American Library Association
Finance and Audit Committee

2006 Spring Meeting
April 6

DRAFT MINUTES

Present: Teri Switzer, Michael Golrick, Patricia Smith, Janet Swan Hill, Patricia (Patty) Wong (via telephone)

Staff: Gregory Calloway, Keith Brown, Keith Michael Fiels, Russ Swedowski, Elaine Klimek

2006 Midwinter Meeting Minutes - #4.19

By consensus, the committee approved the draft minutes of the Midwinter Meeting.

FY 2006 Budget Update (2nd Quarter) and Projections - #14.7

G. Calloway updated the committee on the first six months of FY 2006 for the period ended 02/28/06. Total revenue for the period was $19.9 million, which was right on budget. The General Fund reflected revenues of $12.0 million, which was $316,000 or 3% less than budget. General Fund revenues were less than budget due mainly to dues, which were lower than budget by $155,000 or 3% at $2.6 million. Management is conservatively projecting a year-end dues shortfall for the year. Publishing revenue was slightly below budget by $59,000 at $6.3 million. It should be noted that Publishing net revenue is currently $346,000 more than budget as a result of expense savings. Division revenue is $146,000 or 2% more than budget at $6.0 million as a result of the strong division conference by AASL. Note that PLA is expected to report another strong conference from their Boston conference. Grants and Awards reported revenue that is $135,000 over budget at $1.4 million.

On the expense side, ALA's expenses were $2.4 million or 11% less than budget at $19.6 million. General Fund expenses were $1.5 million or 11% less than budget at $12.2 million. This is a result of under spending related to the Midwinter Meeting ($323,000) and Annual Conference ($148,000). Also contributing was Publishing, which is down $405,000 due to open positions and delayed marketing expenses. Business expenses were also less than budget by $184,000 due to timing of audit fees and insurance. It was also noted that salary savings are currently $769,000 more than budget. This is $158,000 more than budget. This is somewhat offset by an increase in the use of professional services.

Year-end projections reflect a shortfall in revenues for dues of $231,000, Publishing of $119,000 and mail list rental of $50,000 for a total of $400,000. On the expense side, salary savings are expected to be $1.0 million and savings in operating expenses should be $400,000. These savings are offset by attrition ($600,000), Professional Services ($200,000) and benefits ($100,000). The net revenue of $100,000 related to the savings from the prepayment of the CIPA/CDA loans are expected at year-end.

It was also reported that the Washington Office is very close to being connected to iMIS and the accounting software used at headquarters. The plan is to have several Washington Office staff come to ALA headquarters for training in mid-May.

FY 2006 Growth Fund and 2010 Projects - #14.8

K. Fiels reported that the Executive Board approved up to $176,000 for implementation of 2010 projects. The $176,000 is available for operations based on the General Fund FY 2005 net revenue of $502,000. He went on to highlight the proposed projects, which the Executive Board will discuss.

- Corporate Giving Program
- *American Libraries* Magazine Research
- Web Continuing Education
- Development of ALA/ALTA Advocate Newsletter
- Library Corps
- PR Newsletter
- Workshop on Telecommunications Reform and Libraries
- Member Satisfaction Survey
- Capital Campaign for Cultural Communities Fund
- Radio Public Service Announcement (PSA)
- Diversity Web Course Development

FY 2007 Preliminary Budget - #4.18

K. Fiels noted that the FY 2007 budget is predicated on no dues increase and that filling open positions is reflected in the budget. He went on to say that he and G. Calloway worked hard to present a good budget using the 2010 goals, objectives and strategies. Highlights for the FY 2007 budget include:

- Launching Booklist Online
- Launching Jobs Online
- Conference registration adjustments implemented
- R&D for software
- Divisions request 2 FTE

Controller's Report - #4.21

R. Swedowski noted that the FY 2005 audit (2005-06 EBD #4.10.1) was reissued, and distributed to the Executive Board, to correct typos.

Inventory Levels - Inventory levels at February 28, 2006, are as follows; ALA Editions $755,018, and Products and Promotions (Graphics) $613,998. The ALA Editions inventory reflects a $47,000 valuation (down from $50,000 at February 28, 2005) for Guide to Reference Books, 11th Edition. The largest item in the inventory for Products and Promotions at February 28, 2006 was $41,000 of Read products, a total of 22 different items.

As of February 28, 2006 the excess and obsolete inventory reserves, reflect the following balances, ALA Editions ($282,000) and Products and Promotions ($141,000). In FY 2005, ALA Editions destroyed $20,160 in excess and obsolete inventory. All destroyed product is charged against the respective inventory reserves for excess and obsolete products. In FY 2006, ALA Editions and Graphics has not destroyed any excess and obsolete inventory. Additions to the reserve through February are $14,000 for ALA Editions and $26,000 for Graphics.

Credit and Collections - At February 28, 2005, trade accounts receivable were $3,210,804 as compared to $2,175,713 at February 28, 2005. The 150+ day aging bucket at February 28, 2006 contained $546,620 of receivables as compared to $121,847 at February 28, 2005. Only $9,670 of the FY 2006 150+ day balance is at PBD. The increase is a result of a large volume of conference exhibitor billings for the annual conference in New Orleans.

