EBD #4.14

2010-2011

American Library Association
Finance & Audit Committee
2011 Spring Meeting
April 7

DRAFT Minutes

Present: James Neal, Treasurer, Mario Gonzalez, BARC Chair, Em Claire Knowles, Steve Matthews, J. Linda Williams

Staff: Keith Michael Fiels, Greg Calloway, Sandra Lee, Keith Brown, Elaine Klimek

F&A 2011 Midwinter Meeting Minutes – EBD #4.10
By consent, the minutes were approved.

Indirect Cost Study – EBD Info #1

K. Brown summarized the results of the 2010 Indirect Cost Study and reported that the resulting rate was 25.5%, which is a decline from last year's rate of 26.1%, a decline of 2.3%. He went on to explain the formula to the committee.

G. Calloway stated that the model is sustainable and that the methodology used has been in existence since the late 1980's at the inception of the Operating Agreement. However, he felt that it should be contemporized.

K. Fiels noted that management have discussed options for the formula, and will continue to work on this. Staff will continue to work on equitable distribution, direct cost formulas and electronic delivery.

K. Brown reported that 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 draft budget development for the upcoming fiscal 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 FY 2012 budget
2. The 2010 rate will also be applied to the FY 2013 budget
3. All future rates, beginning with the 2011 study, will be applied on a lagging three-year budget basis as follows:
    - the 2011 rate will apply to the FY 2014 budget
    - the 2012 rate will apply to the FY 2015 budget
    - the 2013 rate will apply to the FY 2016 budget

It was suggested that this could be a topic at the Division Leaders/BARC meeting at Annual Conference and at the Midwinter Financial Planning Session.

<u>FY 2011 February Financial Report – EBD #14.7</u>

G. Calloway highlighted the second quarter budget report.

Total ALA revenues of $20 million are $279,147 (1%) less than budget. The General Fund revenues were $12.1 million and $169,160 (1%) less than budget. Division revenues were $5.2 million, $588,770 (6%) less than budget. Grants and Awards revenues were $2.1 million, $267,261 (14%) more than budget due primarily to timing. Long Term Investments revenue was $482,354 and over budget by $241,166.

Total ALA expenses of $22 million are $793,423 (3%) less than budget. The General Fund expenses of $13.7 million are $226,256 (2%) less than budget. Division expenses were $5.9

million and $1.1 million (16%) less than budget. Grants and Awards expenses were $2.1 million and $267,261 (14%) more than budget due primarily to timing. Long Term Investments expenses were $230,482 and essentially on budget.
As stated before, General Fund revenues were less than budget by $169,160 due primarily to lower dues revenue (257,169); personal member and organizational member dues were lower than budget. Publishing was slightly under budget by $26,030. All units of Publishing are under budget with the exception of Booklist. Graphics revenue is $113,918 less than budget at $863,168. Booklist publications – magazine and online – reported revenues above budget in the amount of $135,741. However, subscription revenue in the magazine is still low at $71,489 under budget.

Referencing General Fund expenses of $13.7 million, G. Calloway noted that the increasing cost of health care benefits is a huge issue for the 2012 budget – a 10% increase. For the FY 2011 budget, ALA may need to go to the reserve to offset the cost.

K. Fiels stated that ALA did not use funds from the reserve for the last two years, so to use some of the reserve at this time would be appropriate. The Executive Board also approved $250,000 for 2015 projects.

G. Calloway continued highlighting the FY 2011 budget by stating that Divisions revenues were $5.2 million, which was less than budget; three divisions accounted for most of the shortfall: CHOICE ($217,467), AASL ($190,820) and ALTAFF ($162,229). At this point there are several areas of concern that need to be monitored - dues and subscriptions.

Division expenses are $5.9 million and are under budget by $1.1 million. The net revenue reflects a deficit of $652,606, which is under a budgeted deficit of $1.2 million (16%) or $537,406.

FY 2011 Year-End Projections

The General Fund revenues are projected to reach $26,546,211, which is $276,002 (1%) less than budget. Dues revenue is projected to be $377,000 less than budget. 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. Also, online products, primarily RDA should be over budget by $134,461. Additional positives are for interest and dividends to exceed budget by $249,273. After review, management determined that adjustments/reductions will be made in the following: personnel related ($128,000), building and technology related ($131,000), Publishing and Conference related ($170,000) and Governance Committee related ($38,000) for a total of $467,000. This combined with the uncertainty of the New Orleans conference revenue suggests that the use of General Fund reserves is likely.

Endowment Trustees Report – EBD #13.2

Dan Bradbury, Senior Trustee joined the committee via conference call to report on the performance of the Endowment Fund. He reported on the period ending February 28, 2011. He reported that at that time, the value of the portfolio was $32.8 million. He also informed the committee that as of April 7, 2011, the portfolio had grown in value to $33.1 million. The overall performance reflected a return of 3.6% vs. it benchmark of 4.0%. He noted that the markets' first quarter was potentially the best since 1998.

Recent tactical moves in the portfolio reflect the shift away from fixed income holdings to equities. Since Midwinter, the Trustees have reduced their fixed income holdings by $1.2 million and reallocated to Alliance ($600,000) and IDP Growth ($600,000).

