

Understanding AALL's Finances

by Janis L. Johnston and Anne Matthewman

"SHOW ME THE MONEY!" A great movie line and the mantra of AALL treasurers. (As in, "Show me the money," and then we can plan the event!) Understanding the basics of AALL finances isn't a skill that only treasurers need to know. All of us have a stake in the financial health of our professional Association; to some extent your professional future is tied to AALL's financial vitality. We all need a healthy professional association to represent our interests and provide the continuing education and other activities we value. If AALL flourishes, so too will law librarianship.

As professionals we all have to understand our library's finances: where the money comes from; how to prepare and manage the budget; how to stretch those precious dollars. But many of us, even those who are longtime members of AALL, know very little about how our professional association manages its financial resources and plans for our future.

To help us all be better informed, this Members' Briefing focuses on the Association's finances. AALL financial information is readily available to all members through reports in *AALL Spectrum*, but often the information is expressed in accounting terms: "excess revenues over expenses" (a good thing) or "excess expenses over revenues" (a bad thing). In this briefing, you will find, we hope, a clear explanation of our financial structure, the financial issues facing the Association and possible directions to continue our current fiscal health.

The easiest way to understand the financial resources of AALL is to focus on the three main funds the Association maintains. These funds bear close resemblance to the way in which most of us structure our personal finances: long-term investments for retirement; short-term savings for emergencies and special events; and a checking account for paying the bills. The AALL's Permanent

Investment Fund, the Current Reserve Fund and the General Fund perform very similar functions for the Association.

The PIF is a Long-Term Savings Account

The Permanent Investment Fund is the Association's long-term savings account. Currently valued at approximately \$1.8 million, this fund is set aside to provide long-term stability for the Association and to generate investment income that can be used for special purposes. The PIF, managed for AALL by Chevy Chase Trust, is invested in stocks and bonds. In the past several years, AALL's investments have done very well in the stock market, allowing the Association to increase the size of the PIF while spending a portion of the annual earnings.

By policy, the PIF must grow to a specific targeted level each year. To do that, a portion of the annual earnings must be reinvested, but any earnings beyond the amount required for reinvestment are available for other purposes. Excess earnings are first added to the Current Reserve Fund to maintain AALL's emergency account at a sufficient level. (More about that below.)

Any remaining excess earnings may be allocated to special projects by a vote of the Executive Board. In the past several years, the excess earnings from the PIF have funded many special activities AALL wouldn't have been able to fund otherwise — such as the development of the *Universal Citation Guide*, the *Biennial Salary Surveys* and the *Government Affairs Fund*. But what happens when the market takes a nose dive as it did last year? There were no earnings to reinvest and no excess earnings to fund special projects. Without PIF earnings, AALL is hard-pressed to continue important initiatives or to undertake any new activities.

With \$1.8 million invested, why doesn't AALL just spend some of it when the need arises? The answer is simple: The Association isn't saving just to save. The PIF exists to ensure the continuing operation of AALL during severe financial

If there's one thing that grabs the attention of the AALL membership, it's a discussion of any aspect of the Association's finances. Whether the specific issue is dues, additional services, speakers' fees, Annual Meeting registration costs or any other money topic, members pay heed.

This is good! We should all take notice of AALL's financial activities. This has never been more important than now because the Association is at a watershed in its fiscal life. Our membership, and therefore our primary source of income — dues — remains fairly steady. Yet we never lack for ways to spend money or for suggestions for additional, important projects. We need to set priorities for the use of our limited resources. We also need to look to other income sources. Money matters are high on AALL's agenda. As a result, we'll be talking about financial matters a lot more than usual this year and for the next couple of years.

AALL is a sophisticated organization with a correspondingly sophisticated fiscal structure. To prepare for the discussion, the Executive Board's Finance and Budget Committee will engage in a line-by-line review of the budget in October to make sure that we know, in detail, where our dollars are going and to decide if they're being spent properly. We will review our budget, our accounts and our policies. And we'll seek member input.

Members must be informed on the ins and outs of AALL's financial matters to best advise the Executive Board. Therefore, to make sure that we're all up-to-speed on this topic, I've asked two of our most qualified members to prepare this Members' Briefing on AALL finances. Janis Johnston, our immediate past treasurer, and Anne Matthewman, our current treasurer, know more about AALL's money situation than just about anyone else around. Anne hasn't skipped a beat in maintaining Janis' practices of careful control and wise stewardship of Association funds. We are lucky to have had a succession of treasurers of their caliber.

