

**TO:** ALA Executive Board

**RE:** Cash Analysis Review

**ACTION REQUESTED/INFORMATION/REPORT:**

The Executive Board is being asked to review and approve a recommendation to transfer funds from the ALA Operating account into the ALA "Working Capital" account.

**ACTION REQUESTED BY:**

ALA Finance Staff,  
G. Calloway –AED Finance and R. Swedowski - Controller

**RECOMMENDATION:**

Approval to transfer up to \$3.0 million from the ALA Operating Cash account into the ALA Working Capital account based on a recommendation from Merrill Lynch.

**DRAFT OF MOTION:**

The motions related to this topic will come to the Executive Board from the Finance and Audit Subcommittee.

**DATE:** June 28, 2008

**BACKGROUND:**

ALA has been operating in an environment of low and falling interest rates for the better part of a year as the Federal Reserve has made lowering rates the cornerstone of its efforts to avoid, soften or limit the impact of a potential recession. This course of action is impacting ALA's ability to generate the desired level of interest income for the current budget year, as well as, the proposed budget for FY09.

It has been noted in previous financial reports that ALA maintains a very healthy cash and short-term investments balance. The April financials currently reflect a balance of \$22.6 million. Taking the above factors into consideration, the finance staff initiated a review of the Associations' operating cash<sup>1</sup> and working capital<sup>2</sup> accounts. The purpose, particularly for the operating account, was to determine if there were any discernable patterns with respect to the timing on the receipt and

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<sup>1</sup> Includes general operating activity, Division accounts related to conference, payroll and overnight investments

<sup>2</sup> Intermediate bond investments

disbursement of funds related to the Associations' day-to-day operating needs, as well as, what funds may be available for investment purposes.

Exhibit I illustrates the monthly net operating cash that the Association has realized for each of the last three years. It follows the long held pattern of dipping during the late summer/early fall as bills related to the Annual Conference are paid and raises as a significant portion of renewals are just beginning to be received. The operating cash balance at 4-30-08 totals \$9,518,277. Closely associated with the cash balance is the pattern for net cash collection and cash spending. Exhibit II illustrates the net cash receipts compared to cash disbursements. On a net basis spending closely matches collections.

Exhibit III illustrates the monthly total of invested funds in the working capital accounts. These funds are invested in three different intermediate bond funds managed by Neuberger Berman (2) and Blackrock (1) through Merrill Lynch. The funds in these accounts are invested in varying intermediate term securities and are the primary source of ALA's earned interest income. Like Exhibit I this exhibit also highlights the fact that the balance has been growing and very healthy over the last three years. The working capital balance at 4-30-08 totals \$13,028,530

The next step in our analysis leads to Exhibit IV centers on the relationship with the institutions holding these funds, particularly the operating cash, which handles ALA's short day-to-day needs. This gets to the heart of the proposed recommendation. In FY07ALA initiated over 215,000 financial transactions, which were handled primarily through the operating cash account. These transactions include everything from processing payroll, issuing refunds, wire transfers, accepting credits card payments for conference/book orders etc. This entails a high level of bank services, which comes with a cost. ALA covers these costs by maintaining a certain level of funds in the account for use by the banking institution. This is achieved via a credit received/earned from the bank for their use of the funds. As long as there is a sufficient level of funds maintained at the bank ALA does not receive a separate fee for the services it uses. Note that ALA is currently earning approximately 1.25% on its compensating balances to cover bank fees. Any excess cash above the required compensating balances is invested in overnight short-term securities via a sweep account. Over the last three years ALA has returned about 4.1% on its sweep account activity.

