

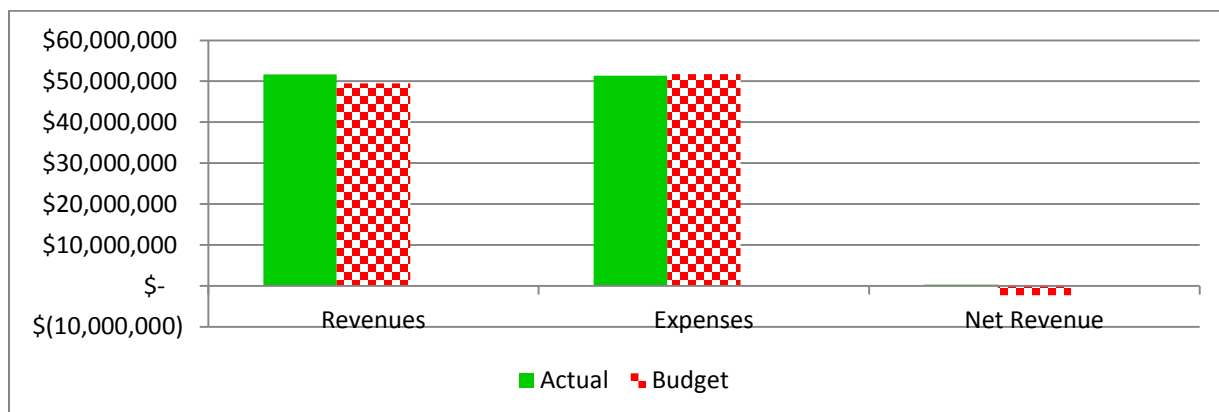
**American Library Association
Finance and Audit Committee Report
to the ALA Executive Board
January 12, 2016**

The Finance and Audit Committee (F&A) are pleased to report to the Executive Board on its recent activities. The committee met separately on Saturday, January 9th, then later in the day for a joint meeting with the Budget Analysis and Review Committee (BARC) and finally again separately on Monday, January 11th to discuss and review a number of financial issues. Below is a list of the primary topics discussed:

- FY 2015 Final Executive Summary - BARC #4.5 (EBD #14.3)
- FY 2016 1st Quarter Financial Report - BARC #5.0 (EBD #14.4)
- Endowment Trustees Report (EBD #13.2)
- Working Capital Analysis (Endowment) (EBD #13.3)
- Proposed Presidential Initiative Budget (BARC #15 & EBD #14.5) – ACTION ITEM
- FY 2017 Budget Instructions/Process Guidelines and Objectives (BARC Info #8 & Info #1)
- Indirect Cost Study Assumptions (BARC Info #7 & EBD #4.8)
- Publishing Update (BARC #23.1 & EBD #12.26)
- FY 2015 Audit Report – (EBD #4.9, EBD #4.10 & EBD #4.11)
– ACTION ITEM
- Controller’s Report – (EBD #4.12)
- Auditor Evaluation – (CBD #9) Closed Session – ACTION ITEM

FY15 Final Executive Summary - BARC #4.5 (EBD #14.3)

