

**American Library Association  
2014 Midwinter Meeting  
Budget Analysis and Review Committee  
and the Finance & Audit Committee  
Joint Report to the ALA Executive Board  
Tuesday, January 28, 2014  
Philadelphia, PA**

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 (F&A) Committee at this Midwinter Meeting. On Friday morning, January 24, BARC and the Finance and Audit Committee of the Executive Board held a joint meeting. BARC and F&A met separately on Saturday, January 25, and F&A met on Monday January 27. Below are summaries of the topics discussed:

**BARC /Finance & Audit Joint Meeting**

- FY 2013 August Final Executive Summary – BARC #7 (EBD #14.6)
- FY 2014 1<sup>st</sup> Quarter Budget Update – BARC #5.1 (EBD #14.4)
- Indirect Cost Study Assumptions – BARC Info #4 (EBD #4.8)
- Small Division Support – BARC #21 (EBD #4.11)
  - Action Item (2)
- Proposed Presidential Initiative Budget FY 2014 – BARC #19 (EBD #14.5)
  - Action Item

**BARC Meeting**

- ALA Finance Workshop
- Planning and Budget Assembly
- Division Leaders/BARC Joint Meeting
- Publishing Department Update

**Finance & Audit Meeting**

- Endowment Report – EBD #13.2
- FY 2013 Audit Report and Discussion – EBD #4.6
  - Action Item

- Auditor Evaluation – CBD #9.0
  - Action Item
- Controller’s Report – EBD #4.9
- New Business Development Update

## **BARC /Finance & Audit Joint Meeting**

### **FY 2013 August Final Executive Summary – BARC #7 (EBD #14.6)**

Greg Calloway summarized for the committees the final audited financial results for FY2013. Total ALA revenues were under budget by \$2.6 million (-5.0%) at \$50.0 million. Most of the shortfall was in the General Fund (\$2.9 million) related primarily to Publishing Services, interest income and dues income. Publishing Services results were less than budget by \$2.8 million due to lower sales in ALA Editions, Digital Reference and Graphics. Lower revenue from interest and dividends which was less than budget by \$318,791 as a result of low interest rates promoted by the Federal Reserve and a lower cash balance. Division revenues were more than budget by \$34,932 at \$14.5 million, while revenue from Grants & Awards was over budget by \$636,293 at \$6.9 million. The Round Tables were over budget by \$9,046 with revenue of \$410,750.

Total ALA expenses were under budget by approximately \$4.0 million (-7.4%) at \$49.9 million, primarily in the General Fund (\$2.7 million) and the Divisions (\$1.7 million). Most of the savings in the General Fund were related to Publishing Services (\$1.7 million). Publishing Services realized savings in ALA Editions/TechSource (\$2.3 million), Digital Reference (\$558,453) and Graphics (\$215,350) as production levels were adjusted to expected revenues. Note that the General Fund expenses include a one-time 2% Organizational Incentive to staff. The division expenses of \$13.6 million were under budget by \$1.7 million (-10.9%) at \$14.3 million.

As a result of the above activities, the General Fund revenues exceeded expenses by \$76,788. As ALA began the year with General Fund net assets of \$56,063, the FY 2013 net revenue of \$76,788 resulted in an increase in net asset reserves of \$132,851. However, as a result of the valuation analysis of the Neal-Schuman operation performed by Plante Moran, an impairment charge to Goodwill (\$500,000) and Intangible Assets (\$380,000) resulted in a reduction in the net asset balance to a negative (-\$747,149).

**FY 2014 1<sup>st</sup> Quarter Financial Report – BARC #5.1 (EBD #14.4)**

BARC and F&A reviewed the first quarter results for the three month period ending 11-30-13 and noted the following highlights:

Total ALA revenues for the period were \$9.5 million, which was \$1.7 million (-15.0%) less than the budget of \$11.1 million. There were four areas of concern – the General Fund (-\$732,320), the Divisions (-\$206,579), Long-Term Investments (-\$158,702) and Grants & Awards (-\$565,303). The shortfall in the General Fund was primarily in Publishing Services, which was less than budget by (-738,762) due to the results in ALA Editions (-\$650,221). Division revenues of \$3.6 million were less than the budget of \$3.9 million by (-\$205,579) but more than last year by \$1.1 million due to a division national conference (AASL) during the quarter. Grants & Awards revenues were \$822,674 and less than the budget of \$1.4 million by (-\$565,303). Revenue from the Long-Term Investments was \$101,786 and less than the budget of \$260,487 by (-\$158,702). Revenues from the Round Tables were \$60,011 and less than budget by (-\$6,013).

Total ALA expenses of \$10.4 million are (-\$1.7 million) less than budget and approximately the same as last year. Expenses were less than budget across all expense categories. The General Fund expenses were \$5.8 million and (-\$318,300) less than budget with Publishing Services accounting for the most significant savings in ALA Editions. The savings was offset by an increase in expenses in Digital Reference of \$113,950 at \$410,518. Expenses related to Grants & Awards of \$822,674 were down by \$565,303 due to timing issues. Long-Term Investments expenses of \$56,687 were also down by \$156,987.

