

**American Library Association
2012 Spring Meeting
Finance and Audit Committee
Report to the Executive Board
Saturday, April 21, 2012**

It is my pleasure to report to the Executive Board on the activities of the Finance and Audit Committee (F&A) at this Spring Meeting – Thursday, April 19. Below are some of the primary topics discussed and reviewed by the committee:

- Auditor Evaluation and RFP
- Neal-Schuman Acquisition
 - Transition Update
 - Valuation for Financial Reporting
 - Financing Options (Loan Obligation)
- FY 2012 Budget Update and Projections – EBD #14.11
- Preliminary FY 2013 Budget Overview – EBD #14.10
- Controller's Report – EBD #4.9
- Membership Retention – EBD #4.14
- Indirect Cost Study – EBD Info #1
- New Business Development Update
- Annual Conference Update

Auditor Evaluation and RFP

Russ Swedowski – Controller, updated the committee on the status of the relationship ALA's current auditor Grant Thornton. Grant Thornton has been ALA's auditor for the past three years. It was also noted that one of Grant Thornton's greatest strengths is their knowledge of ALA and its business operations. However, this strength was offset by constant staff turnover, which included the recent voluntary resignation of the lead auditor assigned to ALA, who was viewed in high regard by the accounting staff. Staff recommends that an RFP to perspective audit firms be issued.

The timeline for the requested RFP, after the acceptance of the draft RFP, would be as follows:

1. April 30 – issues RFP
2. May 18 – Deadline for replies
3. May 29 – Interview day for invited firms
4. June 4 – Conference call with F&A to discuss recommendation
5. June 7 – Discussion with Executive Board
6. June 15 – Notify selected firm
7. July 7 – Begin preliminary audit work

After further discussion the following action was taken:

Action: F&A recommends to the Executive Board to direct ALA management to submit an RFP to several audit firms in preparation for the FY 2012 audit process.

Motion carried.

Neal -Schuman Purchase

Transition Update – Don Chatham and Michael Jeffers updated the committee on the progress of the integration of the Neal-Schuman (NS) operation since its purchase on 12-23-11. It was noted that January – March was the integration period which is still in progress. The NS inventory has been moved to ALA’s fulfillment house (PBD) in Atlanta. ALA is also booking sales through the NS website, which is now linked directly into ALA’s system. Although the primary systems are now integrated there are still some auxiliary systems and databases that are still being reviewed by ITTS and accounting.

Valuation for Financial Reporting Purposes EBD #4.15 – The committee was joined by Stella Su – CPA and Toni Despresia – Audit Partner of Blackman Kallick to discuss the assumptions and process for determining the valuation for the NS purchase. ALA required the use of their services in conjunction with the Financial Accounting Standard Board (FASB) Accounting Standards Codification (ASC) Topic 805 – Business Combinations (FASB ASC 805). The purpose was to develop fair value estimates for the identifiable intangible assets associated with the NS transaction. Note: The services did not include the valuation of any tangible assets. This exercise was necessary to ensure that accounting was in the best

possible position to properly book the acquisition and make for a smoother audit process.

It was noted that the NS transaction was unusual in that it is rare that a non-profit will purchase a for-profit company. As a result the pool of market based participants i.e. similar organizations that would be in a position to make a purchase NS is limited. The committee was then guided through the classification and the assumptions used in the determination. It is the assumptions that the auditors will be focusing on and testing extensively during the audit.

Financing Options: EBD #4.13 – The committee was joined by David Chan – Loan Officer and Laura Mishlove – Relationship Manager of JP Morgan Chase and Richard Newman - attorney of Arent Fox to discuss a number of financing options available to ALA with respect to financing the NS purchase. Currently ALA has two outstanding loans - the Washington Office (\$2.7 million) and the Choice property (\$1.6 million). Additionally, it is the desire of management to replenish a portion of the cash outlay for the NS purchase (\$5.5 million). As a result the committee was asked to review two financing options (taxable and tax-exempt) to consolidate the NS purchase, the Washington Office and the Choice property into one loan. R. Newman provided some insight into the advantages and or limitations for each of the two financing options. It was pointed out that with the tax-exempt financing, which involves receiving approvals from different governing authorities resulting from the locations of the properties, would place some operating restrictions on the Association i.e. the types of business activities ALA could potentially venture into. Another consideration is the amount of time involved to close each option. A tax-exempt financing could take up to four months while a taxable loan could be completed in as little as thirty days. Finally, while the tax-exempt financing offers a lower rate than the taxable option, the transaction costs are higher. As a result, the tax-exempt option fully benefits the Association the longer the term as the low interest cost minimizes the higher transaction costs.