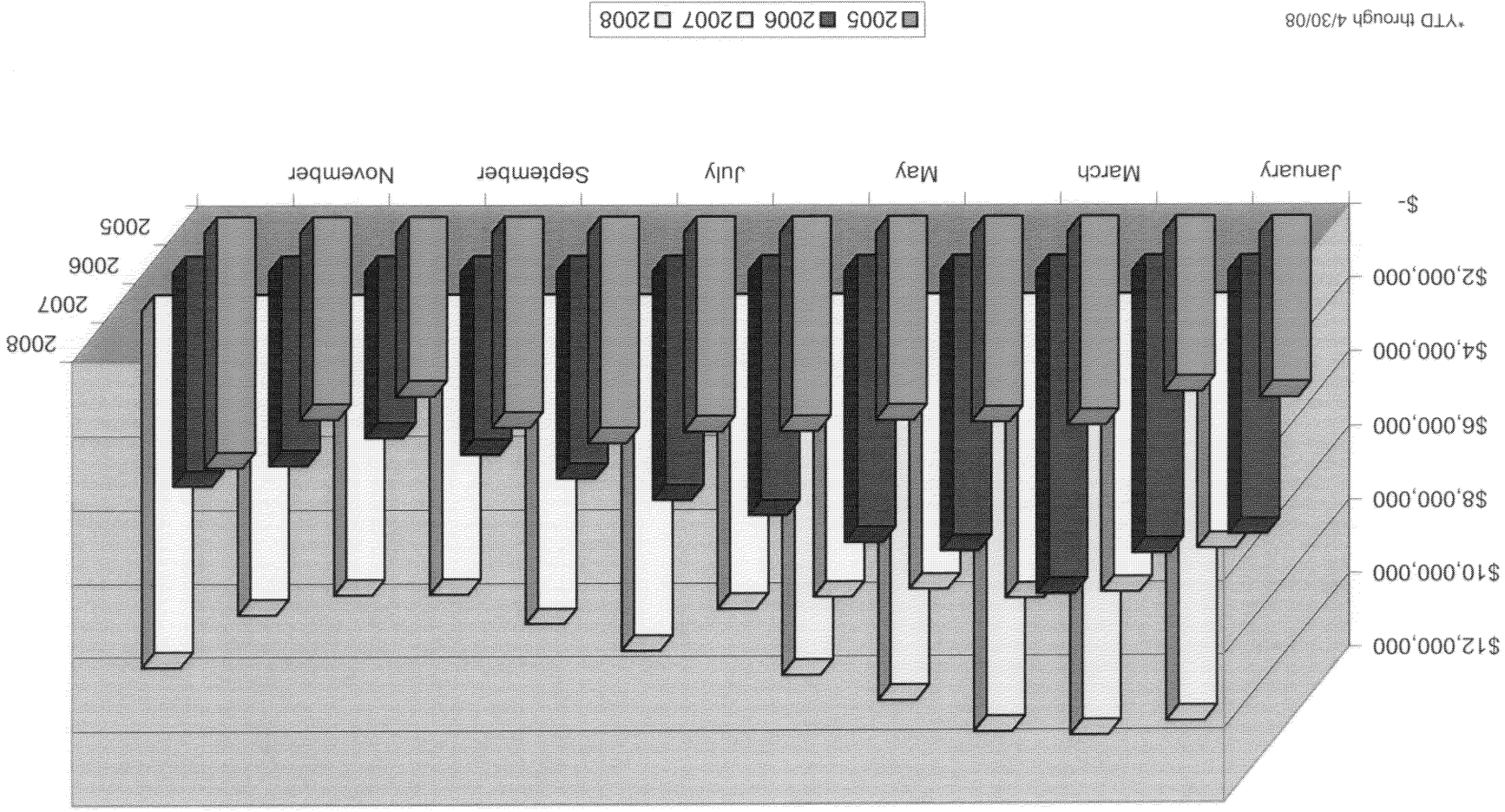
As noted earlier Merrill Lynch oversees the management of ALA's Working Capital account via three separate bond funds with varying maturities. Over the last few years this account has returned approximately 4.7%. This is about 50 basis points or .5% more than our overnight (sweep) investment account returns. This point has been magnified since the beginning of the calendar year – see Exhibit V. Additionally, we are also close to the point where it would be more prudent to incur the bank service fee when comparing the compensating balance credit ALA earns vs. what it earns in the Working Capital account. Exhibit VI illustrates the additional income ALA could generate by moving X amount of funds from the Operating account and into the Working Capital account. Note that although projecting rates is not an exact science staff feels confident that the expected spread or differential between the yield in the working capital account and the earned credit in the Operating will be approximately 110 basis points.

After reviewing all of the available information it is the recommendation of the ALA finance staff that \$1.0 - \$3.0 million be transferred from the ALA Operating accounting and into the ALA Working Capital account. This can be accomplished by some combination of using excess investable funds and reducing the amount of sweep account activity. Once the amount has been decided upon Merrill Lynch will provide a recommendation as to how the funds should be allocated among the Working Capital accounts.

