

# American Library Association's Financial Primer

- *ALA's Financial Fundamentals* -

*"Unlocking the door to understanding"*



# ALA Financial Primer

The ALA Finance staff and I have created this PowerPoint to acquaint the reader with basic financial concepts and reports. ALA's financial structure can seem quite complex to those unfamiliar with it. With this Financial Primer we hope you will be better able to understand Treasurer and other financial reports you might receive. Informed decision making means being informed on all financial matters relating to programs and services. One of my goals as Treasurer is to give all member leaders the financial information they need to participate in the decision recommending and decision processes as may be appropriate to your office or committee responsibilities.

Please contact me if you have any questions or need additional information @ [rhersberger@csb.edu](mailto:rhersberger@csb.edu)

# Financial Concepts

- Glossary of working terms
- Fund accounting
- Fund structure
- Decision-making process

# Glossary of Working Terms

**501 C3 (ALA)** – a tax law provision granting exemption from the federal income tax to non-profit organizations. exemptions apply to corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or to foster national or international amateur sports competition, or for the prevention of cruelty to children or animals.

**501 C6 (APA)** – a tax law provision granting exemption from the federal income tax to non-profit organization that promotes a line of trade or business. This exemption is reserved for business leagues, chambers of commerce, real estate boards or boards of trade etc. The APA is exclusively devoted to a number of functions which cannot be undertaken to a "substantial" extent by the American Library Association, which is organized as a nonprofit educational association under section 501(c)3 of the U.S. Internal Revenue Code. These functions are (1) the certification of individuals in specializations beyond the initial professional degree and (2) the direct support of comparable worth and pay equity initiatives and other activities (e.g. legislative lobbying) designed to improve salaries of librarians and other library workers. As a 501(c)6 professional association, the ALA-APA is able to serve as a vigorous advocate for America's librarians and other library workers and will be able to offer certifications which will help promote individual status and the quality of library service.

**Accrual Accounting** - An accounting method that measures the performance and position of a company by recognizing economic events regardless of when cash transactions occur. The general idea is that economic events are recognized by matching revenues to expenses (the matching principle) at the time in which the transaction occurs rather than when payment is made (or received).

# Glossary of Working Terms

**Assets** – An item of economic value owned by an individual or organization, that can be converted to cash.

**Budgetary Ceiling** – Except for projects supported by grants to the Association, annual estimates of income shall be based upon the unexpended balance remaining from the previous year plus anticipated revenues for the next budget year. In no case may expenditures be budgeted in excess of the estimates of income arrived at in this manner except for projects supported by grants to the Association. The annual estimates of income and budget objectives for each year are to be submitted to Council for approval.

**Capital Appreciation** – an increase in the market value of an asset (marketable securities) over its original cost.

**Capital Budget** - A detailed plan to secure or finance long-term outlays, for fixed assets such as facilities, furniture, equipment, software and hardware.

**Credit\*** – Entry on the right side of a DOUBLE-ENTRY BOOKKEEPING system that represents the reduction of an ASSET or expense or the addition to a LIABILITY or REVENUE. (See DEBIT.)

**Debit\*** - Entry on the left side of a DOUBLE-ENTRY BOOKKEEPING system that represents the addition of an ASSET or expense or the reduction to a LIABILITY or REVENUE. (See CREDIT.)

# Glossary of Working Terms

**Deferred Revenue** – Income received but not earned until all events have occurred. Deferred income is reflected as a LIABILITY.

**Depreciation** – Expense allowance made for wear and tear on an ASSET over its estimated useful life.

**Expenses** - In accounting, an expense represents an event in which an asset is used up or a liability is incurred.

**Grants & Awards** – Funds from government and non-government agencies made available to support specific programs, services and initiatives.

**Liabilities** – a financial obligation, debt, claim, or potential loss – what an organization owes.

**Long-Term Investment** – The active management of a pool of securities, which includes equities, fixed income (bonds) and REIT'S, for the purpose of growing the corpus, assets, and investment resources so as to support current and future Association needs, including scholarships, awards and unique programs that build a strong future for the American Library Association and America's libraries.