As a result of the above, total ALA activities excess expenses over revenues resulted in a loss of (\$877,467). The loss is slightly less than the budgeted loss of (-\$885,879) by \$8,412. Meanwhile the General Fund excess expenses over revenues resulted in a loss of (-\$960,006), which is more than the budgeted loss of (-\$545,985) by \$414,021.

*Preliminary December* – Based on the preliminary December results the financial position of the Association has improved. Total ALA revenues were \$12.8 million while total ALA expenses were \$13.3 million. The result was a total ALA net revenue loss of (-\$490,225), which compares to a net revenue loss of (-\$960,006) in November. The General Fund revenues were \$6.3 million while expenses were \$7.6 million. The result was a General Fund loss of (-\$1.3 million). This result is more than the budgeted loss of (-\$1.3 million) by \$37,678. This is improved over the November loss of (-\$960,006) when compared to the budgeted loss of (-\$545,985) and variance of (-\$414,012).

## **Indirect Cost Study Assumptions – BARC Info #1**

Keith Brown explained he is calculating the indirect cost that will be used for FY 2016 budget planning. He will base the study on the FY 2013 numbers using the same assumptions that were used in the FY 2012 study. 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 FY 2016 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 be used in place of the PC method.

## **Finance & Audit/BARC Meeting and Related Action Items**

### **Proposed Presidential Initiatives Budget – BARC #19 (EBD #14.5)**

Courtney Young and JoAnne Kempf presented to the committees the proposed budget for the Presidential initiatives for FY 2014 - 2015. It was noted that there would be a different approach to the Presidential program by using funds to emphasize already proposed programs and enhancing others already underway throughout the Association. This Presidential initiative will work under the "Value of Membership" area: "Libraries Change Lives" umbrella. There will be three key action areas to cover in this Presidential year:

- Career Development Facilitator Program - \$17,500
- President's Program Speakers – Midwinter & Annual - \$15,000
- Support for Association Initiatives - \$52,500

Teaming with Lorelle Swader, Director of the Office for Human Resource Development and Recruitment (HRDR), the President-Elect will partner with ALA Chapters to provide training for a national cohort of 25 librarians designed to produce certified Career Development Facilitators (CDF). The funds allocated for the President's Program Speakers is designed to supplement and secure speakers who are unable to be sponsored by a publishers.

Finally, the remaining budget will not be earmarked for any specific projects but will be available for the specific purpose of capitalizing on projects that will likely spring up during the year. It was noted that when many good ideas come up, however, the funding is not available. Those projects that foster collaboration, cooperation and partnerships will be given priority.

The following action was taken:

**Action: F&A and BARC recommend to the Executive Board approval of President-Elect Courtney Young's Proposed Presidential Initiative Budget for FY 2014 – 2015.**

**FY 2015 Small Division Support – BARC #21 (EBD #4.11)**

Greg Calloway summarized for the committees the general formulation used to determine the small division subsidy for ASCLA and United for Libraries (UFL). Consistent with the general 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. As such, the following actions were taken:

**Action: F&A and BARC recommend and approve the recommended FY 2015 small division subsidy for ASCLA (\$41,577) and United for Libraries (\$56,583).**

**Action: F&A and BARC reaffirm the decision to extend the use of the small division subsidy through FY 2016 for ASCLA and United for Libraries.**

## **BARC Meeting**

### **Publishing Department Issues**

The committee was joined by Don Chatham, AED, Publishing and Ernie DiMattia, Chair of the Publishing Committee, to discuss the publishing operation. E . DiMattia noted that the Publishing Committee is in the process of developing a business plan including environmental scans, SWAT analysis etc. with the goal of positioning the publishing operation to be more competitive and thrive financially. The Publishing department staff has been working in conjunction with the Publishing Committee by holding a business plan retreat. It is currently the plan to provide Council with an overview of their business plan at the Annual Conference in Las Vegas.

As a result of the fast changing environment that Publishing is currently facing which management understands there is a need to be proactive and review/develop new business models for generating revenue. One of the issues highlighted was the importance of lack of research and development funds. Despite this hurdle, the publishing operation must continue to move forward as quickly as possible.

### **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 was to provide an environment for feedback and questions regarding the financial inter-workings of ALA.

The one-hour session provided an opportunity for participants to ask questions specific to their own situations and obtain immediate feedback from 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, dealing with uncertainty, and budgeting for conferences, pre-conferences and major programs.

### **Planning and Budget Assembly**

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

- Presidential Initiatives for FY 2015
- FY 2013 Year –End Results
- FY 2014 Budget Update
- FY 2015 Budget Assumptions
- Programmatic Priorities – New Strategic Plan

Led by President-Elect Courtney Young, the session provided the participants with an opportunity to hear the President-Elect’s initiatives for FY 2015 that will build on already existing programs and efforts. It was noted that the beginnings of a new strategic plan are underway. Input from the PBA body was strongly encouraged, based on the initial efforts by the Executive Board.

