part of the year end closing process, which resulted in a additions to the reserves through February were \$14,000 in Graphics and \$21,000 in ALA Editions.

Credit and Collections – As of 2-28-09 trade receivables totaled \$3.6 million as compared to \$2.2 million. Trade receivables in the 150+ day category contained \$1.3 million compared to \$196,714 in FY08. The increase is a result of the early billing of Annual Conference exhibitor billings compared to last year.

Unrelated business Income Tax (UBIT) – The 990 is in progress. The due date for form 990 has been extended to July 15, 2009. The form 990T has been extended to June 15, 2009. Estimated payments of \$30,000 and \$3,000 were made to the IRS and the Illinois Department of Revenue respectively.

A-133 Audit Update – The A-133 audit work began on April 15, 2009. Staff has gathered nearly most all the requested documents for Ernst & Young. The audit is expected to take two weeks with the report being issued in May.

403(b) Plan Rules – Effective beginning January 1, 2009 for the calendar year ALA, as a 403(b) plan provider with 100 or more participants, is now required to file audited financial statements with form 5500. Additionally, the final regulations require that 403 (b) plans must be maintained pursuant to a written plan document.

Debt Service Coverage Ratio – As part of the Washington Office property purchase, the Association is required to file a compliance certificate on a quarterly basis. The certificate addresses certain provisions of the loan agreement. There are two measures that need to be addressed – Unencumbered Liquid Assets and Debt Service Coverage. As of 2/28/09 only the Unencumbered Liquid Asset ratio is required with the Debt Service ratio due in the fourth quarter (8/31/09). As a matter of practice, staff calculated both ratios. ALA was in compliance with the Unencumbered Liquid Asset, which was filed, but not the Debt Service ratio. Accordingly the Debt Service ratio will be monitored closely in order to bring it into compliance by the fourth quarter.

Endowment Trustee Selection – CBD #14.0

The committee met in closed session to discuss the applicants applying for the upcoming open endowment Trustee position.

Acknowledgements

We continue to be well served by Greg Calloway, Keith Brown, Sandra Lee, Russ Swedowski and Elaine Klimek of the ALA financial staff. They have been very dependable, reliable and thorough in assisting in our financial oversight responsibilities.

Respectfully submitted:

Rod Hersberger, Chair
Em Claire Knowles
Larry Romans
Roberta Stevens
Jim Neal, BARC Chair