**Market Value** – The value that an asset (marketable securities) can receive, as determined by open bidding between buyers and sellers in a regulated market place ie NYSE

**Net Asset Balance** – The accumulated revenues minus expenses for ongoing operations.

# Glossary of Working Terms

**Operating Budget** – Is an annual budget of an activity which includes revenues, expenses, programs etc.

**Operating Cash** – The revenue generated from on-going operations from the primary revenue generating units to conduct daily operations.

**Overhead Recovered** – Reimbursable costs to the General fund (Administration Central) for providing administration and infrastructure support from certain revenues generated within the Association.

**Plant Fund** – Consists of capital assets and general operations for buildings, capital equipment, construction in progress and improvements in and infrastructure or land. This includes:

- ALA Headquarters
- Washington Office
- Capital Budget

**Realized** (gain/loss) – an investment transaction, that recognizes the gain or loss in value of a security when it is sold.

**Unrealized** (gain/loss) – The prevailing value of an unsold investment, as determined by the market and compared to its original cost, that results in a gain or loss in the value.

# Glossary of Working Terms

**Revenues** - The amount of money that an organization receives from its activities in a given period, mostly from sales of products and/or services to customers. \*Note: conflicts abound as to when revenue should be recognized. The Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Concept 5 states that revenues should be recognized when they are “realized or realizable” and “earned”. Revenues are “realized or realizable” when products are exchanged for assets (such as cash) or claims to assets (such as promises to pay). Revenues are “earned” when the entity has performed all duties necessary to the purchaser.

**Statement of Operations** – Same as the income statement, which illustrates the profitability ie revenue less expenses, over a given period of time – monthly, quarterly, annually etc.

**Statement of Positions** – Same as the balance sheet, which gives a snapshot holdings ie assets, liabilities and member equity, on a specific date.

**Subscription Equivalent** – dollar amount transferred from the general administration to Publishing in order offset the net expense of publishing and distributing American Libraries.

