

**American Library Association
2013 Spring Meeting
Finance and Audit Committee
Report to the Executive Board
Saturday, April 20, 2013**

It is my pleasure to report to the Executive Board on the activities of the Finance and Audit Committee (F&A) at this Spring Meeting – Thursday, April 18th. Below are some of the primary topics discussed and reviewed by the committee:

- Endowment Trustees Report
 - Fossil Fuels Divestment Response to BARC – EBD #13.6
 - Year to Date Performance – EBD #13.5
- Organizational Member Special Promotion – EBD #10.9
 - Action Item**
- Controller’s Report – EBD #4.17
- Director of Financial Reporting and Compliance Report – EBD #4.19
- Indirect Cost Study – EBD Info #4.20
- Annual Conference Planning
- FY 2013 Budget Update and Projections – EBD #14.7 & EBD Info #5
 - Action Item**
- FY 2014 Preliminary Budget Overview – EBD #14.6
 - Action Item**

Endowment Trustees Report – EBD #13.5/EBD #13.6

Fossil Fuels Divestment Discussion - John Vitali – Senior Trustee, updated the committee on the status of the Trustees’ report to BARC on their findings regarding the financial impact on the divestment of fossil fuels from the ALA Endowment fund. He noted that F&A was reviewing a draft report to BARC that was still a work-in-progress. The Trustees relied on their investment advisor Merrill Lynch to provide the best available information on the subject. The Trustees were referred to a study that was prepared by the Aperio Group, an investment manager that specializes in customizing socially responsible investment

(SRI) portfolios. Using the information from this report the Trustees applied the metrics to the endowment fund. The result was that the ALA portfolio contained only three defined fossil fuel holdings. Additionally, it was noted that on a short-term basis, divesting these holdings would have a minimal impact on the endowment. The Trustees were presented with evidence that fossil fuels/energy as an asset class can go through some significant year to year fluctuations. As such, on a longer term basis the impact to the portfolio becomes more significant. At this point the Trustees are attempting to better quantify what that impact might be before submitting their final report to BARC.

In addressing the request to invest in renewable energy initiatives, the Trustees found strong evidence to the fact that investing in this area is an expensive proposition. At this time investing in renewable energy initiatives are better suited for “alternative” investments. The track record of available investment vehicles in this area is very short in terms of history and the performance has been subpar.

The report also highlighted other concerns that the Trustees have which can be reviewed in the report.

Endowment Fund Performance – J. Vitali reported that the performance of the endowment during the 1st was good. During the period the portfolio grew by \$1.9 million to \$34.6 million. The return was 5.9% compared to its index of 6.2%. One note of caution was that this has been the pattern for each of the last three years with strong first quarter markets results only to be followed by a falloff through the next two quarters.

Organizational Member Special Promotion – EBD #10.9

Ron Jankowski updated to the committee on the status of the Special Organizational Member Promotions. At the Midwinter Meeting in Seattle the ALA Membership Committee reviewed and approved a proposal to offer a special membership promotion to small and very small organizational (library) members who have dropped their membership over the last 3-4 years. The goal of the program is to build ongoing relationships and show support for small libraries with limited budgets. It is estimated that approximately 100 libraries will rejoin and generate about \$18,000 in net incremental revenue. This program is modeled after the successful pilot program that ran in FY12. After further discussion the following action was taken:

Action: F&A recommends to the Executive Board and confirms the approval of this Organizational Member Special Promotion (EBD #10.9), which the Executive Board previously approved during their March 19 conference call, and BARC approved through an email vote.

FY 2013 Budget Update and Projections – EBD #14.7 and EBD #Info #5

Greg Calloway and Keith Fiels reviewed for the committee the year to date results comparing January (narrative), February and March. The following represent the highlights of those discussions:

