

**American Library Association  
2011 Spring Meeting  
Finance and Audit Committee  
Report to the Executive Board  
Saturday, April 9, 2011**

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

- Indirect Cost Study – EBD Info #1
- FY 2011 Budget Update and Projections – EBD #14.14
- Endowment Trustees Report – EBD #13.2
- Preliminary Budget Overview – EBD #14.9
- Small Division Support – Business Plans
- Technology Reserve Update – EBD #4.12
- Controller’s Report – EBD #4.9
- Annual Conference Planning
- New Business Development Update

On Thursday morning, April 7th, the Finance and Audit Committee of the Executive Board met to discussion financial developments since the Midwinter meeting in San Diego.

**Indirect Cost Study - EBD Info #1**

K. Brown summarized for the committee the results of the 2010 Indirect Cost study. Using the 2010 ALA audited financial reports, internally generated Performance reports and updating the allocation information, the resulting rate was 25.5%. This is a decline from last year’s rate of 26.1%, a decline of 2.3%.

Overall the combined direct/indirect costs declined by \$1.8 million (-9.0%) to \$17.9 million. This is in line with the decline in ALA’s total expenses of \$3.3 million (-6.2%) to \$51.9 million. Reviewing the information by cost type the areas with the most significant reductions were General Administration (\$1.5 million), which was related to the impact from the increase in postretirement benefit costs in 2009 and Production Services (\$166,525), which was impacted by a reorganization in the Publishing department where production costs were imbedded within other publishing units. Review on a group category basis reductions were realized in all categories across the board. The most significant changes were in Restricted Funds (\$801,377) as the amount of Grants & Awards declined during the year, Divisions (\$499,316) due to a lower allocation from General Administration costs and the Offices/Committees (\$111,433) where lower allocations were realized from General Administration and Membership Services costs.

One of the additional outcomes from the study was a recommendation on how to apply the use of the 2010 rate (25.5%) in order to improve the budget planning process. During the Midwinter meeting in San Diego it was clear that the timeliness of the Indirect Cost study and its resulting rate have long been an issue for the units who are generally in the middle or near completion of first draft budget development for the upcoming year. It was discussed that no formal action was necessary as it was viewed more as an internal operating practice. The operating practice will be modified to incorporate the following:

- 1. The 2010 rate will be applied to the FY12 budget**
- 2. The 2010 rate will also be applied to the FY13 budget**
- 3. All future rates, beginning with 2011 study, will be applied on a lagging three-year basis as follows:**
  - **the 2011 rate will apply to the FY14 budget**
  - **the 2012 rate will apply to the FY15 budget**
  - **the 2013 rate will apply to the FY16 budget**

#### **FY 2011 February Financial Report – BARC #5.6 (EBD #14.7)**

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

Total ALA (all combined funds) reported revenues of \$20.0 million are \$279,147 (-1.4%) less than budget. The General Fund revenues were \$12.1 million and \$169,160 (-1.4%) less than budget. Division revenues were \$5.2 million and \$588,770 (-10.2%) less than budget. Grants and Awards revenues were \$2.1 million and \$267,261 (-14.4%) less than budget due primarily to timing. Long Term-Investments revenue was \$482,354 and over budget by \$241,166 (100.0%). It was also noted that this was \$2.8 million (-13.8%) less than the same time last year.

Total ALA expenses of \$22.0 million are \$793,423 (-3.5%) less than budget and \$2.0 million less than last year. The General Fund expenses of \$13.7 million are \$226,256 (-1.7%) less than budget. Division expenses were \$5.9 million and \$1.1 million (-16.2%) less than budget at \$7.0 million. Grants and Awards expenses were \$2.1 million and \$267,261 (-14.4%) less than budget due primarily to timing. Long Term-Investments expenses were \$230,482 and less than budget by \$529 (-0.2%).

General Fund – As noted above General Fund revenues were less than budget due primarily to lower dues (\$257,169) revenue in Communications. Personal member and organizational member dues were lower than budget by \$28,341 (-1.2%) and \$220,052 (-29.0%) respectively. Publishing was slightly under budget by \$26,030 (-0.5%) to \$5.8 million. All areas of Publishing are under budget with the exception of Booklist. ALA Graphics revenue is \$113,918 (-13.2%) less than budget at \$863,168 as the libraries and schools have been slowed by the impact of the

economy. Booklist publications – the magazine and online – both reported revenues above budget in the amount of \$135,741. However, subscription revenue in the magazine is still suffering as it is \$71,489 under budget. Print subscriptions continue to be a challenge as the library market seems to be converting rapidly to electronic versions.

