

**American Library Association
2011 Annual Conference
Finance and Audit Committee
Report to the Executive Board
Tuesday, June 28, 2011**

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

- FY 2011 Budget Update and Projections (April/May) – EBD #14.18
- Endowment Trustees Report – EBD #13.3
- BARC Report – EBD #3.3
- FY 2012 Budget Overview – EBD #14.15
- Controller’s Report – EBD #4.15

The Finance and Audit Committee of the Executive Board met to discuss financial developments in the Association since the spring meeting in Chicago.

FY 2011 Budget Update and Projections (April/May) – EBD #14.18

April Results - For April, total ALA (all combined funds) revenues were \$27.3 million or \$481,518 (1.7%) less than budget. The General Fund revenue of \$14.7 million was \$503,572 (3.3%) less than budget due in large part to lower revenue from Dues (\$331,140) and Publishing (\$287,037). Division revenues were \$8.9 million or \$641,376 (6.7%) less than budget. Grants and Awards were \$2.9 million or \$438,948 (18.1%) more than budget. Interest and dividend income was more than budget by \$248,302 (77.2%) totaling \$569,854 due to higher yielding intermediate bond investments.

Total ALA expenses were \$29.7 million or \$703,892 (2.3%) less than budget. General Fund expenses were \$17.6 million and \$513,842 (3.0%) more than budget due primarily to higher than expected healthcare and benefit related costs (\$242,000), as well as higher business expense (\$140,628) primarily in bank fees . Division expenses of \$8.9 million were less than budget by \$1.4 million (14.4%). Grants and awards were \$438,948 (18.1%) more than budget at \$2.9 million.

For the General Fund the result is a net loss of \$2.8 million, which is more than the budgeted loss of \$1.8 million.

Preliminary May Results – May results were made available just before this conference. Total ALA revenues were \$30.5 million or \$374,787 (1.2%) less than budget, a slight improvement

over April. In the General Fund there was further erosion as revenues were \$16.4 million or \$600,654 (3.5%) less than budget as organizational dues continues to be an issue. Division revenues showed improvement at \$10.2 million or \$308,037 (2.9%) less than budget, although the revenue from the ACRL conference is still being reconciled and should result in higher division revenues. An important note at this point is the fact that nine of the twelve divisions are reporting lower than budgeted revenues. Additionally, it was noted that close attention needed to be paid to the status of ALTAFF and their need to end the year with a positive net asset balance by FY 2013. Grants & Awards were \$3.2 million or \$320,536 (11.3%) more than budget due to timing. Interest and dividend income was more than budget by \$242,322 (66.9%) or \$604,104.

Total ALA expenses were \$33.3 million or \$1.0 million (3.0%) less than budget. General Fund expenses were \$19.7 million and \$245,284 (1.3%) more than budget. Division expenses of \$10.1 million were less than budget by \$1.4 million (12.3%). Grants and Awards were \$320,532 (11.3%) more than budget at \$3.2 million.

For the General Fund, the result is a net loss of \$3.4 million, which is more than the budgeted net loss of \$2.5 million or (33.8%).

Adjusted Year End Projections – At the spring meeting in Chicago, staff shared with BARC its year end projections. The projections were the result of the work of the department heads and unit managers and based on February results. Since that time, management refined the General Fund revenue and expenses projections based on April/May results. Projections at the end the year indicate a revenue shortfall of \$442,000 and expense overages of \$449,000 for a total of \$891,000 net loss. In view of these projections, plans are in place to manage specific expense reductions. These include the following:

Personnel Related -	\$128,000
Building & Technology Related -	\$131,000
Governance & Communications Units -	\$ 38,000
Publishing & Conferences -	\$170,000
BCBS Refund -	\$220,000
BCBS Reserve -	<u>\$ 50,000</u>
Total	\$737,000

Based on this updated information, there will be a potential shortfall of approximately \$154,000. Pending the results of this Annual Conference, management has indicated that there may be a need to access Board reserves in the range of \$154,000 - \$375,000. The range uncertainty related to the expense savings projections. As such the following action was taken:

F&A concurs with BARC and recommends to the Executive Board the use of the reserves of up to \$375,000 for the FY 2011 Budget.

