

**American Library Association  
2009 Annual Conference  
Finance and Audit Committee  
Report to the Executive Board  
Wednesday, July 15, 2009**

Below are some of the highlights of the committee's meeting activities during this Annual Conference. Additionally, on July 13, the Finance and Audit Committee met jointly with the Budget Analysis and Review Committee (BARC) and discussed the following:

**FY 2009 1<sup>st</sup> Quarter Financial Report – EBD #14.13**

G. Calloway summarized for the committee the results for the nine month period ending 5-31-09.

Total ALA (all combined funds) revenue of \$36.7 million or \$2.3 million (6%) less than budget. The General Fund revenue of \$16.4 million were \$2.1 million (11%) less than budget due in part to Publishing and Member Programs and Services. Division revenues were 5% or \$541,000 less than budget and Grants and Awards are \$201,000 more than budget year-to-date. Investment interest and dividends are more than budget by \$190,000 (37%) reaching \$711,000.

Total ALA expenses of \$38.9 million are \$4.7 million (11%) less than budget. The General Fund expenses of \$18.9 million are \$3.3 million (15%) less than budget. The primary contributors are Publishing (\$1.6 million), Communications (\$199,000) and Annual Conference (\$833,000). Division expenses are \$1.5 million less than budget, while Grants and Awards are \$201,000 more than budget.

For the General Fund the result is a net loss of \$2.3 million, which is better than the budget target of a net loss of \$3.7 million. The projected revenue is still on track to reach \$27.3 million with projected expenses at \$28.9 million. Budget adjustments of \$447,000, accounting adjustments of \$741,000 and \$436,000 from General Fund reserves will cover the net shortfall.

Cash and short-term investments are \$16.5 million as compared to \$21.0 million last year. The Long-Term Investment Fund is \$25.1 million as compared to the \$28.8 million balance at August 2008. Total ALA net assets are \$6.0 million or 19% lower than May last year, totaling \$25.5 million.

**FY 2010 Budget Update – EBD #3.9**

G. Calloway reported that the summer version of the total FY 2010 budget is marginally changed from the Spring version. Compared to the Spring budget presentation, minimal changes were made. Based upon Executive Board and BARC Spring meetings, staff have made the following adjustments to the budget including:

1. Calculated overhead using the 2008 Indirect Cost Study and applying a rate of 24.0% to all revenue generating units including divisions.

2. Distributed depreciation expense based upon the FY 2010 capital expenditure additions.

Note: F&A does not recommend approval of Division and Round Table transfers to the endowment at this time.

The following actions were taken:

**F&A concurs with BARC and recommends to the Executive Board approval of the FY 2010 General Fund Budgetary Ceiling of \$28,314,505, including a \$1,726,563 net asset transfer to offset the Plant Fund net operating expenses.**

**F&A concurs with BARC and recommends to the Executive Board the elimination of 9.6 FTEs from the General Fund Table of Authorized Positions in FY 2010.**

**F&A concurs with BARC and recommends to the Executive Board approval of the FY 2010 Divisions Budgetary Ceiling of \$25,462,815.**

**F&A concurs with BARC and recommends to the Executive Board a \$310,813 transfer from the Division Fund to offset the Plant Fund net operating expenses.**

**F&A concurs with BARC and recommends to the Executive Board approval of the FY 2010 Round Tables Budgetary Ceiling of \$1,146,880.**

**F&A concurs with BARC and recommends to the Executive Board approval of the FY 2010 Grants and Awards (Restricted Fund) Budgetary Ceiling of \$8,891,038.**

**F&A concurs with BARC and recommends to the Executive Board approval of the FY 2010 Long Term Investment Fund (Endowment Fund) Budgetary Ceiling of \$616,796 including \$97,474 capital gain to be allocated for funding the ALA Spectrum Initiative and a transfer of \$94,936 interest and dividends from the Endowment Fund to the General Fund in accordance with Policy 8.5.1.**

**F&A concurs with BARC and recommends to the Executive Board approval of the FY 2010 total ALA Capital Budget of \$2,156,539.**

**F&A concurs with BARC and recommends to the Executive Board approval of the FY 2010 General Fund Small Division allocation of \$81,297.**

**F&A concurs with BARC and recommends to the Executive Board approval of the FY 2010 Total ALA Budgetary Ceiling as follows:**

General Fund	\$ 28,314,505
Division Fund	25,462,815
Round Tables	1,146,880
Grants & Awards	8,891,038
Long Term Investment	<u>616,796</u>
TOTAL	<u>\$ 64,432,034</u>

**Deferred:**

**F&A concurs with BARC and recommends to the Executive Board approval of the transfers from Division operating fund balances to Long Term Investments: ACRL \$300,000, AASL \$50,000, RUSA \$50,000, LITA \$50,000, and ALSC \$100,000 with a total transfer of \$550,000.**

**Endowment Trustees Report – EBD #13.6**

On behalf of the ALA Endowment Trustees, Senior Trustee, Dan Bradbury, reported to the committee on the performance of the endowment fund for the six month period ending 6-30-09. He noted that the market was essentially a “Tale of Two Quarters.” The first quarter continued the abysmal results of the calendar year 2008. However, on or about March 6, 2009 the market psychology changed and the market began a new positive run. This continued through the second quarter ending 6-30-09. As a result, for the period ending 6-30-09 the ALA endowment reflected a gain of \$1.2 million or 5.8%. This compares to its index return of 3.7%. All the managers fared well compared to their benchmarks. However, the performance of Alliance Bernstein – Core Manager - and Pimco – Fixed Income Manager - were stellar. Each generated \$520,469 and \$530,429, respectively during the period.

