Members of the Finance & Audit committee met with staff to discuss issues that have developed since the Annual Conference in Anaheim, CA. The primary objectives of the meeting included a review and discussions on the following topics:

- **FY 2012 Unaudited 4th Close Results – EBD #14.1**
  - General Fund Net Operating Results
- **Group Membership – United for Libraries – EBD #12.9**
- **Dues Adjustment Proposal – EBD #10.1**
- **FY 2013 Final Budget Ceilings – EBD #14.2**
- **Insurance Update – EBD #4.2**
- **Audit Update**
  - Internal Audit Report – CBD #7
  - 403b Audit Approval – EBD #4.6
- **Controller’s Report – EBD #4.5**
- **Midwinter Meeting Preparation**

**FY 2012 Unaudited 4th Close Results – EBD #14.1**

G. Calloway provided the committee with a review of the fiscal year end results based on the 4th close results.

*Total ALA 4th Close* - Total ALA revenues for the fiscal year-end results were $49.3 million, which is $732,688 (1.5%) less than the budget of $50.0 million. This compares to $46.1 million last year, which is an increase of $3.2 million. The shortfall was primarily a result of lower than expected revenues in the Divisions, which was under budget by $1.0 million (6.2%) at $15.3 million – AASL ($375,000), PLA ($258,623), Choice ($185,809), ALTAFF ($150,201) and YALSA ($129,946). Also contributing was lower than expected interest income from the long-term investment fund, which was less than the budget of $837,756 by $244,844 (29.2%) at $592,912.

Total ALA expenses for the fiscal year-end results were $49.8 million, which is $353,909 less than the budget of $50.1 million (0.7%). This compares to $49.1 million last year. Significant savings were realized in the Divisions ($2.1 million) at $14.4 million. This savings was offset by a gain in General Fund expenses of $1.7 million related to the merger of the Neal Schuman (NS) purchase into the ALA Editions operation.
On an overall basis the net result was excess expenses over revenues of ($480,021).

*General Fund* - General Fund revenues for the year were more than budget by $119,066 (0.4%) to $27.2 million. The most significant contribution came from Publishing Services, which exceeded budgeted revenues by $1.2 million (10.4%) at $12.5 million primarily as a result of the additional activities from the NS acquisition. Revenue from ALA Editions, which houses NS, was $1.3 million (35.3%) more than budget of $4.9 million. It should be noted however that despite being over budget, expected revenues were $709,110 (14.6%) less than the year end projections of $5.6 million. The projected shortfall was due to a number of factors that included the expected summer sales pattern for textbook that didn’t materialize and a difficult integration process into the ALA publishing operation. Offsetting the overall revenue gain in Publishing Services was a shortfall in revenue from Online Resources, which includes RDA, of $201,515 (30.1%) to $468,377. As noted earlier this was due to the Library of Congress’ (LOC) delay in approving the use of RDA. Other significant General Fund revenue offsets were lower revenue from Member Programs & Services (MPS) and interest income. MPS revenue was less than budget of $682,435 (7.8%) at $8.1 million due to results from Annual Conference. Annual Conference revenue was lower than the budget of $5.1 million by $340,489 (6.2%) as a result of lower registration and exhibit fees. Interest income was $721,173, which was less than budget by $368,102 (33.8%) due to a lower average investment balance and a lower overall yield.

General Fund expenses for the year were $28.5 million and more than budget by $1.4 million (5.2%). This was less than the year-end projections of 28.5 million (0.1%). Accounting for most of the overage was Publishing Services which was $12.5 million and more than the budget of $10.0 million by $2.5 million (20.2%). It was also more than year end projections of $12.3 million by $199,415 (1.6%). The area with the biggest impact was ALA Editions which was $2.4 million (71.4%) more than budget of $3.2 million at $5.7 million. Increased expenses, many of which are one time in nature, were related to the NS acquisition and integration into the ALA Publishing operation.

The result was an excess of expenses over revenues or loss of ($1.3 million).

As previously noted the Executive Board gave its approval at the Annual Conference in Anaheim to use Net Asset Balance reserves ($700,000) and unused interest from the Future fund ($94,000) to cover the projected loss at that time. The latest results indicate the need to use additional reserves. As such the following motion was made.

**F&A recommends to the Executive Board approval to draw down funds as needed from the General Fund net asset balance to cover the FY 2012 deficit. F&A further recommends to the Executive Board a plan to rebuild General Fund net asset balance in the FY 2013 budget.**

It was important to note that with this action both the F&A committee and the ALA management recognize the importance of building up the General Fund’s net asset balance and that process starts with the implementation of the FY13 budget.
Final FY 2013 Budget Update – BARC #14.2

G. Calloway highlighted for the committee changes to the FY 2013 budget since the Annual Conference.

Some of the key components of the FY 2013 budget include a full year of operation with NS publishing, expected approval of RDA and new conference pricing strategies. Additionally, a ½% reduction in General Fund unit expenses, a 1% salary increase, a 1% year-end compensation adjustment and the maintenance of a 30% health care benefit rate.

