

**American Library Association
Finance and Audit Committee
Report to the Executive Board
2014 Fall Meeting**

Saturday, October 25, 2014

Reporting on behalf of the Finance and Audit Committee (F&A) Mario Gonzalez, ALA Treasurer, offers to the Executive Board an update on the activities of F&A. The committee met on Thursday, October 23rd with the following topics being reviewed and discussed:

- FY 2014 Year End Unaudited Results – EBD #14.1
- BARC Report – EBD #3.1
Action Item (3)
- FY 2015 Final Budget Review – EBD #14.4
Action Item – see BARC report
- Controller’s Report – EBD #4.2
- Director of Financial Reporting and Compliance Report – EBD #4.3
Action Item
- New Business Development

FY 2014 Year-End Unaudited Results (Fourth Close) – EBD #14.1

Joanne Lee – Controller, reviewed for the committee the year-end results for FY2014. The following represent the highlights of those discussions:

ALA Operations: Total ALA revenues for the period were \$50.0 million, which is \$587,079 (-1.2%) less than the budget of \$50.6 million. This compares to \$50.0 million in FY2013. The shortfall was primarily a result of lower revenues in the General Fund, which was under budget by \$508,162 (-1.8%) at \$28.3 million. Also contributing was lower interest income from the long-term investment fund, which was less than the budget of \$1.0 million by \$296,581 (-28.5%) at \$745,360.

These reductions in revenue were slightly offset by Grants & Awards which were over the budget of \$4.9 million by \$171,459 (3.5%).

Total ALA expenses for the period were \$48.0 million, which is \$2.9 million (-5.6%) less than the budget of \$50.9 million. This compares to \$49.9 million in fiscal 2013. Expenses were significantly under budget in the Divisions (\$1.9 million) and the General Fund (\$1.1 million) primarily related to payroll & related and production related publishing expenses.

On an overall basis the net result was excess revenues over expenses of \$2.0 million, which is more than the budgeted loss of (\$290,535) by \$2.3 million.

General Fund Revenues – General Fund revenues for the period were less than budget by \$508,162 (-1.8%), totaling \$28.3 million. Most of the shortfall was related to lower Dues, Publishing Services and Meetings & Conferences. Dues revenue was less than budget by \$267,192 (-4.6%) at \$5.3 million. Publishing Services was less than budget by \$474,095 (-3.0%) at \$13.3 million. Analyzing Publishing Services reveals that ALA Editions/TechSource accounted for most of the shortfall with revenues of \$5.0 million, which was less than budget by \$453,103 (-8.3%). This was due primarily to lower than expected book sales for professional development and text books in Neal Schuman. Also contributing was ALA Graphics with revenues of \$1.1 million, which is less than budget by \$148,267 or (-12.5%). The lower revenue was offset by Booklist with revenues of \$5.2 million on a budget of \$5.1 million and was over budget by \$100,622 (2.0%). American Libraries, reported revenue of \$878,479 or \$106,759 (13.8%) more than the budget of \$878,479 due to strong advertising in all categories. Also offsetting lower revenue were positive results in Meetings & Conferences where Annual Conference exceeded its budget of \$5.1 million by \$558,761 as a result of higher registration fees.

General Fund Operating Expenses –General Fund operating expenses for the period were \$28.2 million, which was less than the budget of \$29.6 million by \$1.4 million (-4.8%). Most of the reductions were realized in Operating expenses (\$851,626), Salary & Related (\$583,220) and Publication Related (\$250,645). Management also highlighted the impact of some additional contingency expenses totaling \$695,000.

General Fund Net Results – As a result of the activities during the third and fourth close periods, excess revenues over expenses were \$554,738.

Divisions – Division revenues for the year were higher than the budget of \$15.5 million by \$82,969 at \$15.6 million (0.5%). This result was helped by seal sales in ALSA (\$464,000). Division expenses for the year were lower than the budget of \$16.0 million by \$1.8 million (-11.1%) at \$14.2 million due to lower payroll, publication and operating expenses. The result was net revenue of \$1.4 million which compares to a budgeted loss of (\$502,511).