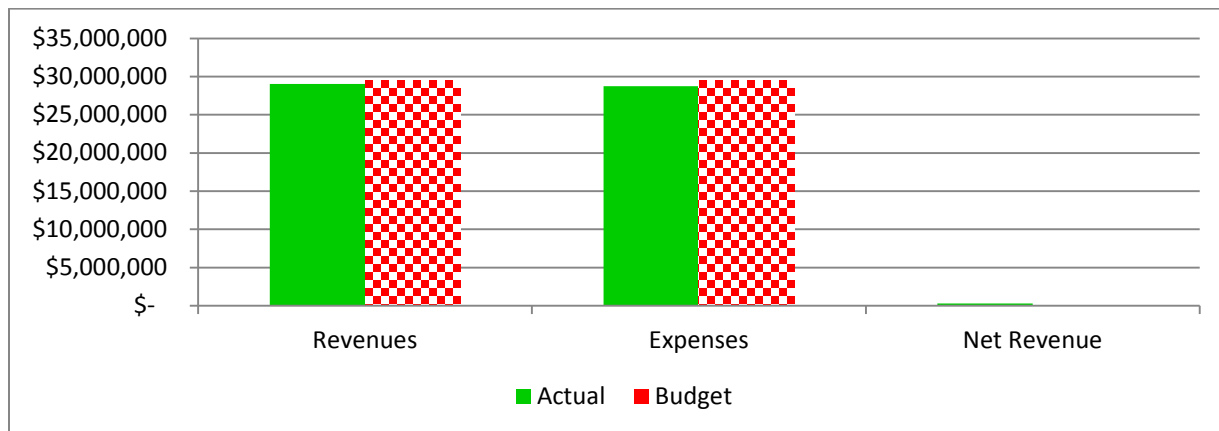
Mark Leon led the committee in a discussion of the twelve month FY 2015 year-end final close results. Taking a broad overview the results reflected the following for Total ALA:



- Total ALA revenues were \$51.7 million compared to the budget of \$49.5 million
- Revenues were higher primarily due to more Grants and Awards at \$7.2 million
- Also contributing was higher than budgeted revenue from the Divisions at \$14.3 million

- Total ALA expenses were \$51.4 million compared to the budget of \$51.8 million
- Expenses were impacted by a decline in the value of the Endowment (\$1.2 million), the Divisions (\$1.0 million) and the General Fund (\$722,000)
- The result was net operating revenue of \$315,000, which compares to the budgeted net expense of (\$2.6 million)

The committee was then referred to the General Fund which reflected the following:



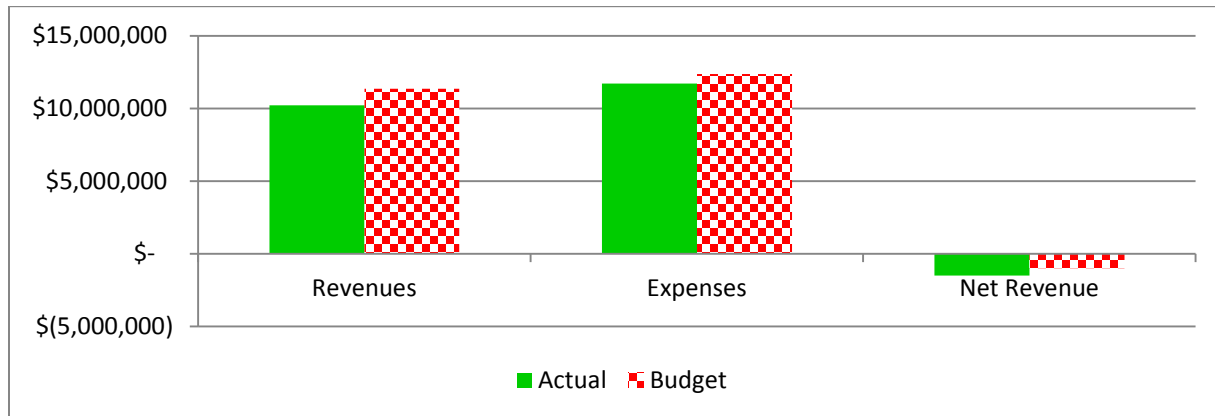
- General Fund revenues were \$29.0 million compared to the budget of \$29.5 million
- Lower revenue from Publishing Services related to fewer titles in ALA Editions
- Publishing produced net revenue of \$630,000 and overhead of \$3.2 million
- Very strong results from the ALA Annual conference in San Francisco with net revenue of \$772,000
- General Fund expenses were \$28.8 million compared to the budget of \$29.5 million
- The net results was net operating revenue of \$279,000

In reviewing the Statement of Financial Position it was revealed that total assets decreased during the year by \$2.9 million, primarily due to a decline in the market value of the endowment fund related to market fluctuations in August of 2015. Total liabilities for the period were \$46.0 million which is an increase of \$4.3 million primarily in Accrued Payroll, which includes Postretirement Benefits, of \$4.6 million. The Postretirement benefits increase was due to the use of a new mortality table issued by the Actuarial society of Chicago in October of 2014. The result was a fund balance of \$31.6 million, which is a decline of \$7.2 million (-18.5%). Despite the decline in net assets the Association’s financial position remains quite strong.

