

**American Library Association
2015 Midwinter Meeting
Budget Analysis and Review Committee
and the Finance & Audit Committee
Joint Report to the ALA Executive Board
Tuesday - February 3, 2015
Chicago, IL**

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 Committee (F&A) at this Midwinter Meeting. On Friday morning, January 30th, BARC and the F&A of the Executive Board held a joint meeting. Both BARC and F&A later met separately on Saturday afternoon, January 31st, and F&A also met on Monday February 2nd. Below are summaries of the topics discussed for each committee:

BARC /Finance & Audit Joint Meeting

- Proposed Presidential Initiative Budget FY 2015 – BARC #19 (EBD #14.7)
 - Action Item
- FY 2014 August Final Executive Summary – BARC #4.1 (EBD #14.5)
- FY 2015 1st Quarter Budget Update – BARC #5.1 (EBD #14.6)
- FY 2016 Budget Instructions/Process Inflation Guidelines and Objectives – BARC Info #6 (EBD #1)
- United for Libraries Group Memberships – BARC #14 (EBD #10.3)
 - Action Item
- Small Division Support – BARC #21 (EBD #4.9)
 - Action Item
- Approval of Personal Dues Schedule – BARC #13 (EBD #10.2)
 - Action Item
- Indirect Cost Study Assumptions – BARC Info #7 (EBD #4.7)
- Resolution on Programs at Midwinter Meetings

BARC /Finance & Audit Joint Meeting

Proposed Presidential Initiatives Budget – BARC #19 (EBD #14.7)

President-Elect Sari Feldman presented to the committees the proposed budget for the Presidential focus for FY16. This Presidential initiative will work under the banner of “The Library Profession Transformed,” with the notion of “Transformation” being informed by the transformations already taking place within the library organizations and the rapidly transforming global landscape. There will be four key action areas to be covered in this Presidential year:

- One ALA – Create an inclusive ALA
- Change Management – Drive positive cultural change in libraries through training and organizational development support
- Stakeholder Engagement – Reinspire our members and increase the commitment to the ALA strategic plan, particularly “Advocacy.”
- Recruitment – Increase the diversity of talent within the profession by communicating the creative and innovative aspects of a library career

The plan is to develop and deliver a marketing communications campaign to support the four key action areas. The marketing campaign will be designed to refresh the image of the library profession i.e. support for professional recruitment and energizing tenured professionals. Closely related will be efforts to elevate the awareness of contemporary library work that advances advocacy and the information policy agenda. This messaging will be designed to be used by libraries and library supporters.

Finally, it was noted that there will be a two year commitment of \$50,000 for FY15 and FY16 from Overdrive for the development and implementation of “The Library Profession Transformed.” This support results in a total FY 2016 budget of \$160,000.

The following action was taken:

Action: F&A and BARC recommend to the Executive Board approval of President-Elect Sari Feldman’s proposed Presidential Initiative Budget for FY 2015 – 2016.

FY 2014 August Final Executive Summary – BARC #4.1 (EBD #14.5)

Joanne Lee, ALA Controller summarized for the committees the final audited financial results for FY14. She reported that there were no significant changes since the fall meeting. Total ALA revenues were \$49.9 million which was less than the budget of \$50.6 million by \$707,185 (-1.4%). Most of the shortfall was in the General Fund (\$555,267) related primarily to lower revenue in Publishing Services, interest income and royalty income. Total ALA expenses were \$48.0 million which was less than the budget of \$50.9 million by \$2.9 million (-5.7%). Most of the expense savings was in the General Fund (\$1.2 million) and the Divisions (\$1.8 million). Lower payroll & related expenses (benefits) and operating expenses were the primary drivers in both areas. Additionally, publishing had lower production related expenses in response to lower projected sales.

For total ALA the net result was net revenue of \$1.9 million which was more than the budgeted loss of -\$290,535 by \$2.2 million, while the General Fund realized net revenue of \$606,586.

