

**American Library Association
Finance and Audit Committee
Report to the Executive Board
2014 Annual Conference**

Monday, June 30, 2014

Reporting on behalf of Mario Gonzalez, ALA Treasurer, Pat Wand, BARC Chair, offers to the Executive Board this update on the activities of the Finance and Audit Committee (F&A). The committee met on Saturday, June 28th with the following topics being reviewed and discussed:

- FY 2014 Budget Update – EBD #14.11
- BARC Report – EBD #3.3
Action Item (2)
- FY 2015 Preliminary Budget Overview – EBD #14.12
Action Item
- United for Libraries Extension – EBD #10.6
- Endowment Trustee’s Report – EBD #13.4
- Controller’s Report – EBD #4.18

FY 2014 Budget Update and Projections – EBD #14.11

Joanne Lee – Controller, reviewed for the committee the year to date results for the eight month ending April 30, 2014. The following represent the highlights of those discussions:

Total ALA - For the period total ALA revenue (all funds) was \$31.2 million, which is less than the budget of \$32.4 million by \$1.3 million (-3.9%) and compares to \$29.4 million last year. The most significant shortfalls were realized in the General Fund (\$1.1 million) and Grants & Awards (\$247,739), which were offset by revenue gains in the Divisions (\$168,299). Total ALA expenses were \$30.0 million, which is less than the budget of \$33.0 million by \$3.0 million (-9.1%) and compares to \$30.9 million last year. The most significant savings were realized in the General Fund (\$1.3 million) and the Divisions (\$1.0 million). The result was net revenue with revenues over expenses of \$1.1 million. This is better than the budgeted loss of (\$606,451) by \$1.7 million.

ALA’s financial position reflects the following:

Total Assets of \$80.4 million which is \$1.7 million (2.2%) higher than this time last year. The change is due primarily to higher cash (\$2.5 million) related to the two division conferences this

year and gains in the Long-Term investments of \$2.1 million. These results were offset by a decline in prepaids (\$2.0 million) related to the write down of goodwill / intangible assets and amortization of intangible assets.

Total Liabilities were \$45.6 million which is \$1.6 million (-3.4%) less than this time last year. The reduction was due primarily to lower long-term debt (\$985,364) as a result of a scheduled loan payment, lower deferred conference revenue (\$753,302) and lower accounts payable (\$581,413). The cumulative result is an increase in the organizations *Net Asset Balance* of \$3.3 million (10.6%) to \$34.8 million.

General Fund - General Fund revenues for the period were \$15.7 million, which is less than the budget of \$16.9 million by \$1.1 million (-6.8%). The revenue shortfall was primarily in Publishing Services (\$870,788), Communications (\$117,613), Member Programs & Services (\$96,042) and Interest Income (\$92,854). Revenue in Publishing Services was lower than budget due to fewer sales in ALA Editions (\$801,297) and Graphics (\$164,170), as well as, lower royalty revenue in Booklist (\$108,996). Offsetting the shortfall was strong Advertising throughout publishing with a greater than budget gain of \$275,052. Communications revenue was less than budget as a result of lower Dues (\$198,175) and specifically personal member Dues (\$123,954). Revenue from Member Programs & Services was less than budget due to lower than expected revenue from the Midwinter meeting (\$146,682). Finally, Interest Income was less than budget due to the low interest rate environment.

General Fund expenses for the period were \$16.6 million, which is less than the budget of \$17.8 million by \$1.3 million (-7.1%). YTD savings were realized in Publishing Services (\$751,418) and Member Programs & Services (\$356,922). Publishing Services was lower as publishing related adjustments were made to during the year to meet expected production levels in ALA Editions (\$546,865) and Graphics (\$199,402) sales. Member Programs & Services expenses were lower than budget primarily in ITTS (\$186,769) due to lower depreciation related to delayed capital purchases and utilizing fewer outside Professional Services, as well as the Diversity Office (\$151,285) due to lower salary expenses.

The net result was excess expenses over revenue of (\$844,415) which is better than the budgeted loss of (\$975,353) by \$130,938 (13.4%).

Divisions - Division revenue for the period was \$11.5 million, which is more than the budget of \$11.4 million by \$168,299 (1.5%). Most of the gain was in Meetings & Conference activity (\$271,710) related to the successful national conference by PLA (\$363,711) and the sale of Newberry/Caldecott seals and permissions related to the use of digital seal images in ALSC (\$324,117). These results were offset by a reduction in revenue in ACRL (\$241,288) in a number of areas – Donations (\$66,038), Dues (\$65,732), Book Sales (\$69,827) and Online Webinars &

Webcasts (\$47,123). It should be noted that PLA results were impacted by a significant shortfall in donations (\$149,577) when compared to budget.