In closing it was noted that ALA is still a strong financial organization as highlighted by the fact that the Associations' net asset balance is better by \$2.0 million than last year at this time, primarily from growth in the endowment fund.

BARC Report – EBD #3.3

M. Gonzalez – Chair of BARC, reported on some of the activities of the committee at this Annual conference. He concurred with the comments of G. Calloway and K. Files with respect to the April/May budget update results and the year end projections and the need for range being proposed to cover the potential shortfall as highlighted in EBD #14.18. As a result of those discussions BARC forwarded the following action to F&A:

BARC recommends to the F&A use of the reserves of up to \$375,000 for the FY 2011 Budget.

In discussing the FY 2012 budget it was noted that it will be challenging but can be achieved. See EBD #14.15 for details. State, city and local governments are just beginning to make service cuts, which will eventually impact the library community. He noted that ALA budgets for the last few years have essentially been no growth budgets with a good deal of expense cutting. However, the FY 2012 budget is believed to be the beginning point to put ALA on a path to growth. The following related action was taken by BARC:

BARC recommends to the F&A approval of the FY 2012 Budgetary Ceilings as outlined in 2010-2011 BARC #23.2.

Related to the approval of the FY 2012 budget, BARC and F&A discussed with staff the status of division transfers to the endowment fund. A final decision will be made this fall. Also discussed was the early implementation of the proposed changes to ALA policy 8.5.1. In view of the potential benefits, both BARC and F&A believe that it is well worth pursuing and would recommend doing so. It was noted however, that in view of the current economic situation that it would be doubtful that many of the units with pending transfers will elect to proceed. A final decision will be made this fall.

Endowment Trustees Report - EBD #13.3

Dan Bradbury - Senior Trustee, joined the committee to report on the performance of the ALA Endowment Fund. He reported on the five month period ending 5-31-11. He reported that the value of the portfolio at that point was \$33.5 million, which represents an increase of \$1.8 million for the year and a return of 5.9% as compared to its benchmark of 6.3%.

All of the managers reported positive results, and met or exceeded their respective benchmarks with the exception of Lord Abbett, the convertible bond manager. It was noted that the market has been reacting negatively to the recently reported bad economic news and has given back most of the gains made in the 1st quarter. It was noted that the week ending 6/17 ended a six week losing streak in the markets. At this point the Trustees are satisfied with the results as they firmly believe that the portfolio is well positioned to do well in the future. Tactically the Trustees have continued the process of reducing the portfolio's exposure to fixed income securities (bonds) due to the low interest rate environment and higher expected future inflation.

Also discussed with the committee was an overview of some of the discussion at the Trustees spring meeting in Chicago on May 18th. The Trustees felt that these were very good discussion on a number of issues facing the portfolio which included:

- Strategic planning
- Planned giving
- The need for more expertise

These discussions resulted in two actions from the Trustees that they felt were necessary to propel the portfolio forward to higher gains for the benefit of the Association. These include providing clarity in the language used in ALA policy 8.5.1 with the approval of new payout formula and the need to add additional financial expertise in a timely and expeditious manner. After further discussion F&A took the following action on their recommendations:

Action:

The Finance & Audit Committee concurs with the Endowment Trustees and recommends to the Executive Board approval to amend the language of ALA Policy 8.5.1 as illustrated in EBD # 13.3 - exhibit #13

Action:

The Finance & Audit Committee concurs with the Endowment Trustees and recommends to the Executive Board approval to increase the number of Endowment Trustees by one (1) from four (4) to five (5).

FY 2012 Budget Overview – EBD #14.15

Total ALA Budget – G. Calloway and K. Fiels updated the committee on the Total ALA FY 2012 Budget – General Fund, Divisions, Round Tables, Plant fund Grants& Awards and Long-Term Investments, and provided an overview of changes since the spring meeting. The changes were since the spring meeting to reflect the new overhead rate of 25.5%, new depreciation expenses based on additional capital equipment and an increase in the fringe benefit rate from 26.5% to 30.0%.