Total ALA Financial Position – ALA’s financial position reflected total assets of \$80.5 million, which were \$5.0 million (6.6%) more than last year primarily due to short (\$2.0 million) and long-term (\$5.8 million) investments. The gains were offset by reductions in Intangibles (\$859,803) and Fixed Assets (\$577,710). Total liabilities were \$41.7 million, which was less than last year by \$3.0 million (-6.7%). Major reductions were in Accounts Payable (\$1.1 million), Accrued Payroll (\$750,589) and Long-Term Debt (\$751,405). The net result was an increase in ALA’s net asset balance of \$8.0 million to \$38.8 million (25.8%).

FY 2015 1st Quarter Financial Report – BARC #5.1 (EBD #14.6)

Joanne Lee, ALA Controller summarized for the committees the first quarter results for the three month period ending 11-30-14. Total ALA revenues for the period were \$8.8 million, which was \$618,959 (-6.5%) less than the budget of \$9.5 million. There were three areas of noted budget shortfalls – the General Fund (\$109,346) due to lower advertising/subscriptions/interest income, Long-Term Investments (\$105,282) and Grants & Awards (\$568,371) due to timing related to individual program activity. These shortfalls were offset by an increase in revenue from the Divisions (\$175,167), particularly in Choice and ALSC.

Total ALA expenses were \$9.9 million and less than the budget of \$10.9 million by \$1.1 million and less than the same time last year by \$481,453. Expenses were less than

budget across all expense categories with the exception of the General Fund. Accounting for most of the shortfall was Grants & Awards (\$456,835) related to timing in individual program activity, the Divisions (\$440,225) due to lower payroll/outside services/conference equipment rental, and long-term investments (\$157,357) resulting from the timing on the distribution of awards. General Fund expenses of \$5.9 million were slightly over budget by \$25,427 (0.4%).

As a result of the above total ALA activities, excess expenses over revenues resulted in a loss of (-\$1.0 million), which is better than the budgeted loss of (-\$1.5 million) by \$443,661. Meanwhile in the General Fund excess expenses over revenues resulted in a loss of (-\$923,061), which is more than the budgeted loss of (-\$788,288) by \$134,773.

Total ALA Financial Position – Total assets for the period were \$82.4 million, which is an increase of \$4.4 million (5.6%) over \$78.0 million at the same time last year. Total liabilities were \$44.0 million, which a decline of \$1.5 million from \$45.5 million last year. The result was an increase of \$5.9 million (18.0%) in the organization’s net asset balance to \$38.4 million over \$32.5 million last year.

December Results – Based on the December results total ALA revenues were \$12.6 million while total ALA expenses were \$13.4 million. The result was excess expenses over revenues of (-\$790,488), which compares to a net revenue loss of (\$1.0 million) in November. The General Fund revenues for the period were \$6.4 million while expenses were \$7.7 million. The result was a General Fund loss of (-\$1.3 million). This result is less than the budgeted loss of (\$1.3 million) by \$41,833. These results are consistent with prior years for the same time period.

FY16 Budget Instructions – BARC #6 (EBD #1)

Keith Fiels, ALA Executive Director and Brad Geene, Director of Planning & Budget led a discussion on the FY16 budget instructions. It was noted that the FY16 budget will specifically focus on the established strategic directions – Advocacy, Information Policy and Professional and Leadership Development. These strategic directions will be supported by the Programmatic Priorities, which will be considered by Council at this Midwinter Meeting. Also, the budget guidelines are based upon the analysis of the FY15 projected results as compared to the FY15 budget. Preliminary FY16 revenue projections will also be considered. The FY16 budget will be built based on the approved FY15 budget with the exception of a 2% increase in salary and a reduction in the attrition rate from 5% to 4.8%. The timeline on submissions begins on February 9th – February 16th with budget review meetings taking place from March 16th – March 23rd.