On the expense side total General Fund expenses were \$13.7 million, which is more than budget by \$226,256 (1.7%). The areas with the most significant impact were General Administration (\$266,080) related to employee benefits/healthcare costs, Subscription Equivalents (\$129,440) and Business Expense (\$119,490) related to bank service charges.

As a result of the above information net revenue reflects a deficit of \$2.0 million, which is \$772,630 less than budgeted of a deficit of \$1.2 million or (-60.8%).

Division revenues were \$5.2 million, which were less than budget of \$5.8 million by \$588,770 or (-10.2%). There were three divisions that accounted for most of the shortfall – Choice (\$217,467), AASL (\$190,820) and ALTAFF (\$162,229). The shortfall in Choice was due to lower revenue from subscriptions, licensing, RCL and advertising. It is expected that advertising and subscriptions will not make budget for the year. AASL is under budget in dues, CE, subscriptions and publications revenue. These shortfalls have been somewhat offset by more donations than anticipated. This has helped fund all or part of several projects. Additionally several aggressive membership campaigns are underway. ALTAFF revenue has been hurt by a 40% drop in Folusa membership resulting from the merger. Plans to recover will be discussed shortly.

Division expenses are \$5.9 million and are under budget by \$1.1 million (-16.2%). Net revenue reflects a deficit of \$652,606, which is under a budgeted deficit of \$1.2 million or \$537,406 (-45.2%).

***FY 2011 Year-End Projections*** – Based on the results the General Fund revenues are projected to reach \$26,546,211, which is \$276,002 or 1% less than budget. Dues revenue is projected to be \$377,000 less than budget, primarily in the organizational member category (\$350,000). Subscriptions are projected to be less than budget by \$333,948 in the imprints areas, although advertising sales are showing some upside with projections of \$402,986 over budget. Projections for the Annual Conference in New Orleans indicate a shortfall in registration of \$90,000 and exhibit sales of \$175,000. Additional positives are for interest and dividends to exceed budget by \$249,273 and RDA online sales over budget by \$134,461.

Based on the above projections with a revenue shortfall of \$257,000 and an overage on expenses of \$410,000, net revenue is projected to have a deficit of approximately \$667,000. Management has reviewed their options and determined that the following adjustments/reductions will be necessary to cover the shortfall:

1. Personnel Related – \$128,000
2. Building and Technology Related – \$131,000

3. Publishing and conference Related –	\$170,000
4. Governance Committee Related –	\$ 38,000
5. BCBS Refund	- \$ 50,000
6. BCBS Reserve	- <u>\$150,000</u>
Total	\$667,000

It should be noted however, that based on the uncertainty of the New Orleans Annual Conference it may be necessary to utilize the General Fund net asset balance reserve. That decision will be made as the situation clarifies itself.

**Endowment Trustees Report - EBD #13.2**

Dan Bradbury - Senior Trustee, joined the committee via conference call to report on the performance of the ALA Endowment Fund. He reported that the March results had not yet been made available for review. As such he would be reporting on the two month period ending 2-28-11. He reported that the value of the portfolio at that point was \$32.8 million. Additionally, he was able to inform the committee that as of 4-7-11 the portfolio had grown in value to \$33.1 million. The overall performance reflected a return of 3.6% vs. its benchmark of 4.0%. Overall most of the managers met or were slightly below their respective benchmarks. Although performance in not quite at the level the Trustees would prefer, they are satisfied to this point as they firmly believe that the portfolio is positioned to do well in the future. Recently several tactical moves have been made in the portfolio since Midwinter. These centered on reducing the portfolio’s exposure to fixed income securities (bonds) due to the low interest rate environment and higher expected future inflation.

***Revision of Policy 8.5.1 - EBD #4.11*** - The final item discussed was a recommended changed in the endowment spending policy 8.5.1. It was noted that the Trustees had been exploring the idea for about a year. With the help of the ALA finance staff some financial modeling was performed, which clearly illustrated that a different payout formula was needed. In addition to the noted benefits of better planning and being in line with other institutions, the change would also generate an additional \$270,000+ over the current payout method. This would be available to supplement programs, services and general operating needs. After further discussion the following action was taken:

**Action:**

**The Finance & Audit Committee concurs with the Endowment Trustees and recommends to the Executive board approval to amend ALA Policy 8.5.1 as follows:**

- 1. To revise the annual distribution/spending/payout policy to a range of 3% - 5% of the trailing five year quarterly (20) rolling average of each funds calendar year-end net asset balance.**
- 2. The initial rate will be 4% and will be applied to the FY 2013 budget.**
- 3. The distribution/spending/payout rate will be subject to an annual review by the Endowment Trustees and the Finance & Audit Committee of the ALA Executive Board.**

**Motion carried.**

### **FY12 Preliminary Budget – EBD #14.9**

K. Fiels and G. Calloway gave the committee a broad overview of the FY 2012 budget. Details will be presented to the Executive Board on Saturday April 9, 2011.

