2011-2012 EBD #4.19

American Library Association
2012 Annual Conference Meeting
Finance and Audit Committee
Report to the Executive Board
Monday, June 25, 2012

It is my pleasure to report to the Executive Board on the activities of the Finance and Audit Committee (F&A) at this Annual Conference – Saturday, June 23, 2012. Below are some of the primary topics discussed and reviewed by the committee:

- Dues Adjustment Discussion – EBD #12.53
- Endowment Trustees Report – EBD #13.4
  - Action: Senior Trustee Selection
- FY 2012 Budget Update – EBD #14.12
  - Summer Budget Projections
  - Action: Use of Reserves
- Total ALA FY 2013 Budget – EBD #14.13
  - Action: Budget Ceiling Approval
- Controller's Report – EBD #4.2
- Audit Firm Recommendation – CBD #13
  - Action: Auditor Selection

Dues Discussion – EBD #12.53

The committee was updated by C. Bourdon – AED Communications and Member Relations, R. Jankowski – Director Membership Development and K. Cassell – Chair of the Membership Committee two options regarding future personal dues adjustment strategies that were discussed at the Midwinter Meeting with the Membership committee. The purpose was to seek feedback from this and other committees on the options highlighted in document BARC #29.0.

After the Midwinter Meeting R. Jankowski prepared several financial models to determine the potential impacts of various dues rate adjustments. It was determined that two options presented the best scenarios. They are as follows:

Option 1 - Tie future dues increases to the CPI index - annually
Option 2 - After a $10 increase in dues tie future increases to the
CPI Index - annually

Members of the committee felt strongly that both options would make it possible for the Association to manage dues adjustments annually. Additionally, in view of the fact that two divisions (ACRL and PLA) have approved and currently use a CPI based dues structure, the members of the committee gave their full support in moving forward with further discussions with other committees, member groups and the membership in general. As the discussion moves forward consideration will be given to the timing of such a proposal in light of pending divisional dues increases.

Endowment Trustee's Report – EBD #13.4

Dan Bradbury -Senior Trustee joined the committee to report on the performance of the ALA Endowment Fund through the first five months of the calendar year. He reported that the endowment, as of May 31, 2012 had a value of $31.1 million, which is a gain of $782,090. This resulted in a return of 2.9% compared to its benchmark of 3.6%. The portfolio managers – with a few exceptions – were positive for the period and were close to their respective benchmarks. He noted the first quarter went very well and was similar to last year. And just like last year the market suffered soon after due to unforeseen events. Unfortunately this year the crisis in Europe and the lack of a permanent solution has raised investor anxiety and corresponding volatility. This has resulted on a drag on the market and the portfolio's performance since April. He also noted that there is every expectation that the market will continue to react this way until there is a real solution in Europe. The situation is compounded by the fact that Europe is likely in a recession and the primary global growth engines – China, India and other emerging markets – are slowing down, which is expected to impact U.S. GDP growth.

D. Bradbury noted that the ALA investment advisor – Merrill Lynch – pointed to a number of pending issues related to the U.S. budget, deficit and fiscal policy that could have a major negative impact on the economy. They call it the "Fiscal Cliff." This cliff involves the expiring "Bush" tax cuts ($240 billion), payroll tax holiday ($129 billion), numerous debt ceiling deals ($150 billion) and others which total $720 billion. This represents 4.6% of total US GDP. If compromise cannot be reached there could be a potential drag on the economy of 2.2%. This action will push the economy into recession. To help address this possibility the Trustees adjusted the asset allocation in the portfolio by closing out the holdings (4.4%) in real assets[1] and reallocated those dollars to the corporate fixed income manager. This change will give the portfolio a more defensive posture until there is a clear direction on the events that will impact the economy by calendar year end.

Finally, D. Bradbury noted that this is his last term as Senior Trustee. He has thoroughly enjoyed his time and service as a Trustee and as Senior Trustee. Because he is going off the committee there needs to be a replacement. There have been a number of conversations among the Trustees regarding a potential replacement as Senior Trustee. All of the Trustees feel that John Vitali would be a good candidate for the position and strongly recommend him for the position. As such, the following action was taken:

[1] Commodities, real estate and other hard assets

Action: F&A concurs with the Endowment Trustees to support and recommend to the ALA Executive Board the selection of John Vitali to serve as the next Senior Endowment Trustee.