United for Libraries Group Memberships – BARC #14 (EBD #10.3)

A proposal to transition the United for Libraries state group services and the friends / trustee group services (collectively called “group services”) to ALA / United member group services was discussed. Sally Reed, Executive Director, United for Libraries; Laurel Bliss, Chair, ALA Membership Committee; and Keith Fiels, ALA Executive Director, requested that the United for Libraries group services be integrated into the ALA dues structure effective September 1, 2015. Cathleen Bourdon, AED Communications, Ron Jankowski, Director of Membership Development and Keith Fiels, ALA Executive Director presented the proposal and discussed it with the committee.

The group services pilot program, approved by the ALA Executive Board in fall 2010 concludes on August 31, 2015. During this time, United for libraries marketed and grew the program and integrated it with other membership categories. As such, beginning with FY16, it will function as an ongoing program. Current group member counts are 2,429 (1,466 state groups and 963 friends / trustee groups).

Action: F&A and BARC recommend to the Executive Board approval of the United for Libraries Group Member Services – BARC #14 (EDB#10.3). Furthermore, F&A and BARC recommend to the Executive Board approval of the six (6) “Processes and Procedures” listed on p. 2 of the proposal with the following addendum to #5:

- 5. United for Libraries will continue to receive ALA small division support through fiscal Year 2018 at the following levels:**
- | | |
|-------------------------------------|------------------------------------|
| FY2016 75% of current level: | \$42,000 |
| FY2017 50% of current level: | \$28,000 |
| FY2018 25% of current level: | \$14,000 |
| FY2019 and after: | \$ 0 small division support |

FY 2016 Small Division Support – BARC #21 (EBD #4.9)

Denise Moritz, Director of Compliance and Financial Reporting and Keith Fiels, ALA Executive Director summarized for the committees the general formulation used to determine the small division subsidy for ASCLA and United for Libraries (UFL). The FY16 budget was developed by applying a 1.3% inflation rate and a 2% increase in salaries over FY15. Based on this 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.

ASCLA will continue to share staff with RUSA with a total of 1.25 FTE’s with .25 FTE’s filled by an independent contractor. Dues and other revenue are projected at \$49,338 resulting in budgeted support of \$41,577. United for Libraries retains 3.0 FTE’s along with the approval of the integration of the group member services into the ALA dues

structure, as well as, an agreed upon phase out plan for small division support, the FY16 support will be \$42,000.

As such the following actions were taken:

Action: F&A and BARC recommend to the Executive Board approval of the recommend FY2016 small division support from the General Fund for ASCLA at the current level of \$41,000. This is based on a basic services budget of \$90,000 with ASCLA contributing \$49,000 (54%) – BARC #13 (EBD #10.2)

Approval of Personal Dues Schedule – BARC #13 (EBD #10.2)

Cathleen Bourdon reported to the committee on the five-year mechanism to adjust personal dues to reflect changes in the Consumer Price Index (CPI) to the Executive Board annually. In calendar year 2014 the CPI increased by 1.62% with the impact increasing ALA dues levels by approximately \$60,000. The changes were small \$1 or \$2 in most categories.

As such the following action was taken:

Action: F&A and BARC recommend to the executive Board approval of the personal dues schedule for FY 2016.

Indirect Cost Study Assumptions – BARC Info #7 (EBD #4.7)

Keith Brown, Senior Financial Analyst reviewed with the committee the indirect cost study assumptions to be used in the 2014 study. The study will be conducted in the same manner as previous studies. 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 FY17 budget. One discussion point of note was the allocation method used for allocating ITTS costs (# of PC's). It was noted that ITTS has been using better methods for tracking their work e.g. work orders and others, which may now have sufficient depth to be used in place of the number of PC's used.

Resolution on Programs at Midwinter Meetings

During Midwinter Meetings in January 2014 (Philadelphia) Council referred the Resolution to allow Programs at ALA Midwinter Meeting to BARC for an assessment of its fiscal impact.

