2010-2011 EBD #4.5

American Library Association
2010 Midwinter Meeting
Finance and Audit Committee
Report to the Executive Board
Tuesday, January 11, 2011

It is my pleasure to report to the Executive Board on the activities of the Finance and Audit Committee (F&A) at this Midwinter Meeting. Below are some topics F&A discussed:

- Proposed Presidential Initiatives Budget – BARC #19 (EBD #14.6)
- FY 2011 1st Quarter Budget Update – BARC #5.6 (EBD #14.7)
- FY 2012 Budget Guidelines – BARC Info #4
- New Business Development Update
- Endowment Trustees Report – EBD #13.1
- Indirect Cost Study Assumptions – EBD Info #1
- FY 2010 Audit Report – EBD #4.7
- Controller's Report – EBD #4.6

On Friday morning, January 7th, the Finance and Audit Committee of the Executive Board met jointly with BARC. F&A then met separately on January 8th and 10th.

Proposed Presidential Initiatives Budget – BARC #19 (EBD #14.6)

BARC and F&A reviewed the presidential initiatives proposed by President-Elect Molly Raphael. In addition to building on the work of previous Presidential office holders, this budget will be focused in three areas:

1. Advocacy - "Why Libraries Matter: Empowering Community Voices" A continuation of previous advocacy efforts with this effort designed to help all types of libraries mobilize their communities to speak out for their libraries, based on the values those libraries contribute to their communities - $60,000
2. Diversity - "Building Diverse Leadership Through ALA" Going the next step beyond Spectrum i.e. building leadership skills in a more diverse workforce – $12,000
3. President's Programs at MW and AC Utilizing the energy and exuberance of young people to advocate for libraries via a contest - $20,000

She noted that she will maintain a contingency reserve of $8,000 for likely unexpected expenses that may arise. Additionally, she indicated that she is well aware of the financial challenges facing ALA and is more than willing to turn back any unspent dollars or adjust her budget as needed along with ALA.

BARC supports the presidential initiatives.

Action:
Finance and Audit Committee concurs with BARC and recommends to the Executive Board approval of the President-Elect's 2012 budget in the amount of $100,000.

FY 2011 1st Quarter Financial Report – BARC #5.6 (EBD #14.7)

BARC and F&A reviewed the first quarter FY 2011 budget report, and noted the following highlights:

Total ALA (all combined funds) revenue of $8.7 million is $337,004 (-4.2%) less than budget. It was also noted that this was $2.4 million (-21.7%) less that the same time last year, primarily due to a division national conference. Grants of $822,351 were also down compared to last year at $1.9 million due to timing and fewer grants in general. The General Fund revenue of $4.8 million was less than budget by $149,500 (-3.0%) and flat compared to last year. The biggest concern is in communications where dues were flat compared to last year at $1.4 million but less than budget by 126,310 (-8.1%) as Organizational dues are lower than expected. Dues are expected to be less by $175,000. It was noted that there was a dues increase built in this year's budget. On the plus side Publishing was right on target with revenue of $3.0 million. Division revenues of $2.8 million are less than budget by $174,700 (-5.9%) and less than last year by $1.3 million due to a division national conference. Investment interest and dividends at $167,477 are more than budget by $46,883 (38.9%), but down compared to last year at $195,953 as rates have fallen.

Total ALA expenses of $10.3 million are $700,385 (-6.4%) less than budget and $1.1 million less than last year. The General Fund expenses of $6.4 million are $120,594 (1.9%) more than budget. Division expenses are $659,166 (-18.2%) less than budget at $3.0 million. Grants and Awards are $822,351 (-9.0%) less than budget due primarily to timing.

Referring to the balance sheet a few highlights were made. Total assets for the period are $69.1 million and are $448,575 (6.5%) more than the same time last year as a result of increases in cash and short-term investments, property, plant & equipment. Cash at $18.6 million was higher than last year by $149,814. Interest income was $175,335 but lower than last year despite a higher average investment balance of $15.7 million. The Long-Term Investments totaled $30.9 million as compared to the $29.0 million balance at November 2009. Total liabilities were $38.9 million, which is lower than last year by $2.7 million. The reduction was directly related to lower deferred revenue related to grants and awards, dues, and meetings & conferences. As a result, net assets of the Association were $30.2 million, which is higher than last year by $2.7 million.

FY 2012 Budget Guidelines – BARC Info #4

BARC and F&A reviewed the budget planning strategies for FY 2012 and the guidelines provided to ALA unit managers. The FY2012 budget will provide financial support to the following:

- Support for the Key Action Areas
- Support for ALA 2015 Goals
- Support for unit and divisional programmatic and member service goals
- Support for the ALA organizational goals

Some of the key assumptions in the budget's development include:

- Budgets will be prepared with a zero percent increase over FY 2011
- A 2% compensation adjustment

Endowment Trustees Report - EBD #13.1

Dan Bradbury, Senior Trustee, joined the committee to report on the performance of the ALA Endowment Fund. Due to the timing of this conference meeting he did not have the full analysis of the calendar year end results and would be reporting on the year to date results ending 11-30-10. However, he was able to inform the committee that the preliminary 12-31-10 results reflected a portfolio valuation of $31.7 million with a gross return of 12.2%. For the eleven months for which analysis is available the endowment fund realized a gain of $2.2 million to $30.9 million for a return of 8.0% compared to its benchmark of 8.1%.

This performance was achieved under difficult circumstances. Unemployment, which started the year at 9.7%, increased during the year to nearly 10.0%. Despite a jobless recovery, corporate America had never done better. The cash balances for American corporations reached a 50 year high. Most of the profitability realized during the year were the result of labor cost savings and other cost cutting efforts but no organic growth. All of the managers reported positive result for the year. Most of the managers met or beat their respective benchmarks.