I think you'll find their information understandable and useful. Please read it carefully. The Executive Board counts on member participation in financial decision-making. After all, we'll be deciding our collective futures.

Barbara Bintliff
AALL President 2001-2002

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times and to generate extra income to pursue unique opportunities. To date, the Executive Board hasn't placed a cap on the size of the PIF, but it has set a goal of increasing the fund to reach about \$3 million, or roughly the equivalent of one year's operating expenses.

The Current Reserve Fund Is AALL's Savings Account

No matter how hard one gazes into the crystal ball, the unexpected will happen, particularly with financial plans! Everyone has been caught by surprises: the termite attack that insurance doesn't cover; the toothache that turns into a root canal; a spouse is going to Paris on business and

you want to go, too; you're downsized right out the door! Well, credit cards are an option, but most of us would rather follow a more prudent course by building a savings account for emergencies and that dream vacation. AALL can't rely on credit cards, so it has a savings account called the Current Reserve Fund.

Each year, the Finance and Budget Committee of the Executive Board examines the coming year and estimates the potential financial risks AALL might encounter. Will expected revenues hold steady? Might expenses go up? AALL translates that risk factor into a dollar figure and sets aside money to cover any shortfalls in revenues or excess expenses. Many years AALL doesn't need to tap this fund and so far, when it has had a budget shortfall, it's been for just a nominal

amount. However, it sure is nice to know it is there! Having a savings account allows the treasurer to sleep at night and gives the Executive Board permission to take a few risks when needed.

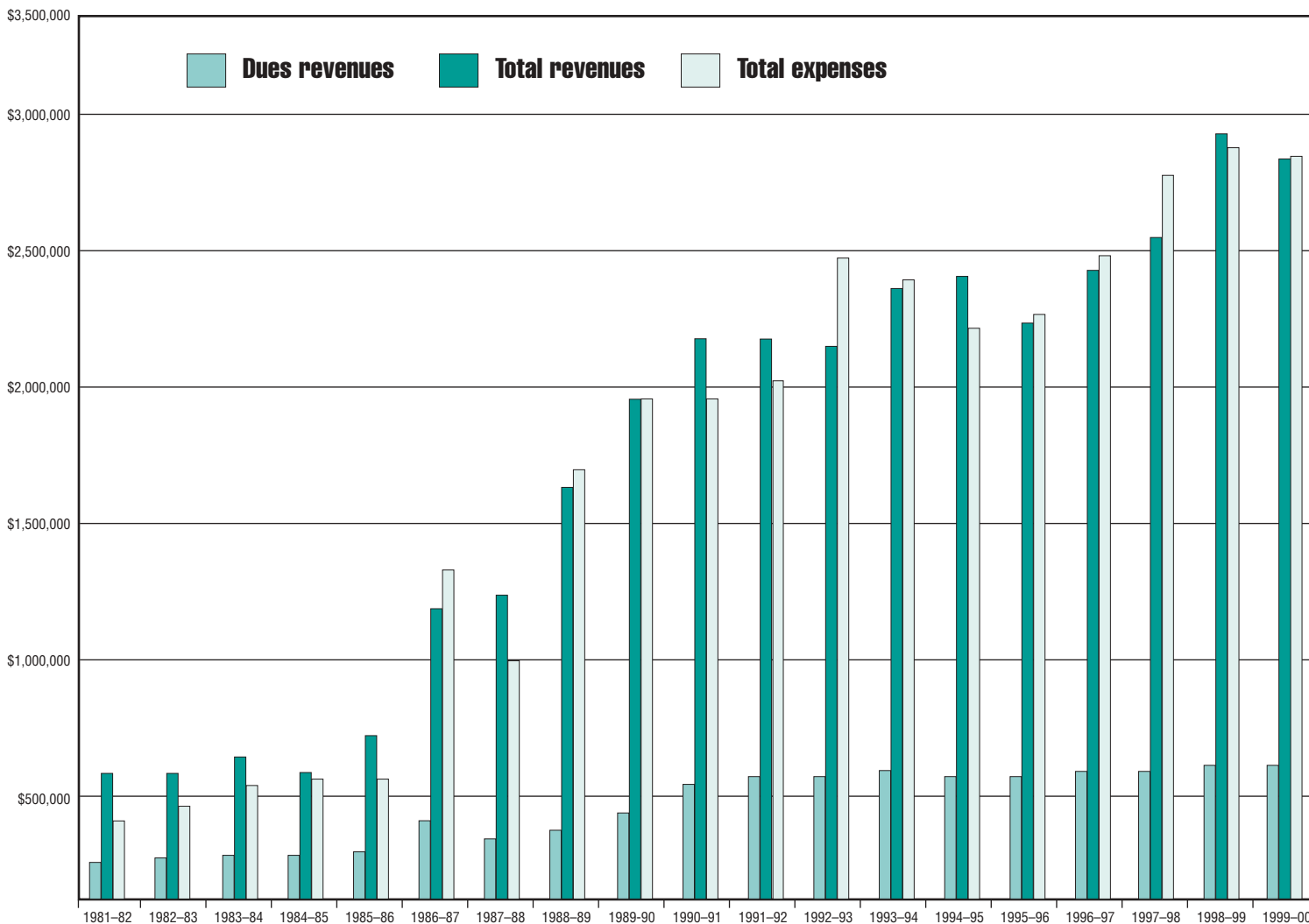
The General Fund Is AALL's Checking Account

