

Finance and Audit Committee
Report to the Executive Board
2011 Fall Meeting
Chicago, Illinois
Saturday – October 22, 2011

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

- FY 2011 Unaudited 2nd Close Results – EBD #14.1
 - 3rd Close Results – EDB #14.6
 - General Fund Net Operating Results – EBD #14.4
 - Division Transfers to the Endowment Fund
- FY 2012 Final Budget Ceilings – EBD #14.2
- BARC Report – EBD #3.1
 - Joint Trustee Membership Proposal – EBD #13.2
- Endowment Trustees Report – EBD #13.1
- Controller's Report – EBD #4.2
- New Business Development Update – Closed Session

FY 2011 Unaudited 2nd & 3rd Close Results – EBD #14.1/#14.6

G. Calloway provided the committee with a review of the fiscal year end results based on the 2nd and 3rd close results. The discussion centered on the 3rd close results.

Total ALA – 3rd Close: Total ALA revenues for the fiscal year-end results were \$46.2 million, which is 1.5% or \$700,606 more than the budget of \$45.5 million and compares to \$52.0 million last year, a reduction of \$5.8 million. The gain was primarily a result of a higher level of activities in Grants and Awards, which was more than budget by \$1.4 million (34.9%) at \$5.4 million. Although there was an overall gain in revenue, it was offset by a shortfall in the General Fund (\$750,909) and the Divisions (\$126,130). The General Fund was impacted primarily by lower revenue from Communications (\$466,788), primarily Dues (\$458,287) and Membership Programs & Services (\$308,667), primarily the Conferences (\$227,751). Note however that despite being less than budget, these revenues were \$483,194 (1.1%) more than projections.

Total ALA expenses for the fiscal year end results were \$46.4 million, which is \$789,798 (-1.7%) less than budget of \$47.2 million and compares to \$50.4 million last year. Significant savings were realized in the Divisions (\$1.7 million) at \$13.6 million as a result of fewer expenditures on web operations, design services and program allocations. Additional savings were realized in the General Fund (\$131,323) at \$26.7 million and the Roundtables

(\$120,977) at \$224,748 from lower conference related expenses. These savings were offset by the increased activities in Grants & Awards (\$1.4 million) at \$5.4 million.

On an overall basis the net result was excess expenses over revenues of (\$257,741).

General Fund – As indicated above the General Fund revenue was soft during the year resulting in a shortfall of \$750,909 (-2.8%) to \$26.1 million. Also note the revenue was \$354,598 (-1.3%) less than FY10. The primary areas where revenue fell short of budget was in Member Programs & Services (MPS) (\$308,667) and Communications (\$466,788). In MPS the Annual Conference and the Midwinter Meeting were short of their revenue targets by \$112,321 and \$115,430 respectively. This was due to lower Exhibit fees (\$287,903) at Annual conference and lower registration (\$129,633) and Exhibits (\$113,074) at the Midwinter Meeting. On a net basis Annual Conference exceeded its net revenue target by \$73,159, while the Midwinter Meeting was short by (\$172,502). In Communications, Organizational dues were short of budget by \$385,023 (-25.3%) at \$1.1 million as a result of a dues increase and the linger affects of the disconnection with the Oprah Book Club.

Total expenses for the year were \$26.7 million and short of budget by \$131,323 (-0.5%). The use of the BCBS refund of \$274,000 was a major offset. The net result for the General Fund was excess expenses over revenue of \$619,586.

As a result of receiving prior board approval to use up to \$374,000 in Net Asset Balance Reserves the following action was taken to cover a portion if the remaining shortfall:

F&A recommends to the Executive Board approval of a transfer of \$300,000 (deferred interest from FY 2005 and FY 2006) from the ALA Future Fund to cover the FY 2011 General Fund operating deficit.

Transfers to the Endowment

As a follow up to the discussion on the FY11 final results, F&A reviewed and discussed the outstanding FY09 approved endowment transfers and the deferred i.e. placeholders but not approved FY10 and FY12 transfers in light of the Association's financial position. The Association's cash flow issues that originally caused the deferrals are still very much a concern, particularly in view of the struggling economy and declining General Fund revenues. For FY09 there is approximately \$200,000 in approved deferred Division transfers (ACRL, RUSA and ALSC). Since these were approved, the Divisions were asked by finance staff if they would be willing to accept a transfer of 50% of their requested amounts. RUSA withdrew its FY09 transfers request, while ACRL agreed. A decision from ALSC is forthcoming. As such the following action was taken:

F&A recommends to the Executive Board approval to transfer from their operating budgets to their respective endowments, the deferred approved FY 2009 endowment transfers for ACRL (\$50,000) and ALSC (\$25,000).