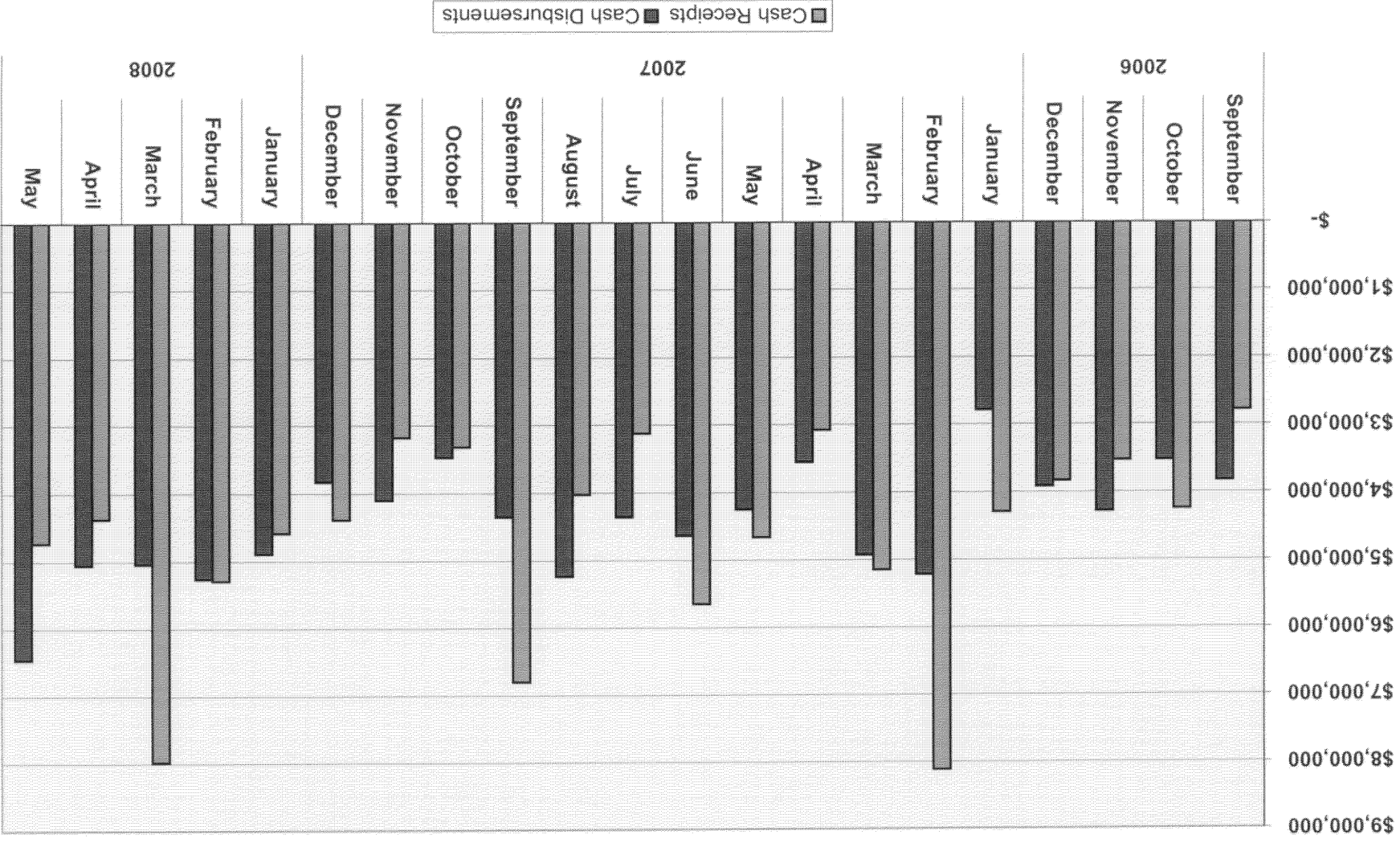
#### *Attachments*

# **Average Daily Monthly Operating Cash** **2005 - 2008\***

Exhibit I



**Cash Receipts & Disbursements FY06 - FY08**  
**Exhibit II**



# Merrill Lynch Monthly Working Capital 2005 - 2008\*

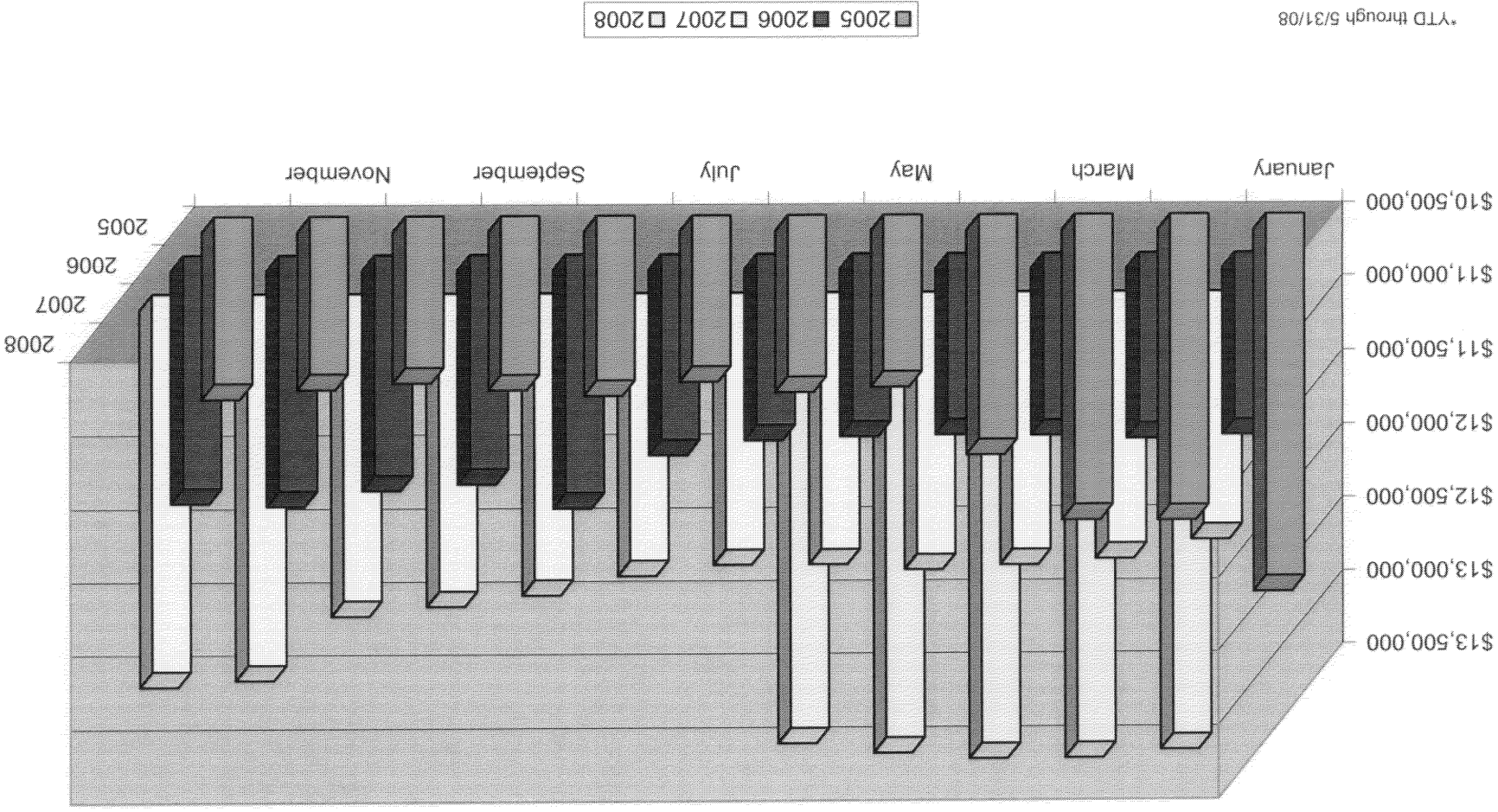


Exhibit IV

	2008				2007			
	Required	Avg. Overnight	Daily Balance	Net Cash	D Less A	Account	Overnight	Yield
A	Bank Balance	Investments	Average	C Less B	Excess Cash		Yield	WC
B							Overnight	WC less
C							Credit	WC less
D								Credit
Account Earnings				Differentials				
January	\$ 5,646,678.59	\$ 3,616,205.00	\$ 10,092,810.00	\$ 6,476,605.00	\$ 829,926.41	2.25%	3.44%	4.82%
February	\$ 5,242,545.26	\$ 3,594,651.00	\$ 10,467,334.00	\$ 6,872,683.00	\$ 1,630,137.74	2.00%	2.95%	4.81%
March	\$ 8,554,668.09	\$ 4,968,334.00	\$ 10,369,878.00	\$ 5,401,544.00	\$ (3,153,124.09)	1.25%	2.24%	4.88%
April	\$ 7,821,108.67	\$ 4,873,286.00	\$ 9,518,277.00	\$ 4,644,991.00	\$ (3,176,117.67)	1.25%	1.92%	4.85%
Total	\$ 27,265,000.61	\$ 17,052,476.00	\$ 40,448,299.00	\$ 18,750,832.00	\$ (693,059.94)	6.75%	10.55%	19.36%
