

**American Library Association  
2015 Spring Meeting  
Finance and Audit Committee  
Report to the Executive Board  
Saturday, April 18, 2015**

It is my pleasure to report to the Executive Board on the activities of the Finance and Audit Committee (F&A) which met at this Spring Meeting on Thursday, April 16th. Below are some of the primary topics discussed and reviewed by the committee:

- FY 2015 Budget Update and Projections – EBD #14.8
- FY 2016 Preliminary Budget Overview – EBD #14.9
- Action Item**
- Spectrum Activity Review – EBD #4.18
- Action Item**
- Controller’s Report – EBD #4.19
- Endowment Trustee’s Report – EBD #13.3
- Indirect Cost Study
- Director of Compliance and Financial Reporting Report - EBD #4.20
- New Business Development Update
- Endowment Trustee Candidate Review - CBD #13  
(Closed Session)

**FY 2015 Budget Update and Projections (February/March) – EBD #14.8**

Joanne Lee - Controller, reviewed for the committee the year to date results using the Executive Summary narrative for the six month results ending February 28, 2015 and the seven month preliminary March results. The following represent the highlights of those discussions:

Through February total ALA (all combined funds) reported revenues were \$21.3 million which is \$654,834 (-3.0%) less than the budget of \$22.0 million. Most of

the variance was in the General Fund (\$770,988) due to lower book sales and subscriptions, higher book returns and conference activity. Division and Round Table revenues were on budget at \$5.5 million and \$185,072 respectively. Revenue from Grants & Awards was \$2.6 million and less than budget by \$182,775 (-6.7%) due to timing. Revenue from Long-Term investments was over budget by \$260,906 (48.9%) totaling \$803,424 year to date due to a larger investment balance.

Total ALA expenses were \$22.4 million which is less than the budget of \$24.9 million by \$2.5 million (-9.8%). Lower expenses were realized throughout the association with the Divisions being the most under budget (\$1.7 million). Also contributing was lower expenses in the General Fund (\$417,689), Grants & Awards (\$151,568), Round Tables (\$107,384) and Long-Term investments (\$118,092).

As a result of the above information, total ALA expenses exceeded revenues by (\$1.1 million), which is better than the budget of (\$2.9 million) by \$1.8 million. General Fund expenses exceeded revenues by (\$1.2 million) and were more than budget by (\$353,299). Division expenses exceeded revenues by (\$466,683) and were better than the budget by \$1.7 million.

*March Results* – The seven month results year to date through 3-31-15 reflect total ALA revenues of \$27.3 million and expenses of \$27.0 million for net revenue of \$306,113. General fund revenue was less than budget by (\$828,114), primarily in Publishing (\$360,000) and Conferences - *Midwinter Meeting* (\$247,000). This result was offset by Division revenues which benefited from a strong ACRL conference and was over budget by \$592,910. Grants & Awards and Long-Term Investments were also better than budget by \$189,069 and \$193,594 respectively.

General fund expenses were under budget by \$588,284 at \$14.7 million with savings in Publishing (\$345,491), Midwinter Meeting (\$165,000) and ITTS (\$184,000). These savings were offset by lower recovered Overhead (\$352,000) resulting from the timing of monthly budget allocations. The combined result is excess expenses over revenues of (\$890,257), which is more than budgeted excess expenses over revenues of (\$650,427) by (\$239,830). The Divisions realized excess revenues over expenses of \$626,823, which was more than the budget by \$1.6 million. Also contributing was the results in Long-Term Investments of \$408,354, which is more than budget by \$322,866.

### **FY16 Preliminary Budget – EBD #14.9**

Keith Fiels and Brad Geene met with the committee and provided a broad overview of the strategic initiatives, enabling strategies and financial highlights of the FY16 budget. Issues impacting the FY15 budget, which will have an impact on the FY16 budget, were also discussed. Details of the full plan will be presented to the Executive Board on Saturday - April 18, 2015.

As a result the following action was taken:

**Action: F&A recommends to the Executive Board that the Preliminary FY 2016 Budget proposal (EBD #14.9) 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 2015 Annual Conference in San Francisco.**

### **Spectrum Activity Review – EBD #4.18**

Keith Fiels discussed with the committee issues related to the Spectrum program that were raised at the Midwinter Meeting in Chicago. A review of the 2014 audited financial statements highlighted what seemed to be a reduction on the dollars spent on Spectrum scholarships between 2013 and 2014. To address this concern a full review of the scholarship program was conducted. This review included all activities since the program's inception in 1997, the Spectrum Presidential Initiative fundraising effort, pass-through scholarships provided by the Development Office and scholarship recipient impact information from the Office of Diversity, Literacy and Outreach Services.

The results of the review have highlighted the fact that the Spectrum Scholarship program is a very complex undertaking. The basis behind the original concern is the result of a change in the accounting for scholarship per an accounting department recommendation and the program officer. This change will eliminate

intermingled scholarship classes, which was making budgeting and tracking overly complex. As such, a change in the accrual for scholarships shifted payments out of the FY 2014 and will be realized in FY 2015. As we move forward the amount listed for scholarships under spectrum will begin to reflect its more historical scholarship level.