FY 2012 Budget Update and Projections – EBD #14.12

Preliminary May Results – May results were made available just before this conference. Total ALA revenues were $34.2 million or $9,597 (-0.03%) less than budget. In the General Fund, there was further improvement as revenues were $17.5 million or $846,458 (5.1%) more than budget due to Publishing Services ($1.1 million) resulting from ALA Editions ($972,075) and Booklist ($147,300). The other big change was in Interest Income which was below budget by $338,964 due to lower investable funds. Division revenues were $12.1 million or $767,736 (-6.0%) less than budget, although the revenues are still being analyzed. The divisions with the most significantly under budget revenues are PLA $230,081), AASL ($322,685) and ALTAFF ($136,661). An important note at this point is the fact that seven of the eleven divisions are reporting lower than budgeted revenues for a variety of reasons. Grants & Awards were $3.8 million or $46,652 (1.2%) more than budget due to timing. LTI income was less than budget by $65,452 (-10.4%) or $562,856.

Total ALA expenses were $35.0 million or $1.1 million (3.1%) less than budget. General Fund expenses were $19.9 million and $663,792 (3.5%) more than budget. Division expenses were $11.0 million and more than budget by $1.4 million (11.6%). Note that the divisions are making a concerted effort to review their ongoing projects and activities. Round Tables were significantly under budget by $102,310 (54.9%) at $83,918. Grants and Awards were $46,652 (1.2%) more than budget at $3.8 million.

For the General fund the result is a net operating loss of $2.3 million, which is less than the budgeted net loss of $2.6 million.

Summer Year End Projections – At the spring meeting in Chicago staff shared with BARC its year-end projections. The projections were the result of the work of the department heads and unit managers and based on February results. Since that time, management has refined the General Fund revenue and expense projections based on April/May results. These updated projections indicate that at the end the year revenues are projected to be over budget by $572,000 and expense over budget by $1.4 million for a total of net loss of $861,000. The increase in revenue is a result of a combination of factors that include additional revenue from Neal-Schuman ($1.9 million) and less from RDA ($90,000), lower exhibit ($473,000)/registration ($357,000) revenue from Annual Conference, lower interest income due to a lower amount of investable income for investment – see below:

Publishing	$1,982,000
Annual Conference	($ 857,000)
Interest Income	($ 390,000)
Miscellaneous	($ 42,000)
Total	$ 572,000

On the expense side, Publishing will incur additional operating expenses greater than budget related primarily to the Neal-Schuman operation in the amount of $2.3 million. This includes an expansion of the Neal-Schuman operation ($1.4 million), one-time Neal-Schuman transition costs ($717,000) and a reduction in the Neal-Schuman book value ($335,000). These cost increases are offset by savings in a number of areas such as Annual Conference - $438,000, healthcare reimbursement - $177,000, Unallocated/Contingency - $323,000, Communications - $117,000, Overhead - $78,000, and the Executive Office - $70,000. See below:

Publishing	($ 2,335,000)
Annual Conference	$ 438,000
Healthcare Reimbursement	$ 177,000
Unallocated/Contingency	$ 323,000
Communications	$ 117,000
Overhead	$ 78,000
Executive Office	$ 70,000
Other (Admin Exp)	($ 301,000)
Total	($1,433,000)

As stated the combined results is a net loss of $861,000. In view of these expectations, it has become necessary to use a portion of ALA's net asset balance above the $300,000 approved at the spring meeting, along with the deferred interest from the Future Fund. The details are as follows:

NAB Beginning FY12	- $1,428,293
Use of NAB to Cover FY12 Loss	- ($ 860,960)
Use of Future Fund Interest	- $ 94,000
2010 Projects Expensed in FY12	- ($ 200,000)
Total FY12 Use of NAB	- ($ 966,960)
NAB Ending FY12	- $ 461,333

Because this particular solution requires the use of ALA's net asset balances, it also requires Board approval. As such, the following action was taken:

Action: F&A concurs with BARC and recommends to the Executive Board to authorize of up to $400,000 having already authorized $300,000 for a total of $700,000 to cover the projected FY12 operating deficit.

