

**American Library Association
2010 Annual Conference
Finance and Audit Committee
Report to the Executive Board
Monday June 28, 2010**

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

- FY 2010 Budget Update April/May – EBD #14.10
- FY 2011 Total ALA Budget – EBD #4.16
- Endowment Trustees Report – EBD #13.3
- Post Retirement Benefits Update
- Controller's Report – EBD #4.10

FY 2010 Budget Update April/May – EBD #14.10

April Results - G. Calloway led the committee through a discussion of the eight month financial results through April 30, 2010. For April, total ALA (all combined funds) revenues were \$33.7 million or \$484,491 million (1.4%) less than budget. The General Fund revenue of \$14.6 million was \$871,914 (6.0%) less than budget due in large part to lower revenue from publishing (\$631,962). Division revenues were \$11.6 million or \$161,290 (1.4%) less than budget. Grants and awards were \$6.4 million or \$108,000 (11%) more than budget. Interest and dividend income was more than budget by \$416,735 (108.1%) totaling \$774,411 due to higher yielding bond investments.

Total ALA expenses were \$33.5 million or \$2.2 million (6.0%) less than budget. General Fund expenses of \$17.0 million were \$615,102 (3.5%) less than budget due primarily to lower publishing (\$377,075) activity related to adjustments to lower projected revenue, lower Midwinter related expenses (\$115,030) and in OIF (\$115,317). Division expenses of \$9.9 million were less than budget by \$1.5 million (12.9%). Grants and awards were \$108,000 (11%) more than budget at \$6.3 million.

For the General Fund, the result is a net loss of \$2.3 million, which is more than the budgeted loss of \$2.1 million. At this point in time, the projections as initially put forward are still on track.

Preliminary May Results – As of the May performance reports, which have only recently been received and reviewed on a preliminary basis, the net loss for the General Fund is \$2.7 million. This compares to the budgeted loss of \$3.4 million. Since the spring projections, management

has identified a combination of improved revenue and refined expense adjustments estimated to generate approximately \$300,000 in improvement to the bottom line. As a result, the data suggests that the need for a second week of furloughs may not be necessary. It should also be noted that the Executive Board has expressed a preference to use net asset reserves in lieu of an additional furlough.

FY 2011 Total ALA Budget – EBD #4.16

K. Fiels and G. Calloway summarized for the committee some of the small adjustments made to the budget since the Spring meeting. Note that these items were discussed in detail prior to this Annual conference. The changes included applying the newly calculated overhead rate of 26.1%, which will be applied to all revenue generating units including Divisions and distributed depreciation expense based on the FY11 capital expenditure additions. As a result of these changes, total ALA revenues for FY 2011 are budgeted at \$45,252,776. This excludes the capital gains from the Long-Term Investment Fund. Compared to the preliminary budget in the spring, revenues were adjusted upward by \$101,558. Division revenues were adjusted down by \$79,279 and Grants & Awards were adjusted up by \$183,837. Total expenses are budgeted to reach \$46,820,144. Divisions and Grants and Awards had expenses adjusted upward by \$5,674 and \$183,837 respectively.

The General Fund revenues are budgeted at \$26,822,483, which is down compared to FY10 by \$1.2 million. Dues are budgeted to increase by \$209,400, Conferences by \$783,850 and Publishing by \$1.0 million. Other sales are budgeted to increase by \$362,395 via RDA (\$222,163) and Guide to Reference (\$131,161). General Fund expenses are budgeted at \$26,822,483 and represent a decrease of \$1.3 million compared to FY10. Payroll and related is budgeted lower due in part to 16.992 unfunded FTE's. Meetings & Conferences expenses are budgeted lower by \$486,621 due to lower facilities rental, audio/visual equipment and special transportation. Publishing is also budgeted lower by \$479,050 related to decreases in printing, supplies, cost of sales and order fulfillment. Operating expenses are budgeted higher by \$126,655 due to increased amortization related to Guide to Reference and RDA. It was also noted that due to only one national division conference and lower grants, expected overhead is reduced by \$310, 804 and \$470,110 respectively.

After some additional discussion on other areas of the budget the following action was taken:

F&A recommends to the Executive Board affirmation of the electronic vote to approve the Total ALA FY2011 Budgetary Ceilings as listed in EBD #3.7 and detailed in EBD # 4.16.

