

**American Library Association
Finance and Audit Committee Report
to the ALA Executive Board
April 16, 2016**

The Finance and Audit Committee (F&A) are pleased to report to the Executive Board on its recent activities. Committee met on Thursday April 14th to discuss and review a number of financial issues. Below is a list of the primary topics discussed:

- FY 2016 2nd Quarter Financial Results - EBD #14.6
- FY 2017 Preliminary Budget Overview - EBD #14.7
- Endowment Trustees Report - EBD #13.5
- Controller's Report - EBD #4.15
- Director of Compliance Report (EBD #4.16)
- New Business Development Update

FY16 2nd Quarter Financial Results - EBD #14.6

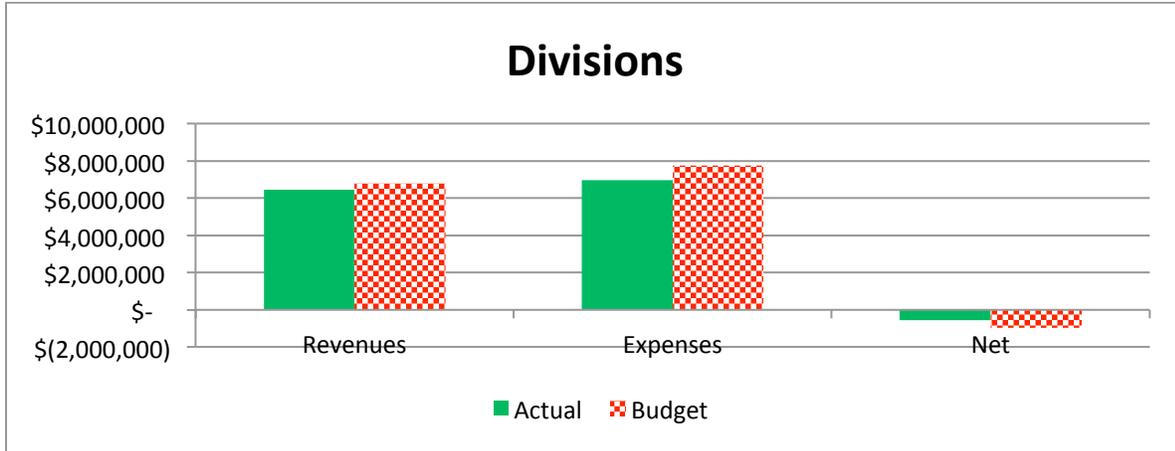
Mark Leon led the committee in a discussion on the 2nd quarter results ending 2-29-16. He noted that due to a number of factors i.e. new personnel, reporting system adjustments, allocation issues etc. a good deal of staff time has been spent to produce timely and accurate financial information, particularly for the budget allocation. Overall, ALA's midyear financial results reflect that the Association is closely tracking the FY16 budget, ending the six months with a small favorable (positive) variance from the projected net expense.

- Total ALA revenues of \$22.9 million compared to budget of \$23.3 million
- Total ALA expenses of \$24.9 million compared to budget of \$25.3 million
- Net expenses were (\$2.0 million) compared to budget of (\$2.1 million)
- Overall, the total ALA budget is on track

