

**American Library Association
Finance & Audit Committee**

**2009 Spring Meeting
ALA Headquarters
April 23**

DRAFT MINUTES

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

Staff: Keith Fiels, Mary Ghikas, Greg Calloway, Keith Brown, Elaine Klimek

Midwinter Minutes – EBD #4.12

Moved by J. Neal, second, E. Knowles

**Moved to accept the F&A Committee meeting minutes for the 2009 Midwinter Meeting.
Motion carried.**

FY 2008 Indirect Cost Study – EBD Info #2

K. Brown highlighted the findings of the 2008 study. He detailed the calculation of the rate and the types of expenses that were allocated in the model. As a result, the indirect cost rate based on FY 2008 data is 24.0%. This is the effective rate for the FY 2010 budget. He discussed the need to improve the ITTS allocation. Help Desk work tickets (repair or cleaning of computers, printers, telephones, etc.) might be a better approach to capture and allocate costs. M. Ghikas indicated that she would have the ITTS Director, who has started a time allocation effort in the department, provide information for analysis.

Post Retirement Benefits

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 of 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 B. Blalock develop models that will predict the resulting liability.

The committee thanked B. Blalock for his presentation.

Approval of the FY 2008 Final Audit – EBD #4.9

G. Calloway and R. Swedowski, Controller led a discussion of the issues related to the finalization of the audit. As reported at the 2009 Midwinter Meeting, the Association received an unqualified opinion, which is the highest that can be received. The issues under discussion relate to the method ALA used for grant recognition. During the closing process for the FY 2008 audit, a review of the grant classifications was made and it was determined that several large grants in FY 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 discussion 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 had no impact on ALA operations or profitability for FY 2008 reporting. Additionally, there were no changes to the management letter.

As a result, 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 ALA’s accounting process. Also noted, grant accounting processing and revenue recognition will be a major component of the new accounting system that is under review. The following action was taken:

**Moved by J. Neal, second, L. Romans
F&A recommends to the Executive Board approval of the FY 2008 Final Audit
(2008-09 EBD #4.9).
Motion carried.**

G. Calloway took this opportunity to recognize Russ Swedowski and Jennifer Tam for their efforts to research and analyze the reclassification.

Preparation for the FY 2009 Audit

After considerable discussion, F&A weighed the merits of requesting audit firm proposals for the fiscal year 2009 audit.

R. Swedowski, Controller, supported the recommendation of hiring a firm for one year and evaluate the need for further action. He noted that an RFP may show that other firms may

charge more; however, second tier firms would charge less. K. Fiels expressed that it would be better having a first tier, internationally recognized firm.

Moved by J. Neal, second, R. Stevens

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

Motion carried.

Business Development Framework – EBD #12.45

With help from J. Neal last summer, R. 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 highlighted the FY 2009 budget projections prepared based upon February results. The General Fund revenue projection is 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 as libraries continue to make cuts in library materials budgets, and vendors reduce advertising. General Fund preliminary expenses are projected to be \$28.7 million, which would result in a \$1.6 million shortfall. Adjustments to the budget, as of February, include: BC/BS refund (\$186,000), unclaimed checks (\$115,000) and unclaimed subscription revenue (\$196,000), 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 of Organization (\$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. R. Hersberger noted that using the Reserve is not the preferred avenue to take, but due to extraordinary circumstances and timing in the fiscal year, it is necessary as a bridge to making some structural changes in the 2010 budget.

G. Calloway went on to report that the just released March report shows that salary dollars are coming down since staff have started taking their furlough days. The elimination of 9.6 positions was completed on April 16.

M. Ghikas noted that the Annual Conference will not likely meet its net revenue goal. Registration is currently 70% of target, although it is expected to end near target. One interesting point is that international registration for Annual Conference is higher than last year, in fact, more than double. The increase is due to support staff registration; however, ALA is losing exhibit floor space and advertising.

Membership is just under budget, the March report shows that it is holding steady.

FY 2010 Preliminary Budget – EBD #14.7, EBD #14.8

K. Fiels and G. Calloway summarized specific background information and data that will be shared with the Executive Board. It was noted that structural changes in the 2010 budget were made in such a way that member services would not be impacted and remain the Association's top priority.

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 in salary and personnel are “on hold” pending review of revenue streams in the fall

The key programmatic highlights, which were discussed include:

1. A review of conferences for Annual, Midwinter as well as 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 not only focused on the FY 2009 and FY 2010 budget targets but also the potential impact that division and grant overhead will have on the FY 2011 budget.

K. Fiels noted that barring any catastrophic situation, by October the Annual Conference billings should be paid and we will be able to make more adjustments, as necessary.

Management will evaluate the budget again in April, and, again, some additional positions may need to be eliminated. There will be no salary increase budgeted for FY 2010.