As noted previously, the Divisions' Executive Boards will be reviewing their FY 2011 budgets at this conference. It is likely that further adjustments will be proposed and that the final approval by the ALA Executive Board will take place at the fall 2010 meeting.

Endowment Trustees Report – EBD #13.3

Dan Bradbury, Senior Trustee, reported to the committee on the status of the ALA Long-Term Investment Fund aka Endowment. It was noted that volatility has played a major role in the performance of the portfolio. During the first quarter it worked in ALA's favor, resulting in a gain of \$1.7 million. Since then, particularly in the month of May the reverse has been the case. Calendar year to date through May 31, 2010 the portfolio reflected a gain of \$235,648. Clearly the sovereign debt concerns in Europe have shaken investor confidence. This was definitely the case on May 6th when the market suffered what has been labeled a "Flash Crash," where the market – as represented by the DJIA - fell 650 points (9.2%) in a ten minute period. Fortunately, the market recovered during the remainder of the trading day, but has been unsettled since.

In terms of performance, most of the managers were able to meet or beat their individual indices. Big performers were the fixed income manager Pimco and the REIT managers Heitman and Invesco.

The Senior Trustee, along with the Treasurer, stressed to the committee that the Trustees, along with the ALA finance staff, spend a good deal of time monitoring the performance of the portfolio. This is in addition to investigating and evaluating investment products and strategies. It is clear that the complexities of properly managing the portfolio continue to rise. As a result the Trustees put forward a number of related recommendations that they feel will help address this concern. The recommendations were reviewed and discussed and resulted in the following actions by the committee:

F&A recommends to the Executive Board that the number of Trustees be a minimum of three and a maximum of seven.

The Trustees feel that by having the ability to increase the number of Trustees that they can accomplish a number of things, such as, bringing abroad more investing expertise, more diversity in opinions/gender/race. Additionally, the Trustee felt that it was important for them to be more actively involved and proactive in the recruitment of potential Trustees.

F&A recommends that the Executive Board reaffirm that the ALA Treasurer, serving in an Ex-Officio capacity, be a voting member of the Endowment Trustees.

The Trustees have been working over the years with the Treasurer conducting business as a Trustee in a non-voting capacity. Research (Sturgis) has revealed that unless specifically stated, a person serving in an Ex-Officio capacity has all the voting rights and privileges as any other voting committee member.

The final action recommended was for the establishment of the Carole D. Fiore ALSC Leadership Fund. It is being established to enhance the leadership development with ALSC by offering activities to members who have an interest in and commitment to the ALA and ALSC. An annual donation of \$5,000 will be made until the \$25,000 minimum is met (3 years). Until that time there will be no expenditures. This request was grandfathered under the previous minimum of \$10,000 as this is where the initial discussion began.

F&A recommends to the Executive Board the establishment of the Carole D. Fiore ALSC Leadership Fund.

Controller's Report – EBD #4.10

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 4-30-10 for ALA Editions and Products & Promotions were \$778,339 and \$653,689 respectively. The excess and obsolete inventory reserves for ALA Editions and Products & Promotions were \$311,000 and \$165,000 respectively, which are appropriate.

Credit and Collections – As of 4-30-10 trade receivables totaled \$2.6 million, which is up slightly from last year. Trade receivables in the 150+ day category contained \$47,092 while the iMIS 150+ balance is \$420,714.

Unrelated business Income Tax (UBIT) – The 990 and 990T are in progress. The due date for each has been extended to July 15, 2010. Estimated payments of \$30,000 and \$3,000 were made to the IRS and the Illinois Department of Revenue respectively. Prior year returns had overpayments totaling \$32,953 will be applied to the current return.

A-133 Audit Report – The OMB A-133 report was received on June 2, 2010. The report covers the audit of Federal Awards and reports on compliance and internal controls in conjunction with OMB Circular A-133. The report has an unqualified opinion and no material weaknesses in internal controls were noted. In addition, there were no questioned costs charged to the Federal Awards. Two minor reportable conditions were noted - the requirement to check if a vendor was suspended or debarred from receiving Federal funds or certain Federal assistance and benefits and the timely filing of financial/narrative reports. The following action was taken:

F&A recommends to the Executive Board acceptance of the FY 2009 Single A-133 Audit.

