

**American Library Association
2014 Spring Meeting
Finance and Audit Committee
Report to the Executive Board
Saturday, April 12, 2014**

It is my pleasure to report to the Executive Board on the activities of the Finance and Audit Committee (F&A) which met at this Spring Meeting on Thursday, April 10th. Below are some of the primary topics discussed and reviewed by the committee:

- FY 2014 Budget Update and Projections – EBD #14.8
Action Item
- FY 2015 Preliminary Budget Overview – EBD #14.9
Action Item
- 2015 CPI Personal Dues Schedule – EBD #10.3
Action Item
- Endowment Trustee’s Report – EBD #13.3
Action Item
- Controller’s Report – EBD #4.15
- Indirect Cost Study – EBD Info #4.16
- New Business Development Update

FY 2014 Budget Update and Projections – EBD #14.8

Greg Calloway reviewed for the committee the year to date results using the Executive Summary narrative for the six month results ending February 28, 2014. The following represent the highlights of those discussions:

Through February total ALA (all combined funds) reported revenues were \$22.0 million which is \$1.8 million (-7.4%) less than budget of \$23.8 million. Most of the variance occurred in three areas – General Fund, the Divisions and Grants &

Awards. General Fund revenues were \$1.1 million (-7.7%) less than budget of \$12.6 million. Division revenues were \$6.4 million and less than the budget of \$6.7 million by \$302,001 (-4.5%). Grants & Awards were \$2.2 million less than budget by \$503,487 (-18.9%). On the plus side, revenue from Long-Term investments were over budget by \$114,412 (22.0%) at \$635,386.

Through February total ALA expenses were \$22.0 million which is less than the budget of \$25.5 million by \$3.6 million (-14.1%). Lower expenses were realized throughout the association with the most significant savings realized in the divisions (\$1.7 million), the General Fund (\$937,449), Grants & Awards (\$503,487) and Long-Term investments (\$300,990).

As a result of the above information, total ALA net revenue was \$32,925 which is much better than the budgeted loss of (\$1.8 million). The General Fund activities resulted in a net revenue loss of (\$586,066), which is more than the budgeted loss of (\$473,464) by \$112,602 (23.8%).

General Fund Projections – Based upon the January/February results, management has projected end of year revenues and expenses of \$27.7 million. This is \$1.1 million or (-3.9%) less than budget. Most of the revenue shortfall is in Publishing Services (\$719,722) – ALA Editions, Member Programs & Services (\$159,592) – Midwinter Meeting and Communications (\$144,962) – Dues. As a result of further examination of the current situation, the solution to cover the entire shortfall required additional remedies that were discussed in close session. As a result of those discussions the following action was taken:

Action: F&A recommends to the Executive Board that they authorize the transfer of up to \$200,000 from investment resources to balance the FY14 General Fund budget

FY15 Preliminary Budget – EBD #14.9

G. Calloway and K. Fiels met with the committee and provided a broad overview of the primary strategic initiatives, enabling strategies and financial highlights of the FY15 budget. Issues impacting the FY14 budget, which will have an impact on the FY15 budget was also discussed. Details of the full plan will be presented to the Executive Board on Saturday - April 12, 2014.

As a result the following action was taken:

Action: F&A recommends to the Executive Board that the Preliminary FY 2015 Budget proposal (EBD #14.9) be forwarded to the Budget Analysis and Review Committee (BARC) for further analysis and review. The Board affirms the strategic directions of this budget and requests that BARC report back on its analysis at the 2014 Annual Conference in Las Vegas.

Endowment Trustee's Report – EBD #13.3

Rod Hersberger reported to the committee on the status and performance of the endowment fund through the two month period ending 2-28-14. He noted that results through the first portion of the year have been very uneven resulting in a minimal gain. For the reported period the portfolio was valued at \$37.6 million and returned a gain of 1.5%. The major contributor to these results was the performance of the fixed income portion of the portfolio. He noted that this result came about despite the fact that the Trustee's have been underweighting fixed income securities over the last year. Based on all available information the Trustee's and their investment advisor (Merrill Lynch) still believe that this is the best position for the longer term benefit of the portfolio.

After further discussion the following action was taken:

Action: F&A endorses the recommendation from the ALA Endowment Trustees to provide a spending/payout rate of 5% from the ALA endowment fund for the FY15 budget.