Now this fund is really, really simple! The General Fund is AALL's checking account. All AALL's regular income — dues, registrations, royalties, etc. — is deposited in this account and all bills are paid from it — just like anyone's checkbook.

The Operating Budget Is the Yearly Spending Plan

Those are AALL's major funds (it does have some other invested, donor-restricted funds for scholarships, research, continuing education), but how does the

Dues as a % of Revenues & Expenses



Association decide what to spend? Each year the Executive Board approves an operating budget for the coming fiscal year. The budget includes all the income we expect to receive during the year and all of our anticipated expenses. Everything the Association does is included in the proposed budget.

By policy, the operating budget must balance, and it usually does or comes very close to it. But if at the end of the fiscal year AALL finds it has had more expenses than income, it can use emergency money from the Current Reserve Fund to balance the budget. If the converse proves true, any extra money left at the end of the year is deposited into the Current Reserve Fund. AALL's financial structure provides lots of checks and balances that ensure that the Association's finances are in good shape!

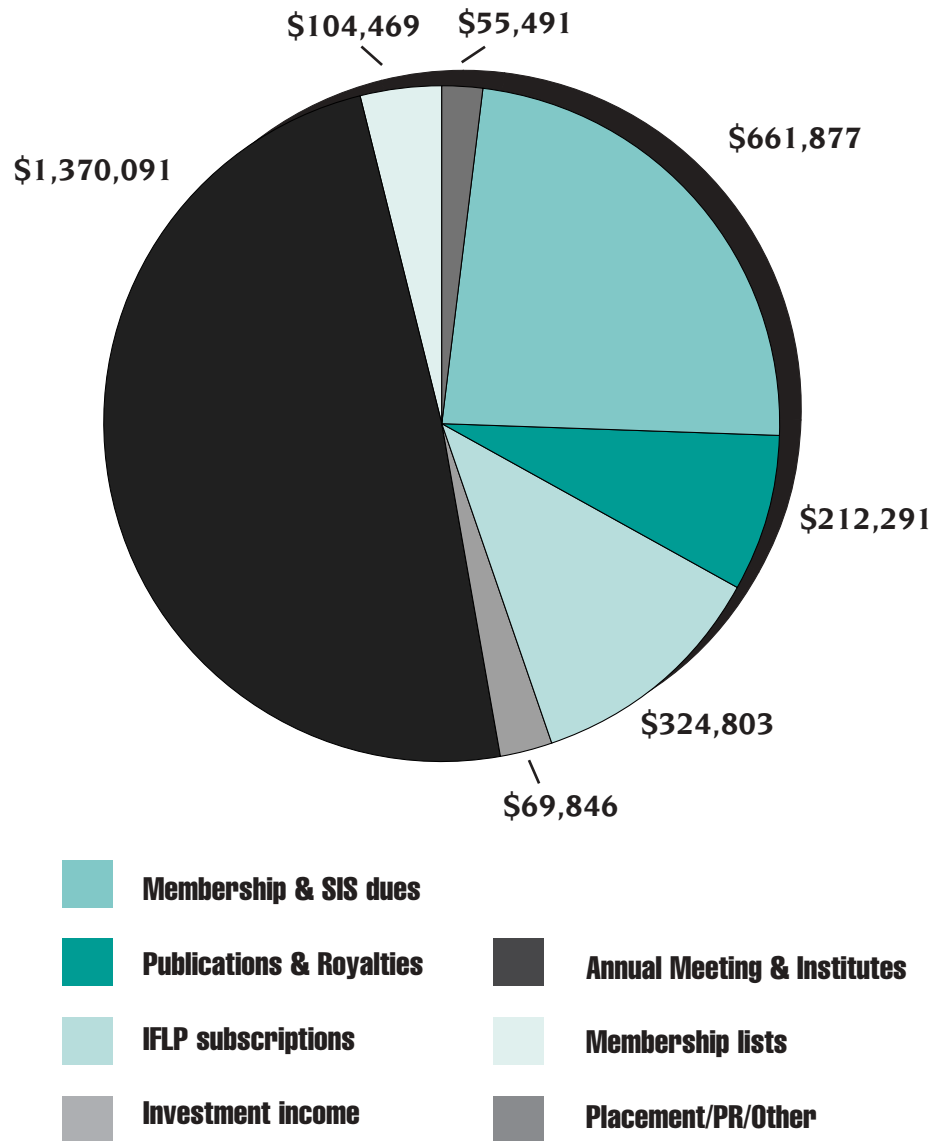
The Big Issue: The Approaching Financial Impasse