Audit Planning - In June, a planning meeting for the FY 2010 audit was held to discuss the timing and content of the audit. Preliminary audit work is expected to take place at the end of July with final audit work to occur in November-December. The issuance of the audit report and management letter is expected to occur in late December, 2010. The audit for A-133 reporting will be conducted concurrent with the regular audit as there are elements of the financial statement audit that could affect the A-133 audit.

403 (b) Plan - Under new regulations issued by the Department of Labor, ERISA covered 403(b) plans with 100 or more participants are required to file audited financial statements with Form 5500. In addition, the final regulations require that 403(b) plans must be maintained pursuant to a written plan document. A request for an engagement letter and audit fee quote was submitted to Grant Thornton in September, 2009 and McGladrey & Pullen in February, 2010 based upon the finding that an audit of two plans, TIAA Retirement and TIAA Supplemental was required. Audit work was awarded to McGladrey and the audit of the two plans has commenced.

Financial Accounting System – Formal planning for the selection and conversion to a new financial accounting system began in January, 2010. The Not-For-Profit IT Business Solutions Consulting group of RSM McGladrey was engaged to provide system selection assistance. RSM was contracted to assist in documenting workflow requirements, matching those requirements to available software, identifying vendors with the appropriate software and developing an RFP. Work flow analysis was performed with the finance, accounting and other heavy users of the system. The results of the work-flow assessment has been completed and available software is currently being reviewed. Changes to existing accounting procedures for Grants and the Endowment are in the final implementation stage. The development of required software specifications (development of a RFP has been replaced by a preferred vendor) commenced in mid-June, with vendor demos in July and vendor negotiation in August.

Cash Management – A daily review of the Association’s operating cash has been conducted since May, 2009 as a result of the increasing pressure on Association revenues. Available cash is monitored with regard to cash inflow and outflow as well as scheduling invoice payments to adhere to our net 30 day payment policy while taking advantage of discounts for early payment if economically justified. Available operating cash as of June 15th amounted to \$2,558,000. In addition, a review of annual conference related billings is being performed to determine the extent of any cash liability. Management is also monitoring the receivables from Federal grantors to ensure timely collection.

Total cash and short-term investments at April 30, 2010 amounted to \$19,867,926 as compared to \$17,568,635 a year ago. Year-to-date interest income is \$548,680, which is \$55,436 more than budget and \$111,628 less than last year.

Bond Fund - The Neuberger Berman bond fund investment is \$15,142,701 at April 30, 2010 as compared to \$15,407,487 at April 30, 2009. As noted in schedule 6, this investment has produced over \$8,272,000 in interest income since December, 1991 and the yield has been superior to other potential operating fund investments. With regard to the risk of principal, the investment finished 2009 with a realized/unrealized gain of \$382,050 and is currently reflecting a loss of \$25,597 for 2010.

Line of Credit - The Association maintains a \$2,500,000 line of credit with JP Morgan Chase. This line of credit is in the process of being renewed in order to maintain the availability of the line. Periodically this line is drawn upon to address short term coverage of various obligations. As mentioned previously, the Association is currently being impacted by the occasional large outstanding receivable from the Federal government related to grants. Draws are made to ensure that these obligations are met in a timely manner, while discussions with the Federal grantor agencies continue.

Form 990 - The Federal Form 990 for fiscal year ended August 31, 2009 is approximately 95% complete and has an extended due date of July 15, 2010. The filing for FY 2009 must be completed electronically using an IRS approved third party vendor. The current year return is being prepared using the Urban Institute form 990.org E-Filing Site. The new Form 990 due to be filed for fiscal year 2009 requires the organization’s executive committee to review the return prior to filing. Once the return has been reviewed it will be filed electronically.

Post Retirement Benefits Update

As a follow up to a number of prior meetings and phone conferences regarding the ALA Postretirement Benefit plan, the committee was provided with an update. The committee met in executive session to discuss the various options as presented by management. Further discussion will be conducted at the fall meeting.

Acknowledgements

The committee recognizes the timeliness and accuracy of the financial reports and would like to take the opportunity to extend thanks and appreciation for the extraordinary work and efforts of the ALA Accounting team. Specifically, Joanne Pak and Jennifer Tam. Through their extra efforts, they have assisted this committee in making strategic decisions on behalf of the Association.

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
Steve Matthews
Jim Neal, BARC Chair