Revision of Policy 8.5.1 – EBD #4.11

The next item of discussion was a recommended change in the endowment spending policy 8.5.1. The Trustees had been discussing this idea for about a year. In an attempt to make available more dollars for spending purposes and get more in line with other institutions. After some financial modeling was performed, it was determined that a range of 3% - 5% was optional without hurting returns. The change is expected to generate an additional $270,000+ over the current payout method. These additional funds would be available to supplement programs, services and general operating needs. After some further discussion, the following action was taken:

Moved by L. Williams, second, S. Matthews
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.

FY 2012 Preliminary Budget – EBD #14.9

K. Fiels and G. Calloway presented the committee with a broad overview of the FY 2012 budget.

K. Fiels noted that ALA is committed to eight Key Action Areas of focus:

-Advocacy for Libraries and the Profession

-Diversity

-Education and Lifelong Learning

-Equitable Access to Information and Library Services

-Intellectual Freedom

-Literacy

-Organizational Excellence

-Transforming Libraries

He also noted that a 2% compensation increase for staff is in the budget, the first in three years. Cost cutting is still a major focus. Overall IT expenditures are high; bank fees continue to increase as do health care costs.

G. Calloway reported that membership is basically the same as it was in 2000, with ups and downs in between. The General Fund net assets have allowed ALA flexibility. Even though there are challenges, ALA has resources. Total budgeted revenues show a 10% increase because of two division national conferences.

Detailed budget information will be presented to the Executive Board on Saturday, April 9.

Small Division Business Plans

ASCLA and ALTAFF were asked to prepare business plans 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:

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

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

The Directors indicated that they have a high degree of confidence that they can turn things around, in addition to eventually eliminating the subsidy. BARC will also review the business plans at their spring meeting April 25 – 26.

Moved by E. Knowles, second, L. Williams
F&A recommends to the Executive Board that the Preliminary FY 2012 Budget proposal (EBD #14.9) be forwarded to the Budget Analysis and Review Committee (BARC) for further analysis and review. The Board affirms the strategic directions of this budget and requests that BARC report back on its analysis at the 2011 New Orleans Annual Conference.
Motion carried.

Controller's Report – EBD #4.9

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

Financial System Implementation - The process for the selection and conversion to a new financial accounting system, which began in January, 2010, has reached the stage that the following targeted implementation dates have been established:

May 1, 2011 – Target date to begin the Phase 1 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. Reporting and training task forces incorporating Association staff have been formed to review and define reporting and training requirements and materials.

September 1, 2011 – Phase II implementation date, which is the integration of the data captured in Phase I into the MS Dynamics GP application to automate the accounts payable posting processes and begin the use of MS Dynamics GP application as the ALA financial accounting system.

November 1, 2011 – Financial reporting implementation date. We will begin producing reports from MS Dynamics GP. The reports will be generated from both MS Dynamics GP and a report writing software, most likely Prophix, to be selected.

The process leading to the establishment of the above dates is summarized below:

- Formal planning for the selection and conversion to a new financial accounting system began in January, 2010. Initial meetings were held with relevant accounting and finance staff, project coordinators and participants were identified within the department and Association, and a general timeframe was developed.
- The Not-For–Profit IT Business Solutions Consulting group of McGladrey was engaged to provide system selection assistance.

Recent Implementation Activity

- Beginning in October, 2010, the Finance and Accounting Department team had a series of meetings with McGladrey and Association staff to discuss current purchase order/accounts payable policies and procedures, proposed new workflow processes, suggested changes and other issues and benefits pertaining to the planned financial system implementation. Additional small group discovery discussions were subsequently held, to document and evaluate the requirements for expenditure requests and authorizations (formerly referred to as Purchase Orders).
- McGladrey and the Finance and Accounting team presented the new financial system at the December 28, 2010 senior management meeting and again at the January 19, 2011

Unit Managers' Meeting. The presentations included a Financial System Design Overview, Proposed Implementation Schedule, Policies and Procedures and the Expenditure Authorization Process, Discussion of the Task Forces to be formed, and steps in the implementation process.

- Meetings with McGladrey were held on February 7-8 and March 8, 2011 to "kickoff" the SharePoint and Microsoft Dynamics GP, respectively, implementations and to establish timelines and work plans.
- SharePoint and Knowledge Lake are being installed in early March. Staff training on the use of SharePoint and Knowledge Lake will commence in late April.
- We have reviewed the pending SharePoint and Knowledge Lake implementations and use of electronic documents with Grant Thornton, the Association's external auditors. The use of electronic documents should not be a problem from an audit standpoint, but the auditors will need to change their Accounts Payable audit process to increase their focus on IT controls in order to gain an understanding of the new controls and processes. This would result in additional audit expenses.
- The installations are being coordinated with ITTS, which has a number of major implementation projects, the primary being the website migration.

Liquidity Ratios - In conjunction with various long-term debt arrangements, the Association is required to maintain certain semi-annual financial ratios. The most recent ratios, as of February 28, 2011, are to be submitted to JP Morgan Chase and Bank of America prior to April 30, 2011.

