

**American Library Association
Finance & Audit Committee
2014 Midwinter Meeting
Philadelphia, PA**

DRAFT Minutes

Friday, January 24

BARC and Finance & Audit Committee Members Present:

Patricia A. Wand, Chair, Christine Lind Hage, Ann M. Martin, John A. Moorman, James G. Neal, Jo Ann Pinder, Winston Tabb, Janice D. Welburn, Mario Gonzalez, Treasurer, Rob Banks, Michael Porter

Staff Present:

Keith Michael Fiels, Mary Ghikas, Gregory Calloway, Keith Brown, Elaine Klimek

Others:

Courtney Young, JoAnne Kempf

On this morning, January 24, BARC and the Finance & Audit Committee of the Executive Board held a joint meeting.

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

C. Young and J. Kempf were present to present to the committees the proposed budget for the Presidential Initiatives of C. Young for FY 2014 - 2015. It was noted that there would be a different approach to the Presidential program by using funds to emphasize currently funded programs and enhancing others already underway throughout the Association. Her budget is allocated at \$85,000. The Presidential Initiatives will operate tih the “Value of Membership” goal area: “Libraries Change Lives” umbrella. There will be three key action areas during the 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 publisher.

Finally, the remaining budget will not be earmarked for any specific projects but will be available for the specific purpose of capitalizing on new projects during the fiscal 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 committees applauded her for collaboration, cooperation, engagement and outreach with other ALA units.

The following action was taken:

**Moved by C. Hage, second, R. Banks
F&A and BARC recommend to the Executive Board approval of President-Elect Courtney Young's Proposed Presidential Initiative Budget for FY 2014 – 2015, totaling \$85,000.
Motion carried.**

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

G. Calloway summarized final audited financial results for FY 2013. 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 salary expense includes 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 1st 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 expenses exceeded revenues resulting 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.

December – 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.

G. Calloway noted that Don Chatham, AED, Publishing, will be present at the BARC meeting tomorrow to discuss the Publishing business plan.

G. Calloway also noted that the Annual Conference Las Vegas conference budget has been reduced on the expense and revenues sides.

K. Fiels stated that senior management is already looking at ways to avoid a shortfall. He will have some information for the Executive Board and BARC by the beginning of March. He went on to say that some expenditures can be deferred or delayed.

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

G. Calloway summarized 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. After some discussion, the following actions were taken:

Moved by J. Moorman, second, J. Neal

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

Motion carried.

Moved by J. Neal, second, J. Welburn

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.

Motion carried.

At this time the meeting was adjourned so that BARC members could prepare for the ALA Finance Best Practices and PBA.

Saturday, January 25

Present: M. Gonzalez, P. Wand, R. Banks, J. Neal, M. Porter

Staff: K. Fiels, G. Calloway, K. Brown, E. Klimek

Others: Rod Hersberger, Mary Mackay

F&A Fall Meeting Minutes – EBD #4.7

Moved by J. Neal, second, P. Wand

Move to approve the minutes as written.

Motion carried.

New Business Development Update

K. Fiels and M. Mackay, ALA Marketing Manager, 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

M. Mackay noted that they are pleased with the progress and are moving along. They are working on a series of courses by San Jose College/University in the fall and spring for high level hot topics and trends. ALA E-Learning 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 (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), who are present at this conference, to provide CE training and train librarians there to promote literacy and reading in libraries. The SIBF is a ten-day event held annually in the United Arab Emirates. ALA representatives will again go there this fall with a short version of this program. In the proposal, Sharjah would pay for air, hotel, cost of speakers, etc. 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

R. Hersberger, Senior Trustee, joined the committee to highlight the 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. He went on to state that 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.

Spring Meeting Dates

F&A will meet on April 10 and the Executive Board will meet April 11 – 13. BARC will meet April 15 – 16.

Monday, January 27

Present: M. Gonzalez, R. Banks, J. Neal, M. Porter, P. Wand

Staff: K. Fiels, G. Calloway, J. Lee, K. Brown, E. Klimek

Others: John Fedus and Jeff Delheimer, Mueller & Co., LLP

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. 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.

J. Fedus went on to state that the balance sheet is very similar to last year but that two new lines had been added for intangibles and goodwill regarding the acquisition of Neal-Schuman. A third-party specialist was hired to analyze intangible assets for impairment and goodwill. Mueller then had their own specialist review the third-party results.

J. Fedus and J. Delheimer thanked ALA staff for their diligent work and cooperation during the audit process.

K. Fiels and M. Gonzalez thanked the Mueller partners for an excellent and concise presentation. G. Calloway acknowledged the hard work of the Mueller team (which was the same team as last year), their analytical skills and professionalism. He also thanked Joanne Lee, Jennifer Tam and

Denise Moritz, Abdullah Ali and the entire Finance and Accounting team for successfully completing this major undertaking.

M. Gonzalez requested that this acknowledgement be part of the official minutes.

The following action was taken:

Moved by P. Wand, second, R. Banks

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

Motion carried.

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

Moved by P. Wand, second, J. Neal

F&A recommends to the Executive Board that ALA engage the services of Mueller & Co. LLP to conduct the FY 2014 ALA audits.

Motion carried.

Controller's Report – EBD #4.9

J. Lee was present to highlight the Controller's report.

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 was \$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, 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 per month to meet the next scheduled payment.

G. Calloway pointed out that if ALA cannot come up with the payments, ALA can draw from the short-term investments. It is a possibility to renegotiate with JP Morgan Chase in 2019 for the remaining balance.

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 Intangibles. Each is now valued at \$2.7 million and \$1.8 million, respectively.

The committee thanked J. Lee for her informative report.

With no further business to conduct, the meeting was adjourned.