While AALL has a structure that will prevent a financial calamity, AALL is quickly approaching a financial impasse. As the current Strategic Plan was being developed, it became obvious that without additional income, it would be difficult for the Association to fund the many new ideas suggested by members and included in the plan. AALL's current funding sources provide adequate income to support its core member services, but there are many new initiatives and expanded services members need and would like to have.

Now, hold on! This isn't a set-up just to talk about a dues increase. That is something that as an Association we must consider, but the need for increased revenue goes beyond what AALL could reasonably expect from a dues increase. AALL needs to look at other options as well.

Some new short-term activities can be funded from excess earnings generated by the Permanent Investment Fund, providing the stock market has a good year. AALL has done this in the past and it has worked well, but the market isn't reliable, as everyone knows. And despite AALL's best intentions, there are critical on-going activities that AALL is funding from PIF earnings. Each year the Washington Affairs Office requires additional funds to pay for amicus briefs, to participate in the Shared Legal Capabilities Coalition with other library associations, and to engage in other advocacy efforts. Those additional funds, which enable AALL to participate in many

2000 Actual Revenues



activities, have always come from PIF earnings. This past year there were no PIF earnings, and the Association was hard-pressed to find money to replenish this fund for the current year.

New Sources of Funds

It is time for the Association to aggressively seek new sources of funds and consider new modes of operation that may generate income or release current funding for future activities. Several initiatives are underway to increase revenues and trim operating expenses.

In July, the Executive Board asked the Finance and Budget Committee to identify funds for a new staff position at headquarters to assist with fund raising. If approved by the board in November, this new position would be only one of three new staff additions in recent years to the headquarters staff, which currently consists of 13 employees in the Chicago office and one in the Washington Affairs Office in Washington, D.C. Previously, the Executive Board approved funding for an assistant to the Washington Affairs Representative and an education manager for the Professional Development program.