General Fund Budget – For FY 2012 the General Fund has budgeted revenues of \$27,820,693 million, which is \$998,480 (3.6%) more than FY11. Revenues are budgeted as follows:

- Dues - \$5.9 million
- Conference - \$7.4 million
- Publishing - \$12.1 million
- Miscellaneous - \$2.5 million

Budgeted dues revenue of \$5.9 million is a decrease of \$435,025 from FY11 and a slight increase of \$14,975 over the FY11 projections. The decrease is a function of lower organizational dues. Attendance and exhibit square footage at both Midwinter (Dallas) and Annual (Anaheim) are both projected to be lower than in FY11. The sale of materials, which

includes the sale of books, is budgeted for a total of \$4,599,035 as compared to \$4,490,510 in FY 2011. Graphics revenue is budgeted to reach \$1,418,381, which represents a reduction of \$73,601 from FY 2011. This is in recognition of the continued downturn in library and individual purchases. Subscriptions, a function of Booklist, Booklist Online and Book Links, are budgeted at \$2,593,558 compared to \$2,434,053 in FY 2011. Advertising income is projected to decrease to \$2,998,711, which is \$512,821 less than the approved FY 2011 budget. Advertising is an area that has been hit hard by the weakness in the economy but has been showing signs of recovering.

Expenses for the General Fund are budgeted at \$27,820,693, which is \$998,480 (3.6%) more than the FY 2011 budget. Payroll and related expenses of \$14,485,773 million will be \$392,012 more than last year due to a 2% salary increase for staff. The biggest area of increase is in Operating expenses, which are budgeted at \$4,881,776 and are higher than FY11 by \$816,308. This is due to increased amortization, depreciation, royalty expense and organizational support. Publishing related expenses of \$10.4 million will be \$136,317 lower due to decreases in printing supplies, cost of sales and inventory adjustments. Also, due to the two division national conferences during the year overhead is higher by \$584,910 over FY 2011, while grant & award overhead is higher by \$98,750.

Division Budgets - Revenues are budgeted at \$16,557,729 million, which is an increase of \$2.8 million over FY 2011 and \$127,396 over the spring budget. This is due primarily to revenue increases in PLA, ALCTS, LITA ALSC and YALSA. Total expenses are budgeted at \$16,645,729 million. This is a decrease of \$1.3 million (8.4%) over FY 2011 and \$60,618 from the spring budget. This also includes capital depreciation and the new overhead rate of 25.5%. Small division support will total \$101,737 compared to \$80,187 in FY 2011, which is an increase of \$21,550 (21.2%). By the end of FY 2012 the division fund net asset balances are budgeted to reach \$10,860,398. Finally, there are no planned net asset transfers to any of the division endowment funds.

Due to budget reviews taking place at this conference with the division boards, a final budget will need to be approved by the Executive Board at their fall meeting.

Round Tables and Other Budgets - Round Tables have budgeted revenues of \$425,939, which is up from \$367,115 in FY 2011. Dues income of \$182,206 will account for approximately 42.8% of revenue. Expenses are budgeted at \$327,058 resulting in net revenue of \$98,881. The **Plant Fund** budget, which covers the costs related to the 40 & 50 East Huron buildings, the Washington office and Choice, is \$1,736,185. There will be a General fund transfer of \$1,639,033 to cover all building related expenses. The Choice portion of the cost is \$97,152 which includes repairs, maintenance, utilities, leased equipment, interest expense and property taxes. The **Long-Term Investment Fund** is budgeted to generate \$583,371 in revenue to fund scholarships and awards. **Grants and Awards** are budgeted at \$5,102,748 but will likely be adjusted for pending additional proposals awaiting approval. Note that this is up from \$3,995,660 in FY11. Overhead recovered from grants are budgeted at \$574,544 compared to \$417,159 last year and will offset expenses in the General Fund. The **Capital** budget for FY 2012 totals \$2,357,064, which is slightly higher than last year at 2,199,477. This budget maintains ALA's property. This also includes investment in the continuing investment in information systems

technology, the new financial management system, and the new web content management system and interior renovations. This will result in depreciation expense to the operating budget of \$149,261.