**Variance** – The difference between the actual revenue/expense and the budgeted revenue/expense.

**Yield** - The annual rate of return - interest/dividends/appreciation - on an investment, expressed as a percentage.

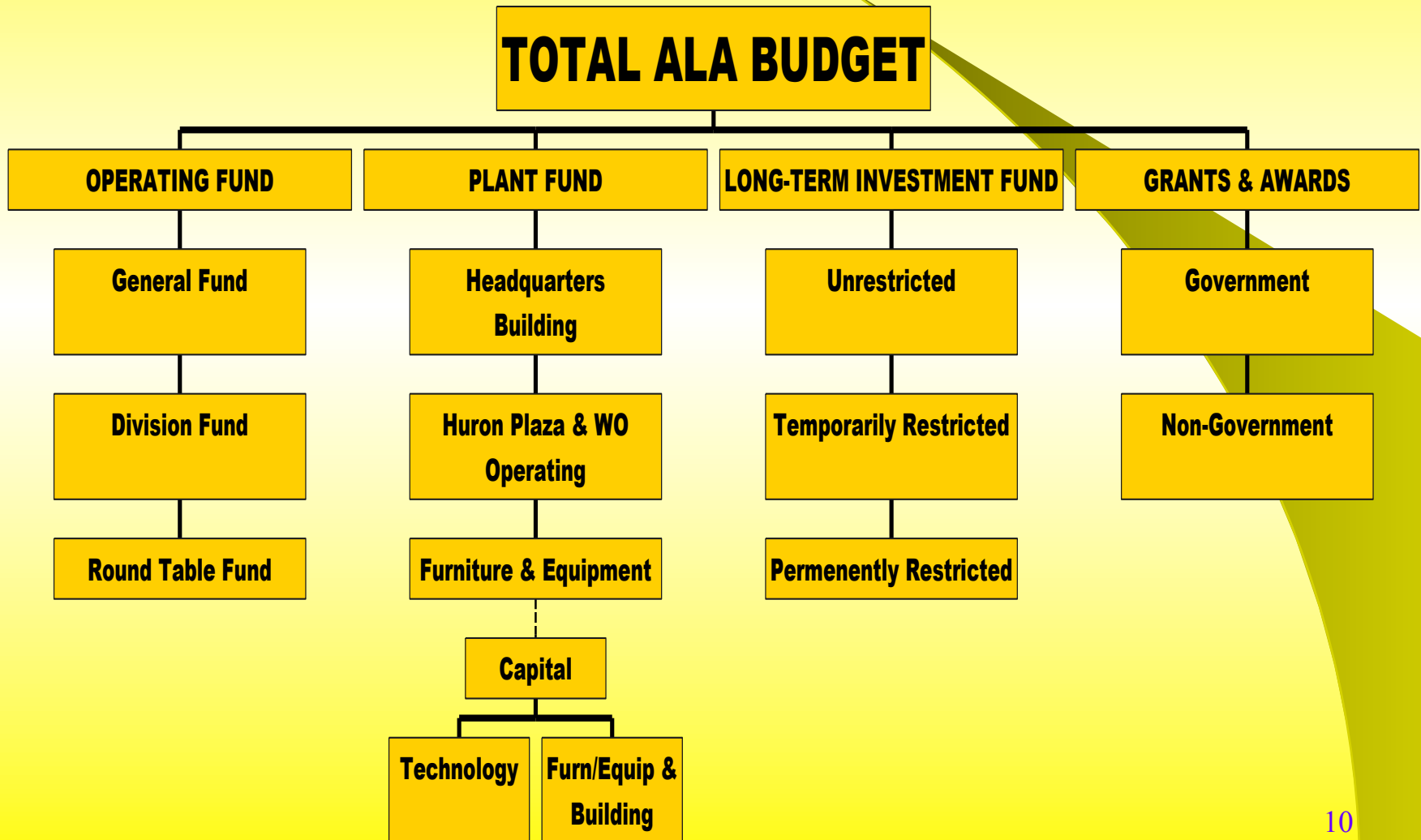


# Fundamental Accounting Formula

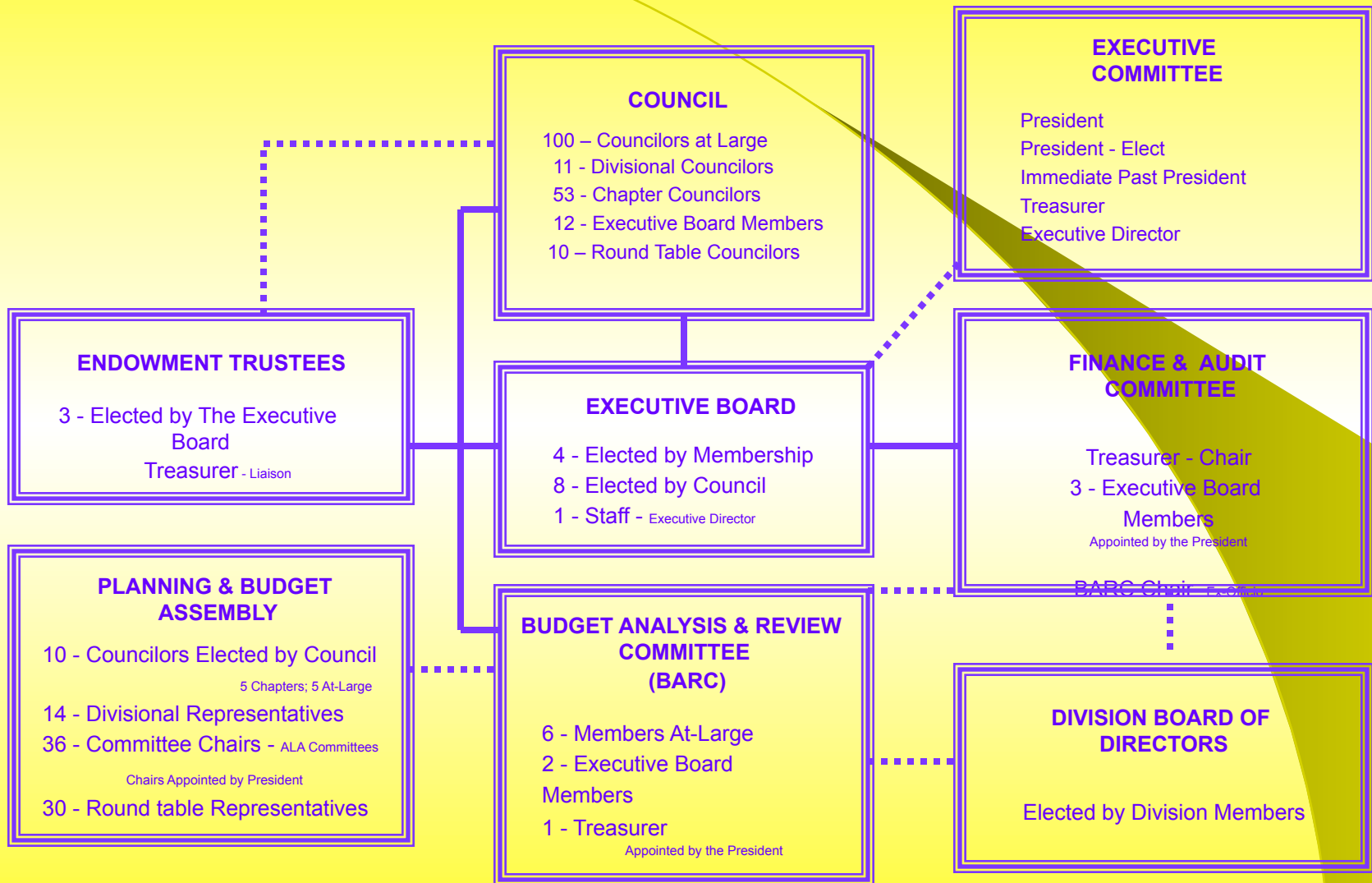
<b>ASSETS</b>		=	<b>LIABILITIES</b>		+	<b>STOCKHOLDERS (MEMBER) EQUITY</b>							
<b>Assets</b>		=	<b>Liabilities</b>		+	<b>Net Assets</b>		+	<b>Revenues</b>		-	<b>Expenses</b>	
DR	CR		DR	CR		DR	CR		DR	CR		DR	CR
+	-		+	-		-	+		-	+		+	-