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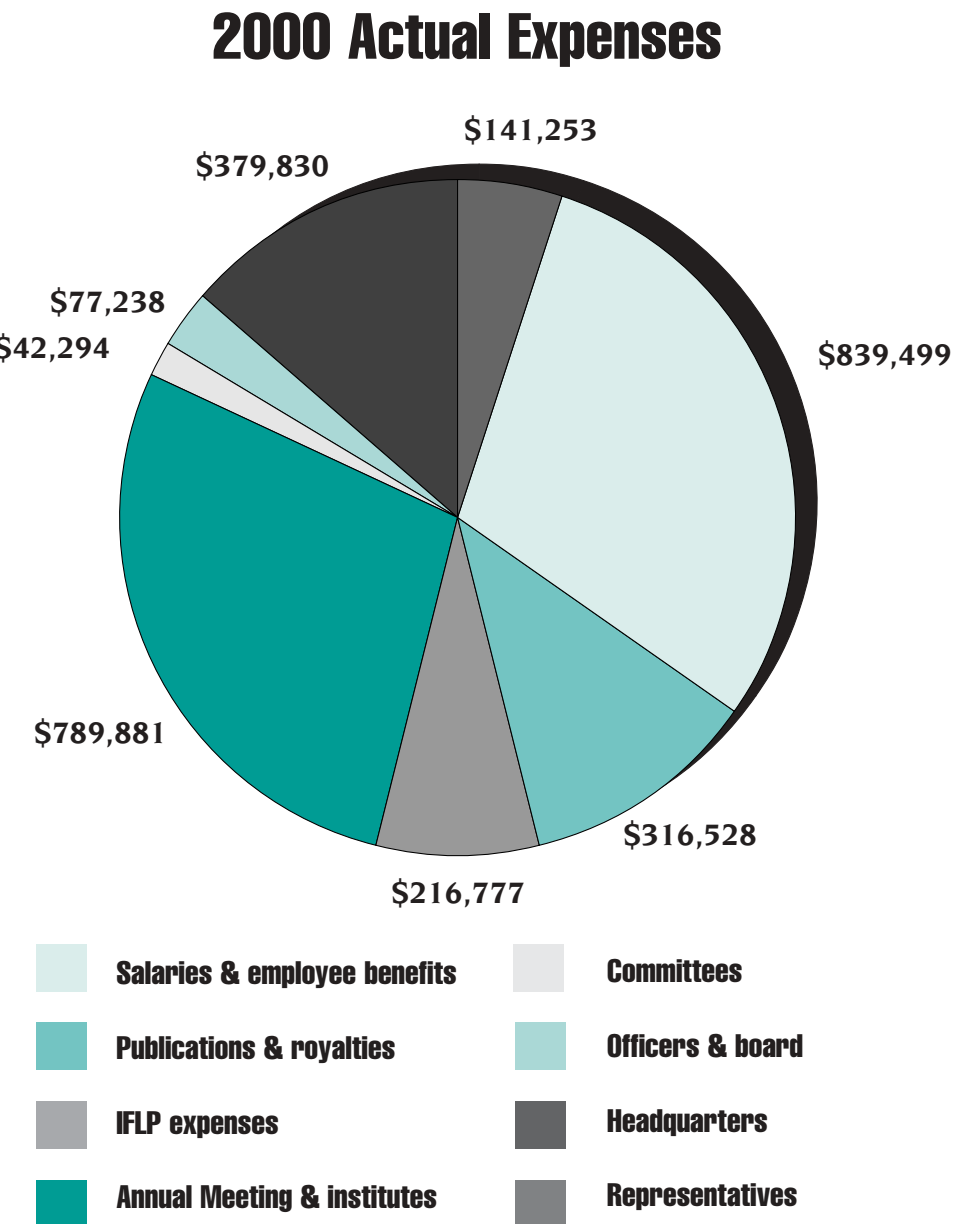
In addition, there are donors among the membership and elsewhere who might be interested in contributions toward AALL's advocacy and continuing-education efforts.

This fall, the board's Finance and Budget Committee will review current activities, item by item, to ensure AALL trims costs wherever possible. This will be no easy task since expenses are already very tightly managed. Each one of us has his or her own favorite activities and others that are less valued. Just as in other facets of our own lives, we'll gladly spend money on some things and wouldn't give a nickel for others. (One of us refuses to spend more than \$3 a box for cereal, but the sky is the limit on ice cream! The other one could care less about ice cream, but she doesn't even look at the price tag when buying shoes.) Every item in our budget is important to a significant segment of the membership. Trimming expenses will be painful, but it must be done.

The board will continue to examine the issue of a membership dues increase. The cost of living increases that are added annually are very useful, but the cost of just about everything increases annually at a higher rate than 2 percent to 3 percent. Raising dues will provide needed, additional income, but more important, it will ensure that AALL members remain the controlling economic voice in Association governance. Right now member dues form 22 percent of the Association's income, a drop from 33 percent in 1982.

Additionally, the board continues to explore various options for how AALL might attract more support from the "parent" institutions for the work it does on their behalf. Every gain AALL makes through the Committee on Relations with Information Vendors and the Washington Affairs Office saves members' law firms, courts and law schools a lot of money. Some of those savings would help the Association be even more effective in controlling costs and ensuring sound national and international information policies.

AALL will continue to form partnerships with other associations and information vendors to further the interests of our



members. The association greatly appreciates the contributions, financial and otherwise, that the legal publishing industry makes to AALL to support its research, scholarship and continuing-education efforts.

The End

There you have it — the basics of AALL's financial structure and future challenges. Law librarianship is a changing, growing profession and its professional association needs to grow and change along with its members. The more each member knows

about AALL, the better plans its officers will be able to make for the future. And when new treasurers ask, "SHOW ME THE MONEY," the money will be there!

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