Division expenses were \$10.2 million, which is less than the budget of \$11.2 million by \$1.0 million (-9.2%). Most of the savings were realized in PLA (\$304,260), ACRL (\$295,513), AASL (\$190,535) and Choice (\$91,486). The areas of savings were throughout the operations in Payroll (\$551,630), Travel (\$196,323), Publishing (\$118,483) and General Operating (\$226,264).

The net result was excess revenues over expenses of \$1.4 million, which is more than the budget of \$164,006 by \$1.2 million (731.9%).

Round Tables – Round Table revenue for the period was less than the budget of \$234,702 by \$15,048 (-6.3%). The bulk of the variance was in LRRT (\$14,811) and CLENERT (\$11,675). Revenue in LRRT was less than budget due to lower registration fees (\$10,154) related to conference activities and Donations (\$5,490), while CLENERT revenue was also lower in registration fees (\$10,002) related to conference activities. These shortfalls were slightly offset by a gain in EMIERT (\$15,690) due to strong CSK Seal sales (\$32,500). Round Table expenses for the period were less than the budget of \$182,959 by \$140,170 (-76.6%). Savings were realized in all Round Tables but mainly in EMIERT (\$32,188) related to conference activities (\$21,328). The net result was excess revenues over expenses of \$176,866, which is more than the budget of \$51,743 by \$125,123 (241.8%).

Grants & Awards – Revenue from Grants & Awards for the period was \$3.1 million, which is less than the budget of \$3.3 million by 247,739 (-7.5%). This is due to the timing related to receiving certain grants. Expenses were less than budget by the same amount.

Long-Term Investments (LTI) – LTI revenue was \$665,140 and less than the budget of \$694,566 by \$29,426 (-4.2%) as a result of the low interest rate environment. Note that this revenue is \$215,031 more than at this time in FY13 due to a higher investment balance. LTI expenses for the period were \$238,094 which is \$303,319 (-56.0%) less the budget of \$541,413 and is directly related to the timing on the distribution of awards that are yet to be made.

BARC Report – EBD #3.2

P. Wand reported to the committee on the major activities of the committee at this Annual Conference. The primary items reported on included the following:

United for Libraries Group Membership Pilot Program BARC #15 (EBD #10.6) - United for Libraries presented a good case for the need to extend the group membership pilot program for one additional year in view of the unique nature of UFL and the value placed on the work of former FOLUSA members. The committee discussed the recommendation from BARC and took the following action:

Action: F&A concurs with BARC and recommends to the Executive Board approval of the extension request by United for Libraries

Small/Very Small Libraries Promotion BARC #14 (EBD #10.7) - The Membership Services Director presented a proposal to approve a special limited time “come-back” promotion targeted at lapsed small and very small libraries (organizational members) at a 50% discounted re-join rate. As a result of the success in previous years with similar programs and the continuing need for ALA to strengthen its relationship with these libraries, BARC felt that it was an effort worth pursuing. The following action was taken:

Action: BARC recommends to the Executive Board approval in principle of a special FY 2015 promotion to encourage small and very small libraries with lapsed organizational membership members to rejoin ALA.

Publishing Committee Report Update - Anders Dahlgren of the Publishing committee and Don Chatham AED of Publishing updated the committee on the Publishing strategic plan. The committee expressed their sadness with the news of the sudden passing of Ernie DiMattia, who served as the Chair of the Publishing committee and played an integral role in the development of the current publishing strategic plan. While the report to Council will focus on the goals and strategies of the plan the committee was updated on the next iteration of the plan, which will focus on an “envisioned” future based on the PLA business plan model. This next level of development will reveal a more granular look at the execution of each units plan.

UFL/ASCLA Small Division Subsidy Discussion - The committee met with representatives from UFL and ASCLA to discuss the small division subsidy, the Operating Agreement and the planned elimination of the subsidy at the end of FY16. A thorough discussion included acknowledging that the Operating Agreement complicates ending the subsidy. The issue will be reviewed more closely and discussed at the fall meeting. Each division involved stated that they continue to make every effort to grow revenues so they will not need to depend on the subsidy.

Approval of the FY 2015 Budget - The committee reviewed the changes to the proposed FY 2015 budget since the spring meeting and forwarded to F&A for approval by the Executive Board their recommendation to approve the FY 2015 Budgetary Ceiling of \$64,078,221.