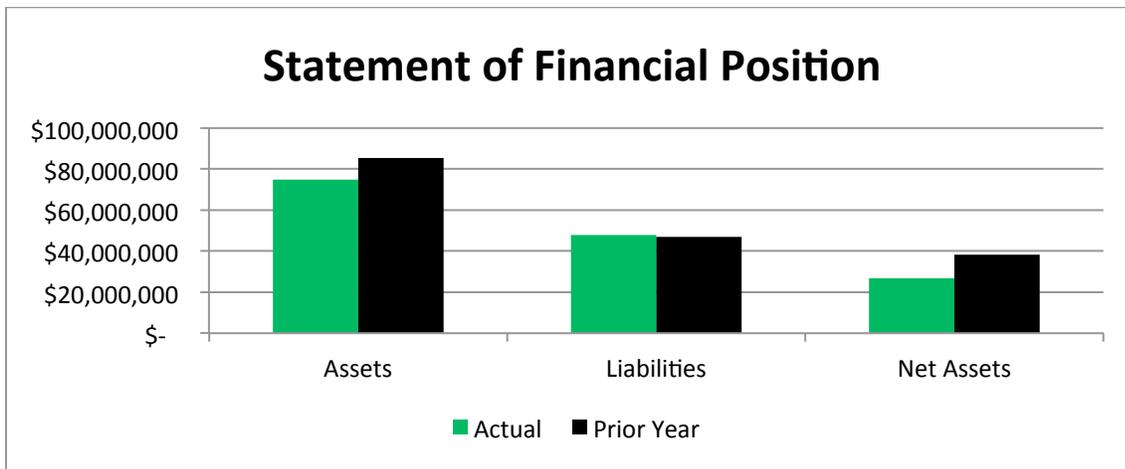
While the Association as a whole is trending in the right direction, there are still some areas that will need our continued attention, particularly the General Fund. Lower revenues in Publishing and conference Services have been partially offset by expense savings in those and other areas, but the next six months will be key to ALA's FY16 budget performance as certain titles in Publishing continue to go to market and Annual Conference approaches. The success of PLA's Denver conference will certainly contribute to the General Fund (overhead) and the Association's, FY16 financial performance.

- General Fund revenues were \$12.4 million compared to the budget of \$13.3 million
- General Fund expenses were \$14.2 million compared to the budget of \$14.2 million
- Net expenses were (\$1.8 million) compared to budget of (\$950,629)
- Results were impacted by lower exhibit and registration revenue from the Midwinter Meeting and lower product sales in the Neal-Schuman operation

- While membership dues revenue is slightly under budget, personal dues revenue and membership continue to show positive signs of growth. Total membership is also up due to the growth in group memberships of Trustees and friends organizations



- Division revenues were \$6.4 million compared to the budget of \$6.8 million
- Division expenses were \$7.0 million compared to the budget of \$7.8 million
- Net expenses were (\$541,723) compared to the budget of (\$953,930)



- Total assets were \$74.9 million compared to \$85.3 million at this time last year
 - Principal loan payment in August on renegotiated loan
 - A decline in the value of the endowment
- Total liabilities were \$48.0 million compared to \$46.9 million at this time last year
 - Higher accrued payroll related to Post Retirement obligation
 - Lower long-term debt related to the principal loan payment
- Net assets were \$26.9 million compared to \$38.4 million at this time last year

FY 2017 Preliminary Budget Overview - EBD #14.7

In discussing the FY 2017 preliminary budget it was noted that the Association was still feeling the effects of the most recent recession. Recovery for libraries has tended to be 8 – 10 years behind the general economy. Since the recession, management has been very diligent in its efforts to use every available source to manage its resources. Given this information it was noted that the FY 2017 budget was designed to provide maximum support to ITTS and the Associations' technology infrastructure plan. *Overhead Rate Adjustment* - It should be noted that 1.5 ITTS positions were added after negotiations with the divisions on a modification of the preliminary 2015 overhead rate of 31.2%. The rate will now change from scheduled rate of 23.7% in FY 2017 to 26.4% for both FY 2017 and FY 2018. The negotiated rate change resulted in an additional \$166,000 in FY 2017 to fund the new positions – a database manager and content systems administrator for the ALA store (Publishing/ITTS). The discussion was concluded with highlights of the enabling strategies that will be employed by various units around the Association and resulted in the following action:

Motion: F&A recommends to the ALA Executive Board approval to provide staff with a 1% increase in compensation, along with consideration for an additional one-time organizational incentive as a top priority based on any positive 2017 year-end results.

Mark Leon then led the committee through a discussion of the financial information that supports the budget. He indicated that the ALA FY17 total ALA budgetary ceiling is \$64,379,278. This total includes the carryover net asset balances for the Divisions and Round Tables (\$16,410,960). He noted that this total was down by 4.1% from FY 2016, consistent with the ALA's biennial Division conference cycle. Additionally, budgeted revenue was \$47,968,318 was down by 5.4% from FY 2016. For the General Fund the budgetary ceiling was \$30,120,362, which is an increase of 2.6% over FY 2016. Management feels that the Association's resources are being maximized in this budget to accomplish identified initiatives and meet the needs its members. Greater detail will be given during the presentation to the Executive Board on Saturday, April 16th.