After consulting the ALA Conference Committee and considering costs of Programs at Midwinter, BARC concluded it is unable to support the Resolution because of its potential costs and recommended to the Executive Board that the Midwinter Meeting maintain its current footprint.

A number of impacts were identified by BARC and the Conference Committee. These include:

1. The cost of actually presenting Programs in terms of meeting space and audio-visual support. This is the easiest cost to quantify and the least significant from a budgetary perspective.
2. The costs associated with Program development by ALA members, committees, divisions, Round Tables and ALA staff. These costs include considerable staff and volunteer time.
3. The potential negative impact on Program planning for Annual Conference if major Programs were also planned for Midwinter Meetings.
4. The potential loss of a unique – though evolving – event in a relatively small footprint. The smaller size of the Midwinter Meeting enables a focus on deep professional conversations and allows Midwinter to be a “testing ground” for popular conference innovations such as the Networking UnCommons.
5. An anticipated negative affect of Midwinter Programs on exhibit attendance.
6. The potential negative impact of Midwinter Programs on attendance at Annual Conference and Division conferences and institutes.

BARC concluded that while some impacts are difficult to quantify, collectively they have the potential to significantly affect the Association’s budgets and finances.

BARC is aware of discussions within the Conference Committee regarding new approaches to providing content at Midwinter, and supports the notion of approval by the ALA Executive Board of pilot programs that are cost neutral and consistent with existing policy regarding the purpose of the Midwinter Meeting.

Budget Analysis and Review Committee (BARC) Meeting January 31, 2015

- Update on Chief Financial Officer – Finance Search
- Publishing Update – 1st Quarter FY15
- ALA Finance Best Practices Debriefing
- Discussion of Financial Handbook – BARC Info #4.1
 - Action Item
- Financial Learning Session
- Planning and Budget Assembly
- Division Leaders/BARC Joint Meeting
- Discussion on the Resolution on Divestment of Fossil Fuels

Update on the Chief Financial Officer (CFO) Search

Dan Hoppe, Director of Human Resources, reported to the committee on the status of the search to replace the Chief Financial Officer (CFO). He indicated that they have received a large number of resumes. The search committee is in the process of reducing that group to a list of top ten candidates. The top ten candidates will be subject to phone screening by way of an outside agency. The results are expected in two weeks. After this period the list will be trimmed to five to six candidates for additional screening. On March 12th and 13th four candidates will then be called in for face to face interviews with the search committee and a staff interview panel. Background checks will be conducted over the following two week period and a hoped for announcement by the end of March.

Publishing Update – 1st Quarter FY15

Don Chatham, Associate Executive Director of Publishing, provided an update of the Publishing department. He noted that the department ended FY14 with a net revenue of \$1.4 million, which was \$500,000 more than budget. Results would have been higher but for an adjustment in the inventory reserve for obsolete inventory. The department began FY15 with all but two positions staffed. He has one position dedicated solely to RDA which should help propel sales. He further noted that *American Libraries* has been making positive strides with advertising. A new fulfillment house is being used that will help streamline that operation. During

the year there will be a review of the department's strategic plan. Currently things are on budget; he noted that Graphics may be at risk and will be closely watched.

ALA Finance Best Practices Workshop

BARC hosted the ALA Finance "Best Practices" Workshop session, which was attended by 14 participants from Divisions, Round Tables, committees and Chapters. The purpose of the session is to provide an open discussion to help members understand the financial inter-workings of ALA.

The one-hour session allows participants to ask questions specific to their own situations and obtain immediate feedback from BARC members, staff and other participants. It was evident that the participants were very interested in learning the best practices for managing a budget, particularly as it relates to making projections and/or dealing with uncertainty. One important point taken from the meeting was the positive feedback on the already available learning series webcasts on the Treasurer's page. It was noted that new officers are referred to the webcasts and they are constantly used as a refresher and information resource.