The Trustees believe that the foundation has been laid for some significant long-term gains in equities due to the increase of liquidity around the world via central banks, which has raised the expectation for higher inflation. Since the Annual Conference the Trustees began to underweight the fixed income portion of the portfolio ($4.8 million) and reallocated the funds primarily to three new mutual fund managers that specialize in real assets (i.e. real estate, commodities, metals etc.) In addition to the new mutual fund managers it was also noted that the Trustees made the decision to consolidate the portfolio's SRI holdings into one manager. As a result the Blackrock SRI was liquidated and reallocated to Ariel Capital Appreciation SRI mutual fund.

A final item discussed was a proposed changed in the endowment spending policy. It was noted that the Trustees in conjunction with the ALA finance staff, are in the process of performing some financial modeling. It is the expectation that this exercise will yield a payout rate that will increase the current level of spending and provide certainty as the funds available for programs, while minimizing the impact on the portfolio's total return. It is our intent to report back to you on this subject in the spring or at the latest at Annual conference in New Orleans.

Indirect Cost Study Assumptions - EBD Info #1

K. Brown reviewed with the committee the indirect cost study assumptions to be used in the 2010 study. The study will be conducted in the same manner as the 2009 study. It was noted that were would be no changes in the general methodology used in conducting this year's study. The sources of the information used in the study i.e. 2010 audit report and internal performance reports etc., the allocation methods to be used and timeline. The results of the study will be summarized and presented for review at the spring meeting. One discussion point of note was the allocation method used for allocation ITTS costs. Staff and the committee suggested that there may be better options than the current method i.e. number of PC's. Staff is also exploring options to provide units a final indirect cost rate earlier in the budget process. A two year lag is recommended

FY 2010 Audit Report – EBD #4.7

Frank Jakosz, Partner and Carrie Charles, Manager of Grant Thornton presented the audit results related to the fiscal year 2010 audit results. ALA received an unqualified opinion and that the financial statements fairly represent in all material respects, the financial position of the American Library Association. There were no significant control or material deficiencies cited. Additionally there were three opinions offered on this audit, which reflected the following:

1. Noted no material weaknesses or significant deficiencies
2. Noted no internal control deficiencies
3. Noted compliance in accounting for federal awards with the OMB A-133

As a result the following action was taken:

ACTION:
F&A recommends to the Executive Board acceptance of the FY 2010 preliminary audit draft as presented by Grant Thornton.

Controller's Report – EBD #4.6

R. Swedowski was present to highlight his report for the committee.

ALA Financial System Replacement - The finance department and ITTS continue to work with its consultant, McGladrey, on the selection and development of a new financial system. Since October a number of policies, procedures and workflow issues have been addressed. In late December the new financial system was presented to senior management. During January and February the implementation team will define the workflow rules and resolve any policy or procedural issues that have been identified. The final installation of hardware and software will be coordinated by ITTS. The new system will significantly enhance monitoring and forecasting accounting transactions, as well as, provide greater tools for cash management.

Cash Management and Bond Fund- Total cash and short-term investments at November 30, 2010 amounted to $18.6 million as compared to $18.5 million a year ago. The increase is due to timing of deferred revenue collection for Midwinter, which is $618,635 higher this year. Year-to-date interest income is $175,335, which is $17,846 less than the budget of $193,181 and $68,567 less than last year.

The Neuberger Berman bond fund investment balance is $15.7 million at November 30, 2010 as compared to $15.1 million at November 30, 2009. The increase reflects an improved market since there were no additions/withdrawals to the investment. As noted in schedule 6, this investment has produced over $8.6 million in interest income since December, 1991 and the yield has been well above the yield from certificates of deposit. With regard to risk of principal, the account finished FY 2010 with a realized/unrealized loss of $90,182. At November 30, 2010 the cumulative (computed since December, 1991) net realized/unrealized gain is $320,663.

The Association maintains a line of credit in the amount of $2.5 million with JP Morgan Chase. To meet operating needs the line was accessed in the amount of $1.0 million on 9-1-10 and repaid on 12-8-10.

Liquidity Ratios – In the process of securing long-term debt arrangements with JP Morgan Chase and Bank of America to the meet identified Association needs, ALA is required to provide and maintain quarterly and semi-annually certain liquid financial ratios. For the last reporting period 8-31-10 the Chase funded unrestricted cash & investments to funded debt measured 11.4 to 1.0 compared to the requirement of 2.0 to 1.0. JP Morgan Chase's debt service coverage ratio measured 9.4 to 1.0 compared to the requirement of 1.2 to 1.0. As a result the Association is well positioned and has meet both of its liquidity ratio requirements.

Inventory and Credit and Collections – Information related to these two topics were covered in the controller's report and were well within the acceptable levels for required reserves (excess and obsolete), aging of receivables and reflected no issues.

Regulatory Issue: 403 (b) Retirement Plan Audit – Audits were performed in late July, 2010 by the firm McGladrey & Pullen. Market value certification at 12-31-09 by the plan administrator TIAA-

CREFF continues to be an issue facing ALA and all TIAA-CREF clients. Two related 5500 filings were completed on October 11, 2010 detailing the issues which are preventing an audit opinion. An amended return will be filed when the issues are resolved and an opinion is available.

Acknowledgements

We continue to be well served by Greg Calloway, Keith Brown, Sandra Lee, Russ Swedowski and Elaine Klimek and the ALA financial and accounting department. They have been very dependable, reliable and thorough in assisting in our financial oversight responsibilities.

Respectfully submitted:

James Neal, Chair
Em Claire Knowles
Marion Gonzalez, BARC Chair
Linda Willaims – Conference Call
Steve Matthews

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