Unrelated Business Income Tax (UBIT) - The preparation of the final UBIT worksheets and the actual tax returns commenced in mid-March, and as of this date the 990 is 75% completed. The due date for Form 990 has been extended to April 17, 2006. The due date for Form 990T used for reporting unrelated business income tax was previously extended to July 15, 2006, and will include the taxation of the proceeds for periodical advertising income. Estimated payments for FY 2006 made to date are $50,000 to the Internal Revenue Service and $10,000 to the Illinois Department of Revenue. In addition, the prior year returns had overpayments totaling $69,864 that was applied to the returns currently being prepared.

Cash Management and Bond Fund - Total cash and short-term investments at February 28, 2006 amounted to $19,715,691 as compared to $16,776,076 a year ago. Year-to-date interest income is $283,659, which is $86,437 less than the budget of $370,096 and $1,800 less than last year. The FY 2005 $1.5 million down payment to purchase the Washington Office condo was noted for the difference in current cash balance year to year.

The Neuberger Berman bond fund investment balance is $11,475,412 at February 28, 2006 as compared to $11,256,320 at February 28, 2005. This investment has produced over $5,627,000 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, the account finished FY 2005 with a realized/unrealized loss of $217,019 and is currently reflecting a loss of $164,227 for FY 2006. At February 28, 2006 the cumulative (computed since December, 1991) net realized/unrealized loss is $499,438.

Postretirement Benefit Costs - In March, discussions were held with the accounting firm Grant Thornton regarding the options available to limit the liabilities related to the effect of retiree medical expenses on the Association's financial statements. The Association currently has a $9,230,000 liability for retiree benefit costs in the Statement of Financial Position. Initial suggestions included increasing retiree contributions, changing the terms of the plan and coordinating the coverage with Medicare. In addition, a review of the assumptions used to determine the liability will be conducted.

FY 2005 Indirect Cost Study - #4.22

K. Brown reported on the results of the FY 2005 Indirect Cost Study. He noted that it is required by the ALA Operating Agreement each year order to determine the indirect (overhead) cost rate. The rate is established based on an operating agreement formula using information from the ALA audited financial statements and other internal information. The rate from this study will be applied to the FY 2007 budget.

The FY 2005 indirect cost study resulted in a rate of 21.5%, which is down –1.4% from 21.8% last year. As mandated by the operating agreement, this rate will be applied to division conference revenue and publishing revenue at 100% and 50% of the composite rate respectively, i.e. 21.8% and 10.8%.

He went on to highlight some of the major cost changes during the year. Overall, direct/indirect costs declined by $384,000 (-2.6%) to $15.0 million. The most significant decline was in Membership Services, which declined by $547,000 (-24.4%) to $1.7 million. In this category, direct costs declined ($198,000) primarily in salary savings ($95,000), the direct mail campaign ($70,000), subscription equivalent ($184,000) and small division support ($136,000). ITTS costs also declined by $286,000 (-13.2%) to $1.9 million largely due to a decline in depreciation expenses ($192,000) related to few equipment purchases. On the other side, direct/indirect costs for general administration increased by $732,000 (13.4%) to $6.2 million. Most of the increase was due to costs related to building operations ($400,000) and the inclusion of the vacant 7th floor space. These costs have never been allocated in previous studies.

It has been well demonstrated that the General Fund supports the division to the tune of approximately $3.0 million per year with respect to the indirect costs they incur compared to what they pay. At this point, K. Brown directed the committee members to review an information sheet on indirect cost, which highlighted the impact of various formula options. They were first directed to historical comparisons of the indirect cost rates used for budget purposes, the composite rate, the total ALA rate and the division rate. Since 1995 the composite rate has been relatively smooth. Additionally, this rate is significantly below total ALA rate and the division rate – the range is 12 – 27%. The options put forward were designed to close the gap between actual overhead paid by the divisions and the more equitable indirect cost incurred. Note that the formula options were formulated by including division indirect cost information in the formula at 100%, 50% and 30%.

The committee requested that K. Brown develop a one-page document stating what divisions get and if they need to pay extra and why. This will be an all purpose document used to explain to any interested party what indirect costs are at ALA.

FY 2006 Growth Fund and 2010 Projects

K. Fiels and G. Calloway updated the committee on potential projects to be funded from the $176,000 allocated and approved by the Executive Board during their 2005 fall meeting. The FY 2006 Growth Fund is funded at $50,000. Two projects are expected to equally participate – Corporate Giving Program and *AL* Magazine Research. For the corporate giving program a marketing plan is being developed and will be sent out to 150 similar valued organizations. The 2010 projects identified cover a wide range of areas. There are a total of ten projects that range from web-based continuing education, *AL* research, member satisfaction survey to PSAs. All the projects identified will enhance and move the Association goals and mission forward.

Endowment Trustee Selection

T. Switzer, Treasurer, reported that each of the committee members were assigned candidates for review and presentation to the Executive Board on April 9, 2006. It was noted that this was the largest pool of candidates (7) in several years.

The committee members went into executive session to discuss the candidates.

With no further business to discuss, the meeting was adjourned.