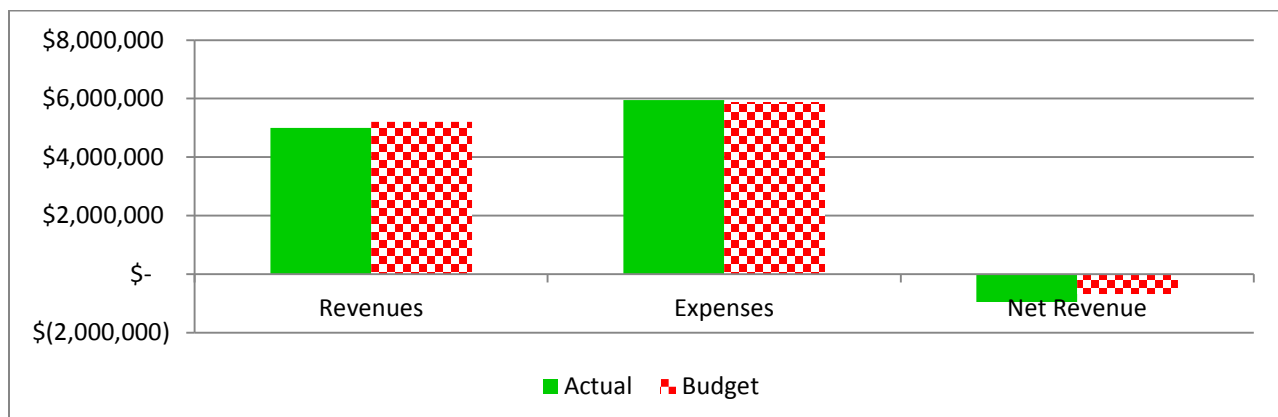
FY 2016 1st Quarter Financial Report - BARC #5.0 (EBD #14.4)

Mark Leon led the committee in a discussion on the 1st quarter results ending 11-30-15. He noted that due to a number of factors i.e. new personnel, reporting system adjustments,

allocation issues etc. the November results should be viewed more as directional information. Taking a broad overview the results reflected the Association is trending in a positive direction.



- Total ALA revenues of \$10.2 million compared to budget of \$11.4 million
- Total ALA expenses of \$11.7 million compared to budget of \$12.4 million
- Net operating expenses were (\$1.5 million compared to budget of (\$1.0 million)
- Typical results for this time of year, primarily due to timing issues



- General Fund revenues were \$5.0 million compared to the budget of \$5.2 million
- General fund expenses were \$6.0 million compared to the budget of \$5.9 million
- General Fund results are essentially on budget
- Membership has taken a positive turn with an increase in the number of members
- Marketing campaign to highlight the value of membership showing positive results
- Publishing has a number of solid titles in the pipeline
- Publishing has been identifying new titles for the frontlist
- The publishing production cycle is improving in order to release titles sooner

FY 2017 Budget Instructions/Process Guidelines and Objective (BARC Info #8 & Info #1)

Keith Fiels and Mark Leon updated the committee on 2017 budget instructions. Keith began the discussion by pointing out the value and opportunity that's being presented by the refinement of the ALA 5 year planning model/tool that management has been developing. It is believed that this tool will prove invaluable in future planning. Staff is currently working on budget projections. He did note that the current budget instruction do not include a salary increase. However, management is working under the assumption that resources will be available to provide a 2% salary increase. Major concerns for the 2017 budget include rising healthcare costs and ITTS investment.

Mark Leon provided the committee with a brief overview of the some of the basic assumptions to be used in the development of the budget. These included the overhead rate (23.7%), the grant rate (19.42%), endowment spending rate (5%), mileage rate (\$0.54), employee benefit rate (33%) and attrition (4.5%). He noted that during the process of developing the instructions that staff has had an opportunity to do a deep dive into many areas of the budget to which a greater understanding has resulted, along with new ownership of the information. Finally, templates for the new budget will be released to staff the week of January 19th.