ALA Financial Handbook – BARC Info #4.1

John Moorman updated the committee on the status of the *Handbook* and Pat Wand thanked the members and staff, particularly Denise Moritz and Keith Brown from their assistance with the compilation. Members suggested several minor changes and additions to this near-final version, particularly to the Glossary which was noted as helpful. The Handbook will serve as a go-to resource for BARC and ALA members seeking information about ALA financial issues and procedures. It will be published in pdf form on the Treasurer's page; BARC and staff will review it annually for accuracy and currency.

Action: BARC formally accepted the *ALA Financial Handbook* as edited and authorized publication on the Treasurer's Page as soon as changes are complete.

Financial Learning Series

Lori Goetsch updated the committee on the newest planned webcast with a working title of "How to plan and budget for a preconference, institute or special event." A general outline was developed with an emphasis on the timeline, contracts, registration and the impact on and from accounting. Efforts may be made to identify units that do a good job

in this area and perhaps use them as a case study. The plan is to have the project completed by the Annual conference.

Planning and Budget Assembly

Approximately 31 individuals + staff with budgetary responsibilities and interests from across the Association attended and participated in discussions related to:

- Presidential Initiatives for FY 2016
- FY 2014 Year – End Results (Recap/Questions)
- FY 2015 Budget Update (Recap/Questions)
- FY 2016 Budget Assumptions
- Programmatic Priorities – New Strategic Plan
 - Small Group Discussions

Led by President-Elect Sari Feldman, the session provided the participants with an opportunity to hear the President Elect’s initiatives for FY 2016 that will build on already existing programs and efforts. Additionally, the session provided an opportunity for the attendees to ask questions regarding information on the recently completed FY14 audit results, the current status of the 1st quarter FY15 budget and inputs into the development of the FY 2016 budget. Finally, it was noted that the beginnings of a new strategic plan are underway. Input from the PBA body was strongly encouraged, which resulted in small group discussions on the future of the Association. These discussions were a follow up on tableside discussions held through the Association over the last year. The results of those discussions will be synthesized in the near future and shared.

Division Leaders/BARC Joint Meeting

Per ALA policy, BARC met with division leaders to discuss items of common interest and concern. There were approximately 30 attendees besides BARC members and staff. The general discussion focused on a five-year financial plan for ALA and membership information and related possible marketing plans.

Discussion on the Resolution on Divestment of Caterpillar, Hewlett-Packard, and Motorola Solutions

The chair notified the committee on the receipt of a proposed resolution on the divestment of three corporations from the ALA Endowment Fund. It was noted that the committee typically has not taken a position on or respond to any resolution that has not been forwarded directly from Council. Additionally, it was noted that before the

committee could reasonably make a recommendation it must consult various ALA staff and other units or committees. As a result, no position can be made at this point until such time as the committee receives a resolution from Council.

Finance & Audit Committee Meeting January 31, 2015

Finance & Audit Meeting

- Endowment Report – EBD #13.2
- Cash Management Policy – EBD #4.12
- Cash Management Policy – EBD #4.16
 - Action Item
- FY 2014 Audit Report and Discussion – EBD #4.6
 - Action Item
- Auditor Engagement Proposal – EBD #4.15
 - Action Item
- Auditor Evaluation – CBD #9.0
 - Action Item
- Controller’s Report – EBD #4.8

Endowment Trustees Report - EBD #13.2

Rod Hersberger, Senior Endowment Trustee, joined the committee to report on the performance of the ALA Endowment Fund for the calendar year 2014. He reported that the endowment, as of December 31, 2014 had a value of \$40.7 million, which is \$3.5 million more than the same time last year at \$37.3 million. This resulted in a return of 7.7%. Although volatility reached extreme levels during the year equities outperformed fixed income during the year. as the equities managers meet or exceeded their benchmarks. Due to the Federal Reserve’s actions to help the economy by promoting a low interest rate environment, it was not surprising that all the fixed income managers reported losses.