Moved by R. Stevens, second, J. Neal

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. Motion carried.

Controller's Report – EBD #4.13

R. Swedowski met with the committee to highlight his report.

Inventory Levels-ALA Editions and Products & Promotions- Inventory levels at February 28, 2009, are as follows; ALA Editions \$656,360, and Products and Promotions (Graphics) \$662,520. The ALA Editions inventory reflects a \$34,000 valuation (down from \$36,000 at February 29, 2008) for Guide to Reference Books, 11th Edition. The 12th edition is in production. The largest item in the inventory for Products and Promotions at February 28, 2009 was \$107,000 of Read products, a total of 50 different items.

As of February 28, 2009 the excess and obsolete inventory reserves, reflect the following balances, ALA Editions (\$337,000) and Products and Promotions (\$113,000). In FY 2008, ALA Editions destroyed \$30,000 in excess and obsolete inventory and Graphics destroyed \$13,000. All destroyed product is charged against the respective inventory reserves for excess and obsolete products. In FY 2009, ALA Editions and has destroyed \$10,000 of excess and obsolete inventory, while Graphics destroyed \$11,200. Additions to the reserve through February are \$21,000 for ALA Editions and \$14,000 for Graphics.

Credit and Collections- At February 28, 2009, trade accounts receivable were \$3,576,595 as compared to \$2,224,812 at February 29, 2008. The 150+ day aging bucket at February 28, 2009 contained \$1,274,117 of receivables as compared to \$196,714 at February 29, 2008. Only \$51,437 of the FY 2009 150+ day balance is at PBD. The large balance is a result of a large volume of conference exhibitor billings for the annual conference in Chicago, IL. In 2008 the billings were not done until March.

Unrelated Business Income Tax (UBIT)- The preparation of the final UBIT worksheets and the actual tax returns commenced in late March, and as of this date the 990 is in process. The due date for Form 990 has been extended to July 15, 2009. The due date for Form 990T used for reporting unrelated business income tax was previously extended to June 15, 2009, and will include the taxation of the proceeds for periodical advertising income. Estimated payments for FY 2008 were made to the Internal Revenue Service, \$30,000 and the Illinois Department of Revenue, \$3,000 and the prior year returns had overpayments totaling \$18,628 that were applied to the returns currently being prepared.

A-133 Audit Update- The A-133 audit work is scheduled to begin on April 15, 2009. Ernst & Young has requested documents and schedules, most of which has been gathered by staff, to allow them to perform the audit in a timely and efficient manner. The audit is expected to take two weeks with the report being issued in May.

403(b) Plan Rules- On November 16, 2007 the Department of Labor, Internal Revenue Service and the Pension Benefit Guarantee Corporation published revisions to Form 5500 Annual Report/Return of Employee Benefit Plans in the Federal Register. The changes are effective for plan years beginning on or after January 1, 2009. The Associations 403(b) plan year is September 1, 2008 to August 31, 2009. Accordingly, the changes will be effective for the following plan year.

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.

990 Issues- The 990 for fiscal year ended August 31, 2008 is in the early stage of preparation, with data gathering as the current major task. At this point there are no issues that have been noted.

Debt Service Coverage Ratio- In conjunction with the Reimbursement Agreement relating to the bonds issued to finance the purchase of the DC office property the Association is required to file a compliance certificate on a quarterly basis. The certificate addresses the provisions of the loan agreement and details whether or not we are in default of any of the provisions. In addition, the compliance certificate for the second quarter (2/28) needs to include the covenant measurement for Unencumbered Liquid Assets and the fourth quarter (8/31) needs to include the covenant measurements for Debt Service Coverage and for Unencumbered Liquid Assets. For the period ending 2/28/2009 the compliance certificate was prepared and both covenant measurements were computed. The Liquid Asset ratio was an acceptable 1.03. The Debt Service ratio was -5.0 (1.15 to 1.0 minimum required), which is not in compliance with the terms of the loan agreement, however, this ratio is only required to be reported for the fourth quarter. Accordingly, this ratio will be closely monitored to attempt to bring it in compliance with the terms of the loan agreement.

Annual Conference Planning

R. Hersberger will work with staff on his Council presentation. He will touch on the FY 2009 adjustments made; economic impact; looking forward to FY 2011. R. Stevens noted that the audience (members) wants to know the latest trends in business and services available to ALA members, and how ALA will support these trends.

R. Hersberger will work with the BARC chair so that they will not overlap reporting items. J. Neal noted that he is in contact with Camila Alire regarding the PBA meeting agenda; and that he will work with M. Ghikas to develop an agenda for the Divisions/BARC meeting.

The Finance and Audit Committee held a Closed Session to discuss the Endowment Trustee selection.

With no further business to conduct, the meeting was adjourned.