The primary objectives of the meeting included a review and discussions on the following topics:

- FY 2010 Unaudited 2nd Close Results – EBD #14.4
- FY 2011 Final Budget Ceilings – EBD #14.1
- BARC Report – EBD #3.1
- Endowment Trustees Report – EBD #13.0
- Controller’s Report – EBD #4.3
- Post Retirement Benefit – CBD #1
- New Business Development Update

**FY 2010 Unaudited 2nd Close Results – EBD #14.4**

G. Calloway provided the committee with a review of the fiscal year end results based on the 2nd close results. He noted that there will be a third and final close and that the auditors will be in the offices to conduct the audit beginning on November 15th.

The first item was to recognize the accounting staff for their efforts in capsulizing the information related to the year-end close process. Their efforts are considered significant in view of the issues encountered during the year.

*Total ALA – 2nd Close:* Total ALA revenues for the fiscal year-end results were $51.7 million, which is 4.3% or $2.5 million less than budget of $54.0 million and compares to $53.7 million last year. Accounting for most of the underage against budget was the General Fund, which was down by $1.7 million at $26.4 million or 6.0%. Additionally, Grants & Awards were lower by $692,410 or 7.7% at $8.3 million and the Divisions were lower by $314,687 or 2.0% at $15.8 million. The General Fund was impacted by lower revenue from Publishing ($708,233), Conferences ($806,889) and Dues ($72,113). It was further noted that the Midwinter Meeting did not meet its net revenue target of $57,516 with actual results of $4,575 as total revenues were under budget by $173,832 at $2.5 million, primarily from lower exhibit rentals ($81,869), registration ($54,281) and advertising ($45,744). Annual Conference met its net revenue target despite lower than budgeted revenues as a result of improved expense savings. A major positive contributor was the improvement in interest income, which was over budget by $178,496 and totaled $918,432 due to prudent and strategic moves in the bond portfolio and endowment.
Total ALA expenses for the period were $49.4 million compared to budget of $54.4 million and $53.0 million last year. This was 9.2% or $5.0 million less than budget. Significant savings were realized in the General Fund ($2.0 million) at $26.1 million, the Divisions ($2.0 million) at $14.4 million and Grants & Awards ($692,410) at $8.3 million. Expense savings in the Divisions were lower still from projections of $15.2 million by $787,581. It should also be noted that total ALA expenses were lower than projections by $1.8 million or 3.4%. On an overall basis the net result was excess revenues over expenses of $2.3 million with the General Fund realizing net revenue of $304,317.

G. Calloway went on to discuss the impact of the FY10 results on the General Fund’s net asset balance which began the year at $2.6 million. Taking into account the projected net revenue of $304,317, the FY10 ending net asset balance will increase to $2.9 million. The 2010 initiative projects of $123,563 and a previously approved technology reserve fund of $1.0 million will reduce this balance to $1.8 million.

G. Calloway closed by stating the amount of hard work by all staff in helping to bring in a positive net revenue for the fiscal year, particularly in view of the mid year adjustments that needed to be made. The Chair and the committee concurred with the statement and also recognized the finance and accounting staff for their efforts. As such the following action was taken:

F&A would like to acknowledge and recognize the extraordinary efforts by staff and the finance/accounting team for their work in bringing the Association to a positive result in view of the difficult environment in which they operated.

**FY 2011 Final Budget – EBD #14.1**

G. Calloway highlighted for the committee changes to the FY11 budget since the Annual Conference. It was noted that the economy is still in flux and showing signs of improving, but that the library community is expected to continue experiencing negative impacts for the foreseeable future. As a result, management made several additional adjustments to the budget to reduce both revenue and expenses. Some of the changes include the following:

- Incorporated approved grants received after AC
- Modified Division budgets based on their board’s recommendations
- Grants as approved at this point in time
It was further noted that this budget will not have a compensation increase for staff, has no budgeted furlough and due to continued cash concerns there will be no operating transfer into the Long-Term Investment (Endowment) Fund. On the plus side it was noted that interest and dividend income has been conservatively budgeted at $77,000.

After a discussion of the budget changes since Annual Conference the following action was taken:

F&A concurs with BARC and recommends to the Executive Board approval of the final FY 2011 Budget, 2010-2011 EBD #14.1, which includes all the motions.

