

**Finance and Audit Committee  
ALA 2009 Annual Conference  
Chicago, IL**

**Draft Minutes**

**Saturday, July 11**

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

Staff: Gregory Calloway, Keith Brown, Keith Michael Fiels, Elaine Klimek

Others: Dan Bradbury, Senior Trustee

**Spring Meeting Minutes – EBD #4.15**

**Moved by J. Neal, seconded by E. Knowles**

**To approve the minutes as written.**

**Motion carried.**

**Endowment Trustees Report to Council – EBD #13.6**

D. Bradbury, Senior Trustee, presented his draft report to the committee noting that he will continue to work with staff to finalize his report to Council on the performance of the endowment fund for the six-month period ending June 30, 2009. He stated that performance in the endowment was a “tail of two quarters.” The first quarter reflected continuing investor capitulation, which resulted in a portfolio loss of \$1.3 million. Since then, the market and portfolio have rebounded to a gain of \$1.2 million or 5.8%. This compares to the portfolio’s index return of 3.7%. All managers did well compared to their benchmarks. However, the performance of Alliance Bernstein, core manager, and Pimco, fixed income manager, were very good. Each generated \$520,469 and \$530,429, respectively.

D. Bradbury noted that ALA is doing better than similar type large endowments because of its asset allocation strategy, which is the key to generating excess returns in the portfolio. At this point, the Trustees will continue to maintain the current balance between equities and fixed income (61%/39%) but review all allocations to reduce risk and improve performance.

The committee thanked D. Bradbury for his report and noted that they will attend the Council meeting to hear his report.

The committee took this opportunity to congratulate D. Bradbury on his reappointment as Senior Trustee and R. Stevens on her election as ALA President-Elect. Also noted was the passing of ALA Past President, E. J. Josey, who will be remembered by his colleagues as a committed scholar, mentor, educator and activist.

#### **FY 2009 Budget Update (as of May 31, 2009) – BARC #5.12**

G. Calloway highlighted the report and noted that for the nine month period ending May 31, 2009, ALA reported 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 was \$2.1 million (11%) less than budget due in part to poorer performance in 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 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. Note that staff furloughs of 5 days are estimated to save the Association \$250,000.

Divisions have requested that just under \$1/2 million be transferred to the endowment.

Management would like to hold a discussion about deferring these transfers at the joint BARC and Finance and Audit committee meeting on Monday, when BARC will entertain a recommendation to F&A/Executive Board to defer the division transfers.

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 highlighted the report and noted that since the spring budget presentation, minimal changes were made. He reminded members that there is no salary adjustment in the FY 2010 budget. All expense categories have been reduced including payroll and related expenses

including the elimination of 9.6 FTEs. 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.

Total ALA revenues for FY 2010 are budgeted at \$54,428,945 excluding capital gain from the Long-Term Investment Fund. The ALA revenues are adjusted downward by \$79,848 compared to the preliminary spring budget. Divisions adjusted revenues downward by \$776,269 and Grants adjusted revenues upward by \$695,501. Total ALA expenses, including all funds, are budgeted to reach \$54,610,314. Divisions adjusted expenses downward by \$603,604 and Grants adjusted expenses upward by \$695,501 due to new grants awarded.

The General Fund for FY 2010 has budgeted revenues of \$28,314,505 million and has not changed significantly. This consists of dues income of \$6,278,400, which is an increase of \$335,142 compared to FY 2009 projections. This is a function of dues being fully actualized in FY 2010 based upon the last year of the dues increase. Additionally, this assumes that regular member levels will remain essentially flat during the year with slight increases in student and support staff members. The sale of materials, which includes the sale of books, is budgeted for a total of \$4,874,526 as compared to \$5,572,643 in FY 2009. There will be a total of 34 front list titles in ALA Editions. Subscriptions, a function of Booklist, Booklist Online and Book Links, are budgeted at \$2,763,844 compared to \$3,001,348 in FY 2009. Advertising income is projected to decrease to \$3,812,896, which is \$634,561 less than the approved FY 2009 budget.