Proposed Presidential Initiative Budget (BARC #15 & EBD #14.5)

President-Elect Julie Todaro presented her Presidential year budget. The Presidential initiative will focus on "Libraries Transform: the Expert in the Library." She noted how the HR infrastructure in our organizations has not kept pace assisting us in articulating the use of library value content i.e. the value of library employees who are the experts. She noted that as we measure and assess who we are and what we do, our expertise and impact becomes evident i.e. the value of library employees and the expert in the library. As such, her initiative will be in two stages with a timeline designed to do research on articulating the value of library employees (Spring 2016) and identifying "Best Practices" from late spring to December. The total budget is \$71,000 - \$75,000. The following action was taken:

Motion: BARC recommends and F&A concurs to recommend to the Executive Board approval of the proposed 2016-17 Presidential Initiative budget of President-Elect Julie Todaro in the amount of \$75,000.

Indirect Cost Study Assumptions (BARC Info #7 & EBD #4.8)

Keith Brown led a discussion on the assumptions to be used in the development of the FY2015 Indirect Cost study. He noted that the rate that will be generated from the study will be applied to the development of the FY 2018 budget. In his summary included the following information:

- The individual cost centers whose costs will be allocated (18)
- The methodology/statistics that will be used to allocate the costs
- The formula that will used to determine the actual rate
- The programmatic units that will be included in the study

He noted that information gathering has already started with the completion of the ALA audited financial statements, which will be accepted by the Executive Board at this Midwinter meeting. The general timeline for completion of the study is late March or early April with a presentation to BARC and the Finance and Audit committee at their spring meetings in April. In closing he reminded the committee that the Indirect Cost Study is conducted annually.

Publishing Update (BARC #23.1 & EBD #12.26)

Don Chatham updated the committee on the 1st quarter operating results in the Publishing department, as well as, expectations for future activities. Areas highlighted with positive results that outperformed the budget included the following:

- Advertising revenue by \$43,000
- Subscription Equivalents by \$55,000

Lines that underperformed budgeted net revenue included the following:

- Booklist by \$64,000
- Graphics by \$55,000
- ALA Editions by \$191,000
- Neal Schuman by \$31,000

Looking Forward – It is expected that the Neal Schuman operation will benefit from three major publications in the future. Beginning in FY16 with the December release of the bestselling textbook – Rubin: Foundation. In FY17 with the 2nd bestselling textbook planned for release – Cassell and Hiremath. In FY18 with the third bestselling textbook planned for release – Evans and Alire. Publishing will soon be partnering with AASL on the publication of AASL Standards using a new business model. If successful, that model could be used as a template for future collaboration with other divisions. Integration of the Neal Schuman business plan continues. Finally, there will be a price increase in RDA.

Challenges and focus Areas – Despite the positive outlook currently and in the future there are still some challenges that need to be addressed. These include:

- Filling the Publisher position for ALA Editions
- Resignation of RDA Business/Operation manager
- Building a bigger frontlist
- Establishing a 2 year publishing timeline – start to finish
- Fully utilizing potential sales reports from our new order processing vendor
- Price adjustments to improve cost to sales ratios

Endowment Trustees Report (EBD #13.2)

Rod Hersberger reported to the committee on the status of the ALA endowment fund. He began the discussion by noting that the first five trading days of the market this year were the worst in history. He reminded the committee that the portfolio has been constructed to withstand such volatility. His update focused on his message to Council, highlighting the benefits that the Association and the membership receive from the endowment. Exhibit #1 highlighted the funds that have been available for use since 2011, as well as, exhibit #2 which illustrated how the funds are used throughout the Association and the important work it supports. Referring to exhibit #9 he then highlighted the recent work of the Trustees which included the some of the following:

- Interviewed 5 Investment Advisors and decided to retain Merrill Lynch
- Add two private equity managers to the portfolio
- Expressed concern that the portfolio has grown through gain only i.e. no contributions
 - Will be looking to meet with and discuss with the new Development Director
- Reviewing the possibility to adding \$1.0 million to the SRI category
- NYC meetings proving to be very useful to the Trustees education efforts

Working Capital Analysis (Endowment) (EBD #13.3)

Keith Brown updated the committee on the genesis and methodology to the used in the development of the Working Capital Analysis. The proposed analysis is in recognition of the desire by management and member leaders – Mario Gonzalez and Rod Hersberger - to identify the existence of any excess capital that could then be reallocated into higher yielding investments.