BARC Report – EBD #3.1

M. Gonzalez reported to the committee on the activities of BARC, who met for two days on September 30th & October 1st. He highlighted the primary objectives that are standard for the committee at its fall meeting:

- BARC Orientation
- FY 2010 Budget Review, 1st & Preliminary 2nd Close Results – BARC #5.2
- FY 2011 Budget Update – BARC #26
- New Business Development
- PBA and Finance Workshop Content

The meeting resulted in the following actions that were forwarded to the Finance & Audit committee:

BARC recommends to the Executive Board that an organizational incentive of an amount equal up to one week salary plus benefits be awarded to all staff as of August 31, 2010.

BARC recommends to the Executive Board approval of the final FY 2011 Budget, 2010-2011 BARC #26,

M. Gonzalez closed by stating that the committee wanted to acknowledge the amount of hard work by all staff in helping to bring in a positive net revenue for the fiscal year, particularly in view of the mid year adjustments that needed to be made.

Endowment Trustees Report – EBD #13.0

K. Brown presented the Trustees report to the committee. As illustrated in the report the Endowment’s value as of 8-31-10 was $30.2 million. This represents a gain in value of $1.5 million and a return of 5.8% compared to its benchmark of 5.6%. Year to date (10-19-10) the
value is $30.7 million. Despite the uncertainty and increased volatility in the market most of the managers met or beat their respective benchmarks. The portfolio was favorably impacted by the Trustees’ decision to overweight fixed income asset category, which contributed $965,645. This was particularly true of the performance from Pimco ($862,355). As the portfolio is currently constituted it is defensive in nature with the expectation of GDP of less than 2% and constrained inflation. The major factor that may negatively impact the portfolio in the near future is the decision on the expiring tax cuts. If the tax cuts are allowed to expire it is expected produce an additional 1% drag on GDP.

Also reviewed by the committee was a revised investment policy. Since late spring the Trustees have been reviewing the policy with the intention strengthening it where possible and positioning it so that as better investment opportunities become available they are in a position to move quickly and decisively. As a result the committee discussed three primary areas of change a) allowance for investments in Exchange Traded Funds (ETF’s) and institutional mutual funds, b) expansion/adjusts to the asset allocation weights and ranges and c) inclusion of an expanded real asset category. After our review and discussion it was felt that the recommended changes did in fact strengthen the policy and took the following action:

F&A concurs with the Endowment Trustees and recommends to the Executive Board approval of the updated ALA investment policy.

The committee also welcomed the opportunity for the full Board to hear from ALA’s Investment Advisor – Merrill Lynch – at these meetings to further understand the importance of the proposed changes.

**Controller’s Report – EBD #4.3**

ALA Controller, Russ Swedowski, presented the fiscal year end status of the inventory, credit & collections, cash and short-term investments, as well as, other items of interest in the finance/accounting area.

**Status of Financial System Implementation** – As noted in previous reports the 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 have 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.

ALA has since decided to proceed with implementing Microsoft Dynamics GP – the core of the financial system and General Ledger. McGladrey provided a prototype of the system composed of three major components – Microsoft Dynamics GP, SharePoint and Knowledge Lake. Workflow rules for SharePoint and Dynamics GP are being discussed. While a team of grant users will finalize Grant reporting requirements, heavy users from across the Association will be meeting to discuss the new Purchase Order, Invoice, Expense Report, Check Request and approvals processes. In the meantime McGladrey will be working with Finance and ITTS to resolve any implementation issues that may arise as the initial version is being built. The target date for the installation of software and hardware is late January or early February of 2011.

Annual Audit – Accounting staff met with representatives from Grant Thornton on July 23, 2010 to commence the preliminary audit work. Auditors were provided with requested work papers and reconciliations. The auditors will be back in the office for final fieldwork on November 15th – December 10th. The audit work on the A-133 report for grants will be completed during this audit.

Cash Management - As mentioned earlier, cash and short-term investments at 8-31-10 was $17.5 million compared to $17.5 million last year. Interest income for the year was $918,000, which is $179,000 more than budget of $740,000 and $204,000 less than last year. The Neuberger Berman bond fund investment balance is $15.6 million. As a result of operating needs, one withdrawal was made during the year (9/22). This fund has produced $8.5 million in interest income since 12/91.

