

**American Library Association
2010 Spring Meeting
Finance and Audit Committee
Report to the Executive Board
Saturday, April 24, 2010**

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

- Indirect Cost Study – EBD Information #1
- FY 2010 Preliminary Audit Plan – EBD #4.12
 - Status of A-133 Audit
- FY 2010 Budget Update – EBD #14.6
- FY 2011 Preliminary Budget Overview – EBD #4.8
- Post Retirement Benefits – CBD #13
- Controller's Report – EBD #4.10
- Annual Conference Planning

Indirect Cost Study Assumptions – EBD Info #1

K. Brown summarized for the committee the results of the FY 2009 Indirect Cost Study. The resulting rate from this year's study was 26.1%, which compares to 24.0% last year. This rate will now be applied to the 2011 budget. Total direct/indirect costs for the year increased by \$898,746 or 4.8% to \$19.6 million. This compares to a \$1.1 million or 2.0% increase in ALA's total expenses to \$58.0 million. The most significant changes occurred in General Administration (\$496,272), ITTS (\$363,371) and Fiscal Services (\$102,486). Although some higher direct costs related to salary/benefits for more staff and depreciation impacted ITTS and Fiscal Services, the change in postretirement benefit costs (\$3.2 million) was the primary driver. These increases were offset by small declines in most other areas. Converting the changes in the cost type into group types resulted in higher costs allocated to the Divisions (\$398,408), Restricted Funds (\$216,187) and the Offices (\$192,901).

FY 2010 Audit Plan – EBD #4.12

F. Jakosz and C. Charles of Grant Thornton led the committee through a discussion of the preliminary planning for the FY10 audit. It was noted that they will be issuing four reports as part of their assignment – Financial Statements, a Single Audit report, Internal Control Letter (if necessary) and a Required Communication report. The general timeline begins with initial field work on 7/26, final field work 11/15 – 12/6, a final draft on 12/15 and then report to the

Executive Board at Midwinter 1/11. Areas of focus will be Contributions Received, Member Dues, Contracts/Grants, Investments and Operating Expense. They also took the opportunity to discuss a number of new accounting and auditing pronouncements that will be effective for the year ending 8-31-10. They are: 1). Accounting Standards Codification (ASC) #105.10 – formerly FASB #168, which attempts to inject “Plain English” into references to specific accounting guidance within the financial statements, 2). ASC 715-20-65 Employers’ Disclosure about Postretirement Benefit Plan assets, which requires additional disclosure regarding major categories of plan assets and 3). Fair Value Measurements and Disclosures, which allows organizations to be “Practical expedient” in valuing investments using a Net Asset Value.

Status of A-133 Audit – See controller’s report. It was noted during this conversation that the A-133 audit that has been completed in the spring over the last few years will be combined with the primary audit that will be conducted in the fall.

FY 2010 Budget Update and Projections – EBD #14.6

Budget - G. Calloway led the committee through a discussion of the six month financial results through February 28, 2010. Total ALA revenue was \$22.8 million, which is \$2.1 million below budget of \$24.9 million. Areas that impacted results the most were the General Fund and Grants & Awards. Total ALA expenses were \$24.0 million, which is \$3.0 million less than budget. The greatest impacts were in the Divisions (\$1.2 million) and Grants & Awards (\$1.3 million).

General Fund revenues during the period were \$11.6 million, which is \$842,049 less than budget. The areas with the greatest impact were in Publishing (\$517,773) and the Midwinter Meeting (\$299,130). In Publishing, Products and Services (\$299,291), Booklist (\$106,852) American Libraries (\$93,538) and On-Line resources (\$55,777) were all below budget. Products & Promotions is being impacted by the economy on library spending for promotional items. Booklists is being impacted by the economy driven shortfalls in advertising and subscriptions. The same is true for American Libraries. On-Line Resources is a combination of print products that have been or are being converted into online products and are being impacted by lower subscription and advertising revenue. Additionally, RDA is a project in development for release in FY11 and has no revenue.