In closing there were two items that will likely have an impact on the future structure of the session: 1). The desire by the participants to increase the time of the session back to 90 minutes and 2). The desire to reduce the number of reports and set aside time to discuss issues related to future planning.

### **Division Leaders/BARC Joint Meeting**

Per ALA Operating Agreement, Division Leaders and BARC met to discuss items of common interest and concern. There were approximately 55 attendees who participated in a lively discussion. Questions were raised about the importance of staff compensation, indirect costs and how they are determined, and the complexity of budgeting accurately.

A fruitful discussion began regarding how Divisions can cooperate with one another in revenue generation and about the importance of working with Publishing as online courses are developed. The shortened timeframe of 30 minutes proved to be inadequate; the group recommends returning to a one-hour meeting in Annual Conference and recommends that agenda issues be submitted before the meeting.

## **Finance & Audit Committee Meeting**

### **New Business Development Update**

Keith Michael Fiels and Mary Mackay updated the committee on ALA's new business development activities. The primary topics centered on two areas;

- Online CE (ALA Online University)
- International Business Development

ALA ELearning Commons has some preliminary promotional materials and is expected to roll out in the fall of 2014. E-learning Commons will be designed to act as an avenue to promote e-learning at ALA i.e. one stop shopping.

On the international side it was noted that progress is being made with the representatives of the Sharjah International Book Fair (SIBF) to provide CE training. The SIBF is a ten-day event held annually in the United Arab Emirates. Staff is in the process of developing a range of partnership arrangements that will hopefully lead to a deepening relationship.

### **Endowment Trustees Report - EBD #13.2 and CBD #10**

Rod Hersberger, Senior Trustee, joined the committee to report on the performance of the ALA Endowment Fund. He reported that the Endowment, as of December 31, 2013 had a value of \$37.3 million, which is \$4.7 million more than last year at \$32.6 million. This resulted in a return of 16.7% compared to its benchmark of 17.9%. Clearly 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, as well as access to information and industry expertise. As such, expansion of the approved number of Trustees (7) will be forthcoming. It was also noted that the Trustees are continuing a practice

started last year by holding an “Investment Outlook” panel discussion at their February meeting in New York where industry experts beyond ALA’s investment advisor, Merrill Lynch, will provide their perspective on the markets and possible outcomes for the Endowment.

#### **FY 2013 Audit Report: Discussion/Acceptance – EBD #4.6**

John Fedus, Partner and Jeffrey Delheimer, Partner of Muller & Co., LLP presented the audit results related to the fiscal year 2013 audit results. ALA received an unqualified/unmodified opinion – the highest possible rating - and that the financial statements fairly represent 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.

As a result, the following action was taken:

**Action Item: F&A recommends to the Executive Board acceptance of the FY 2013 audit report (EBD #4.6) as presented by Mueller & Co., LLP.**

After a discussion on the evaluation of Mueller & Co., LLP, the following action was taken:

**Action Item: F&A recommends to the Executive Board to engage the services of Mueller & Co. LLP for the FY 2014 ALA audits.**

#### **Controller’s Report – EBD #4.9**

Joanne Lee 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, 2013 amounted to \$17.3 million as compared to \$16.0 million a year ago. The increase is due to higher deferred revenue. Year-to-date interest income is \$89,715, which is \$67,399 less than last year.

The Neuberger Berman bond fund investment balance is \$13.2 million at November 30, 2013 as compared to \$13.6 million the same time last year. This investment has produced over \$9.8 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 2013 with a realized/unrealized gain of \$86,770. At November 30, 2013 the cumulative (computed since December, 1991) net realized/unrealized gain is \$101,312.

*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. ALA’s FY 2013 ratios of 3.4 and 3.7 respectively and are well within the covenants received



*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.

*Deferred Revenue* – As of the end of the first quarter 11-30-13 deferred revenue was \$15.2 million, which is up from \$14.7 million last year. The most significant increases were in Grants & Awards (\$748,188) and Conferences - Division (\$562,914) with an offsetting decrease in Membership Dues (-\$531,962).

*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 first scheduled payment (\$647,500) was made July 2, 2013. Beginning July 2013 through June 2014, approximately \$50,000 is being set aside to meet the next scheduled payment.

*Intangible Assets and Goodwill*- An analysis of Goodwill and Intangible assets was performed by Plante Moran at management’s request. The result was a write down of \$500,000 in Goodwill and \$380,000 in Intangible. Each is now valued at \$2.7 million and \$1.8 million respectively.

### **Acknowledgement**

Both BARC and the Finance & Audit committees would like to extend our sincere appreciation to the ALA finance staff - Greg Calloway, Keith Brown, Joanne Lee and Elaine Klimek 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 Michael Fiels and Mary Ghikas for their insightful and helpful input and participation.

Respectfully submitted:

#### **BARC**

Patricia Wand, Chair  
Janice Welburn  
Winston Tabb  
James Neal  
John Moorman  
Jo Ann Pinder  
Ann Martin  
Christine Hage  
Mario Gonzalez, Treasurer

#### **F&A**

Mario Gonzalez, Treasurer  
Rob Banks  
James Neal  
Michael Porter  
Patricia Wand, BARC Chair