DR = Debit  
CR = Credit

# ALA FUND STRUCTURE



# ALA Decision-Making Process



# Financial Reports

- Monthly Performance Reports
- Statement of Financial Position – Balance Sheet
- Statement of Operations and Changes in Net Assets – Income Statement

# Statement of Financial Position

	August 31	
	2006	2005
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 4,973,323	\$ 5,472,980
Short-term investments	11,704,039	11,443,248
Accounts receivable, less allowances for doubtful accounts and returns (2006 – \$347,552; 2005 – \$330,305)	4,072,792	5,047,212
Inventories, less reserves (2006 – \$454,751; 2005 – \$384,827)	1,275,529	1,310,999
Grants receivable	759,125	444,514
Prepaid expenses and other receivables	775,865	562,162
Total current assets	23,560,673	24,281,115
Property and equipment, less accumulated depreciation	9,248,864	8,782,665
Long-term investments	26,440,483	24,258,429
Total assets	\$ 59,250,020	\$ 57,322,209
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 3,955,845	\$ 4,652,146
Accrued liabilities	952,579	806,883
Accrued income taxes	43,631	37,270
Deferred revenue:		
Publication subscriptions	2,535,294	2,462,657
Membership dues	3,659,463	3,577,941
Conference fees	2,831,237	4,440,384
Current Portion of long-term debt	145,000	–
Grants and awards	524,385	722,945
Total current liabilities	14,647,434	16,700,226
Long-term debt	3,030,000	3,175,000
Accrued postretirement benefits	10,760,153	9,229,840
Total liabilities	28,437,587	29,105,066
Net assets:		
Unrestricted:		
Nondesignated	24,263,806	22,566,373
Board-designated reserve	684,553	528,490
Temporarily restricted	24,948,359	23,094,863
Permanently restricted	5,349,374	4,607,580
Permanently restricted	514,700	514,700
Total net assets	30,812,433	28,217,143
Total liabilities and net assets	\$ 59,250,020	\$ 57,322,209