FY15 Preliminary Budget – EBD #14.12

D. Mortiz and K. Fiels met with the committee and provided a broad overview of final budget and changes since the spring meeting that will be presented to Council for final approval. The most significant changes i.e. additional expenses (-) and expense savings (+), included the following:

- A full Small Division subsidy (0)
- ITTS depreciation savings (+)
- Center for the Future of Libraries Funding (-)
- Overhead Adjustment (-)

- IUT Adjustments (+)

The impact of these changes resulted in a budgeted net revenue for FY15 of \$129,021 and a budgetary ceiling of \$64,078,221. This is a decrease in the budgetary ceiling of \$1.5 million from the spring meeting total of \$65,550,606 (-2.3%).

As a result the following action was taken:

Action: F&A concurs with BARC and recommends to the Executive Board that the FY 2015 Budget proposal BARC #20.2 (EBD #14.12) be approved.

Endowment Trustee's Report – EBD #13.4

Rod Hersberger reported to the committee on the status and performance of the Endowment fund through the two-month period ending 5-31-14. He noted that results through the first portion of the year have been uneven with the most significant gains in January and May. For the reported period the portfolio was valued at \$38.6 million and returned a gain of 3.1%, which compares relatively well to the market as a whole. The major contributor to these results was the performance of the fixed income portion of the portfolio. He noted that this result came about despite the fact that the Trustee's have been underweighting fixed income securities over the last year. Based on all available information the Trustee's and their investment advisor (Merrill Lynch) believe that this is still the best position for the longer term benefit of the portfolio.

For his presentation during the Membership Information session he will be focusing on the "Mission, Role, Purpose and Uses" of the endowment. His objective is to give the membership a better understand of all that is required and asked of the Endowment in terms of funds it needs to make available for Association use.

Finally, he noted that funds from the Margaret Edwards Trust were close to being finalized with a full transfer to ALA and the Endowment Fund.

Margaret Alexander Edwards was a long-time supporter of teen and young adult reading via the Enoch Pratt Free Library of Baltimore. The Trust was established in 1989 through a bequest from Margaret Alexander Edwards. The purpose of the Trust is to promote the free reading of teenagers and young adults. YALSA has been a long time booster and recipient of funds from the Trust in support of the Trust's purpose. The original Trustees felt that YALSA would be a good steward of the Trust and use funds for its intended purpose going forward. As such, YALSA will manage the activities of the Trust. The ALA endowment expects to receive to date \$813,000 with an expected total of approximately \$900,000+

Controller's Report – EBD #4.18

Joanne Lee – Controller highlighted the report for the committee for YTD results as of April 30, 2014.

Total ALA Financial Position - On a year-to-year basis ALA's financial position (Net Assets) improved by \$3.3 million (10.6%) to \$34.8 million. The most significant influence was the impact of improved long-term investment results, as well as greater cash on hand due to two division national conferences.

Cash Management and Bond Fund - Total cash and short-term investments amounted to \$19.4 million as compared to \$16.9 million a year ago. The increase was due to the two national division conferences, improved RDA subscription revenue and higher deferred grant revenue.

The Neuberger Berman bond fund investment balance is \$13.1 million at February 28, 2014. This investment has produced over \$9.9 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 \$110,494. The cumulative (computed since December, 1991) net realized/unrealized gain is \$125,036.

Line of Credit - The Association maintains a line of credit in the amount of \$2.5 million with JP Morgan Chase. There are currently no outstanding draws on the line.

Deferred Revenue – As of April 30, 2014 deferred revenue totaled \$15.8 million, which compares to last year at this time at \$16.1 million, a difference of \$250,925 (-1.6%) due primarily to the impact of only one division conference during the year and lower major conference (AC/MW) revenue (\$753,301). The reduction was offset by gain in Grants & Awards (\$612,399). Also note that dues revenue related to membership is down by \$102,987 (2.2%) to \$4.6 million.

Long-Term Debt – ALA has an outstanding loan with JP Morgan Chase in the amount of \$9.5 million. The second scheduled payment of \$647,500 will be made on July 1, 2014 with the next scheduled payment on July 1, 2015. 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.

Inventory and Credit and Collections – Information related to this topic was covered and each area 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 April 30, 2014 the ratios are 3.28 and 3.99 respectively compared to the requirement of 1.1. Projecting out to the end of the fiscal year looks encouraging for both ratios.

Grant Indirect Cost Rate – On February 28, 2014 management filed with the U.S. Department of Interior, National Business Center its indirect cost agreement with a proposed rate of 21.0%, which will be effective from 9/1/13 – 8/31/15. Negotiations are ongoing.

Acknowledgements

We continue to be well served by Keith Michael Fiels, Joanne Lee, Keith Brown, Denise Moritz and Elaine Klimek. They have been very dependable, innovative, reliable and thorough in assisting in our financial oversight responsibilities.

Respectfully submitted:

Patricia Wand, BARC Chair, on behalf of

Mario Gonzalez, Chair (Absent)

Rob Banks

Michael Porter (Absent)

Jim Neal

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