Roundtables – Roundtables revenues for the year were less than the budget of \$395,020 by \$36,764 at \$358,256 (-9.3%). Total expenses for the year were less than the budget of \$334,753 by \$117,998 at \$216,410 (-35.4%). The result was net revenue of \$141,501, which was higher than the budget of \$60,267 by \$81,234 (134.8%).

Statement of Financial Position: Total assets for the period were \$80.3 million which is an increase of \$4.9 million (6.5%) over FY2013. Most of the increase was the result of market gains in Long-Term investments of \$5.8 million. Also contributing was higher Short-Term investments of \$1.9 million. These gains were slightly offset by reductions in Cash (\$1.0 million), Prepaid Expenses (\$854,242) related to a lower prepaid balance due to amortization of intangible assets.

Total Liabilities for the period were \$41.7 million which is a reduction from fiscal 2013 by \$3.0 million (-6.8%). The most significant reductions during the year were in Accounts Payable (\$1.1 million), Long-Term Debt (\$751,405). The combined changes in the assets and liabilities resulted in an increase the ALA's Net Asset Balance of \$7.9 million (25.7%) to \$38.7 million.

Finally, Greg Calloway, AED Finance took the opportunity to acknowledge a number of his staff in the accounting department who extended themselves in the preparation the financial information that is being reviewed by BARC, F&A and Executive Board. He noted that they have sacrificed many of their weekends in an effort to make this happen. They are – Tihuana Spells, Abdullah Ali, Doris McKelvin, Jennifer Tam and Joanne Lee. The committee also acknowledged the hard work and effort provided by the entire ALA staff for managing expenses throughout the year and particularly the accounting/finance staffs, especially Keith Brown and Denise Moritz for processing/examining/analyzing the financial transactions in preparation for this meeting and the year-end audit. The information provided in the reports has been timely and essential in helping the committee make decisions and conduct its business. Mario Gonzalez also recognized the new participants Gail Schlachter, Suzanne Pucilowski and Brad Geene (New Budget Director).

BARC Report – EBD #3.1

P. Wand – BARC Chair, reported to the committee on the major activities of the committee at their Fall Meeting on October 9th and 10th. The focus was on the actions taken by the committee, which were discussed and acted on by F&A. These actions were as follows:

FY 2014 Year-End Third Close Budget Review – BARC reviewed the third close at their October 9th meeting and took the following action, which was approved by F&A:

Based on the FY2014 year-end financial performance, Finance & Audit Concurs with BARC recommends to the Executive Board that ALA staff receives a one- time fiscal 2014 Organizational Incentive payment of 2%. This is in recognition of the hard work and dedication of ALA staff.

Approval of the FY 2015 Budget - The committee reviewed the changes to the proposed FY2015 budget since the Annual Conference and forwarded to F&A for approval by the Executive Board their recommendation to approve the FY2015 Budgetary Ceiling of \$64,219,209. After some discussion F&A took the following action:

Finance & Audit Committee concurs with BARC and recommends to The Executive Board approval of the final FY 2015 General Fund Budgetary Ceiling of \$29,468,008, including a \$1,486,222 net asset transfer to offset the Plant Fund operating expenses and up to a \$250,000 transfer from ALA investment earnings.

Finance & Audit Committee concurs with BARC and recommends to the Executive Board approval of the final FY 2015 Divisions Budgetary Ceiling of \$26,677,469.

Finance & Audit Committee concurs with BARC and recommends to the Executive Board approval of the final \$83,658 transfer from the Division Fund to offset the Plant Fund operating expenses.

Finance & Audit Committee concurs with BARC and recommends to the Executive Board approval of the final FY 2015 Round Tables Budgetary Ceiling of \$1,803,501.

Finance & Audit Committee concurs with BARC and recommends to the Executive Board approval of the final FY 2015 Grants and Awards (Restricted Fund) Budgetary Ceiling of \$5,159,868.

Finance & Audit Committee concurs with BARC and recommends to the Executive Board approval of the final FY 2015 Long-term Investment Fund (Endowment Fund) Budgetary Ceiling of \$1,110,363, including a \$236,638 capital gain to be allocated for funding the ALA Spectrum Initiative and a transfer of \$533,568 interest and dividends from the Endowment Fund to the General Fund in accordance with Policy 8.5.1.

Finance & Audit Committee concurs with BARC and recommends to the Executive Board approval of depreciation expense of \$341,068 in the Technology Reserve Fund.