The committee, along with staff, weighted the merits of the term of each option and took the following action:

Action: F&A recommends to the Executive Board that the Executive Director proceed with taxable/no pre-payment financing arrangements with JPMorgan Chase Bank and prepare financing terms to be finalized and approved prior to Annual Conference.

Motion carried.

FY 2012 Budget Update and Projections – EBD #14.11

F&A reviewed the February second quarter FY 2012 budget report, and noted the following highlights:

Total ALA (all combined funds) reported revenues of \$21.3 million are \$804,138 (-3.6%) less than budget. The General Fund revenues were \$11.8 million and \$190,004 (-1.6%) less than budget. Division revenues were \$6.2 million and \$707,993 (-10.3%) less than budget. Grants and Awards revenues were \$2.8 million and \$122,745 (4.7%) more than budget due primarily to timing. Long Term-Investments revenue was \$440,966 and over budget by \$22,094 (5.3%).

Total ALA expenses were \$23.5 million and \$1.4 million (-5.8%) less than budget but \$1.5 million more than last year. The General Fund expenses were \$13.8 million and \$336,456 (-2.5%) less than budget. Division expenses were \$6.8 million and \$1.6 million (-19.3%) less than budget of \$8.4 million. Grants and Awards expenses were \$2.8 million and \$122,745 (4.7%) more than budget due primarily to timing. Long Term-Investments expenses were \$140,899 and less than budget by \$75,431 (-34.9%).

General Fund – As noted above General Fund revenues were less than budget due primarily to lower than expected interest income (\$204,194) as a result of funds used in the Neal-Schuman acquisition. Dues income totalled \$2.9 million, which was more than budget by \$28,703 as a result of better than expected Organizational dues activity. Personal member dues were \$2.2 million and less than budget by \$10,000.

Publishing was slightly under budget by \$17,211 (-0.3%) to \$5.8 million. The primary area of the shortfall was in ALA Editions, which was \$1.8 million or \$101,900 (-5.5%) less than budget as On-Line Resources were under budget by \$34,082 (-14.4%) at \$203,232 as subscriptions continue to be a hurdle. Subscriptions were under budget by \$57,182 (-31.0%). On the positive side ALA Graphics revenue was more than budget by \$83,133 (12.1%) at \$769,580 as the sale of materials to libraries was stronger than expected. Booklist publications – the magazine and online – both reported revenues above budget in the amount of \$31,135. Subscription revenue in the magazine was the primary driver, along with fewer related commissions. Print subscriptions continue to be a challenge as the library market seems to be converting rapidly to electronic versions and was under budget by \$53,280 (-3.3%) to \$1.6 million.

On the expense side total General Fund expenses were \$13.7 million, which is more than budget by \$336,456 (2.5%). The areas with the most significant impact were Publishing Services (\$673,412), Business Expense (\$237,790) and Overhead Recovered (\$154,358). The overage in Publishing Services was driven by ALA Editions which saw expense exceed budget by \$561,543 (34.4%) to \$2.2 million. The areas affected Fulfillment (\$86,692), Cost of Sales (\$53,072), Inventory Adjustment (\$60,476), Postage (\$47,839) and Royalties (\$44,765) is directly related to the integration of the Neal-Schuman acquisition.

As a result of the above information net revenue reflects a deficit of \$2.0 million, which is \$526,460 more than budgeted of a deficit of \$1.5 million (36.4%).

Division revenues were \$6.2 million, which was less than budget of \$707,993 (-10.3%). There were three divisions that accounted for most of the shortfall – Choice (\$290,911), AASL (\$292,958) and ALTAFF (\$115,011). The shortfall in Choice was due to lower revenue from subscriptions (\$77,574) and royalties (\$103,965). AASL revenue was down in the sale of books (\$83,365) and conference registration (\$159,307). ALTAFF was down due to lower donations (\$55,561) and subscriptions (\$37,562). ALTAFF revenue has been hurt by lower donations (\$55,561) and subscriptions (\$37,562). Division expenses were \$6.8 million and were under budget by \$1.6 million (-19.3%). Four divisions accounted for most of the underage:

- PLA: \$792,911 – salaries, professional services, conference rental and entertainment
- AASL: \$423,961 – national conference cutbacks
- ACRL: \$211,276 – salaries, professional services and program allocations
- Choice: \$111,866 – salaries, depreciation and royalties

Net revenue reflects a deficit of \$602,479, which is under a budgeted deficit of \$1.5 million or \$911,437 (-60.2%).