General Fund expenses for the period were \$13.5 million, which is \$377,106 less than budget. Publishing was less by \$360,188 and Member Programs & Services was less by \$412,518. Publishing saw reductions of similar amounts in all areas. Savings in MPS was primarily for the Midwinter Meeting (\$158,462). Note that Conference Services is negotiating with a number of hotels to reduce outstanding attrition charges of \$133,000. Annual Conference is also under budget by \$86,483. This may change as we get closer to conference. Other areas currently under budget are OIF (\$99,056), OLOS (\$42,537) and MPS AED (\$26,120).

Projections – General fund revenues are projected to reach \$26.1 million which is \$2.0 million less than budget. The revenue shortfall is a result of lower Publishing revenues, which are projected to be \$962,749 less than budget due to cuts in library materials budgets, continued

industry consolidation, and cuts in advertising. These are also projections of lower Conference revenue of \$900,730, Dues of \$85,000 and Other \$52,000. Lower revenue requires corresponding reductions in General Fund expenses to \$26.1 million. The actions recommended by management to cover the revenue shortfall include reduced payroll of \$734,000 related to open positions, Travel of \$149,000 and Publishing related production savings of \$527,000. Note that these expense reductions were offset by higher professional service fees, overhead and higher operating expenses bringing the total down to \$1.1 million. Approximately \$560,000 will be related to a potential two week furlough. The balance of the projected shortfall will be offset by \$400,000 from the General Fund operating net assets. 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.

The expense reduction plan will be forwarded and discussed with the Executive Board and BARC. Because of the request to use net asset balances the following action was taken

Action:

F&A recommends to the Executive Board the use of up to \$400,000 in unrestricted General Fund Net Asset Balances (\$2.8 Million) in support of the FY10 budget.

FY 2011 Preliminary Budget Overview – EBD #4.8

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 2010 budget update provided a bridge to the FY 2011 budget. It was noted that the structural changes in the 2011 budget were made in such a way that member services would again 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. Balanced budget with the use of \$250,000 in salary savings
2. Some base cost reductions in relation to the FY10 budget
 - Unfunded positions (16.992): \$812,998
 - Unfunded division positions (5.7): \$230,989
3. Continue to explore new revenue sources and businesses
4. General Fund overhead will be \$790,000 due to only one division conference
5. Budget does not call for the use of reserves
6. Repurposing of salary savings to provide for flexibility and the acquisition of specialized skills

Key programmatic highlights were discussed which consisted of:

1. Conferences for Annual, Midwinter and ACRL
2. Support for increased electronic participation by members
3. Year two support for the APA staff certification program

4. Spectrum Scholarship Presidential Initiative to raise 41.0 million
5. New advocacy initiatives at all levels with ALA's Capwiz
6. A new Young Adult services certification program
7. A virtual library conference
8. Online Guide to reference and RDA fully operational

The discussion also focused not only the FY 2010 and FY 2011 budget targets but also the Potential impact that division overhead and grant overhead will have on the FY 2012 budget and beyond.

Action:

F&A recommends to the Executive Board to forward the Preliminary FY 2011 Budget proposal (EBD #4.8) 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 2010 Annual Conference.

Post Retirement Benefits

As a follow up to a number of prior meetings and phone conferences (4), Brian Blalock of RSM McGladrey met via conference call with the Finance and Audit committee and ALA senior management to discuss the findings of a valuation study of ALA's retiree health and life insurance benefits plan. As noted by the Treasurer – Rod Hersberger – ALA's postretirement benefits liability has reached a level (\$16.3 million) that needs to be addressed. In addition to the current level, another issue of concern is the rate at which this liability has been growing over the last five years.

Brian Blalock first informed the committee that ALA has a good plan when compared to the industry as a whole. Additionally, the process that ALA is undertaking to review and address the issues involved is going on at many other organizations as well.

Participants were led through a discussion on the make up and characteristics of the current plan, particularly the benefits offered and their associated costs. Since the purpose of the review was to discuss ways to minimize/reduce the costs and the slow the rate of growth, a number of options (7) were discussed.

In view of the complexity of the issues involved, it was determined that senior management - with the help of RSM McGladrey – will take the options as presented and develop various scenarios in order to develop some annual cost projections. These findings and more concrete options will be presented to the Executive Board at the Annual conference in Washington, DC. with the goal of having a definitive plan in place for FY11.

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 2-28-10 for ALA Editions and Products & Promotions were \$759,784 and \$645,543 respectively. The excess and obsolete inventory reserves for ALA Editions and Products & Promotions were \$305,000 and \$162,000 respectively, which are appropriate.