# Statement of Operations & Changes in Net Assets

	<b>Total</b>
<b>Revenues, gains, and other support</b>	
Operating revenues and gains:	
Membership dues	\$ 8,040,314
Sale of books and materials	4,879,337
Subscriptions	4,707,248
Advertising	6,228,742
Meetings and conferences	12,174,614
Products and promotions	1,855,601
Grants	4,258,373
Contributions	1,207,841
Dividends and interest income:	
Short-term investments	630,822
Long-term investments	676,504
Other	2,428,696
Total operating revenues and gains	47,088,092
Net assets released from restrictions:	
Satisfaction of program restrictions	—
Total operating revenues, gains, and other support	47,088,092
<b>Expenses</b>	
Payroll	18,114,050
Outside services	6,011,499
Travel	2,636,221
Meetings and conferences	5,376,585
Publications	5,316,086
Operating	6,144,190
Postretirement benefits	1,776,000
Total expenses	45,374,631
Operating revenues, gains, and other support (less than) in excess of operating expenses	1,713,461
Nonoperating:	
Partnership investment income	—
Net realized and change in unrealized gains (losses):	
Short-term investments	(134,980)
Long-term investments	1,016,809
Change in net assets	2,595,290
Net assets at beginning of year	28,217,143
Net assets at end of year	\$ 30,812,433

# Inter-Fund Relationship

(Sample FY08 Budget)

	<u>General Fund</u>	<u>Divisions</u>	<u>Roundtables</u>	<u>Plant Fund</u>	<u>Grants &amp; Awards</u>	<u>LTI*</u>
<b>REVENUES</b>	\$ 29,195,951	\$ 16,310,242	\$ 340,479	\$ -	\$ 4,371,734	\$ 1,357,905
<b>Revenue Transfers</b>						
Interest/Dividends	\$ 191,363	\$ -	\$ -	\$ -	\$ -	\$ (191,363)
Life Member Dues	\$ 51,000	\$ 20,385	\$ -	\$ -	\$ -	\$ (71,385)
Cont. Member Dues	<u>\$ (4,665)</u>	<u>\$ 4,665</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Revenues	<u>\$ 29,433,649</u>	<u>\$ 16,335,292</u>	<u>\$ 340,479</u>	<u>\$ -</u>	<u>\$ 4,371,734</u>	<u>\$ 1,095,157</u>
<b>EXPENSES</b>						
<b>EXPENSES</b>	\$ 29,862,968	\$ 13,287,332	\$ 312,759	\$ 1,703,849	\$ 3,942,776	\$ 658,925
<b>Expense Transfers</b>						
Small Div Suppt	\$ 135,923	\$ (135,923)	\$ -	\$ -	\$ -	\$ -
Plant Fund Transfer	\$ 1,703,849	\$ -	\$ -	\$ (1,703,849)	\$ -	\$ -
Overhead	\$ (1,822,755)	\$ 1,822,755	\$ -	\$ -	\$ -	\$ -
Overhead	\$ (17,378)	\$ -	\$ 17,378	\$ -	\$ -	\$ -
Overhead	\$ (428,958)	\$ -	\$ -	\$ -	\$ 428,958	\$ -
Total Expenses	<u>\$ 29,433,649</u>	<u>\$ 14,974,164</u>	<u>\$ 330,137</u>	<u>\$ -</u>	<u>\$ 4,371,734</u>	<u>\$ 658,925</u>
Net Revenue	<u>\$ -</u>	<u>\$ 1,361,128</u>	<u>\$ 10,342</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 436,232</u>

# ANNUAL BUDGETARY PLANNING CALENDAR

September - October

ALA management reviews the strategic focus of the Association.

October - Fall Board Mtg.

The Executive Board reviews the strategic plan as presented by the Executive Director/ Senior Management and further defines the strategic focus resulting in the broad programmatic objectives. The Executive Board and BARC review and approve the Division's final Budgetary Ceiling for the current year.

Midwinter Meeting

The Executive Board - Treasurer - presents the broad programmatic objectives to Council for approval. BARC monitors the current budget. President-Elect proposes presidential program budget.

January

ALA staff prepares the Annual budget based on the broad programmatic objectives.

March - April

Budget hearings for ALA and the Divisions are held.

April - May

The Executive Board receives from staff - Senior Management - the preliminary budget, which is reviewed and then forwarded to BARC for a detailed analysis.

May - June

Staff – unit managers and senior management - updates the budget.

Annual Conference

Executive Board approves the budget. Council approves the budgetary ceiling. Division Boards approve their budgets.

August - September

Staff begins preparing next year's budget and three - year financial plan.