Through January total ALA (all combined funds) reported revenues were \$17.5 million which is \$2.0 million (-10.2%) less than budget of \$19.5 million. Most of the variance was in the General Fund where revenues were \$1.7 million (-14.1%) less than budget of \$2.2 million. Division revenues were \$4.1 million and less than budget of \$4.5 million by \$319,041 (-7.2%). In March total ALA revenues were \$24.1 million, which was less than the budget of \$26.4 million or \$2.3 million (-8.7%). It was noted that this results was more than \$4.2 million less than last year (-14.8%) at the same time last year. The General Fund reported revenue of \$13.8 million which is less than the budget of \$16.0 million by \$2.2 million (-13.5%). This compares to \$13.9 million last year, which is an indication of little or no revenue growth. Publishing Services accounts for most of the variance with revenues of \$2.7 million, which is less than budget of \$2.9 million by (-5.3%). ALA Editions was less than budget of \$2.8 million by \$1.5 million (-34.7%). The economy may still be the biggest factor impacting performance due to cuts in professional development budgets, as well as, the fact that fall 2013 textbooks titles won't come out until June. Huron Street Press is also being impacted by a delay in their list. Digital Reference and ALA Graphics are also suffering from sluggish sales. Division revenues for the period were \$6.0 million and \$321,144 (-5.1%) less than budget of \$6.3 million. Round Tables revenues were \$188,839 and \$35,801 (-15.9%) less than budget. Grants and Awards revenues were \$3.7 million and \$272,332 (8.0%) more than budget due primarily to timing. Long Term-Investments revenue was \$429,476 and less than budget by \$59,225 (-12.1%).

Through January Total ALA expenses were \$18.7 million which is less than the budget of \$21.3 million by 2.5 million (-12.0%). Most savings were realized in the General Fund and the divisions. The General Fund expenses were \$11.2 million and less than the budget of \$12.6 million by \$1.4 million (-11.0%). Division expenses were \$4.8 million and \$1.1 million (-18.8%). Through March the General

Fund reported expenses of \$16.0 million which is less than the budget of \$17.8 million by \$1.8 million (-9.9%). Most of the savings was in ALA Editions which reported expenses of \$3.2 million, which is less than the budget of \$4.0 million by \$855,499 (-21.4%) as adjustments are being made in expected production costs. Division expenses were \$6.7 million and less than the budget of \$8.3 million by \$1.6 million (-18.8%). Roundtables had expenses of \$71,942 which is less than budget of \$163,227 by \$91,285 (-55.9%). Grants and Awards expenses were \$3.7 million and \$272,332 (8.0%) more than budget due primarily to timing. Long Term-Investments expenses were \$266,996 and less than budget by \$91,992 (-25.6%).

As a result of the above information, net revenue in the General Fund through March reflects a deficit of \$2.7 million, which is \$395,252 more than budgeted of a deficit in the General fund of \$1.8 million (21.9%).

General Fund Projections – As a result of some preliminary work , management has projected end of year revenues and expenses of \$29.1 million. This is \$2.5 million or -8.1% less than budget. As a result of some initial work by management to address the issues, the projected deficit that needed to be covered was reduced to \$952,896. G. Calloway went on to discuss with the committee a number of additional options to cover the projected deficit. After further discussion the following action was taken:

Action: F&A has reviewed and supports the budget adjustments made for FY 2013, as proposed by management and refers to BARC and the Executive Board with a strong recommendation that if budget results are better than anticipated that staff compensation be a top priority.

FY14 Preliminary Budget – EBD #14.6

G. Calloway and K. Fiels met with the committee in closed session to discuss the details of the FY14 budget. Details of the full plan will be presented to the Executive Board on Saturday - April 20, 2013.

Action: F&A recommends to the Executive Board that the Preliminary FY 2014 Budget proposal (EBD #14.6) be forwarded to the Budget Analysis and Review Committee (BARC) for further analysis and review. The Board affirms the strategic directions of this budget and requests that BARC report

back on its analysis at the 2013 Annual Conference in Chicago with a strong recommendation that consideration given to staff compensation if the budget results are better than anticipated.

Controller's Report – EBD #4.17

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

Audit Planning Year – Mueller & Company has been retained to conduct their second audit of the ALA financial results for FY13. A planning meeting for the year is scheduled for May 29. Additionally, preliminary work is scheduled to begin on July 22nd and final field work November 4th – 22nd

Total ALA Financial Position - On a year to year basis as of February 28, 2013 ALA's financial position (Net Assets) improved by \$887,936 (3.1%) to \$29.8 million. The most significant influence was the impact of the Neal Schuman acquisition and improved long-term investment results.

