

**American Library Association
2013 Midwinter Meeting
Budget Analysis and Review Committee
and the Finance & Audit Committee
Joint Report to the ALA Executive Board
Tuesday - January 29, 2013
Seattle, WA**

It is the pleasure of the committee chairs to report to the Executive Board on the activities of the Budget Analysis and Review Committee (BARC) and the Finance and Audit (F&A) committee at this Midwinter Meeting. Below are some of the topics discussed:

BARC /Finance & Audit Joint Meeting

- FY 2012 Final Results – BARC #5.2
- FY 2013 1st Quarter Budget Update – BARC #5.1 (EBD #14.3)
- Indirect Cost Study Assumptions – BARC Info #4 (EBD #4.11)
- FY 2014 Budget Instructions/Planning – BARC Info #3

BARC Meeting

- ALA Finance Workshop
- Planning and Budget Assembly
- Division Leaders/BARC Joint Meeting

Finance & Audit/BARC Meeting and Related Action Items

- FY 2014 Small Division Support – BARC #23.0 (EBD #4.14)
 - Action Item
- United for Libraries Subsidy Extension Request BARC #23.1 (EBD #4.15)
 - Action Item
- Dues Proposal – BARC #20 (EBD #10.6)
 - Action Item
- Proposed Presidential Initiatives Budget – BARC #19 (EBD #14.4)
 - Action Item
- Endowment Report – EBD #13.2
 - Action Items (2)
- Auditor Discussion/Acceptance – EBD #4.9
 - Action Item
- Auditor Evaluation/Engagement – CBD #13.0
 - Action Item

Other Discussion Items

- Controller's Report – EBD #4.12
- New Business Advisory Group

On Friday morning, January 25th, BARC and the Finance and Audit Committee of the Executive Board held a joint meeting to discuss common items. BARC later met separately on Saturday afternoon, January 26th, while F&A met separately on Saturday January 27th and Monday January 28th. The following matters were covered at these meetings.

BARC /Finance & Audit Joint Meeting

FY 2012 Final Results – BARC #5.2 (EBD #14.5)

Greg Calloway summarized for the committees the final resolution of the FY12 financial results. Total ALA revenues were under budget by approximately \$731,942 (-1.4%) at \$49.3 million. Most of the shortfall was in the divisions (\$1.0 million). Other areas where revenue was less than budget included interest/dividends at \$244,844 and the Round Tables at \$80,057.

Total ALA expenses were under budget by approximately \$413,585 (-0.8%) at \$49.7 million. The most significant changes were in the divisions and the General Fund. The divisions were under budget by \$2.1 million (-13.0%) at \$14.3 million. The General fund was over budget by \$1.7 million (6.2%) at \$28.8 million.

The General Fund expenses exceeded revenue by \$1.2 million largely due to loss in publishing (\$1.4 million), particularly ALA Editions (\$1.2 million). Other considerations included a net loss in Conferences (\$405,000), shortfalls in interest (\$337,000) and overhead (\$125,000), expense savings in multiple areas i.e. Communications, Executive Office, Finance/Acct (\$786,000) and BCBS refund (\$255,000).

ALA began the year with General Fund net assets of \$1.4 million. The FY 2012 loss of \$1.2 million and 2015 project expenses of \$182,441 resulted in the use of \$1.4 million in net asset reserves. The balance was \$56,064. Careful planning and closely monitoring of expenses in the FY2013 budget is projected to add approximately \$291,771 in net revenue for a year end net asset balance of \$347,835.

FY 2013 1st Quarter Financial Report – BARC #5.1 (EBD #14.3)

BARC and F&A reviewed the first quarter FY 2013 budget report, and noted the following highlights:

Total ALA revenue for the period was \$8.8 million which is \$1.7 million (-16.7%) less than budget. There are two areas of concern – the General Fund and Grants & Awards. The General Fund realized the largest shortfall with revenues of \$4.9 million, which is less than budget by \$1.0 million (-17.4%). In the General Fund Publishing Services was less than budget by 947,593 (-23.3%), primarily in ALA Editions where revenues were less than budget by \$793,787 due to lower than expected book sales. Dues revenue was essentially on target at \$1.4 million and slightly less than last year by \$50,382. Grants & Awards for the period were less than budget by \$442,084 (-29.1%), which is due more to timing issues.