FY13 Total ALA Budget – EBD #14.13

***Total ALA Budget* –** G. Calloway updated the committee on the Total ALA FY 2013 Budget – General Fund, Divisions, Round Tables, Plant Fund Grants & Awards and Long-Term Investments, and provided an overview of changes since the spring meeting. Some of the basic elements of this budget include the following:

- An increase to the General Fund reserve of $200,000
- Lower overhead from the Divisions due to conference cycle
- A 1% salary increase and a 1% end of year compensation adjustment contingent on meeting certain budget targets.
- Increased revenue from Publishing (Neal-Schuman/RDA) and Conferences (pricing strategies)
- Maintaining health care benefit rate at 30%
- A ½% reduction in unit expenses
- Added 4 FTE's related to Neal-Schuman
- $2.2 million in capital expenditures for technology and building improvements

After further discussion F&A took the following action:

Action: F&A concurs with BARC and recommends to the Executive Board approval of the FY 2013 Total ALA Budget of $65,344,901, as presented in 2011-2012 EDB #14.13.

Controller's Report – EBD #4.2

Joanne Pak – Assistant Controller and Greg Calloway 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 and using on a regular basis. 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. To facilitate the review of the new systems during the FY 2012 financial statement audit, the workflow documents that were created throughout the design and implementation process will be updated and made available.

Regulatory Issues: 403 (b) Retirement Plan Audit –In conjunction with the requirements of Form 5500, Annual Report/Return of Employee Benefit Plans, the Association has retained Mueller & Co, LLP to perform the 2011 audit of the Association's 403(b) retirement plan. The audit will commence in June, 2012 and should be completed by September when the audit report and the management letter are issued. Form 5500, due October 15, 2012, will then be filed with the audit report attached.

***Cash Management and Bond Fund* -** Total cash and short-term investments at April 30, 2012 amounted to $11.0 million as compared to $18.3 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 $428,505, which is $297,609 less than the budget of $726,114.

The Neuberger Berman bond fund investment balance is $7.8 million at April 30, 2012. As noted, 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 $41,254. The cumulative (computed since December, 1991) net realized/unrealized gain is $366,558.

The Association maintains a line of credit in the amount of $2.5 million with JP Morgan Chase, which is in the process of being renegotiated. 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.

***Liquidity Ratios* –** As a result of certain long-term debt and bank arrangements with JP Morgan Chase and Bank of America, the Association is required to meet and report certain ratios related to the organizations liquidity position on a regular basis. They are as follows:

Chase – Unrestricted Cash & Investments to Debt Ratio = 9.1/1.0 required 2.0/1.0
BOA – Unencumbered Liquid Asset Ratio = 1.1/1.0 required 0.6/1.0
BOA – Debt Service Ratio = 3.8/1.0 required 0.6/1.0

Based on the each bank's minimum requirements, ALA's liquidity position is very strong. G. Calloway discussed the future loan with Chase Bank. He discussed the need to closely monitor cash levels and its impact on liquidity ratios which are covenants in the loan agreement.   As specialized reports from the new financial system are developed, monthly ratio results can be made available for review. Note that this information - liquidity ratio history - is being included for the first time.

Audit Firm Recommendation – CBD #13

G. Calloway summarized for the committee the process that was used in the selection of ALA's auditor and the rationale behind the recommended candidate – Deloitte. After the spring Board meeting in, which an RFP was authorized, a number of candidates responded. These proposals were reviewed by the Accounting and Finance staff in order to evaluate the relative strengths and weakness of each candidate. This resulted in a field of six finalists of which five were invited in to give formal presentations. The formal presentations were given to the Accounting and Finance staffs, as well as, senior management and the BARC Chair. After considering an extensive list of criteria, reference checks, other due diligence and scoring each candidate, two were considered the standouts – CliftonLarsonAllen and Deloitte. Based upon this process Deloitte was selected and staff presented this to the ALA Executive Committee in June 7, 2012, which was approved. After further discussion the following action was taken:

Action: F&A recommends to the Executive Board approval of Deloitte LLP to conduct the ALA FY 2012 audit.

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

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