Cash Management and Bond Fund - Total cash and short-term investments at February 28, 2013 amounted to \$17.4 million as compared to \$13.5 million a year ago. The increase was mainly related to the repayment of \$5.5 million related to the Neal-Schuman acquisition.

The Neuberger Berman bond fund investment balance is \$13.9 million at February 29, 2013. This investment has produced over \$9.6 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 loss of (\$87,572). The cumulative (computed since December, 1991) net realized/unrealized gain is 342,725.

The Association maintains a line of credit in the amount of \$2.5 million with JP Morgan Chase. There was one draw on April 5, 2013 for \$1.0 million. Repayment is expected in the near future.

Deferred Revenue – As of February 28, 2013 deferred revenue totaled \$13.3 million. This is a reduction of \$710,291 (-5.1%) and is due primarily two national division conferences in FY12 compared to only one in FY13.

Long-Term Debt – ALA has an outstanding loan with JP Morgan Chase in the amount of \$10.1 million. The first scheduled payment of \$647,500 is due July 1, 2013. In order to meet this obligation management has been setting aside \$100,000 on a monthly basis from the operating fund. Interest payments on this obligation are made monthly.

Inventory and Credit and Collections – Information related to 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.

Liquidity Ratio – In conjunction with the JP Morgan Chase long-term debt arrangements, the Association is required to maintain certain financial ratio – debt Service Coverage and Cash to Debt. These are ratios that management gives a great deal of attention. As of February 28, 2013 the ratios are (-0.13) and 3.12 respectively compared to the requirement of 1.1. The cash ratio is very strong despite the negative debt ratio. Projecting out to the end of the fiscal year looks encouraging for both ratios.

Financial Reporting and Compliance Report – EBD #4.19

Denise Moritz – Director of Financial Reporting and Compliance, met the committee for the first time and reported on her role as Director and the types of information that would be providing in her reports. The committee was updated on the status of the Associations 990 and 990T filing. Both are close to completion and will be filed in the next 30 days. They will soon be available for review by the Executive Director and the Executive Board. Planning for the Associations FY12 403(b) i.e. retirement account, audit is underway. Fieldwork is planned for June 2013. The committee was also updated on the status of the internal controls for accounts payable. She noted that the addition of an Accounts Payable manager has been very helpful in this regard. The Association is now taking advantage of discounts offered by vendors, setup is quicker /more thorough, communication with vendors and staff is improving etc.. There will also be a planned internal review of operations by staff over the next three months – self assessment. Efforts are now being made to clarify rights and permissions for personnel in order to optimize the segregation of duties. Finance has been working with ITTS personnel to develop and implement a “Change Management” policy that fits ALA. A software package has been identified to help in this regard and is planned for the FY14 budget. Training for staff on SharePoint – Bill Payment Process – is ongoing.

Indirect Cost Study – EBD Info #4.20

Keith Brown summarized for the committee the results of the 2012 Indirect Cost study. Using the 2012 ALA audited financial reports, internally generated performance reports and updating the allocation information, the resulting rate was 25.4%. This was an increase of 5.0% from last year's rate of 24.2%. This year's rate will be applied to the FY15 budget at 100% (25.4%) on certain division conference revenue and 50% (12.7%) on certain publishing revenue.

The primary driver of the increase was related to the impact of the Neal Schuman acquisition. In addition to increasing expenses in ALA Edition by \$2.0 million, there was also an increase in the number of FTE's, office space and higher allocable time for Finance/Accounting, ITTS and Human Resources in order to complete the integration in to ALA publishing.

In closing it was noted that the allocation method used to allocate ITTS costs, currently the number of PC's, may be modified to use "Help Desk" tracking. Discussions indicate that the help desk tracking or some blend make be a better measure of actual utilization by staff.

Annual Conference Planning

James Neal noted that he intended to focus his remarks and presentation based on the points discussed by the Executive Board.

Acknowledgements

We continue to be well served by Greg Calloway, Keith Brown, Sandra Lee, Joanne Lee and Elaine Klimek and the ALA financial and accounting department. They have been very dependable, innovative, reliable and thorough in assisting in our financial oversight responsibilities.

Respectfully submitted:

James Neal, Chair (via conference call)
Sylvia Norton
Linda Williams - absent
Robert Banks
Clara Bohrer, BARC Chair