Division revenues of \$2.6 million were less than budget by \$221,592 (-7.9%) and less than last year by \$1.2 million due to a division national conference (AASL) in the fall 2011. Revenue from the Round Tables was \$60,011 and less than budget by \$38,081 (-38.8%).

Total ALA expenses of \$10.4 million are \$1.9 million (-15.5%) less than budget and approximately the same as last year. Expenses were less than budget across all expense categories. The General Fund expenses were \$6.2 million and \$858,417 (-12.2%) less than budget. Publishing Services realized the most significant change in the General Fund where expenses were \$502,354 (-13.4%) less than budget but \$830,374 more than last year due to the Neal Schuman acquisition. Division expenses were \$390,380 (-11.6%) less than budget at \$3.0 million. Round Table expenses were \$25,203 and \$40,335 (-61.5%) less than budget. Grants and Awards were \$442,084 (-29.1%) less than budget at \$1.1 million. As a result excess revenues over expenses resulted in a loss of \$1.6 million compared to a budgeted loss of \$1.8 million or \$163,565 (9.2%) better than budget.

Indirect Cost Study Assumptions – BARC Info #1

Keith Brown reviewed with the committee the indirect cost study assumptions to be used in the 2012 study. The study will be conducted in the same manner as the 2011 study. It was noted that there would be no changes in the general methodology used in conducting this year's study. The results of the study will be summarized and presented for review at the spring meeting. The rate that results from this study will be applied to the FY15 budget. One discussion point of note was the allocation method used for allocating ITTS costs. Staff and the committee suggested that there may be better options than the current number of PC's method.

FY 2014 Budget Guidelines/Planning – BARC Info #3

BARC and F&A reviewed the budget planning strategies for FY 2014 and the guidelines provided to ALA unit managers. The FY 2014 budget will provide financial support to the following:

- Support for the Key Action Areas
- Support for ALA 2015 Goals
- Support for unit and divisional programmatic and member service goals
- Support for the ALA organizational goals

Some of the key assumptions in the budget's development include:

- Budgets will be prepared with a zero (0%) percent increase over the FY 2013 approved budget
- No compensation adjustment assumed at this time, however the 2% salary adjustment included in the FY 2013 budget has been carried over to the FY 2014 budget.

BARC Meeting

ALA Finance Best Practices Workshop

BARC hosted the ALA Finance “Best Practices” Workshop session with the purpose of providing feedback on the recently produced ALA Financial Learning Series webcasts which include:

- Long-Term Investments (Endowment)
- Budget Cycle and Process
- Organizational Structure and Decision Making Process
- Operating Agreement
- Round Tables

In addition, the one-hour session provided an opportunity for participants to ask questions specific to their own situations and obtain immediate answers. It was evident that participants – mostly Round Tables - had varying levels of experience and knowledge of how ALA finances work. Based on the questions asked and topic matter discussed, two items were established as clear future areas of development:

- The budget planning process for Round Tables (more detail - webinar)
- The Endowment Fund and more participation from the Trustees

As the opportunity to ask questions i.e. be more interactive was viewed as useful to the participants, the actual attendance was an issue. The committee discussed if there were any alternatives to better utilize the one hour session. Ideas discussed included time shifting the session, adjusting the number of BARC participants and a complete deconstruction. This issue will be discussed in more detail at future BARC meetings. One definitive conclusion was that there needed to be more work done with and for the Round Tables.

Planning and Budget Assembly

Over 55 individuals + staff with budgetary responsibilities and interests from across the Association attended and participated in discussions related to:

- Presidential Initiatives for FY 2014
- FY 2012 Year –End Results
- FY 2013 Budget Update
- Dues Proposal
- 2015 Strategic Plan Update

Led by President-Elect Barbara Stripling, the session provided the participants with an opportunity to see here the President Elect’s initiatives for FY 2014. Additionally, the session provided information on the current status of the budget.

Division Leaders/BARC Joint Meeting

Per ALA policy, BARC met with division leaders to discuss items of common interest and concern. There were approximately 38 attendees.

