

**American Library Association
Finance & Audit Committee
2014 Annual Conference
June 27 – July 1
Las Vegas, NY**

Draft Minutes

Present: Patricia Wand, BARC Chair, James Neal, Rob Banks
Absent: Mario Gonzalez, Treasurer, Michael Porter
Staff: Keith Michael Fiels, Joanne Lee, Denise Moritz, Keith Brown, Elaine Klimek
Others: Rodney Hersberger, Gail Schlacter

In the absence of M. Gonzalez, P. Wand chaired the meeting.

F&A Spring Meeting Minutes – EBD #4.20

**Moved by J. Neal, second, R. Banks
Move to accept the minutes as written.
Motion carried.**

FY 2014 Budget Update – EBD #14.11

Joanne Lee, Controller, reviewed the year-to-date results for the eight months ending April 30, 2014. The following represent the highlights of those discussions:

Total ALA - Total ALA revenue (all funds) was \$31.2 million, which is less than the budget of \$32.4 million by \$1.3 million (-3.9%) and compares to \$29.4 million last year. The most significant shortfalls were realized in the General Fund (\$1.1 million) and Grants & Awards (\$247,739), which were offset by revenue gains in the Divisions (\$168,299). Total ALA expenses were \$30.0 million, which is less than the budget of \$33.0 million by \$3.0 million (-9.1%) and compares to \$30.9 million last year. The most significant savings were realized in the General Fund (\$1.3 million) and the Divisions (\$1.0 million). The result was net revenue

with revenues over expenses of \$1.1 million. This is better than the budgeted loss of (\$606,451) by \$1.7 million.

Total Assets of \$80.4 million which is \$1.7 million (2.2%) higher than this time last year. The change is due primarily to higher cash (\$2.5 million) related to the two division conferences this year and gains in the Long-Term investments of \$2.1 million. These results were offset by a decline in prepaids (\$2.0 million) related to the write down of goodwill / intangible assets and amortization of intangible assets.

Total Liabilities were \$45.6 million which is \$1.6 million (-3.4%) less than this time last year. The reduction was due primarily to lower long-term debt (\$985,364) as a result of a scheduled loan payment, lower deferred conference revenue (\$753,302) and lower accounts payable (\$581,413). The cumulative result is an increase in the organizations *Net Asset Balance* of \$3.3 million (10.6%) to \$34.8 million.

General Fund - General Fund revenues for the period were \$15.7 million, which is less than the budget of \$16.9 million by \$1.1 million (-6.8%). The revenue shortfall was primarily in Publishing Services (\$870,788), Communications (\$117,613), Member Programs & Services (\$96,042) and Interest Income (\$92,854). Revenue in Publishing Services was lower than budget due to fewer sales in ALA Editions (\$801,297) and Graphics (\$164,170), as well as, lower royalty revenue in Booklist (\$108,996). Offsetting the shortfall was strong Advertising throughout Publishing with a greater than budget gain of \$275,052. Communications revenue was less than budget as a result of lower Dues (\$198,175) and specifically personal member Dues (\$123,954). Revenue from Member Programs & Services was less than budget due to lower than expected revenue from the Midwinter meeting (\$146,682). Finally, Interest Income was less than budget due to the low interest rate environment.

General Fund expenses for the period were \$16.6 million, which is less than the budget of \$17.8 million by \$1.3 million (-7.1%). YTD savings were realized in Publishing Services (\$751,418) and Member Programs & Services (\$356,922). Publishing Services was lower as publishing related adjustments were made to during the year to meet expected production levels in ALA Editions (\$546,865) and Graphics (\$199,402) sales. Member Programs & Services expenses were lower than budget primarily in ITTS (\$186,769) due to lower depreciation related to

delayed capital purchases and utilizing fewer outside Professional Services, as well as the Diversity Office (\$151,285) due to lower salary expenses.

The net result was excess expenses over revenue of (\$844,415) which is better than the budgeted loss of (\$975,353) by \$130,938 (13.4%).

It was noted that Paul Ducham is the new publisher of ALA Editions.

Divisions - Division revenue for the period was \$11.5 million, which is more than the budget of \$11.4 million by \$168,299 (1.5%). Most of the gain was in Meetings & Conference activity (\$271,710) related to the successful national conference by PLA (\$363,711) and the sale of Newbery/Caldecott seals and permissions related to the use of digital seal images in ALSC (\$324,117). These results were offset by a reduction in revenue in ACRL (\$241,288) in a number of areas – Donations (\$66,038), Dues (\$65,732), Book Sales (\$69,827) and Online Webinars & Webcasts (\$47,123). It should be noted that PLA results were impacted by a significant shortfall in donations (\$149,577) when compared to budget.

Division expenses were \$10.2 million, which is less than the budget of \$11.2 million by \$1.0 million (-9.2%). Most of the savings were realized in PLA (\$304,260), ACRL (\$295,513), AASL (\$190,535) and Choice (\$91,486). The areas of savings were throughout the operations in Payroll (\$551,630), Travel (\$196,323), Publishing (\$118,483) and General Operating (\$226,264).

The net result was excess revenues over expenses of \$1.4 million, which is more than the budget of \$164,006 by \$1.2 million (731.9%).

