

TO: Finance and Audit Committee (F&A)

RE: Options to Cover the Projected FY12 Budget Deficit

ACTION REQUESTED/INFORMATION/REPORT:

Finance and Audit is being asked to consider the recommendations by senior management to address the projected FY 2012 net operating deficit in the ALA General Fund.

ACTION REQUESTED BY:

Senior Management

DRAFT OF MOTION:

1. Senior management recommends to the Executive Board approval to transfer the remaining unspent interest of \$94,551 from the ALA Future Fund interest generated from 2005 and 2006 to offset the projected FY 2012 General Fund operating deficit.
2. Senior management recommends to the Executive Board approval to use up to \$306,784 in General Fund net asset balance reserves to offset the projected FY 2012 General Fund operating deficit.

DATE: April 19, 2012

BACKGROUND:

In an effort to meet the projected loss in the FY11 General Fund operating budget, management received approval from the ALA Executive Board to cover the deficit from two sources:

1. Up to \$374,000 from the General Fund Net Asset Balance reserve (\$1.6 million)
2. A transfer of \$300,000 out of a possible \$394,551 in unspent deferred interest from the ALA Future Fund generated in FY2005 and FY 2006

As FY11 came to a close, ALA entered FY12 with a General Fund Net Asset Balance of \$1.4 million.

In preparation for this spring meeting senior management and staff worked to prepare the best projections possible based on available information through February 29, 2012. Based on the analytical work and analysis performed at this time, year-end projections indicate a total net operating loss in the General Fund of approximately \$400,000. A number of actions and steps were taken to get to this result

Recommendations - After a review of the financial results through February and the expectation of a net operating loss in the General Fund of approximately \$400,000, senior management is recommending two actions to help cover this shortfall:

- 1. To use up to \$307,000 from the General Fund Net Asset Balances**
- 2. To use \$94,551 of the remaining¹ unspent Future Fund deferred accumulated interest income (Unrestricted Funds) generated in 2005 and 2006.**

Use of Reserves – After the FY11 close ALA had approximately \$1.4 million in General Fund Net Asset Balances. Along with the recommended use to cover a portion of the deficit and the allocation of \$150,000 to support 2015 projects, the effect will be to reduce ALA’s General Fund Net Asset Balance to \$972,000 - See attached.

Use of Future Fund Interest - On the use of proceeds from the ALA Future Fund² (\$94,551), management by authority in policy 8.5.1, may as part of its budget preparation utilize the net interest generated from the ALA Future Fund. In FY11 the Executive Board authorized the use of “Deferred Accumulated Interest” from prior years – 2005 and 2006 respectively (\$394,551). Senior management made the conscious decision at the close of FY05 and FY06 to forgo the use of net interest from the Future Fund as the General Fund produced positive net revenue in both years. As a result of the issues in the General Fund in FY11 approximately \$300,000 was used leaving an unused balance of \$94,551, which is recommended to be used in FY12.

¹ Approximately \$300,000 of a total of \$394,551 was spent in FY11

² Unrestricted Board Designated funds