The Association maintains a $2.5 million line of credit with JP Morgan Chase. There were two withdrawals during the year on 4/14/10 in the amount of $500,000 and was repaid on 5/3/10.

Regulatory Issues – The Controller reported that the Department of Labor, IRS and Pension Benefit Guarantee Corporation published revisions to the 2009 form 5500 Annual Report/Return of Employee Benefit Plans. The new requirements resulted in additional schedules and an audit of each plan. Management is working with McGladrey & Pullen to audit the Association’s two retirement plans. Audit work commenced in late 7/10 with several findings related to the accuracy of contributions applied by TIAA-CREF to individual retirement contracts. At this point TIAA-CREF will not certify the market value of the plans assets as of 12/31/09. This is an issue with all TIAA-CREF clients and is currently being reviewed by the audit profession, the federal government and the retirement plan investment industry. The required filings were made on 10/11/10 with an attachment detailing the issues. The additional information is designed to serve in the place of an auditor’s opinion until the issues are resolved.

Inventory – Inventory levels at 8-31-10 for ALA Editions and Products & Promotions were $798,000 and $642,000 respectively. The ALA Editions inventory reflects a $33,000
valuation for the 11th edition of Guide to Reference books. The largest item in the inventory for Products & Promotions is the “Read” products (51) valued at $106,000.

The excess and obsolete inventory reserves for ALA Editions and Products & Promotions were $256,000 and $158,000 respectively, which are appropriate. For the year there has been $0 (Editions) and $66,000 (Products & Promotions) of destruction of excess or obsolete inventory. Testing of reserves was performed as part of the year-end closing process, which resulted in a reduction in reserves of $70,000 in ALA Editions and $0 change in Graphics.

**Credit and Collections** – As of 8-31-10 trade receivables totaled $1.7 million as compared to $2.2 million a year earlier. Trade receivables in the 150+ day category decreased to $166,000 from $501,000. This is at a historically normal level.

As a result of some special year end reports as provided by ALA’s fulfillment company – PBD – the adequacy of the bad debt reserve was tested. The result was a pre-adjusted balance of $332,000. Year end testing of this balance during the second close revealed that the reserve was too big and was therefore reduced by $100,000.

**Post Retirement Benefit (Closed Session) – CBD #1**

F&A went into closed session and reviewed with management the status of their efforts to develop solutions to mitigate the accelerating growth in the Association’s liability related to the post retirement benefit plan. A number of options (5) were discussed. Each with varying degrees of cost savings and impact on the current plan participants. Cost savings were the primary objective of this exercise, but a close second was to have little negative impact on the current participants as possible. It was also emphasized that the plan, in what ever form it took after the recommendation, also needed to be robust enough to still be attractive to potential new employees.

After careful consideration, staff (Executive Director) will be discussing with the Full Board a recommendation that meets all of above mentioned criteria. The recommendation discussed was supported by this committee and will be discussed further during the Sunday session.

**New Business Development Update (Closed Session)**

F&A went into closed session to continue more in-depth discussions on new business opportunities that are currently under review. The business advisory group consisting of Jim Neal, Rod Hersberger, Keith Michael Fiels, Robert Walton, Susan Epstein and Jim Fish met on October 11 to further discuss the opportunities that are currently available.

The new business opportunities based on:

1. Identifying new markets for current products/services
2. Exploring merger/acquisition opportunities
3. Evaluate the feasibility of investment in new business product/services

Discussions on these opportunities will continue.

**Acknowledgement**

On behalf of the Finance and Audit Committee we want to thank ALA Finance Staff - Keith M. Fiels, Greg Calloway, Keith Brown, Russ Swedowski, Sandy Lee and Elaine Klimek - for all their help in preparing for and executing the meeting and activities of the 2010 ALA fall meeting. We would also like to extend a special thanks to Tihuana Spells and Cheryl Malden for stepping in on short notice and providing assistance during the meeting in the absence of Elaine Klimek, who we all wish a safe and speedy recovery.

Respectfully submitted,

James Neal – Treasurer
Em Claire Knowles
Steve Matthews
J. Linda Williams
Mario González, – BARC Chair