The Senior Trustee also noted that as the portfolio has gotten larger, there is a need for more sophistication on the part of the Trustees, the tools used in managing the portfolio, access to information and industry expertise. As such expansion to the approved number

of Trustees (7) is important, although the timing will be considered. As such the following action was taken:

Action: F&A recommends to the Executive Board approval to expand the number of Endowment Trustees to seven (7).

An issue related to this discussion was the process for reappointing existing Trustees. The Endowment Trustees have had a number of discussions regarding the process of renewing a term i.e. a second term, for a sitting Trustee. Currently Trustees wishing to serve a second three year term are required to submit a new application and three references. It was felt that if the Executive Board had any concerns regarding a sitting Trustee any number of options may be available to address those concerns i.e. a performance report from the Trustees or Senior Trustee. It was also noted that the recommended process is consistent with how other endowments renew sitting Trustees. If approved the sitting Trustee seeking an additional term will be a candidate in a pool of candidates. As such the following action was taken:

Action: F&A recommends to the Executive Board approval to allow eligible Trustees to reapply without submitting an application or references.

Cash Management Policy Changes – EBD #4.6, #4.12 and #4.16

Greg Calloway, AED Finance, led a discussion and was joined by Keith Brown, Senior Financial Analyst and Raj Bhatia, Investment Advisor from Merrill Lynch, on recommended changes to the current ALA Cash Management Policy designed to provide a secure source of revenue for the General Fund and improve the current dividend and interest income earned. It was recommended that this could be accomplished by two changes:

- Expand the universe of eligible securities beyond government bonds to include investment grade securities
- Develop a spending/payout policy based on an average of the previous 20-quarters.

He noted that the working capital account, comprised of three fixed income managers¹ who invest in 100% US Treasuries totaling \$18.6 million, has served the Association well

¹ Lord Abbett Limited, Neuberger Berman Intermediate and Blackrock Intermediate

over the years in terms of generation of interest and dividends. However, most of the higher gains were realized during a period when interest rates were much higher. As a result, the average investment yield is now approximately 2.3%. Through the first quarter of FY15 interest and dividends is below budget with no prospects for improvement. Year-end projections suggest a shortfall of \$150,000. By adjusting the policy to include AVG investment grade securities a yield of 3.3%² is a possibility, thereby making it possible to meet the budget. Per the recommendation by Merrill Lynch, this would be accomplished by replacing Lord Abbett Limited with four (4) mutual funds.³ Raj Bhatia went on to point out the following with respect to the recommended changes:

- ALA continues to invest its excess operating cash in fixed income securities only
- The duration of the portfolio remains the same
- Allowing AVG investment grade securities is consistent with the “Best Practices” in the industry

After further discussion the following actions were taken:

Action Item: F&A recommends to the Executive Board acceptance of the recommended policy changes as highlighted in EBD #4.12 and EBD #4.16

Action Item: F&A recommends to the Executive Board implementation of the new cash management policy changes for FY15 and FY16 at a 3% spending/payout rate.

FY 2014 Audit Report: Discussion/Acceptance – EBD #4.6, #4.10 and #4.14

John Fedus, Partner and Jeffrey Delheimer, Partner of Muller & Co., LLP presented the audit results related to the fiscal year 2014 - *Audit Results (EBD #4.6), Single Audit Results EBD #4.10) and Required Communications EBD #4.14*). ALA received an unmodified/Clean opinion – the best possible rating - and that the financial statements fairly represented 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, while the required communications reflected no significant findings and acceptable estimates used during the engagement.

² As conditions worsen in Europe and Asia, interest rates are expected to be lower for a longer than expected resulting in a revised expected yield of 3.1%.

³ Vanguard Short-Term Bond ETF, Lord Abbett Short Duration Income fund, Metro West Total Return Bond Fund and Guggenheim Total Return Bond Fund.