After a discussion of the budget changes since Annual Conference the following action was taken:

F&A concurs with BARC recommends to the Executive Board approval of the final FY 2013 Total ALA Budget.

Dues Adjustment Proposal – EBD #10.1

As a result of numerous meetings with the stakeholders on the original proposal with two options – 1) a $10 increase + CPI and 2) CPI only, it was determined that the CPI only option was the preferred option. In support of this option it was noted that over the last ten years the CPI has averaged 2.5% annually. If the CPI index had been in place as part of ALA’s regular dues structure an additional $600,000 would have been generated for the Association. After further discussion the following action was taken:

F&A concurs with BARC recommends to the Executive Board approval of the dues adjustment proposal for an annual CPI indexed dues structure.

United for Libraries Group Membership Proposal – EBD #12.9

K. Fiels highlighted for the committee the document submitted by S. Reed, Executive Director, United for Libraries. In the fall of 2010 the Executive Board approved a two-year trial of a new group membership model for retaining FOLUSA member groups after the merger with ALTAFF. It is a membership for groups only. It provided United for Libraries with a better way to market itself to groups and boards, particularly state-wide group memberships. The division would like to extend this program for an additional two years. After further discussion the following action was taken:

F&A concurs BARC recommends to the Executive Board approval of an additional 2-year trial period to offer group United for Libraries memberships to Friends Groups and Boards of Trustees.
**Insurance Update – EBD #4.2**

Gene Tkalitch presented to and updated the committee on the Association’s insurance and risk profile. In an effort to be proactive and as part of an overall risk management effort, management requested an assessment to identify any potential exposures evolving from ALA’s expanding programs, general growth, its recent acquisition and changes in the legal environment. The review was conducted from the perspective of general risk potential, the probability of occurrence and the best possible option to cover such risk i.e. the cost. Some of the identifiable major risk areas included media production/distribution, advocacy, credentialing & continuing education, event cancellation/liability, cyber activities etc. While these are all recommendations to be considered, management will take them under advisement and determine an optimal combination. Finally, it was pointed out that ALA’s claims history over the last five years has been exceptional for an association with virtually no claims.

**Audit Update – EBD #4.6 and CBD #7**

**403b Audit Report EBD #4.6** – Jeff Delheimer of the audit firm Mueller & company joined the committee and provided a summary of the audit results of the associations’ 403b plan. The plan audit was conducted with a disclaimer regarding the information received from the plan Trustee (TIAA-CREFF) prior to last year’s audit (2010) due to the age of the information in the plan, which was unverifiable.

The plan is a defined contribution 403b plan covering all employees of the ALA who make deferral contributions immediately upon hire and who receive an organization match after two years. It was noted that at the close of business 12-31-10 the ALA Tax Deferred Annuity Plan was merged into the ALA Defined Contribution Retirement Plan. Subsequently the name of the plan was changed to the ALA Retirement Plan. Effective with the merger, employees became eligible to borrow from TIAA-CREFF using a portion of their plan account as security.

Investments are stated at the amounts certified to the Plan Administrator by TIAA-CREFF at 12-31-10 ($51.4 million) and 12-31-11 ($52.2 million) respectively.

**F&A recommends to the Executive Board acceptance of the 403b Audit as presented by Mueller & Co. – EBD #4.6.**

**Internal Audit Status Report CBD #7** – Michael Becker of the audit firm Mueller & company joined the committee and provided an assessment of the management requested audit of the associations’ accounts payable internal controls. The audit covered payables, purchasing, cash disbursements and vendor setup and maintenance. In addition to these specific areas, the associations’ IT systems – MS Dynamic GP, SharePoint, Network OS and Online Banking - were also evaluated in terms in terms of relevant processes and controls. The general findings were that there are many controls performed on a regular basis although
not always formally documented. Additionally there were some indentified control gaps which were recommended for remediation. Based on the review management has already implemented changes to remediate several of the issues identified. Management has also documented a remediation plan for the remaining issues that have not already been resolved.

F&A recommends to the Executive Board acceptance of the Internal Audit Assessment as presented by Mueller & Co. – CBD #7.