Indirect Cost Study – EBD Info #4.16

Keith Brown summarized for the committee the results of the 2013 Indirect Cost study. Using the 2013 ALA audited financial reports, internally generated performance reports and updating the allocation information, the resulting rate was 25.9%. This was an increase of 2.0% from last year's rate of 25.4%. This year's rate will be applied to the FY16 budget at 100% (25.9%) on certain division conference revenue and 50% (13.0%) on certain publishing revenue.

Controller's Report – EBD #4.15

Joanne Lee – Controller was present to highlight the report for the committee.

Total ALA Financial Position - On a year to year basis as of February 28, 2014 ALA's financial position (Net Assets) improved by \$4.2 million (14.2%) to \$34.0 million. The most significant influence was the impact of improved long-term investment results, as well as, greater cash on hand due to two division national conferences.

Cash Management and Bond Fund - Total cash and short-term investments at February 28, 2014 amounted to \$19.5 million as compared to \$17.5 million a year ago. The increase was due to the two national division conferences, improved RDA subscription revenue and higher deferred grant revenue.

The Neuberger Berman bond fund investment balance is \$13.1 million at February 28, 2014. This investment has produced over \$9.9 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 gain of (\$139,709). The cumulative (computed since December, 1991) net realized/unrealized gain is 154,251.

The Association maintains a line of credit in the amount of \$2.5 million with JP Morgan Chase. There were no outstanding draws on the line as of 2-28-14.

Deferred Revenue – As of February 28, 2014 deferred revenue totaled \$17.2 million. This is a gain of \$1.5 million (9.2%) and is due primarily two national division conferences (\$714,911) and Grants & Awards (\$916,182). Note that dues revenue related to membership is down by \$215,046 to \$4.4 million

Long-Term Debt – ALA has an outstanding loan with JP Morgan Chase in the amount of \$9.5 million. The first scheduled payment of \$647,500 was made on July 1, 2013 with the next scheduled payment on July 1, 2014. In order to meet this obligation management has been setting aside \$50,000 on a monthly basis from the operating fund. Interest payments on this obligation are made monthly.

Inventory and Credit and Collections – Information related to this topic was covered and each was well within the acceptable levels for required reserves (excess and obsolete), aging of receivables and reflected no issues.

Liquidity Ratio – In conjunction with the JP Morgan Chase long-term debt arrangements, the Association is required to maintain certain financial ratio – debt Service Coverage and Cash to Debt. These are ratios that management gives a great deal of attention. As of February 28, 2014 the ratios are 1.76 and 3.89 respectively compared to the requirement of 1.1. Projecting out to the end of the fiscal year looks encouraging for both ratios.

2015 CPI Personal Dues Schedule – EBD #10.3

The committee reviewed a request by the chair of the ALA Membership Committee to approve the application of the change in the national average Consumer Price Index (CPI) in 2013 in order to adjust the FY15 dues. The proposal noted that the CPI increased in 2013 by 1.5%. The impact on ALA dues levels for FY15 equals approximately \$65,000.

After additional review and discussion the committee took the following action:

Action: F&A recommends to the Executive Board approval of apply the 2013 change in the national average Consumer Price Index (CPI) of 1.5% to adjust dues in the FY15 budget.

New Business Development Update

K. Fiels updated the committee on the status of two projects that are under consideration – Online Learning and International Opportunities. It was noted that the online learning project was close to bearing fruit. Currently the infrastructure is being put in place with the help of ITTS and should result in a plug and play type model with Publishing that will deploy the content. As a result of a soon to be made announcement, details are in the dark period.

On the international side it was noted that progress is being made with the representatives of the Sharjah International Book Fair (SIBF) to provide CE training. The SIBF is a ten-day event held annually in the United Arab Emirates. An initial program has been agreed upon and details will be forthcoming. In addition to the initial program, staff is in the process of developing a range of other partnership arrangements via CE training that will hopefully lead to a deepening relationship.

Acknowledgements

We continue to be well served by Greg Calloway, Keith Brown, Denise Moritz, Joanne Lee 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:

Mario Gonzalez, Chair

Rob Banks

Michael Porter, Absent

Jim Neal

Patricia Wand, BARC Chair

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