After further discussion F&A took the following action:

F&A concurs with BARC and recommends to the Executive Board approval the Total ALA FY 2012 Budgetary Ceilings as listed in EBD #14.15.

Related to the approval of the FY 2012 budget, F&A discussed with staff the timing on the implementation of the recent change in the payout formula in ALA policy 8.5.1. i.e. the annual payout from the Endowment Fund. It was suggested that in view of the projected FY 2011 deficit that the change be implemented in FY 2012.

Controller's Report – EBD #4.15

On behalf of the Controller R. Swedowski, G. Calloway presented the Controller's report to 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. The Phase I implementation, which is the use of SharePoint Foundation 2010 and Knowledge Lake Capture & Image Server for the expenditure request process and the accounts payable invoice and approval processes, began in May. The systems were installed, accounting and selected units were trained in the systems' usage, and testing and final system modifications are currently in process. A final system modification was needed and will be installed following conference. Following that installation, selected units will begin processing expenditure and payment requests using the new system. Training and the rollout to additional units will continue over the next several months.

In addition, the Phase II Dynamics GP installation is proceeding. The data conversion process will begin in late June and will consist of loading five years of historical data to the Dynamics GP (General Ledger) application, and then testing and validating the conversion. During July and August, the accounting staff will be trained in the use of Dynamics GP and security parameters for the system will be established.

Cash Management and Bond Fund- Total cash and short-term investments at April 30, 2011 amounted to \$18.8 million as compared to \$19.9 million a year ago. Year-to-date interest income is \$529,062, which is \$13,964 more than budget and \$19,618 less than last year. Available cash is monitored on a daily basis with regard to cash inflow and outflow with the goal of maintaining the Associations' strong liquidity ratio position in order to meet its bank loan covenants. Available operating cash as of June 8th amounted to \$1,858,000. In an effort to provide a cushion for cash flow, the JP Morgan Chase line of credit is in process of renewal to maintain the availability of the \$2,500,000 line.

The Neuberger Berman bond fund investment is \$15.7 million at April 30, 2011 as compared to \$15.1 million at April 30, 2010. This investment has produced over \$8.9 million in interest income

since December, 1991 and the yield has been superior to other potential operating fund investments. With regard to risk of principal, the investment finished 2010 with a realized/unrealized gain of \$315,084 and is currently reflecting a loss of \$279,368 for 2011. At April 30, 2011 the cumulative (computed since December, 1991) net realized/unrealized gain is \$131,477.

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.

Form 990 – The Federal Form 990 for fiscal year ended August 31, 2010 is almost complete and has an extended due date of July 15, 2011. The filing for FY 2010 must be completed electronically using an IRS approved third party vendor. The current year return was prepared using the Urban Institute form 990.org E-Filing Site. A copy of Form 990, due to be filed for fiscal year 2010, must be provided to the organization’s governing body prior to filing. Once the return has been reviewed it will be signed by the Executive Director and filed electronically. Form 990 was reviewed on June 13th by a partner with the accounting firm McGladrey and all suggestions and recommendations have been adopted or are in process of adoption.

Audit Planning – On June 7th, a planning meeting for the FY 2011 audit was held to discuss the timing and content of the audit. Preliminary audit work is expected to take place during the week of July 18th with final audit work scheduled to commence on November 7th. The issuance of the audit report and management letter is expected to occur in mid-December 2011. The audit for A-133 reporting will be conducted concurrent with the regular audit as there are elements of the financial statement audit that could affect the A-133 audit.

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
J. Linda Williams
Steve Matthews
Mario Gonzalez - BARC Chair

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