It was stressed that the assets allocation is still the key to generate excess returns in the portfolio. Based on the prevailing and expected future market conditions, the Trustees are continuing their strategy of maintaining the current balance between equities and fixed income and reviewing other asset classes that will reduce risk and enhance performance. Many believe that the foundation has been laid for some significant long-term gains in equities due to the de-leveraging or revaluation that is taking place in the market.

Over the last 5 ½ year period ending 6-30-09, active management via asset allocation has generated \$2.5 million in investment earnings. This compares to passive<sup>1</sup> management investment earnings of \$1.4 million. As a result, active management generated additional or excess investment earnings of \$1.1 million.

**Controller’s Report – EBD #4.16**

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 5-31-09 for ALA Editions and Products & Promotions were \$753,214 and \$711,140 respectively. The ALA Editions inventory reflects a \$34,000 valuation for the 11<sup>th</sup> edition of Guide to Reference books. The largest items in the inventory for Products & Promotions are the “Read” products (55) valued at \$115,000.

The excess and obsolete inventory reserves for ALA Editions and Products & Promotions were \$348,000 and \$120,000 respectively. To date there has been \$10,039 (Editions) and \$15,821 (Products & Promotions) of destruction of excess or obsolete inventory. Additions to reserves through May were \$27,000 in Graphics and \$32,000 in ALA Editions.

*Credit and Collections* – As of 5-31-09, trade receivables totaled \$2.0 million as compared to \$2.1 million last year. Trade receivables in the 150+ day category

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<sup>1</sup> Industry benchmark of 60% S&P 500 index and 40% Barclays Aggregate Bond

increased to \$349,340 compared to \$77,728 in FY 2008. The increase is a result of uncollected conference exhibit billings.

*Single Audit Report (A-133), 2008-09 EBD #4.18* - It was reported that the OMB A-133 report was received on July 1, 2009. The report covers the audit of Federal Awards and reports on compliance and internal controls. The report received an unqualified opinion with one material weakness in internal controls related to the financial reporting of temporarily restricted contributions. One minor reportable condition was noted which required more testing of whether or not vendors used have been disbarred or suspended from the Federal procurement roles. The committee took the following action:

**The Finance & Audit Committee recommends to the Executive Board acceptance of the FY 2008 A-133 Audit.**

*Cash Management and Bond Fund* – As of 5-31-09, the balance for cash and short-term investment was \$16.6 million as compared to \$21.0 million last year. Year-to-date interest income is \$884,422, which is \$242,014 more than the budget and \$228,305 more than last year. The Nueberger Berman bond fund balance is \$15.5 million compared to \$12.7 million last year. This investment has generated over \$7.6 million in interest income since December, 1991 and a cumulative net realized loss of \$166,757.

A daily review of the Association's operating cash was implemented in May as a result of increasing pressure on Association revenue. In addition to monitoring other cash inflows and outflows an effort is being made to provide a cash flow cushion. As a result, the Association's line of credit with JP Morgan Chase is in the process of being amended to be increased from \$1.0 million to \$2.5 million. Management is also exploring the possible sale of securities in the Merrill Lynch bond fund if and when it becomes necessary to further enhance the cash position.

**Audit Planning and Transition – Grant Thornton**

A discussion summary was provided on the current audit planning and auditor transition from Ernst & Young. In June, F&A voted to recommend a new firm to audit the financial statements of the Association for the fiscal year ending August 31, 2009. The process that was used in the selection of the new audit firm for the Association was summarized by management. The process, which included a select number (4) of candidates from the top and middle tier of national accounting firms for consideration, led to the following action:

**Finance & Audit recommend to the Executive Board approval of Grant Thornton to conduct the FY 2009 audit.**

G. Calloway introduced Frank Jakosz, the partner in charge of the engagement, to the Committee. He provided the committee background information regarding the audit process and steps being taken during the transition.

**F&A/BARC Joint Meeting**

*Cash Management*

As a continuation of the cash management discussion, the committees reviewed the Association's current and future cash flow needs in light of the current economic reality. As a

result, it was noted that due to lower FY 2009 revenues, which are down by \$2.0 million, the current cash position has been negatively impacted. After consideration, it was deemed prudent to delay all FY 2009 transfers into the ALA endowment fund. This action will not only improve the cash position situation, but will also improve the liquidity ratio requirements stipulated in the CHOICE and Washington, DC property financing. As such, the following action was taken:

**Moved that due to the unusual economic circumstances and uncertainty regarding the FY 2010 budget, and in order to enable appropriate cash liquidity in the General Fund, divisions and round tables, the FY 2009 approved divisions and round tables transfers to the endowment be delayed after consultation with the divisions and round tables; and further, that the Board approval of FY 2010 proposed divisions and round tables transfers, be deferred.**

### **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  
Jim Neal, BARC Chair  
Larry Romans  
Roberta Stevens