Finance & Audit Committee concurs with BARC and recommends to the Executive Board approval of the final FY 2015 total ALA Capital Budget of \$2,159,865.

Finance & Audit Committee concurs with BARC and recommends to the Executive Board approval of Long-term investment transfers recommended by the Divisions in the FY 2015 budget are: ACRL - \$150,000; ALSC - \$50,000 and LITA - \$50,000

Finance & Audit Committee concurs with BARC and recommends to the Executive Board approval of the Long-term investment transfers recommended by the Roundtables in the FY 2015 budget are: LIRT - \$10,000 and ERT - \$10,000

Finance & Audit Committee concurs with BARC and recommends to the Executive Board approval of the Total ALA budgetary ceiling as follows:

General Fund	\$ 29,468,008
Division Fund	26,677,469
Round Tables	1,803,501
Grants & Awards	5,159,868
Long-Term Investment	1,110,363
Total ALA Budgetary Ceiling	<u>\$ 64,219,209</u>

Resolution to Allow Programs at the Midwinter Meeting – BARC discussed with Walter Betts - Chair of the ALA Conference Committee – the proposed resolution and the Conference Committee recommendations. Based on a financial assessment of Council Document CD#38 (Midwinter 2014) resolution to allow programs at ALA Midwinter Meetings and considering the ALA Conference Committee recommendations (2014-2015 BARC #9.0), the following recommendation was forwarded to F&A where action was taken:

Finance & Audit Committee concurs with BARC and recommends to the Executive Board the following:

- **That ALA Maintain the existing footprint of Midwinter Meetings**
- **Accept the recommendations presented by the ALA Conference Committee regarding a series of half-day, intensive professional sessions at the ALA Midwinter Meeting beginning as early as 2016**
- **Offer a series of fee based sessions on a cost-recovery and pilot basis ending Midwinter 2019**
- **Monitor all associated costs and assess the financial impact at the end of the pilot**

The other items reported on included the following:

Handbook of Financial Policies – It was noted that progress has been made on the development of a financial handbook of financial policies, which will be used as an educational tool for member leaders and the membership. Another version is expected to be reviewed by the committee at the Midwinter meeting.

Publishing Report Update – Don Chatham AED of Publishing updated the committee on the Publishing year-end results for FY2014. He noted that total revenues would be approximately \$500,000 less than the budget of \$13.7 million. Despite the reduction in revenues compared to budget, Publishing was able to control expenses and is expected to meet its net revenue budget of \$940,174.

Looking forward, Publishing looks at the domestic and international markets as growth areas, particularly internationally. On the domestic side the expectation is to research and work this market harder, better and faster. Text books are viewed as a growth area, as well as, serial digital downloads and course management materials.

Operating Agreement: Subsidies for Small Divisions – As a result of specific ALA policy (A.4.3.4 Divisions and A.4.4.6 financial) related to small division support and reviewing the FY2014 results and the FY2015 budgets, it will be recommended that small division support for ASCLA continue at the current level of \$41,000 for FY2016. Management will also be bringing a proposal to BARC at the 2015 Midwinter Meeting to phase out the small division subsidy for United for Libraries over a three year period from 2016 – 2018.

United for Libraries – Keith Fiels reported on his discussion with Sally Reed concerning organizational memberships in United for Libraries. She is working with stakeholders toward developing procedures that meet the needs of all concerned.

Webcasts on Budgeting for a Preconference – As part of the committees' educational efforts on behalf of the membership, a webcast on budgeting for a preconference is being added to the Financial Learning Series. This particular webcast is an effort to address a specific need highlighted by members, particularly the Roundtables. This webinar is expected to be completed by the 2015 annual Conference.

Planning and Budget Assembly – BARC continues to recognize the importance of the PBA and the need for inclusion, input and discussion from the membership on strategic issues facing the Association. Although not finalized, the agenda will focus on the Presidential Initiatives of the President-Elect, small group discussions, a Q&A and suggestions on making the Assembly better.

FY15 Preliminary Budget – EBD #14.4

Denise Moritz – Director of Financial Reporting and Compliance, highlighted for the committee changes to the FY 2015 budget since the Annual Conference. Management made several modest adjustments to the budget since the Annual Conference. Some of the changes include:

- General Fund revisions based on the most up to date information
- Incorporated approved grants received after the Annual Conference
- Incorporated modest changes in several Divisions based on recommendations by their respective Boards

Actions taken with respect to the FY 2015 budget were discussed in detail and action was taken during the BARC report to F&A.