At February 28, 2011, the Chase unrestricted cash and investments to funded debt ratio, measured 10.12:1.0, where the required ratio is 2.0:1.0.

The Bank of America debt service coverage ratio measured 5.98:1.0, where the required ratio is 1.15:1.0. The unrestricted, unencumbered liquid asset ratio is 1.25 as compared to the required 0.60 to 1.0 ratio.

Cash Management-
Total cash and short-term investments at February 28, 2011 amounted to $18,776,967 as compared to $18,940,984 a year ago. The decrease is mainly related to the timing of deferred revenue collections for Grants and Awards and the PLA National Conference, which are collectively $4,045,659 lower this year. Year-to-date interest income is $394,074 which is $7,712 more than the budget of $386,362 (and $20,593 less than last year), due a higher interest transfer from the endowment.

The Neuberger Berman bond fund investment balance is $15,541,521 at February 28, 2011. As noted in schedule 6, this investment has produced over $8,756,000 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, at February 28, 2011 the account has a realized/unrealized loss of $336,161. At February 28, 2011 the cumulative (computed since December, 1991) net realized/unrealized gain is $74,684. See schedule 7 for additional details.

The Association maintains a $2,500,000 line of credit with JP Morgan Chase. Draws on the line bear interest at the prime rate. In addition, there is a 0.20% fee for the unused portion of the line. Transactions on the JP Morgan Chase line of credit included a draw on September 1, 2010 for $1,000,000 to compliment operating cash needs. The line was repaid in full on December 8, 2010. No additional draws have occurred or are envisioned at this time as the Associations operating cash position at March 28, 2011 is $4,492,000, a vast improvement from one year ago.

Credit and Collections - At February 28, 2011, trade accounts receivable were $2,878,082 as compared to $3,613,889 at February 28, 2010. The 150+ day category decreased to $632,268 as compared to the February 28, 2010 balance of $918,450, due to aggressive collection of Annual Conference exhibit billings. The 150+ day category at February 28, 2011 is at a historically low level.

Inventory Levels-ALA Editions and Products & Promotions - Inventory levels at February 28, 2011, schedule I, are as follows; ALA Editions $826,560, and Products and Promotions (Graphics) $606,393. In comparison, last year levels were ALA Editions $759,784 and Graphics $645,543.

As of February 28, 2011 the excess and obsolete inventory reserves, schedule 2, reflect the following balances, ALA Editions ($275,000) and Products and Promotions ($146,000).

Regulatory Issues: 403(b) Retirement Plan Audit - On November 16, 2007 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 revisions cover Internal Revenue Code Section 403(b) plans. The new rules, effective January 1, 2009 require additional schedules to be included with Form 5500 and an annual audit of the plan including the auditors' opinion.

The Association retained McGladrey & Pullen to perform the audits of the two TIAA-CREF 403(b) retirement plans. The audit commenced in late July, 2010 and has not yet been concluded. At issue is the accuracy of contributions applied by TIAA-CREF to individual retirement contracts. In addition, TIAA-CREF will not certify the market values of the plan assets at December 31, 2009. The resolution of contribution application remains an open item with the audit firm awaiting TIAA-CREF provided documentation; however employee turnover at TIAA-CREF has become an issue. The market value certification is an issue that all clients of TIAA-CREF are facing and is currently being reviewed by the audit profession, the Federal government and the retirement plan investment industry.

The two 5500 filings, due October 15, 2010, were filed on October 11, 2010 with an attachment detailing the issues preventing an audit opinion as a substitute for the auditor's 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 highlighted the Technology Reserve Fund depreciation chart. The Fund was set-up in 2010 to provide a stable source of funding for the Association's technology needs now and in the future. FY 2010 expenditures were related to financial system consulting. FY 2011 planned costs are related to the Finance and Accounting Management System, the Web Content Management System and related depreciation. G. Calloway noted that even with good negotiation on the cost of the hardware/software and staff doing much of the work, the project is still very expensive. 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 of financial meetings to be held at Annual Conference was reviewed with the Committee. Because of the shortened conference, there will not be a joint BARC and Finance and Audit meeting. In order to follow the correct sequence to approve the FY 2012 budget, BARC will meet on Friday afternoon and F&A will meet on Saturday morning to approve/recommend the budget. The Executive Board will approve the budget Monday afternoon and the Treasurer will present the Annual Estimates of Income to Council on Tuesday morning for approval.

21st Century Organization

M. Ghikas highlighted for the committee information gathered on what organizations are doing to operate in the 21st century. When asked what organizations are doing, these were the answers:

- Many organizations are changing their bylaws
- There is a push for simpler governance
- Lots of mergers and acquisitions going on
- Business plans being developed
- New business opportunities being explored
- Converting to electronic deliver (80/20 electronic/paper)
- Emphasizing social networking for member involvement

At this time, the meeting was adjourned so that the Committee could go into closed session.

New Business Development Update (Closed Session)

The Finance and Audit Committee went into closed session to have an in-depth discussion on new business opportunities that are currently under review. The Committee was also briefed on the work of the business advisory group meeting, which was held on April 6.

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