Average	\$ 6,816,250.15	\$ 4,263,119.00	\$ 10,112,074.75	\$ 4,687,708.00	\$ (173,264.99)	1.69%	2.64%	4.84%
January	\$ -	\$ 2,148,845.00	\$ 6,454,821.00	\$ 4,305,976.00	\$ 4,305,976.00	3.90%	4.74%	5.11%
February	\$ 1,982,353.67	\$ 4,122,930.00	\$ 7,629,373.00	\$ 3,506,443.00	\$ 1,524,089.33	3.90%	4.76%	4.51%
March	\$ 2,259,987.51	\$ 6,505,390.00	\$ 7,794,363.00	\$ 1,288,973.00	\$ (971,014.51)	3.80%	4.72%	6.39%
April	\$ 2,608,945.45	\$ 5,852,551.00	\$ 7,538,209.00	\$ 1,685,658.00	\$ (923,287.45)	3.80%	4.74%	4.35%
May	\$ 2,438,708.25	\$ 5,595,358.00	\$ 7,746,977.00	\$ 2,151,619.00	\$ (287,089.25)	3.70%	4.78%	4.91%
June	\$ 2,281,646.71	\$ 5,509,703.00	\$ 8,058,301.00	\$ 2,548,598.00	\$ 266,951.29	3.55%	4.75%	5.20%
July	\$ 2,421,847.67	\$ 6,069,513.00	\$ 9,204,707.00	\$ 3,135,194.00	\$ 713,346.33	3.65%	4.74%	5.23%
August	\$ 2,553,170.12	\$ 3,874,364.00	\$ 8,463,635.00	\$ 4,589,271.00	\$ 2,036,100.88	3.65%	4.17%	4.17%
September	\$ 1,921,149.10	\$ 2,246,566.00	\$ 7,658,105.00	\$ 5,411,539.00	\$ 3,490,389.90	3.55%	3.55%	4.76%