A positive result of this review was the realization that the Scholarship Bash had accumulated reserves in the amount of \$530,000 and was available for additional scholarships. It was determined that scholarships could reasonably be increased from its current level of 50 to 60 for each of the next three years, 2016, 2017 and 2018. In doing so it was also determined that the capacity to manage the increased scholarship would also require additional administrative help. It was determined that \$25,000 for administrative help was adequate. As such the following action was taken:

**Action: F&A recommends to the Executive Board approval to increase the number of Spectrum scholarships from 50 to 60 for 2016, 2017 and 2018 and the allocation of \$25,000 in deferred revenue for each of these three years to support administration of the expanded scholarship program.**

#### **Controller's Report – EBD #4.15**

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

*Total ALA Financial Position* - On a year to year basis as of February 28, 2015 ALA's financial position (Net Assets) improved by \$4.4 million (12.9%) to \$38.4 million. The most significant influence was the impact of improved long-term investment results, which was higher by \$4.2 million.

*Cash Management and Bond Fund* - Total cash and short-term investments at February 28, 2015 amounted to \$20.2 million as compared to \$19.5 million a year ago. The increase was due to a transfer of \$1.5 million from the ALA operating account to short term investment to take advantage of higher yields.

The Neuberger Berman bond fund investment balance is \$13.1 million at February 28, 2014. This investment has produced over \$10.2 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 gain of \$31,626. The cumulative (computed since December, 1991) net realized/unrealized gain is 194,547. *Note: The recent changes to the Cash*

*Management Policy approved at the 2015 Midwinter Meeting are now in the process of being implemented. The Finance staff is in the process of evaluating if the approved changes are accomplishing the desired outcome.*

The Association maintains a line of credit in the amount of \$2.5 million with JP Morgan Chase. There were no outstanding draws on the line as of 2-28-15.

*Deferred Revenue* – As of February 28, 2015 deferred revenue totaled \$17.6 million. This is an increase of \$408,368 (9.2%) and is due primarily to higher Grants & Awards (\$704,005) as Gates and Dollar General grants were received.

*Long-Term Debt* – ALA has an outstanding loan with JP Morgan Chase in the amount of \$9.5 million. Scheduled payments of \$647,500 were made on July 1, 2013 and 2014 with the next scheduled payment on July 1, 2015. The scheduled payment for July 2016 will increase to \$1.0 million. In order to meet this obligation management has been setting aside \$50,000 on a monthly basis from the operating fund. Interest payments on this obligation are made monthly. *Note: As the report concluded it was determined that in view of the ALA's strong liquidity ratios and cash position, that the timing might be good to consider renegotiating its outstanding long-term debt. As such, the finance staff will begin the process of investigating options available to the ALA and present to the committee various scenarios for refinancing the outstanding loan.*

*Inventory and Credit and Collections* – Information related to this topic was covered and each was 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. As of February 28, 2015 the ratios are 0.9 and 4.3 respectively compared to the requirement of 1.1.

### **Endowment Trustee's Report – EBD #13.3**

Rod Hersberger reported to the committee on the status and performance of the endowment fund through the three month period ending 3-31-15. He noted that results through the first quarter of the year were uneven at best. For the period the portfolio was valued at \$40.6 million and returned a gain of 1.8%. The major

contributor to these results was the performance of the international equity portion of the portfolio as the strong US dollar begins to negatively impact corporate earnings. US indices lagged all major international indices which performed very well. He also referred the committee to the top holdings of the large cap managers. In addressing a concern from Council on fossil fuels at the Midwinter Meeting, the Trustees with the help of their Investment Advisor Merrill Lynch reviewed the portfolio for such holdings. None were found.

Finally, he discussed the benefits of the Trustee's education efforts. Since meeting in New York once a year the Trustees have benefited greatly. As a result of holding once a year meetings in New York, the Trustees are now being exposed to new and appropriate investment vehicles, as well as, new/different thinking and perspectives. This experience is expected to benefit the portfolio in terms of higher returns.

#### **Indirect Cost Study - 2014**

Keith Brown summarized for the committee the results of the 2014 Indirect Cost study. The 2014 ALA audited financial statements; internally generated performance reports and updated allocation information were used in the general analysis. The committee spent a great deal of time discussing a number of the critical expenses categories. As a result of these discussions additional analysis will be conducted on the study in order to ensure that a more complete and fair picture of the results are determined.

#### **Director of Compliance and Financial Reporting Report - EBD #4.20**

Denise Moritz – Reported to the committee on a number of compliance topics. It was noted that ALA was in the information gathering stage for the retirement plan form 5500 and form 8955-55A for 12-31-14. The information will be submitted by Deloitte Tax LLP. Fiscal year end 8-31-14 filings for form 990 and 990T are currently being prepared. Other state forms are also in the process of being prepared. Filings (5) related to the Margaret A. Edwards Trust are in various stages of completion. Finally, due to a new presence in the state of Maryland related to Publishing's decision to use the services of a new fulfillment vendor (Bright Key), ALA is registering for a Maryland sales and use tax account.

## **New Business Development Update**

Keith Fiels updated the committee and noted that things were still progressing. He noted that ALA's web site was being upgraded to better support the development of continuing education as the Association moves toward being a course provider. He also noted that China continues to represent a major opportunity for the association, as does Asia and the Middle East.

## **Endowment Trustee Candidate Review - CBD #13**

In closed session the committee reviewed five candidates for three openings that will be available after the 2015 Annual Conference in San Francisco. In reviewing the candidates the committee reviewed the current composition of the Trustees, general investment skills/experience, knowledge of ALA and how to best utilize the portfolio's resources.

The committee identified three candidates who in their opinion are in the best position to positively impact the endowment. The committee will submit these names to the remaining Executive Board members for further discussion and input.

## **Acknowledgements**

We continue to be well served by Keith Fiels, Mary Ghikas, Keith Brown, Denise Moritz, Joanne Lee, Brad Geene, Latasha Bryant 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:

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