After some additional discussion the following action was taken:

Motion: F&A recommends to the Executive Board that the preliminary FY 2017 budget proposal - EBD #14.7 be forwarded to the Budget Analysis and Review committee (BARC) for further analysis and review. The Board affirms the strategic direction of the budget and requests that BARC report back on its analysis at the 2016 Annual Conference in Orlando, FL.

Controller's Report – EBD #4.15

Joanne Lee, Controller, reported to the committee on a number of financial items that were not previously covered in other reports. She highlighted the Association's liquidity ratios, which are bank required. The cash to debt ratio was 4.87 compared to 4.33 for the same time last year. This is a strong indicator of the Association's ability to cover its short term obligations. As of 2-29-16 the Association's working capital balance was at \$14.3 million. It was also noted that this investment has generated \$10.5 million since 1991. Other items covered included:

- Cash & Short-Term investments were lower than last year by \$4.2 million at \$15.8 million due to paying down ALA's long-term debt
- Inventory of \$1.5 million was lower primarily from Neal-Schuman
- Inventory reserve level was higher at \$185,134 primarily from ALA Editions

Director of Compliance Report - EBD #4.16

Denise Moritz, Director of Compliance and financial Reporting updated the committee on the status of required regulatory filings. These filings included the following:

- Federal IRS form 990 and 990T are currently being prepared and will be shared with the Executive Board before filing. Also similar state forms are also being filed.
- The ALA-APA federal form 990-EZ has been filed
- The annual report was filed with the Illinois Secretary of State on 3/31/16

Endowment Trustees Report - EBD #13.5

Rod Hersberger reported to the committee on the status of the ALA endowment fund. He began the discussion by noting that the first five trading days of the market were the worst in history for the beginning of the year. This trend continued through the first half of the quarter. During the second half of the quarter the portfolio has recovered. He reminded the committee that the portfolio has been constructed to withstand such volatility better than other portfolio's.

He highlighted a number of items that have impacted the market during the quarter:

- Market seems to now be trading within a stable range
- Brexit talks have shaken the European markets and may impact US banks
- Large cap stocks remain the investment choice of investors
- Federal Reserve to limit the number of interest rate hikes from 4 to 2

He went on to note that as of 3-31-16 the value of the portfolio was \$38,445,938. To further highlight the volatility that is possible in the market the committee was referred to the value of the portfolio was down by \$2.0 million at 2-29-16. Additionally, it was stated that all equity index around the world were in negative territory. There is still every expectation that the portfolio will be in positive territory by year end.

He closed his discussion by highlighting some of the work that the Trustees have accomplished since the Midwinter Meeting which included the following:

- Replaced the large cap core manager London with Clearbridge ESG, an SRI portfolio
- Replaced Third Avenue Global with Vanguard US REIT ETF
- Replaced Deutsche Global Infrastructure with Nuveen Real Asset Income
- Trustees had another excellent education meeting in NYC
 - Discussed the investment practices of Vassar College
 - Extensive session on "Strategic Asset Allocation" study
 - Explored options for SRI
 - Reviewed another "Alternative" investing option

- Funded \$230,000 in private equity
- Will meet with the new Director of the Development Office to discuss fundraising

New Business Development

Keith Fiels briefly updated the committee on new business opportunities. He noted that the Sharjah Book fair attended at the end of last year was very productive and continues to present the some intriguing possibilities. The discussion then shifted to fundraising and the endowment. He noted that the Trustees are very interested in hearing from the Director of the Development Office on fundraising. He noted that one of the items to be pursued in FY17 is an annual fundraising campaign. Time was spent discussing the 15 x 15 campaign and the fact that approximately \$7.0 million has been pledged by the participants. The goal is to further expand the 15 x 15 plan in order to capitalize on the momentum already generated.

Acknowledgement

F&A extends its sincere thanks to the ALA finance staff: Mark Leon, Brad Geene, Joanne Lee, Keith Brown, Denise Moritz and Latasha Bryant for their work throughout the year and support in preparing for the committee meetings and discussions. The chair would also like to thank Keith Michael Fiels and Mary Ghikas for their insightful and helpful input and participation.

Respectfully submitted:

Mario Gonzalez, Treasurer/Chair
Jim Neal
Peter Hepburn
Loida Garcia-Febo (Absent)
Ann Martin, BARC Chair