FY 2012 Year-End Projections – Based upon six months results, senior management asked staff to review their operations and plans for the remaining year and prepare projections for the remainder of the year. Based on their work General Fund revenues are projected to reach \$27.9 million, which is \$835,765 (3.1%) more than budget. The impact of the Neal-Schuman acquisition is favorably impacting publishing revenue. Dues revenue is projected to reach \$5.7 million or \$10,600 less than budget, primarily in the personal member category (\$30,000). Revenue from Member Programs & Services is projected to be \$8.0 million or

\$728,560 less than budget, which is primarily related to a shortfall in Annual Conference revenue of \$711,529. General Fund expenses are projected to be \$28.3 million or \$1.2 million more than budget. The result is a projected deficit of (\$401,335).

Management discussed with the committee a number of options to cover the projected deficit – see **EBD #14.11**. As such, the following actions were taken:

Action: F&A recommends to the Executive Board approval to transfer the remaining unspent interest of \$94,551 from the ALA Future Fund interest generated from 2005 and 2006 to partially offset the projected FY 2012 General Fund operating deficit.

Action: F&A recommends to the Executive Board approval to use up to \$300,000 in General Fund net asset balance reserves to further offset the projected FY 2012 General Fund operating deficit.
Motion carried.

Note: That in order to minimize the use of reserves, management is also capping the use of previously approved net asset reserves on 2015 projects of \$250,000 to \$150,000. The net result of these actions will leave a net asset reserve balance of \$572,293.

FY13 Preliminary Budget – EBD #14.10

K. Fiels and G. Calloway gave the committee a broad overview of the FY 2013 budget. Details will be presented to the Executive Board on Saturday - April 21, 2012.

Action: F&A recommends to the Executive Board that the preliminary FY 2013 budget proposal - EBD #14.10 – be forwarded to the Budget Analysis and Review Committee (BARC) for further analysis and review. The Board affirms the strategic direction of the budget and requests that BARC report back on its analysis at the 2012 Annual Conference in Anaheim, CA.
Motion carried.

Controller's Report – EBD #4.9

Russ Swedowski – Controller and Joanne Pak – Assistant Controller were present to highlight the report for the committee.

ALA Financial System Update – Migration to the new financial management system is moving forward. Training in SharePoint and Knowledge Lake with the larger Divisions continues with more users coming onboard daily. Training is expected to be completed by the end of June. Critical financial reports continue to be designed, refined and utilized. Other specialized reports will be completed during the remainder of the year.

Regulatory Issues: 403 (b) Retirement Plan Audit –The 2010 audit was performed by McGladrey & Pullen in August 2011 and completed in February 2012. The late start was due to previously disclosed issues with the plan provider and issues surrounding the prevention of an audit opinion. The following action was taken:

Action: F&A recommends to the Executive Board acceptance of the 403(b) for the 2010 retirement plan audit.

Motion carried.

In addition, after some discussion with staff the following action was taken:

Action: F&A recommends that the Executive Board that the firm Mueller & Co. LLP be retained to perform the audit for the 2011 403(b) plan year.

Motion carried.

Cash Management and Bond Fund - Total cash and short-term investments at February 29, 2012 amounted to \$13.5 million as compared to \$18.8 million a year ago. The decrease was mainly related to the Neal-Schuman acquisition which required a drawdown of \$7.5 million out of the bond fund investments. Year-to-date interest income is \$340,446, which is \$204,194 less than the budget of \$544,640.

The Neuberger Berman bond fund investment balance is \$7.8 million at February 29, 2012. As noted in schedule 6, this investment has produced over \$9.2 million 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 YTD with a realized/unrealized loss of \$35,485. The cumulative (computed since December, 1991) net realized/unrealized gain is \$372,327.

The Association maintains a line of credit in the amount of \$2.5 million with JP Morgan Chase. There have been no draws in FY12.