Credit and Collections – As of 2-28-10 trade receivables totaled \$3.6 million, the same as last year. Trade receivables in the 150+ day category contained \$918,450 compared to \$1.3 million in FY09.

Unrelated business Income Tax (UBIT) – The 990 and 990T is in progress. The due date for form 990 and the 990T have 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 Update – The A-133 audit work began on April 15, 2009. Staff has gathered nearly most all the requested documents for Grant Thornton. The audit is approximately 80% complete with the report being issued in May. Outstanding issues at this point include timing related to reporting deadlines and vendor debarment.

403(b) Plan Rules – 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. The form 5500 filing due dates have been extended to 10/15/10. It was also noted that there needs to be an audit (2) of the plan – the regular plan and the supplement plan. In the future there will be a combined audit instead of two. Currently bids to do the audit have been submitted by Grant Thornton and RSM Pullen.

Financial Accounting System – Formal planning for the selection and conversion to a new financial accounting system began in January, 2010. Initial meetings were held with relevant accounting and finance staff to define the process and develop a timeline for the various steps in the process. 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.

A documentation of workflow assessment for the month-end and year-end close included a review of the “as is” process and the development of a “to be” process. Two areas of concentration were the accounting for grants and the long-term investments, previously accounted for by spreadsheet analysis in the “as is” process, and subsequently identified as a process that will be accounted for through the new accounting system.

The results of the workflow assessment have been completed and available software is currently being reviewed. Changes to existing accounting procedures for Grants and the Endowment are in the implementation stage. The development of an RFP will commence in April, with vendor demos in June-July and vendor selection in August.

Cash Management - Total cash and short-term investments at February 28, 2010 amounted to \$18,940,984 as compared to \$18,651,607 a year ago. Year-to-date interest income is \$414,667 which is \$44,697 more than the budget of \$369,970 and \$59,751 less than last year, due to lower interest from the endowment interest transfer.

Bond Fund - The Neuberger Berman bond fund investment balance is \$15,084,759 at February 28, 2010, \$110,605 lower than last year. This investment has produced over \$8,152,000 in interest income since December 1991 and the yield has been well above the yield from certificates of deposit.

Line of Credit - The Association maintains a \$2,500,000 line of credit with JP Morgan Chase. Periodically this line is drawn upon to address short term coverage of various obligations. The Association is currently being impacted by a large outstanding receivable (\$3.0 million) from the Federal government related to grants. Draws have been made to ensure these obligations are met in a timely manner while discussion with the Federal grantor agencies continue. Meeting these obligations, as well as, a recent payroll required the need to draw down \$500,000 on April 15, 2010. The Association's cash position is monitored daily, so an additional draw may be necessary until the outstanding Federal reimbursement is received.

Annual Conference Planning

R. Hersberger noted that he has taken this opportunity in the past to highlight ALA programs such as the Washington Office etc. In this instance the 2010 budget is taking center stage and a fair amount of time needs to be used to explain the situation and the steps taken to address the situation. i.e. where cuts are being made and where saving will be realized. Members of the committee were encouraged to provide any programs and ideas that should be highlighted at Annual conference. It was also suggested that indirect costs be stressed at some point.

Technology Reserve Fund

Management has forwarded a recommendation to establish a technology reserve fund by transferring \$1.0 million from the General Fund Net asset reserve effective 9-1-10. The reserve is intended to provide a stable source of funds for one-time capital budget expenses associated with the Association's core enterprise systems and infrastructure. These systems include the membership management system, finance and accounting systems and web content management systems. It is expected that each of these systems will cost in the neighborhood of \$500,000 - \$2.0 million. These costs make it extremely difficult to fund the depreciation through the operating budget. Note that this fund will be replenished on an ongoing basis with 50% of any year end positive General fund net revenue. After more detailed discussion the following action was taken:

Action:

F&A recommends to the Executive Board approval of the establishment of an ALA Technology Reserve to be funded in the amount of \$1.0 million by way of a transfer from ALA's unrestricted Net Asset Balance (\$2.8 million).

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 - Absent
Larry Romans
Steve Matthews
Jim Neal, BARC Chair