Controller's Report – EBD #4.2

Joanne Lee – Controller, highlighted the report for the committee for YTD results as of April 30, 2014.

Total ALA Financial Position - On a year-to-year basis ALA's financial position (Net Assets) improved by \$7.9 million (25.7%) to \$38.7 million. The most significant influence was the impact of improved long-term and short-term investment results.

Cash Management and Bond Fund - Total cash and short-term investments amounted to \$16.5 million as compared to \$15.6 million a year ago. The increase was due to a higher investment balance.

The Neuberger Berman bond fund investment balance is \$14.2 million at August 31, 2014. This investment has produced over \$10.0 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 \$45,661. The cumulative (computed since December, 1991) net realized/unrealized gain is \$148,979.

Line of Credit - The Association maintains a line of credit in the amount of \$2.5 million with JP Morgan Chase. There are currently no outstanding draws on the line.

Long-Term Debt – ALA has an outstanding loan with JP Morgan Chase in the amount of \$8.8 million. The second scheduled payment of \$647,500 will be made on July 1, 2014 with the next scheduled payment on July 1, 2015. 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.

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 August 31, 2014 the ratios are 4.58 and 4.64 respectively compared to the requirement of 1.1.

Director of Financial Reporting and Compliance Report – EBD #4.3

Denise Moritz – Director of Financial Reporting and Compliance, reported to the committee on a number of items which included the following:

Form 5500 Filings – All 2013 filings for ALA’s Employment Benefits and retirement plans have been filed with the appropriate parties – Department of Labor and IRS.

Form 990/990T – All ALA 990 forms, both state and federal, were filed in July, 2014. Additionally, ALA-APA federal forms were filed in June, 2014.

403 (b) Audit for 2013 – The 2013 audit on the ALA 403 (b) plan has been signed and fieldwork completed. Final reports were delivered on 9/30/14. As such the following action was taken:

Finance & Audit Committee recommends to the Executive Board approval to accept the December 31, 2013 403 (b) retirement plan audit.

FY2014 Audit Impairment Testing for Neal Schuman - As a result of discussions between Publishing, Finance and the ALA Executive Director an updated business plan was developed for the Neal Schuman operation. The plan was submitted to Plant Moran (ALA’s valuation experts), who will meet with ALA’s auditors Mueller & Co to discuss an action plan for the valuation work in coordination with the audit.

Actuarial Analysis – ALA finance staff held a planning meeting with ALA’s actuary and auditors to discuss the assumptions to be used in the calculation of the

post-retirement benefit obligation. The agreed upon discount rate of 5% will result in a reduction on the post-retirement obligation of \$690,820.

New Business Development

Keith Fiels addressed the committee on the status of new business development. The development of international opportunities and Continuing Education are the primary areas of focus. On the international side the emphasis will be on training and education, which will eventually be folded into ALA's "Professional Development" plan. Negotiations are currently underway with representatives of His Highness Dr. Sheikh [Sultan bin Mohamed Al-Qasimi](#), the UAE Supreme Council Member and [Ruler of Sharjah](#). At this year's Sharjah International Book Fair (SIBF) ALA will be conducting the 3 day conference within a conference concept with fifteen scheduled sessions and three keynote speakers. SIBFs a ten-day event held annually in the United Arab Emirates.

On the Continuing Education front the relationship with San Jose State University continues to grow with the development of a pilot program i.e. cataloging for Non-Catalogers, which is the first step what is hoped will be mutually beneficial series of course. The registration threshold for the initial class has been met.

Acknowledgements

We continue to appreciate the hard work of Gregory Calloway, Keith Michael Fiels, Mary Ghikas, Joanne Lee, Keith Brown, Denise Moritz, Brad Geene and Suzanne Pucilowski. They have been very dependable, innovative, reliable and thorough in assisting in our financial oversight responsibilities.

Respectfully submitted,

Mario Gonzalez, Treasurer and Chair

Rob Banks

Gail Schlachter

Jim Neal

Patricia Wand, BARC Chair