EBD #4.20
2013 - 2014

American Library Association
Finance & Audit Committee
Spring Meeting
April 10, 2014

DRAFT Minutes

Present: Mario Gonzalez - Treasurer, James Neal, Rob Banks and Patricia Wand - BARC Chair

Staff: Gregory Calloway, Keith Michael Fiels, Mary Ghikas, Keith Brown, Denise Moritz and Joanne Lee

Absent: Michael Porter

M. Gonzalez opened the meeting and welcomed the members. He went on to review the agenda and the topics to be reviewed during the meeting. He noted that the only change was the addition of a review on the performance of the endowment fund from the Senior Trustee, Rod Hersberger.

Midwinter Meeting Minutes – EBD #4.14

By consent, the minutes were approved as written.

FY 2014 Budget Update and Projections – EBD #14.8 and EBD # 14.10

G. 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 the 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. Publishing Services accounted for most of the decline ($708,596) with lower than expected results in the sales of books in ALA Editions ($463,809), the sale of Neal-Schuman titles ($262,742) and ALA Graphics ($170,124). Also contributing was lower revenue from interest income ($77,535) and Dues ($150,907). It should be noted that revenue from RDA is $458,367 and $118,153 more than budget. Division revenues were $6.4 million and less than the budget of $6.7 million by $302,001 (-4.5%). Significant shortfalls were realized in ACRL ($218,863 or -19.2%), AASL ($175,119 or -10.0%) and PLA ($119,680 or -25.5%). These shortfalls were offset by a gain in ALSC ($348,506 or 82.2%). Grants & Awards income was $2.2 million and less than budget by $503,487 (-18.9%). Revenue from Long-Term investments was over budget by $114,412 (22.0%) totaling $635,386 year to date.

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). Lower General Fund expenses were in Publishing Services ($780,596), primarily in ALA Editions ($496,659) and ALA Graphics ($166,863) and Member Programs & Services ($346,088). Division expenses were $6.4 million and less than the budget of $8.2 million by $1.7 million (-21.0%). Savings were realized in all Divisions but primarily in PLA ($920,295), ACRL ($259,576) and AASL ($150,749).

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* –** G. Calloway began the discussion by noting that there were now tools available to help make projections better and faster. He further noted that during the process the Divisions took an intense look at their operations for the remainder of the year and provided good information. Based upon that work and 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. The revenue shortfall is primarily in Publishing Services ($719,722), Member Programs & Services ($159,592) and Communications ($144,962). It should be noted that although there is lower projected publishing revenue, expected cost savings will result in net revenue being on plan. Cost savings will also be realized in the contingency fund, the President's budget and the delay in the implementation of the e-commerce module in ITTS. Other areas where savings may be realized include open positions and the healthcare benefits plan. These efforts will cover a significant portion of the expected shortfall. The balance is expected to be covered by other available financial resources. It was also suggested that the use of other available financial resources would be used as the source of funding for an expected FY15 investment in technology in the amount of $250,000. As the shortfall was further discussed, the solution to cover the entire shortfall and the suggested technology investment required additional remedies that were discussed in close session. As a result of those discussions the following action was taken:

Motion: J. Neal, seconded by P. Wand
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.
Motion carried.

FY15 Preliminary Budget – EBD #14.9

G. Calloway and K. Fiels 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 were to be presented to the Executive Board on Saturday - April 12, 2014. K. Fiels began the discussion by noting that many of the divisions have moved to a 3-year planning process, which should pay dividends in the future. There was also a one day planning retreat in the fall with the divisions. As the budgets were being developed all units were asked to pay close attention to the question "How do the strategic initiatives fit in with what is already in place?" i.e. should an activity continue or eliminated? He went on to note that as a result of a series of member conversations over the last few years, which were synthesized to develop the strategic framework emphasizing Advocacy, Information Policy and Professional and Leadership Development, the FY 2015 budget was developed. The strategic initiatives are part of a larger "reimaging" of ALA. A number of enabling strategies will be used in order to create a more welcoming, inclusive, engaged and supportive organization. Some of the key initiatives, enabling strategies and highlights include the following:

- Strategic repositioning of some staff
- More robust public communications/public relations
    - New Advocacy plan
    - New organization relationship plan
- Support for advocacy initiatives at the national, state and local levels
- Sustaining technological infrastructure with a strategic technology investment of $250,000
- Establishment of an ALA Center for the Future of Libraries
- A national community engagement project for libraries in partnership with the Harwood Institute for Public Innovation
- A redesign of Annual Conference and the repositioning of the Midwinter Meeting
- Implementation of a permanent Association digital archiving program in conjunction with the University of Illinois
- Refine and expand the Legacy Society and Library Champions programs
- Implementation of the next generation *Engage* social networking platform for ALA Chapters to support advocacy at state and national levels

G. Calloway continued the discussion by noting some of the financial aspects of the proposed budget. These included:

- A 2% salary increase for staff ($250,000)
- Dues revenue will be lower by $86,075
- Publishing revenues will be flat compared to FY14 projections
    - A new position to support strategic initiative

- Will focus on revenue streams and fundraising
    - Using the endowment and other financial resources
    - Updating the publishing plan
    - Increase financial reporting system efficiency (new position)
    - Development Office 15 x 15 program
- MPS revenue is up due primarily to the location of the proposed conference site in Chicago (MW) and San Francisco (AC).

As a result, the following action was taken:

Motion: R. Banks, seconded by P. Wand

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 request that BARC report back on its analysis at the 2014 Annual Conference in Las Vegas~~.~~
Motion carried.

<u>Controller's Report – EBD #4.15</u>

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 to 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. 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.

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:

Motion: J. Neal, seconded by P. Wand

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.
Motion carried.

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.

The primary drivers of the increase were related to the impact of a full year of activity in the Neal Schuman operation and the higher allocation of costs related to Fiscal Services/Audit Fees and General Administration for Publishing.

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:

Motion: J. Neal, seconded by P. Wand:

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

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.

With no further business to conduct, the meeting was adjourned.