After additional discussion, within the context of the Association's financial situation and economic challenges, it was felt that the current and expected environment over the next couple of years would make further transfers difficult. As such the following action was taken:

F&A recommends to the Executive Board that all previously approved and proposed transfers from net asset balances to endowment from divisions and round tables not be implemented. Transfers from net asset balances to the Endowment will not be included in the FY 2013 plans. The Executive Board will consider transfers as part of FY 2014 budget planning process. Gifts received specifically for endowments will continue to be implemented.

FY 2012 Final Budget – EBD #14.2

G. Calloway highlighted for the committee changes to the FY12 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

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

F&A concurs and recommends to the Executive Board approval of FY 2012 Final Budget (motions included in the 2011-2012 EBD #14.2).

BARC Report – EBD #3.1

C. Bohrer reported to the committee on the activities of BARC, who met for two days on October 6th & October 7th. She highlighted the primary objectives that are standard for the committee at its fall meeting:

- BARC Orientation
- FY 2011 Budget Review, 2nd Close Results – BARC #5.3
- FY 2012 Budget Update – BARC #23
- ALA 2012 and Beyond – BARC #14.0
- Joint Membership Proposal – BARC #20
- Council Referrals – EBD #10.4
- 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 approval for the use of up to \$500,000 from the General Fund Net Asset Balance Reserve and transfer \$300,000 (deferred interest from FY 2005 and FY 2006) from the ALA Future Fund to cover the FY 2011 General Fund operating deficit.

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

BARC recommends to the Executive Board that all approved and proposed transfers from 2009, 2010 and 2012 to the Endowment by divisions and round tables from their operating funds be deferred. No new transfers from operating funds will be included for the 2013 budget. The approved and deferred transfer requests will be reconsidered in the 2014 budget plan. Gifts received specifically for endowments will be implemented.

BARC recommends to the Executive Board approval of the changes to the ALA-APA Memorandum of Understanding.

BARC recommends to the Executive Board approval of the Joint Trustee Membership Proposal.

C. Bohrer 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.

Memorandum of Understanding

G. Calloway updated the committee on proposed changes to the basic agreement (Memorandum of Understanding or MOU) between ALA and the ALA-APA. Since inception, there have been significant changes to the APA which now requires clarification within the MOU as to how the APA operates and its relationship to ALA. Some of the proposed changes are related to language and the use of operating area classifications. The more significant changes included clarification on the allocation of employee time and the APA's operating structure. Additionally, there were a number of changes in the revenue formulation and the application of royalties. The following action was taken:

F&A concurs with BARC and recommends to the Executive Board approval of the proposed changes to the ALA-APA Memorandum of Understanding.

Endowment Trustees Report – EBD #13.1

K. Brown presented the Trustees report to the committee. As illustrated in the report the Endowment's value as of 8-31-11 was \$29.0 million. This represents a calendar year to date loss in value of \$2.7 million and a return of (8.1%) compared to its benchmark of (-4.6%). Note that despite the YTD loss, it is a gain of \$144,370 from the same period a year ago. Extreme volatility is affecting the market. US markets are being negatively impacted by the inaction by European politician's European debt and bank crisis. Emerging markets are slowing down, along with the world's current growth drivers China and India. World market indices are in the red across the board – exhibit #3. This was particularly true in the third quarter ended 9-30-11, one of the worst quarters ever – exhibit #4. All of the managers were in the red with the exception of Neuberger Berman – Intermediate Bonds, Pimco – Bonds and the Endowment Fund – Alternatives.

As the portfolio is currently constituted, it is defensive in nature with the expectation of GDP growth of less than 2% and constrained inflation. The major factors that may negatively impact the portfolio in the near future is expectations on inflation and the level to which growth may pick up. As a result the Trustees feel at this time that the portfolio is properly positioned for the current market conditions and foresee no need to adjust the portfolio at this time.

Joint Trustee Membership Proposal – EBD #13.2

F&A discussed the merits of the proposed Joint Trustee membership proposal. As a result of the success of two previous programs i.e. staff support and students it was felt that this was another area with good prospects for success via increased membership. As a result the following action was taken:

F&A concurs with BARC and recommends to the Executive Board approval of the Joint Trustee Membership Proposal.