As a result the following action was taken:

Action Item: F&A recommends to the Executive Board acceptance of the FY 2014 audit report (EBD #4.6, #4.10 and #4.14) as presented by Mueller & Co., LLP. Additionally, to acknowledge the extraordinary efforts of the Accounting and Finance staff in their assistance to the auditors in completing a very clean audit report.

Auditor Engagement Proposal – EBD #4.15

John Fedus presented the committee with a proposal to act as the Association's auditor for the next three years from FY 2015 – FY 2017. The proposal highlighted the strengths of the current relationship, which included knowledge of ALA personnel, operating processes, the accounting industry, access to a nationwide network of industry experts etc. The proposal also reflected a 3.5% annual increase in cost beginning from a base of \$78,300. It was noted that the cost could be impacted lower to the tune of \$4,000 depending on the number of major programs that needed to be audited, as two have been done in recent years but prospects for only one are good.

Auditor Evaluation – CBD #9

Committee members discussed with staff the work of the audit firm during the execution of the audit. Joanne Lee – controller noted that there were eight criteria that were used to assess the performance of the auditor. The results of these findings suggested a strong recommendation to continue using the firm. It was further noted that with the continuity in the firms staff, has played a major role in the success of the audit process. The audit firm is in the strong position of knowing how ALA operates.

As a result the following action was taken:

Action Item: F&A recommends to the Executive Board approval to engage the services of Mueller & Co. LLP for three years as stated in the Mueller proposal EBD #4.15 with an annual review and evaluation of services.

Controller's Report – EBD #4.8

Joanne Lee, ALA Controller 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, 2014 amounted to \$18.8 million as compared to \$17.3 million a year ago. The increase is due to higher deferred revenue. Year-to-date interest income is \$87,994, which is essentially the same as last year.

The Neuberger Berman bond fund investment balance is \$14.6 million at November 30, 2014 as compared to \$13.2 million the same time last year. This investment has produced over \$10.1 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 2014 with a realized/unrealized gain of \$148,379. At November 30, 2014 the cumulative (computed since December, 1991) net realized/unrealized gain is \$37,745.

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. While ALA's FY 2014 ratios of 4.9 and 4.7 respectively and are well within the covenants received, as of 11-30-14 the ratios were (-0.3) and 4.8 respectively. Note that a Compliance Certificate to JP Morgan Chase is required semi-annually evidencing a debt to cash ratio of at least 1.5:1.0.

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. However, it was noted that inventory reserves were increased by \$384,773, primarily in ALA Editions (\$231,384) and Neal- Schuman (\$142,177).

Deferred Revenue – As of the end of the first quarter 11-30-14 deferred revenue was \$15.5 million, which is up slightly from \$15.2 million last year. The most significant increases were in Membership Dues (\$241,820), Subscriptions (\$40,597) and Conferences (\$36,831).

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 second scheduled payment (\$647,500) was made July 1, 2014. Beginning July 2014 through June 2015, approximately \$50,000 is being set aside to meet the next

scheduled payment. Beginning July 1, 2016 the scheduled payment increases to \$1.2 million.

Intangible Assets and Goodwill- An analysis of Goodwill and Intangible assets was performed by Plant Moran at management's request. The result was that there was no write down of intangible assets in FY14. Each is now valued at \$2.1 million and \$1.8 million respectively.

Acknowledgement

Both BARC and the Finance & Audit committees would like to extend our sincere thanks the ALA finance staff - Greg Calloway, Keith Brown, Joanne Lee, Denise Moritz, Brad Geenie and Latasha Bryant 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:

Budget Analysis and Review Committee (BARC)

Patricia Wand, Chair
 Lori A. Goetsch
 Mario Gonzalez, Treasurer
 Julius Jefferson, Jr.
 Ann Martin
 John Moorman
 Jim Neal
 Jo Ann Pinder
 Janice Welburn

Finance and Audit Committee

Mario Gonzalez, Treasurer
 Rob Banks
 Jim Neal
 Gail A. Schlachter
 Patricia Wand, BARC Chair