

**American Library Association
Finance and Audit Committee
Report to the Executive Board
2015 Annual Conference**

Monday, June 29, 2015

Reporting on behalf of the Finance and Audit Committee (F&A) Mario Gonzalez, ALA Treasurer, offers to the Executive Board an update on the activities of the F&A. The committee met on Saturday, June 27th with the following topics being reviewed and discussed:

- YTD 2015 Financial Results – May EBD #14.11
- FY 2016 Budget Presentation - EBD #14.12
- BARC Report – EBD #3.3

Action Item

- Controller's Report – EBD #4.24
- Endowment Trustee's Report – EBD #13.4

Welcome to Mark Leon

The committee welcomed the new Chief Financial Officer (CFO) Mark Leon to his first meeting with the Finance and Audit committee (F&A). He expressed his appreciation for the opportunity and looks forward to working with everyone on the committee.

YTD 2015 Financial Results – EBD #14.11

Mark Leon - CFO, and Joanne Lee – Controller, reviewed for the committee the year to date results for May 31, 2015 as it was the most recently available information. He highlighted the fact that ALA's financial results have trended positively for the first nine months of the year. The following represent some of the highlights of those discussions:

May Results - *Total ALA Revenues* were \$33.5 million compared to the budget of \$33.4 million for a positive variance of \$133,132. Most of the variance was again in the Division results (+\$478,341) and Grants & Awards (+\$679,734). *Total ALA Expenses* were \$34.3 million compared to the budget of \$36.0 million for a positive variance of \$1.7 million. The result was excess expenses over revenues (*Net Expenses*) of (-\$761,101), which is better than the budgeted excess expenses over revenues of (-\$2.6 million). The impact on the financial position of the Association resulted in *Total Assets* of \$81.9 million which is \$810,186 (-1.0%) lower than this time last year. The change is due primarily to lower cash (\$2.6 million) related to the prepayment of the long-term debt and a decrease in fixed assets (-\$886,416) due to the continued amortization of the ALA financial system. These results were offset by an increase in long-term investments (+\$2.5 million) and prepaid expenses (+\$801,587). *Total Liabilities* were \$43.2

million which is \$3.5 million (-7.5%) less than this time last year. The reduction was due primarily to lower long-term debt (-\$2.9 million) and the current portion of long-term debt (-\$712,566). These increases were offset by an increase in deferred conference revenue (+\$1.1 million), primarily related to the upcoming Annual conference. The cumulative result is an increase in the organizations *Net Asset Balance* by \$2.7 million (7.4%) to \$38.7 million.

General Fund Revenues for the period were \$17.2 million which is less than the budget of \$18.0 million by \$795,001 (-4.4%). Most of the variance was related to lower book sales in Publishing¹ (Neal Schuman and Booklist) and Midwinter registration. *General Fund Expenses* were \$19.0 million which is less than the budget of \$19.3 million by \$279,434. All expense categories were better than budget with the exception of Overhead Recovery, which was subsequently analyzed by management. After reviewing the allocation timing of overhead recovery, management confirmed that the projected timing did not accurately reflect the historical pattern. Page 12 of EBD #14.11 shows a revised overhead recovery in line with the historical pattern, which results in a lower budgeted overhead expense for the period, a lower variance from budget (-\$76,411 vs. -\$592,310), and an operating net revenue variance that matches overall tracking to the FY15 budget.

BARC Report – EBD #3.3

P. Wand reported to the committee on the major activities of BARC at this Annual Conference. The primary items reported on included the following:

- The Loan Refinancing – New lower rate loan (interest expense savings)
- COO Discussion on BARC Term Limits – No position on discussion
- Round Tables – Difficulty quantifying the true cost
- Publishing Update – Expect to be close to the year-end net revenue budget.
- The Role of BARC – Change role to focus more on analysis and communication
- The Financial Learning Series – New module on planning for a preconference
- FY16 Budget Approval – Adjusted budgetary ceiling (BARC #20.2)

FY15 Preliminary Budget – EBD #14.12

Keith Fiels and Brad Geene met with the committee and provided a summary of the changes to the proposed FY16 budget since the spring meeting. The changes will be presented to the F&A/Executive Board on Monday 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:

- Inclusion in the General for two standing committees (\$19,630) (+)
- Budget reductions by two Divisions (\$18,000) (-)
- Round Tables (\$7,849) (+)

¹ 30% of publishing revenue is generated in the last quarter of the year.

- Grants and Awards related to the Public Awareness Campaign (\$20,270 (+))
- No change in capital budget of \$1.7 million

Brad Geene also presented an updated the FY16 Budgetary Ceiling schedule. The total FY16 ceiling is \$67,087,027, a decrease of the ceiling amount presented at the spring meeting of -\$15,725.

After some additional discussion the following action was taken:

Action: F&A concurs with BARC and recommends to the Executive Board approval of the FY 2016 Budgetary ceilings as highlighted in BARC #20.2 (EBD #14.13).

Controller’s Report – EBD #4.24

Joanne Lee – Controller highlighted the report for the committee for YTD results as of April 30, 2015. Please see EBD #4.24 for details. Here are a few points of note:

- Cash and short-term investments total \$20.4 million and it projected to generate approximately \$300,000
- Loan refinancing has resulted in a lower loan balance of \$6.0 million and an interest expense savings of approximately \$342,097
- The renegotiated loan has resulted in improved liquidity ratios for Debt Service coverage and Cash to Debt of 3.29 and 5.72 to the requirement of 1:1
- Inventory reserves for FY15 will likely need to be increased to \$80,000 – \$100,000, which is lower than the earlier estimate of \$200,000

Endowment Trustee’s Report – EBD #13.4

Rod Hersberger reported to the committee on the status and performance of the Endowment fund for the five-month period ending 5-31-15. See EBD #13.4 for details.

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
 Rob Banks
 Gail Schlachter (Deceased)
 Jim Neal
 Patricia Wand, BARC Chair

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