Finance & Audit/BARC Meeting and Related Action Items

FY 2014 Small Division Support – BARC #23.1 (EBD #4.14)

Greg Calloway summarized for the committees the general formulation used to determine the small division subsidy for ASCLA and United for Libraries (UFL). Consistent with the general guideline the budgeted revenue and expense level of ASCLA and the UFL met the 50% funding level test i.e. dues and other revenues are at least 50% of the cost of supporting staff and basic services. Based on a motion by BARC at the 2012 Midwinter Meeting, the subsidy was capped at \$98,160 and scheduled to end in FY 2015. Since the

subsidies were capped ASCLA will receive \$41,577 and UFL will receive \$56,583. As such the following action was taken:

Action: F&A and BARC recommend to the Executive Board approval of the FY 2014 budgeted small division subsidy for ASCLA (\$41,577) and United for Libraries (\$56,583).

United for Libraries Subsidy Extension Request BARC (EBD #4.15)

Sally Reed, Executive Director for United for Libraries (UFL) addressed the committees requesting a two year extension of their small division subsidy through 2016. She indicated that the cost of the FOLUSA merger was much more than anticipated which caused expected revenue/expense projections to be invalid. There are in place efforts underway i.e. cost cutting and new revenue enhancements that should strengthen the financial success of UFL. If the expected financial success occurs prior to the scheduled end of the subsidy UFL will voluntarily end the subsidy. As such the following action was taken:

Action: F&A and BARC recommend to the Executive Board approval to extend the United for Libraries small division subsidy through FY 2016 with the understanding that if United for Libraries reaches an optimal net asset balance above the \$50,910 small division subsidy prior to FY 2016, United for Libraries would accept an earlier withdrawal of the small division subsidy.

Dues Proposal – BARC #20 (EBD #10.6)

Kay Cassell, Ron Jankowski, and Cathleen Bourdon met with the committees to discuss adjustments that were made to the previously approved (Executive Board – fall meeting) dues proposal. It was revealed that after receiving feedback from members on the original proposal that one additional element needed to be added – governance oversight. The element to be added to the ALA proposal was to have an annual review by the Executive Board. The following action was taken:

Action: BARC approves the revised Dues Adjustment Proposal (2012-2013 ALA CD#14 Revised 1-11-13).

Proposed Presidential Initiatives Budget – BARC #19 (EBD #14.4)

Barbara Stripling and Joanne Kempf presented to the committees the proposed budget for the Presidential initiatives for FY14. This Presidential initiative will work under the banner of “Libraries Change Lives.” There will be three key action areas to be covered in this Presidential year:

- Innovation
- Literacy
- Community Engagement

The action areas will all be focused on and around libraries and communities. These efforts will cover the development of materials, promotion/marketing, the production and publication of materials and communication tools, webinars, virtual presentations etc. The expected cost for these efforts will be approximately \$67,000. Presidential programs at Midwinter and Annual will cover an additional \$20,000. There will also be a contingency reserve of \$8,000. As a result the total budget will be \$95,000. The following action was taken:

Action: F&A and BARC recommend to the Executive Board approval of Barbara Stripling's proposed Presidential Initiative Budget for FY 2013 – 2014.

Endowment Trustees Report - EBD #13.2 and CBD #10

John Vitali - Senior Trustee, joined the committee to report on the performance of the ALA Endowment Fund. He reported that the endowment, as of December 31, 2012 had a value of \$32.6 million, which is \$2.3 million more than last year at \$30.2 million. This resulted in a return of 10.5% compared to its benchmark of 12.1%. Although the results were positive, half of the managers on the equity side did under-performed their respective benchmarks. It was felt that this was more of a reflection that the portfolio was fairly defensive in view of the magnitude of uncertainty in the markets for most of the year.

The Senior Trustee also noted that as the portfolio has gotten larger and the need for more sophistication i.e. the tools used in managing the portfolio, access to information and expertise is being thrust upon the Trustees. As such expansion of the approved number of Trustees (7) may be forthcoming. The Trustees are in the process of holding an "Investment Outlook" panel discussion at their February meeting where industry experts beyond ALA's investment advisor – Merrill Lynch – will provide their perspective on the markets and possible outcomes for the endowment. Additionally, it was noted that it is a "Best Practice" to charge expenses related to the management and oversight of the endowment to be covered by the endowment itself and not from the operating budget of an organization.

After the discussion two actions were forwarded:

Action Item: F&A concurs with the Endowment Trustees and recommends to the Executive Board to increase the previously approved payout rate of 4% to 5% from the endowment for the FY13 & FY14 budgets.

Action Item: F&A concurs with the Endowment Trustees and recommends to the Executive Board approval of the highlighted changes in ALA investment policy EBD #13.4.