October	\$ 2,687,694.21	\$ 3,801,550.00	\$ 7,671,947.00	\$ 3,870,397.00	\$ 1,182,702.79	3.40%	3.40%	4.81%
November	\$ 2,827,486.09	\$ 3,496,252.00	\$ 8,207,341.00	\$ 4,711,089.00	\$ 1,883,602.91	3.15%	3.15%	4.79%
December	\$ 3,657,204.83	\$ 3,655,924.00	\$ 9,647,211.00	\$ 5,991,287.00	\$ 2,334,082.17	3.00%	3.98%	4.87%
Total	\$ 27,640,193.61	\$ 50,730,101.00	\$ 89,620,169.00	\$ 43,196,044.00	\$ 11,249,874.39	43.05%	50.96%	59.10%
Average	\$ 2,303,349.47	\$ 4,227,508.42	\$ 7,468,347.42	\$ 3,599,670.33	\$ 937,489.53	3.59%	4.25%	4.93%







# Yield Differential

Exhibit V

2008	January	February	March	April
Operating Earnings Credit	2.25%	2.00%	1.25%	1.25%
Overnight Yield	3.44%	2.95%	2.24%	1.92%
Working Capital Yield	4.82%	4.81%	4.88%	4.85%
WC Less Operating Credit	2.75%	2.81%	3.63%	3.60%
WC Less Overnight Yield	1.38%	1.86%	2.64%	2.93%

# Impact of Change

Exhibit VI

Transfer Amount	Expected Differential*	Additional Interest Income**
\$1,000,000	110 Basis Pts	\$11,000
\$2,000,000	110 Basis Pts	\$22,000
\$3,000,000	110 Basis Pts	\$33,000

\*Projected  
\*\*Simple Interest