Controller's Report – EBD #4.2

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 – 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, has been completed. The systems were installed, accounting and selected units were trained in the systems' usage, and testing and final system modifications are currently in process. As of September, five units have been processing expenditure and payment requests using the new system. Training and the

rollout to additional units will continue over the next several months and should be completed by the end of December.

Phase II Dynamics GP installation is now underway. The data conversion process commenced in late June and consisted of loading five years of historical data to the Dynamics GP (General Ledger) application, and testing and validating the conversion. During July and August, the accounting staff was trained in the use of Dynamics GP and security parameters for the system were established. October 1 is the Financial reporting implementation date. The production of reports from data contained in MS Dynamics GP has begun. The reports will be generated from Prophix, a report writing software that has been purchased and installed. Report formats for the new grants report and performance report are currently being developed. The SharePoint and Knowledge Lake implementations and use of electronic documents have been reviewed with Grant Thornton, the Association's external auditors. The use of electronic documents should not be a problem from an audit standpoint, and the auditors now expect they will need minimal, if any, changes in their Accounts Payable audit processes.

Annual Audit – On July 18, 2011 representatives from Grant Thornton, the Association's audit firm arrived at 40 East Huron to commence the preliminary audit work. Association accounting staff provided the auditors the work papers and reconciliations they had requested so that they could complete the preliminary work in a timely manner. The auditors will return for final fieldwork during the period November 7, 2011 to December 2, 2011. Audit work on the A-133 report will be performed during the year-end audit.

Cash Management – Total cash and short-term investments at August 31, 2011 amounted to \$18,112,030 (with \$2,949,712 of operating cash) as compared to \$17,566,649 (\$1,874,245 in operating cash) a year ago. The increase is mainly related to the sale of \$1,000,000 of the intermediate bond investments and an increase in deferred revenues for Meetings and Conferences and Grants. Year-to-date interest income is \$849,249 which is \$76,522 more than the budget of \$772,727 (and \$67,997 less than last year), due to higher interest from the bond investments and the endowment interest transfer.

The intermediate bond fund investment balance is \$15,108,118 at August 31, 2011. One withdrawal was made from the bond fund investment for operating cash needs. The draw was on August 9, 2011 for \$1,000,000 and was used to repay the line of credit. There has not been any reinvestment of operating funds related to the withdrawal. This investment has produced over \$9,039,000 in interest income since December 1991 and the yield has been well above the yield from certificates of deposit.

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 August 3, 2011 for \$1,000,000 to compliment operating cash needs. The line was repaid in full on August 25, 2011.

Regulatory Issues – McGladrey & Pullen was retained to perform the 2010 audit of the Association's 403(b) retirement plans. Audit work commenced in August, 2011 and is nearing completion and issuance of the audit reports. Form 5500 is being prepared by Deloitte in

conjunction with a TIAA-CREF sponsored program that provides this service at no cost to the Association. The two 5500 filings, due October 17, 2011, will likely be filed 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 reports are completed and an opinion is available.

Inventory – Inventory levels at 8-31-11 for ALA Editions and Products & Promotions were \$841,000 and \$581,000 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 \$88,000.

The excess and obsolete inventory reserves for ALA Editions and Products & Promotions were \$256,000 and \$138,000 respectively, which are appropriate. For the year there has been \$0 (Editions) and \$38,000 (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 \$30,000 in ALA Editions and no change in Graphics.

Credit and Collections – As of 8-31-11 trade receivables totaled \$1.5 million as compared to \$1.7 million a year earlier. Trade receivables in the 150+ day category decreased to (\$28,000) from \$166,000.

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 \$306,000. Year end testing of this balance during the second close revealed that the reserve was too big and was therefore reduced by \$170,000.

APA Reconciliation – As part of the year end closing process there is a settlement between the activities of the APA and ALA. On September 12th a principal repayment of \$10,000 was made along with accrued interest of \$7,875 and \$11,875 respectively for FY10 and FY11. A second transaction detailed the handling of a receivable from ALA. It resulted from APA subscription revenue deposited into ALA's operating account which totaled \$68,000. This will facilitate an early FY12 principal payment of \$40,000 against the outstanding loan.

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.

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 2011 ALA fall meeting.

Respectfully submitted,

James Neal – Treasurer
Sylvia Norton
Steve Matthews
J. Linda Williams
Clara Bohrer – BARC Chair