Inventory and Credit and Collections – Information related to these two topics was covered in the controller’s report and were well within the acceptable levels for required reserves (excess and obsolete), aging of receivables and reflected no issues.

Grant Overhead Rate – ALA has been working with the National Business Center (NBC) of the U.S. Department of the Interior to determine the indirect rate to be used on grants. ALA proposed a rate of 20.98%, but after some adjustments that resulted in transfers from the direct cost base, the proposed rate is 18.74%. The proposed rate is currently under final review and will last through 2013.

Membership Retention – EBD #4.14

Cathleen Bourdon, AED, Communications and Member Relations, updated the committee on a proposal from the ALA Membership Committee to offer a special membership promotion to two groups:

- First year members who dropped their membership after 12 months
- Small and very small library organizational members who dropped their membership over the last two years

The first year members will receive a 25% discount off the member rate of \$98 or \$65. The organization promotion will feature a 50% discount off the small libraries (\$300) and very small libraries (\$175) rate of \$150 and \$87.5 respectively. There will be a number of tactics used to reclaim these former members, as well as, plans to engage these members once they join in order to enhance the member experience and increase the potential to renew.

Action: F&A recommends that the Executive Board approve in principle a special promotion for first-year personal members, who dropped their membership after 12 months, and a special promotion for small and very small organizational members, subject to review and recommendation by BARC.

Motion carried.

Indirect Cost Study - EBD Info #1

K. Brown summarized for the committee the results of the 2011 Indirect Cost study. Using the 2011 ALA audited financial reports, internally generated performance reports and updating the allocation information, the resulting rate was 24.2%. This was a decline of -6.9% from last year's rate of 25.5%. The primary driver of the decline was a reduction in total ALA expenses of \$3.6 million (6.9%), as a result of fewer Grants & Awards. This year's rate will be applied to the FY14 budget at 100% (24.2%) on certain division conference revenue and 50% (12.1%) on certain publishing revenue

In closing it was noted that the allocation method used to allocate ITTS costs, currently the number of PC's, may be modified to use "Help Desk" tracking. Discussions indicate that the help desk tracking or some blend make be a better measure of actual utilization by staff.

New Business Development Update

K. Fiels updated the committee on the work of the new business development working group, which met recently here in Chicago. He noted that while quite a few items were discussed, a major portion of the discussion centered on international markets and electronic publishing. Specifically to develop the capability to make ALA publishing content completely accessible and to find new ways to package e-content. The international market was considered to be a major area of focus, particularly with RDA having the potential to interact with over a 1000 libraries. RDA also has the advantage of being a dynamic database that is constantly updated. This presents the opportunity to not only sell products and services but to develop relationships as well. In addition to RDA, online learning and virtual conferences are also viewed as prime areas for development. It was also noted that there will be a focus group at the annual conference of people from around the world to discuss what they see as areas of opportunity or need where ALA may be able to fill a need or role.

Annual Conference Update

Paul Graller, Manager, Conference Services, and Mary Ghikas, Senior AED, provided the committee with a brief update. As most people have observed exhibitors are being squeezed by the current economic environment and the

number of library shows they are being asked to attend i.e. ALA, Division, State and Regional conferences. Consolidation within the industry continues to be an issue to be addressed. As a result, ALA is suffering from a loss in exhibit space. There are reviews underway to redo the exhibit floor in a way that might take advantage of smaller more specialized vendors. It was also noted that there are far too many meetings at ALA. These meetings require a commitment a specific number of rooms which in many cases are underutilized. This is a message that will be carried by the Treasurer in Anaheim.

Annual Conference Planning

In preparation for the Annual Conference in Anaheim the Treasurer, BARC and finance staff will focus on the following messages:

- ALA's continuing financial challenges
- ALA's efforts to improve revenue enhancements
- Bank loan consolidation
- Efficiency and productivity at HQ
- ALA's continued commitment to member services
- Annual Conference meeting space efficiency

Acknowledgements

We continue to be extraordinarily well served by Greg Calloway, Keith Brown, Sandra Lee, Russ Swedowski, Joanne Pak and Elaine Klimek and the ALA financial and accounting department. They have been very dependable, innovative, reliable and thorough in assisting in our financial oversight responsibilities.

Respectfully submitted:

James Neal, Chair
Sylvia Norton
Linda Williams
Steve Matthews
Clara Bohrer, BARC Chair