**Small Division Business Plans** – At the Midwinter Meeting in San Diego, ASCLA and ALTAFF were asked to prepare a business plan to address their current operating results and long-term plans to end the small division support. The Executive Directors of each division provided a broad overview of their plans. From a high level the plans are as follows:

**ASCLA – To enhance the effectiveness of library services to libraries serving special populations, library cooperatives, state library agencies and independent librarians**

- A four year plan (2011 – 2015)
- Increase membership by 4% by 2015
- Develop and offer 8 online CE courses by 2015
- Brand ASCLA through programs, services, online CE and publications
- Develop and offer ASCLA sponsored library trips to ALA membership
- Develop a new strategic plan
- Develop an ASCLA Advocacy toolkit for members

**ALTAFF – Best suited to support citizen groups who want to ensure that their libraries remain fully supported now and into the future.**

- An aggressive pursuit of new friends groups and Trustee board memberships
- Authors for Libraries - a goal of 1,000 authors, which will translate into \$39,000 annually
- A corporate task force has been formed to pursue corporate sponsorships
- “Why We Want You back” campaign. Waged by staff to bring back lost Friends groups and Board of Trustees
- The Trustee Academy – to educate Trustees. All state librarians have been contacted with special pricing for a statewide purchase
- Contact former ALTA Trustees via a direct mailing
- Personal giving campaign for board and former ALTA and FOLUSA board members

Each of the Directors indicated that they have a high degree of confidence that they can turn things around, in addition to eventually eliminating the subsidy. Although this was a high level review a more detailed review will be conducted with BARC at their spring meeting April 25th-26<sup>th</sup>.

## **Controller's Report – EBD #4.9**

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 development of a new financial system. This is a two phased approach to implementation. May 1, 2011 is the target date for the first phase which is the use of SharePoint foundation 2010 and Knowledge lake Capture & Image server. These will be used for the expenditure request process and the accounts payable invoice and approval process. September 1, 2011 phase II will take place with the integration of the data capture in Phase I into the MS Dynamics GP application to automate the accounts payable posting process and use as the financial accounting system. There have been numerous discussions, meetings and reviews with the consultants and staff regarding workflow issues, training, security, policy issues and the overall benefits.

The final installation of hardware and software will be coordinated by ITTS. The new system is expected to 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 February 28, 2011 amounted to \$18.8 million as compared to \$18.9 million a year ago. The decrease is due to timing of deferred revenue collection for Grants & Awards and the PLA national conference. Year-to-date interest income is \$394,074, which is \$7,712 more than the budget of \$386,362.

The Neuberger Berman bond fund investment balance is \$15.5 million at February 28, 2011. As noted in schedule 6, this investment has produced over \$8.8 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 YTD with a realized/unrealized loss of \$336,161. The cumulative (computed since December, 1991) net realized/unrealized gain is \$74,684.

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. No additional draws have occurred and none are anticipated.

*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 2-28-11 the Chase funded unrestricted cash & investments to funded debt measured 10.1 as compared to the requirement of 2.0 to 1.0. JP Morgan Chase's debt service coverage ratio measured 6.0 as compared to the requirement of 1.2 to 1.0. As a result the Association is well positioned and has met both of its liquidity ratio requirements.

*Inventory and Credit and Collections* – Information related to these two topics was 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. 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.

### **Technology Reserve Update – EBD #4.12**

G. Calloway summarized for the committee the status of the ALA Technology Reserve fund. This fund was set up in the fall 2010 in the amount of \$1.0 million to provide a stable source of funding for the Association’s technology current and future needs. Expenditures in FY 2010 were \$74,770 and were related to financial system consulting. Based on FY 2011 planned costs related to the Finance and Accounting Management System, the Web Content Management System (\$1,000,074) and related depreciation will total \$114,961. Because FY 2011 capital expenditures are expected to reach \$1.7 million and the related FY 2012 depreciation expense (\$279,969), the reserve balance will end the year at \$597,593.

### **Annual Conference Planning**

The schedule for all financial meetings to be held at Annual Conference was reviewed with the committee members. The purpose was to be sure that the message was the same for everyone and to identify the principal financial message to be reported.

### **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. Committee members were briefed on the work of the business advisory group meeting on April 6th to further discuss the opportunities that are currently available.

The new business opportunities based on identifying new markets for current products/services, exploring merger/acquisition opportunities and evaluate the feasibility of investment in new business product/services. Discussions on these opportunities will continue and be reported to the Executive Board.

### **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

Linda Williams

Steve Matthews

Mario Gonzalez, BARC Chair

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