

**American Library Association
Finance and Audit Committee Report
to the ALA Executive Board
Saturday October 24, 2015**

The Finance and Audit Committee (F&A) is pleased to report to the Executive Board on its activities at its Fall meeting. The Committee met on Thursday October 22nd to discuss and review a number of financial issues. Below is a list of the primary topics discussed:

- 2015 Year-End Budget Review (EBD #14.1)
- Auditor Briefing
- BARC Report (EBD #3.1)
- Final FY 2016 Budget Review (EBD #14.2)
 - **Action Item**
- Controller’s Report (EBD #4.1)
- Director of Financial Reporting and Compliance Report (EBD #4.2)
 - **Action Item**
- Endowment Report (EBD #13.1)

2015 Year-End Budget Review (EBD #14.1)

Mark Leon led the committee in a discussion of the twelve month FY 2015 year-end 4th close results. The 4th close results represent the most currently available information in preparation for the year-end audit. Taking a broad overview, the results reflected total ALA revenues of \$52.3 million. Minus expenses, this reflects a net revenue (expenses) of \$1,026,129.

TOTAL ALA	8-31-15 Actual	8-31-15 Budget	Variance
Total Revenues	52,357,435	49,524,973	2,832,462
Total Expenses	51,331,306	51,761,705	430,399
Net Rev(Exp)	1,026,129	(2,236,732)	3,262,861

As indicated the revenues were better than the budget as a result of higher grants & awards and the successful national division conference by ACRL. Total ALA expenses were \$51.3 million and less than the budget of \$51.7 million by \$430,399 (0.8%), primarily in LTI’s, the divisions and the General Fund. The final result before any final accounting related adjustments was net revenue of \$1.0 million, which is more than the budgeted net expense of (\$2.2 million) for a positive variance of \$3.2 million.

The Statement of Financial Position reflected total assets of \$77.8 million, which represents a year to year decline of \$2.6 million while Total liabilities for the period were \$40.4 million The result was a fund balance of \$37.4 million, which is a decline of \$1.3 million (-3.4%). Despite the decline in net assets the Association’s financial position remains quite strong.

TOTAL ALA	August 31, 2015	August 31, 2014	Change
Total Assets	\$77,876,661	\$80,498,151	(\$2,621,490)
Total Liabilities	\$40,435,243	\$41,706,457	(\$1,271,214)
Net Assets	\$37,441,418	\$38,791,694	(\$1,350,276)

The General Fund realized total revenues of \$29.0 million compared to the budget of \$29.5 million for a shortfall of \$423,054 (-1.4%). The most significant impact came from lower revenue in Publishing Services (-\$460,324). It should be noted that the ALA Annual Conference was very successful with net revenue exceeding the budget of \$517,613 by \$258,717 (50.0%). Total General Fund expenses were \$28.6 million, which was less than the budget of \$29.4 million by \$771,195 (2.6%) as expense monitoring was in place and successful. Most of the savings were in Member Programs and Services related to lower expenses in ITTS and the Midwinter Meeting. The result was net revenue of \$348,141.

GENERAL FUND	8-31-15 Actual	8-31-15 Budget	Variance
Total Revenue	29,044,952	29,468,008	(423,056)
Total Expenses	28,696,813	29,468,008	771,194
Net Rev(Exp)	348,139	0	348,138

Division results were better than budget for both revenues and expenses. The result was net expenses of (-\$383,444), which compares very favorably against the budget of net expenses of (-\$2.2 million) for a positive variance of \$1.8 million. Contributing were better than budgeted results in ACRL (\$799,564), AASL (\$447,980) and PLA (\$225,365).

TOTAL Divisions	8-31-15 Actual	8-31-15 Budget	Variance
Total Revenue	14,249,773	13,446,432	803,341
Total Expenses	14,633,217	15,669,639	1,036,422
Net Rev(Exp)	(383,444)	(2,223,207)	1,839,763

Reviewing the results of the Round Tables below illustrate the continuing strength of their activities and management of expenses. While revenues were close to budget, expenses were well managed. As a result, net revenue was strong at \$164,875 and well above the budget of \$59,188.

TOTAL ROUNDTABLES	8-31-15 Actual	8-31-15 Budget	Variance
Total Revenue	428,775	413,785	14,990
Total Expenses	263,900	354,597	90,697
Net Rev(Exp)	164,875	59,188	105,687

Auditor Briefing

John Fedus, Partner at Mueller & Co (ALA's external auditor of four years), joined the committee to provide a briefing on the status of the 2015 audit. He noted that audit planning is complete and the audit process will begin shortly. Because of the changeover in the Publishing department's fulfillment house from PBD to BrightKey, Mueller personnel acted as an observer at BrightKey on August 31st and conducted sample testing. He confirmed that the transition and the inventory testing went well.

As part of the audit two important valuations have taken place:

- Two meetings with ALA management and Plante Moran regarding the valuation of Neal-Schuman Goodwill and Intangibles. Mueller does not anticipate an impairment issues
- On October 20th discussions were held to discuss the Postretirement Benefit discount rate and actuary mortality tables

On site fieldwork will be conducted during the weeks of November 2nd, 9th and 16th. Finally, plans are being made to conduct a briefing on the findings of the audit with the Treasurer during the week of December 14th. After that briefing plans will be made to present the final findings and results to F&A and the Executive Board in Boston at the Midwinter Meeting.