Round Tables – Round Table revenue for the period was less than the budget of \$234,702 by \$15,048 (-6.3%). The bulk of the variance was in LRRT (\$14,811) and CLENERT (\$11,675). Revenue in LRRT was less than budget due to lower registration fees (\$10,154) related to conference activities and Donations (\$5,490), while CLENERT revenue was also lower in registration fees (\$10,002) related to conference activities. These shortfalls were slightly offset by a gain in EMIERT (\$15,690) due to strong CSK Seal sales (\$32,500). Round Table expenses for the period were less than the budget of \$182,959 by \$140,170 (-76.6%). Savings were realized in all Round Tables but mainly in EMIERT (\$32,188) related to conference activities

(\$21,328). The net result was excess revenues over expenses of \$176,866, which is more than the budget of \$51,743 by \$125,123 (241.8%).

Grants & Awards – Revenue from Grants & Awards for the period was \$3.1 million, which is less than the budget of \$3.3 million by 247,739 (-7.5%). This is due to the timing related to receiving certain grants. Expenses were less than budget by the same amount.

Long-Term Investments (LTI) – LTI revenue was \$665,140 and less than the budget of \$694,566 by \$29,426 (-4.2%) as a result of the low interest rate environment. Note that this revenue is \$215,031 more than FY 2013 due to a higher investment balance. LTI expenses for the period were \$238,094 which is \$303,319 (-56.0%) less the budget of \$541,413 and is directly related to the timing on the distribution of awards that are yet to be made.

BARC Report

P. Wand highlighted the proceedings of the BARC meeting:

- BARC approved the one-year extension of the UFL/FOLUSA pilot program

F&A concurs with BARC and recommends to the Executive Board approval of the extension request by United for Libraries.

- BARC approved, in principle, the membership promotion for small and very small libraries

- It was determined that Publishing would report to BARC at every meeting

- The Financial Handbook will be an electronic tool with links to helpful documents

- The next BARC webinar will be based on “how to prepare a budget for a special event”

- The Midwinter Meetings programs issue needs more analysis from the Conference Committee

FY 2015 Total ALA Budget – EBD #14.12 – EBD #14.13

D. Moritz and K. Fiels provided a summary of the changes to the proposed FY 2015 budget since the spring meeting. The changes will be presented to the Executive Board on Monday and for final approval by Council on Tuesday during Council Session III. The most significant changes i.e. additional expenses and expense savings, included the following:

- A full Small Division subsidy
- ITTS depreciation savings
- Center for the Future of Libraries Funding
- Overhead Adjustment
- IUT Adjustments

The impact of these changes resulted in a budgeted net revenue for FY15 of \$129,021 and a budgetary ceiling of \$64,078,221. This is a decrease in the budgetary ceiling of \$1.5 million from the spring meeting total of \$65,550,606.

After some additional discussion the following action was taken:

Moved by J. Neal, second, R. Banks

F&A concurs with BARC and recommends to the Executive Board approval of the FY 2015 Budgetary Ceilings as stated in EBD #14.13.

Motion carried.

Endowment Trustees' Report – EBD #13.4

R. Hersberger, Senior Trustee, reported on the status and performance of the Endowment Fund through the period ending May 31, 2014. He stated that the results in the portfolio have been uneven; for the period, the portfolio was valued at \$38.6 million and returned a gain of 3.1%, which compares well to the market as a whole. 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 Trustees have been under weighting fixed income securities over the last year. Based on all available information, the Trustees and their investment advisor (Merrill Lynch) believe that this is still the best position for the long-term benefit of the portfolio.

For R. Hersberger's presentation during the Membership Information Session, he will focus on the "Mission, Role, Purpose and Uses" of the Endowment. His objective is to give the membership a better understanding of the Endowment.

He noted that funds from the Margaret Edwards Trust were close to being finalized with a full transfer to ALA and the Endowment Fund. YALSA will manage the activities of the Trust. The ALA Endowment Fund expects to receive approximately \$900,000.

F&A Committee members particularly liked the last page of the Trustees' report showing the Endowment Fund asset summary.

Controller's Report – EBD #4.18

J. Lee, ALA Controller, highlighted her report.

Total ALA Financial Position - On a year-to-year basis ALA's financial position (Net Assets) improved by \$3.3 million (10.6%) to \$34.8 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 amounted to \$19.4 million as compared to \$16.9 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 \$110,494. The cumulative net realized/unrealized gain is \$125,036.

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.

Deferred Revenue – As of April 30, 2014 deferred revenue totaled \$15.8 million, which compares to last year at this time at \$16.1 million, a difference of \$250,925 (-1.6%) due primarily to the impact of only one division conference during the year and lower major conference revenue (\$753,301). The reduction was offset by gains in Grants & Awards (\$612,399). Also note that dues revenue related to membership is down by \$102,987 (2.2%) to \$4.6 million.

Long-Term Debt – ALA has an outstanding loan with JP Morgan Chase in the amount of \$9.5 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.

Inventory and Credit and Collections – Information related to this topic was covered and each area 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 arrangement, the Association is required to maintain certain financial ratios – debt Service Coverage and Cash to Debt. As of April 30, 2014 the ratios are 3.28 and 3.99 respectively, compared to the requirement of 1.1:1.0. Projecting out to the end of the fiscal year looks encouraging for both ratios.

Grant Indirect Cost Rate – On February 28, 2014 management filed with the U.S. Department of Interior, National Business Center its indirect cost agreement with a proposed rate of 21.0%, which will be effective from September 1, 2013 through August 31, 2015. Negotiations will continue.

Fall Meeting Dates

BARC will meet October 9 – 10.

F&A Committee will meet October 23.

Executive Board will meeting October 24 – 26.

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