Advertising is an area that has been hit hard by the weakness in the economy. Revenue from meetings and conferences are budgeted at \$7,570,800, which is a decrease of \$225,525 from the FY 2009 budget. Both conferences will be on the east coast (Boston and Washington), which has historically been a good draw for attendance. Expenses for the General Fund are budgeted at \$28,313,585, which is \$1,750,527 (5.8%) less than the FY 2009 budget. These expenses also include \$337,000 for an unallocated line item in case of further potential revenue shortfalls.

Revenues for Divisions are budgeted at \$16,250,601, which is lower by \$776,269 from the Spring meeting. Total expenses are budgeted at \$16,426,787. This is lower by \$603,604 from the Spring meeting. It is likely that the Divisions will make further adjustments at this Annual Conference.

Round Tables have budgeted revenues of \$356,005, which is down from \$380,144 in FY 2009 and is unchanged from the Spring meeting. The Plant Fund budget, which covers the costs related to the 40 and 50 East Huron buildings, the Washington Office and CHOICE, is \$2,037,576. There will be a General Fund transfer of \$1,726,563 to cover all building related expenses. The CHOICE portion of the cost is \$310,813, which includes repairs, maintenance, utilities, leased equipment, interest expense and property taxes. The Long-Term Investment Fund is budgeted to generate \$616,796 in revenue to fund scholarships and awards. Grants and Awards are budgeted at \$8,891,038 but was increased by \$695,501 based on approved grants. Overhead recovered from grants are budgeted at \$874,719 and will offset expenses in the General Fund. The capital budget for FY 2010 totals \$2,156,639. This budget maintains ALA's property. This also includes investment in computer and technology. The capital contingency of \$100,000 is for unexpected capital related contingencies.

G. Calloway reported an ongoing daily review of the Association's operating cash. In addition to monitoring other cash inflows and outflows an effort is being made to provide a cash flow cushion. As a result, the Associations' line of credit with JP Morgan Chase is in the process of being 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.

R. Hersberger stated that he fears that the projections are too rosy since we've no idea of the financial impact of this Annual Conference. There need to be contingencies in place before the fall meetings. K. Fiels noted that there may be structural changes/programmatic changes (co-directorships, as an example). He suggested that a conference call (K. Fiels, R. Hersberger, J. Neal and G. Calloway) be scheduled in September to discuss options.

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

**Moved by J. Neal, seconded by R. Stevens:**

**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:**

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

**The motion carried.**

**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.**

**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 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:

**Moved by E. Knowles, seconded by L. Romans**  
**The Finance & Audit Committee recommends to the Executive Board acceptance of the FY 2008 A-133 Audit.**  
**The motion carried.**

*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 Neuberger 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.

### **Audit Planning and Transition – Grant Thornton**

Staff provided a discussion summary 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:

#### **The Finance & Audit Committee recommends to the Executive Board approval of Grant Thornton to conduct the FY 2009 audit.**

G. Calloway introduced Frank Jakosz, the Grant Thornton (GT) partner in charge of the engagement. F. Jakosz has been with GT for the last six years. He noted that he was glad to be back working with ALA (he was previously with Ernst & Young). He went on to say that GT is an international company with fifty-one offices in the United States. They have three audit partners that work strictly with non-profit organizations. Because they are so specialized, they do not focus on government or healthcare; they do, however, examine IT practices and procedures. He went on to provide the committee background information regarding the audit process and steps being taken during the transition.

R. Swedowski stated that preliminary audit work will begin toward the end of July and the year-end audit will be November 16 through December 11 with the target of having the audit available before the Christmas holiday.

The committee thanked F. Jakosz for attending the meeting and providing the background information on Grant Thornton.

### **Monday, July 13 – F&A and 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 consider a delay of all scheduled FY 2009 transfers into the ALA endowment fund. It is projected that this action will not only improve the current cash position situation, but will also improve certain liquidity ratio requirements as stipulated in the CHOICE and Washington, DC property financing. The following action was taken:

**Moved by L. Romans, seconded by J. Eagan**

**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.**

**The motion carried.**

R. Hersberger noted that Council did not refer any new actions to BARC.

*Fall Meeting Plans*

BARC will meet on October 8 and 9, with an orientation for new members to be held on the morning of October 8.

F&A will meet all day on October 22; and the Division Leadership meeting will also be held that day.

The Executive Board will meet October 23 – 25.

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