Annual Audit FY12 – John Fedus of the audit firm Mueller & Company reported on the status of ALA’s FY12 audit. On August 13th – 17th, 2012 representatives from Mueller & Company arrived at 40 East Huron to commence the preliminary audit work. Association accounting staff provided the auditors the work papers and reconciliations they had requested so that they could complete the preliminary work in a timely manner. The auditors will return for final fieldwork during the period November 12, 2012 to December 7th, 2012. A draft report will be ready by December 21st and will present to the Executive Board at their Midwinter meeting on January 28th. He also noted that audit work on the A-133 report will be performed during the year-end audit. Two programs will again be tested.

Controller’s Report – EBD #4.5

ALA Assist Controller, Joanne Pak, presented the fiscal year end status of the inventory, credit & collections, cash and short-term investments, as well as, other items of interest in the finance/accounting area.

Cash Management – Total cash and short-term investments at August 31, 2012 amounted to $16,469,118 as compared to $18,084,850 a year ago. The decrease of $1.6 million is mainly the result of the Neal Schuman acquisition. Interest income for the period was $361,805 which is $202,286 less than last year of $564,091 due to a lower investable balance and lower overall interest rates. The intermediate bond fund investment balance was $13,859,375 at August 31, 2012, which compares to $15,108,118 last year for the same reasons.

The Association maintains a $2,500,000 line of credit with JP Morgan Chase. Draws on the line bear interest at the prime rate. This facility is used sparingly with the most recent being October 2012. In addition, there is a 0.20% fee for the unused portion of the line. Transactions on the JP Morgan Chase line of credit included a draw on August 3, 2011 for $1,000,000 to compliment operating cash needs. The line was repaid in full on August 25, 2011.

ALA Loan Refinancing – On July 2, 2012 ALA obtained a taxable term loan from JP Morgan Chase in the amount of $10.1 million. The loan was to support the acquisition of Neal-Schuman Publishers ($5.5 million), refinance term loans for the Choice/Washington Office properties ($4.2 million), a swap termination payment ($235,000) and other costs related to issuance ($20,000). Note that the rate and general terms of the loan were very favorable to the association.
**Inventory Update** – Inventory levels at 8-31-11 for ALA Editions and Products & Promotions were $841,000 and $581,000 respectively. The ALA Editions inventory reflects a $33,000 valuation for the 11th edition of *Guide to Reference* books. The largest item in the inventory for Products & Promotions is the “Read” products (51) valued at $88,000.

The excess and obsolete inventory reserves for ALA Editions and Products & Promotions were $256,000 and $138,000 respectively, which are appropriate. For the year there has been $0 (Editions) and $38,000 (Products & Promotions) of destruction of excess or obsolete inventory. Testing of reserves was performed as part of the year-end closing process, which resulted in a reduction in reserves of $30,000 in ALA Editions and no change in Graphics.

**Liquidity Ratios** – As a result of its long-term debt arrangements the Association is required to maintain certain financial ratios. The JP Morgan debt service ratio measured 3.0:1.0 compared to the required 1.1:1.0. Unrestricted cash and investments to funded debt ratio measured 3:3 to 1.0 compared to the required ratio of 1.1: to 1.0. In each case ALA’s position is 3X’s better than the started requirement indicating a strong position.

**Midwinter Meeting Preparation – ALA Finance Best Practices**

In preparation for the Midwinter Meeting in Seattle the committee discussed the schedule. An invitation will be sent to division and Roundtable leaders responsible for finances within their units to attend the ALA Finance Best Practices session. This session provides an educational opportunity for those members interested in how ALA’s finances work, as well as, providing those member leaders who are new to their positions the basis of financial responsibility. This session will be supplemented by the BARC webinars posted on the Treasurer’s page. Committee members will be available to answer questions and solicit input on future topics and webinars. ALA Connect will continue to be used to promote the webinars and field questions that may arise after viewing.

In terms of the Planning and Budget Assembly, it was suggested that the dues increase could be included in addition to or in place of one of the usual topics (Presidential Initiatives, FY12 Budget Update, FY13 Budget Update and Strategic Plan Update). For the joint BARC/Division Leaders meeting, C. Bohrer will solicit suggestions for agenda topics from the divisions through ALA Connect.

**Acknowledgement** *(Keith – Greg want Jim to write this section.)*

On behalf of the Finance and Audit Committee we want to thank ALA Finance Staff - Keith M. Fiels, Greg Calloway, Keith Brown, Elaine Klimek, Russ Swedowski, Sandy Lee, Joanne Pak, Jennifer Tam, Doris McKelvin, Abdullah Ali and Tihuana Spells - for all their help in preparing for and executing the meeting and activities of the 2012 ALA fall meeting.
Respectfully submitted,

James Neal – Treasurer
Sylvia Norton
Rob Banks
J. Linda Williams
Clara Bohrer – BARC Chair