It was noted that the process started at the 2014 Midwinter Meeting in Chicago when the Executive Board approved changes to the Working Capital policy for the express purpose of extracting higher returns. The idea of higher returns was also expressed by the Endowment Trustees at their fall meeting (September, 2016), at which point the Senior Trustee and the Treasurer approached the CFO about the merits of an analysis.

Keith Brown went to note that the initial analysis will entail the use of three years of monthly data on the following:

- Working Capital Investment Balance
- Interest Income
- Operating Cash Activity

This information will inform us as to whether or not there is any excess cash available to be invested in a way that may a generate higher returns. The results of this initial analysis will be presented to the Endowment trustees at their February 16, 2016 meeting in NYC.

FY 2015 Audit Report – (EBD #4.9, EBD#4.10 and EBD #4.11)

John Fedus, Partner and Jeffrey Delheimer, Partner of Muller & Co., LLP presented the audit results related to the fiscal year 2015 - *Audit Results (EBD #4.9), Single Audit Results EBD #4.10) and Required Communications EBD #4.11)*. ALA received an unmodified/Clean opinion – the best possible rating - and that the financial statements fairly represented in all material respects, the financial position of the American Library Association. The same finding was made to the Association’s single audit for government grants, while the required communications reflected no significant findings and acceptable estimates used during the engagement.

As a result the following actions were taken:

Action Item: F&A recommends to the Executive Board acceptance of the FY 2015 audit report (EBD #4.9, #4.10 and #4.11) as presented by Mueller & Co., LLP.

Controller’s Report – (EBD #4.12)

Joanne Lee, Controller, reported to the committee on a number of financial items that were not previously covered in other reports. She highlighted the Association’s liquidity ratios, which are bank required. As of 11-30-15 the debt service coverage ratio was (-0.57), compares to (-0.25%) for the same time last year. Although negative it is typical for this time of year as certain revenues such as Publishing are realized later in the year. The cash to debt ratio was 5.52 compared to 4.32 for the same time last year. This is a strong indicator of the Association’s ability to cover its short term obligations. It was noted that there is an analysis underway to determine what may be an appropriate level i.e. not too high. As of 11-30-15 the Association’s working capital balance was at \$13.8 million. It was also noted that this investment has generated \$10.4 million since 1991. Other items covered included:

- Working with Brightkey on the reporting of credit memos
- Inventory reserve level is lower
- Renegotiated loan resulting in interest expense savings

Auditor Evaluation – (CBD #9) Closed Session

Mark Leon and Joanne Lee discussed with the committee the work of the audit firm during the execution of the 2015 audit. It was noted that there were a number of criteria used to assess the performance of the auditor. The results of these findings suggested a strong recommendation to continue using the firm. It was further noted that with the continuity in the firms staff, has played a major role in the success of the audit process. The audit firm is in the strong position of knowing how ALA operates.

Action Item: F&A recommends to the Executive Board to engage Mueller & Co., LLP. For the FY16 audit

Acknowledgement

BARC extends its sincere thanks to the ALA finance staff: Mark Leon, Joanne Lee, Keith Brown, Denise Mortiz, Brad Geene and Latasha Bryant for their work throughout the year and support in preparing for the committee meetings and discussions. The chair would also like to thank Keith Michael Fiels and Mary Ghikas for their insightful and helpful input and participation.

Respectfully submitted:

Mario Gonzalez, Treasurer

Jim Neal

Peter Hepburn

Rob Banks

Ann Martin, Chair