Endowment Trustee Selection CBD #10 – F&A took no action on this item.

FY 2012 Audit Report: Discussion/Acceptance – EBD #4.9

John Fedus, Partner and Jeffrey Delheimer, Partner of Muller & Co., LLP presented the audit results related to the fiscal year 2012 audit results. ALA received an unqualified opinion – the best possible rating - and that the financial statements fairly represent 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.

There was one finding of a material weakness related to the Association’s internal controls. At management’s request last summer an internal audit was requested and conducted. During this audit it was determined that there was an issue with regard to the segregation of duties within the financial reporting system. The issue was a result of the implementation of a new financial reporting system. Management has remediated the findings. As a result the following action was taken:

Action Item: F&A recommends to the Executive Board acceptance of the FY 2012 audit report (EBD #4.9) as presented by Mueller & Co., LLP.

Auditor Evaluation/Engagement – CBD #13.0

Staff provided a briefing on their working relationship and the product of the work provided by Mueller & Co. LLP. In addition to maintaining a good working relationship i.e. good communications, the quality of their work was considered to be very good. As a result the following action was taken:

Action Item: F&A recommends to the Executive Board to engage the services of Mueller & Co. LLP for the FY 2012 403 (b) and FY 2013 ALA audits.

Other Discussion Items

Controller’s Report – EBD #4.12

Joanne Lee was present to highlight the Controller’s report for the committee.

Cash Management and Bond Fund- Total cash and short-term investments at November 30, 2012 amounted to \$16.0 million as compared to \$19.1 million a year ago. The decrease is related to the purchase of the Neal Schuman publishing company and investment in technology. Year-to-date interest income is \$159,114, which is \$113,206 less than the budget of \$272,320 and \$16,221 less than last year.

The Neuberger Berman bond fund investment balance is \$13.6 million at November 30, 2012 as compared to \$15.2 million the same time last year. This investment has produced over \$9.5 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 FY 2012 with a realized/unrealized loss of \$6,528. At November 30, 2012 the cumulative (computed since December, 1991) net realized/unrealized gain is \$423,769.

Liquidity Ratios – In the process of securing long-term debt arrangements with JP Morgan Chase and Bank of America, ALA is required to maintain certain covenants. ALA is also required to report and maintain a cash to debt service coverage ratio of 1.1 to 1.0 and a cash/debt ratio of 1.1 to 1.0.

Inventory and Credit and Collections – Information related to these two topics was covered in the controller's report and were well within the acceptable levels for required reserves (excess and obsolete), aging of receivables and reflected no issues.

Deferred Revenue – As of the end of the first quarter 11-30-12 deferred revenue was \$11.4 million, which is down from \$12.1 million last year. The most significant changes were in Subscriptions (\$248,615), primarily Choice and Conferences (\$446,333) as there was one division conference last fall (AASL) and none this year. It was noted that this area does affect cash flow and the Association's liquidity ratios.

Long-Term Debt – The Association obtained a long-term loan from JPMorgan Chase on July 2, 2012 in the amount of \$10.1 million. The loan was to support the acquisition of the Neal Schuman purchase and to refinance the properties in Washington, DC and Connecticut (Choice). The first scheduled payment (\$647,500) is July 2, 2013. Staff is in the process of establishing a fund whereby regular deposits of \$100,000 will be made monthly in order to prepare for the regularly scheduled annual loan payment.

New Business Advisory Group Update

Keith Fiels updated the committee on discussion held with the new business advisory group. Although the discussion were wide ranging, the primary takeaways were the efforts being made in two areas;

- International Business Development
- Online CE (ALA Online University)

Acknowledgement

Both BARC and the Finance & Audit committees would like to extend our sincere thanks to the ALA finance staff - Greg Calloway, Keith Brown, Joanne Lee, Sandy Lee and Elaine Klimek for their outstanding work and support in preparing each committee for the work that it addressed during this Midwinter meeting. The chairs would also like to thank Keith M. Fiels and Mary Ghikas for their insightful and helpful input and participation.

Respectfully submitted:

BARC

Clara Bohrer, Chair
Janice Welburn
Winston Tabb
Robert Walton
Dora Ho
Sylvia Norton
Patricia Wand
Alexander Villagran – Absent
James Neal, Treasurer

F&A

James Neal, Treasurer
Rob Banks
Sylvia Norton
J. Linda Williams
Clara Bohrer, BARC Chair

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