BARC Report (EBD #3.1)

Ann Martin, BARC Chair, reported to the committee on the activities of the committee which met on Monday, October 18th and 20th. The details of her discussion are highlighted in more detail in EBD #3.1. She also took the opportunity to thank the finance staff for their hard work and assistance in preparing her report.

Final FY 2016 Budget Review (EBD #14.2)

Mark Leon and Brad Geene led a discussion on the Final FY16 budget and the most significant changes that occurred since the Annual Conference in San Francisco. The budgetary ceiling approved at the Annual Conference was \$67,102,752. The changes that occurred since then were in a number of different areas but the most significant change was an increase in newly secured Grants & Awards \$2.0 million. These included Public Programs: Smart Investing @ Your Library (\$923,083) and ALSC: Disney Generation Create @ Your Library (\$800,000).

The result was an increase in the budgetary ceiling of \$1.5 million to \$68,657,188. After further discussion the following action was taken:

Action: F&A concurs with BARC and recommends to the Executive Board approval of the final FY 2016 Budgetary Ceiling of \$68,657,188 as highlighted in BARC #20.2 (EBD #14.2) plus the approval of an IRRT transfer request of \$5,000 from their operating fund to their Long-Term investment fund.

Controller's Report (EBD #4.1)

Joann Lee, Controller, presented the Controller's report to the committee. A number of information pieces were covered in other sections of this report. The following represents the remaining highlights of the report:

- The Association's Debt Service Coverage and Cash to Debt ratios were strong at 1.7 and 5.86 to 1.0. These ratios are required to be filed via a Compliance Certificate semi-annually with JP Morgan Chase
- The Cash and Short-Term investments balance was \$15.5 million compared to \$16.4 million last year
- Deferred revenue was \$12.3 million compared \$11.6 million last year due mainly to the two national division conferences in FY16
- As a result of a renegotiated loan (\$8.8 million to \$6.0 million) executed on August 2, 2015, interest expense savings are estimated to be approximately \$740,000 over the life of the loan. The savings to Publishing related to the Neal-Schuman acquisition is \$360,000.

Director of Financial Reporting and Compliance Report (EBD #4.2)

Denise Moritz, Director of Compliance and Financial Reporting, presented the Director's report to the committee. Highlights of the report reflected the following:

- Form 5500 for ALA's Employee Benefit Plans filed with the Department of Labor and form 8955-SSA with the IRS
- Impairment testing planning meetings held in August/September with Publishing and Finance to update Neal-Schuman business plan. Meetings with Plante Moran – ALA's valuation expert – and ALA's auditor Mueller & Co in September to discuss the timeline for valuation work and assumptions. A draft report will be delivered during the week of November 2nd. *Note: As of this meeting there is no expectation of a write down on the Neal-Schuman Goodwill*
- Discussions with Mueller & Co and ALA's actuary resulted in a discount rate of 5%, which will be used to calculate the post-retirement benefit obligation
- ALA will also be using the new morality tables issued by the Society of Actuaries. The impact on the FY15 audit will be an increased post-retirement benefit liability of \$4.9 million. *Note that this is a calculation for future post-retirement obligations and does not have an immediate cash impact.*
- Received the final audited financial statements for the Association's retirement plan. The following action was taken:

Action: F&A Recommends to the Executive Board acceptance of the 12-31-14 403 (b) audit as highlighted in EBD #4.3.

Endowment Report (EBD #13.1)

Rod Hersberger updated the committee on the status of the ALA Endowment Fund for the nine months ending 9-30-15. The value of the portfolio was \$37.8 million for a return of (-5.3%). It was noted that there were a number of factors that negatively impacted the market such as the following:

- Economic slowdown in China
- Federal Reserve delaying an increase in interest rates
- Two consecutive quarters of lower corporate earnings
- Relatively high historical stock valuations
- Largest quarterly decline since 2011 (-6.9%)

Despite these negative factors the portfolio's decline was less than the general market. He noted that the performance of the portfolio is a direct result of how it is constructed to be defensive in nature i.e. the portfolio will not capture all of a down market nor most of an up market.

He concluded his remarks by discussing some of the recent work and concerns of the Trustees. These included the following:

- Solicited Request for Information proposals and conducted interviews (5) at its fall meeting. Decided to retain the services of the Bhatia Group of Merrill Lynch
- Hired two "Private Equity" managers to the portfolio – Kohlberg, Kravitz and Roberts (KKR) and Blackstone for a total of \$2.8 million and 7%¹ of the portfolio
- The Trustees continuing their education efforts by meeting once a year in NYC.
- Trustees expressing concern that the endowment's growth is almost entirely from investment gains and no contributions. Plan to meet with Development Office Director when hired to discuss fundraising opportunities
- Conducted orientation for the newest Trustees (2) along with the Investment Advisor Merrill Lynch

Acknowledgements

We continue to be well served by Mark Leon, Keith Michael Fiels, Mary Ghikas, Joanne Lee, Brad Geene, Keith Brown, Denise Moritz and Latasha Bryant. 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

Peter Hepburn

Jim Neal

Ann Martin, BARC Chair

¹ This is less than the maximum allocation of 10% for alternatives.