

**JOINT BUDGET ANALYSIS & REVIEW COMMITTEE (BARC)/FINANCE & AUDIT (F&A) SUBCOMMITTEE
2022 ANNUAL CONFERENCE MINUTES**

JUNE 24, 2022: 12:30-3:30 pm ET
Hybrid: Washington D.C. & Virtual

BARC Chair Rodney Lippard & Treasurer Maggie Farrell called the meeting to order.

APPROVED by Consent:

- BARC/F&A Agenda, BARC/EBD #3.25
- BARC/F&A Minutes from 2022 Spring Meeting, BARC/F&A #3.27
- 5-Year Financial Plan Update, BARC/EBD #3.26
- Endowment 5% Spending Payout, EBD/BARC #3.33

Executive Director's Report, EBD #12.34

Executive Director Tracie Hall provided the following updates:

- Pivot strategy is the guiding operational and financial strategy through 2026 to grow our membership base and secure financial sustainability
 - Balance revenue to expense ratio
 - Grow endowment
 - Double our impact streams for revenue, through traditional and new revenue streams
- For Annual, within 90% of our projected budget for this conference
- ALA is increasingly in the cross-hairs of those who seek to weaponize the conversation about censorship, led to 40% increase in spending on security
- In Membership, suffered decrease in membership during pandemic, but not to the extent expected. ALA is starting to see recovery, with an increase of about 1,000 members and a goal is to grow by 4% to 5% annually
- For Publishing, within 3% of budget goals
- Contributed revenue has had a significant impact on finances in the past couple years. ALA also achieved platinum status on GuideStar. The contributed revenue report, EBD # 3.29, provides more detail, specifically the total raised of \$5.9 million in FY21 and \$3.8 million in FY22
- For Data, Design, & Research stream, which is new, there is room for growth, including in partnerships with Barbara Bush Foundation for Adult Literacy

Publishing & Media Report & Continuing Education Report, EBD #12.34

Mary Mackay, Executive Senior Associate Director, provided the following updates:

Publishing & Media:

- Projecting 3% below budget for revenue at the end of the fiscal year, but likely 4.5% below in expenses, for a net increase of \$133,000
- Publishing is a challenged industry
- Snapshot for FY22 YTD budget
 - Work on expense control to help net revenue
 - Increasing advertising
 - Subscriptions are challenged right now, with budgets in libraries and related organizations seeing cuts
- FY 23 budget is a little less than FY22 budget, but net revenue should come out ahead
- Opportunities:
 - Face-to-face conferences provide an opportunity lacking the last few years, such as in membership growth and advertising sales
 - Smaller footprint with ALA Store means less expenses

- More free shipping of books and t-shirts online to save on inventory
- New products, including digital products that go with our magazines and Booklist Reader
- Focus on EDISJ content helps get more products into more people's hands
- Move to the Chicago distribution center is complete
- Improved e-book delivery through a program called BiblioVault that
- Still investigating other incremental digital revenue opportunities
- Increased outreach to the public and international audiences
- Partnership with the trade publisher Sourcebooks
- Challenges:
 - Overall economy is difficult
 - Budgets and subscription shortfalls
 - Fundamentally changed market
 - Global paper shortage causing price hikes
 - Postal and ink costs are increasing significantly
 - Strategies to alleviate: Publishing shorter magazines and more print-on-demand books
- Advertisers and sponsors want custom content, which demands more time and staff resources
- Increasing competition in the field
- Incremental revenue from existing content, but publishers are learning how to reach customers themselves
- Turnaround in book sales has been exciting: halved the size of the deficit in the book imprint at the beginning of the year
- Ongoing need to improve data at ALA

Continuing Education

- CE is an integral part of the pivot strategy
- Centralizing streams of content via new eLearning website will put ALA in a good position to build on and leverage the CE that we have
- Working to ensure that ALA covers all the fundamentals in CE as a one-stop shop for CE
- Budget for CE is small, but this reflects that CE in various units is accounted within those units' budgets. Units pay overhead to ALA, unless there is a specific agreement with the CE unit to provide extra support
- Opportunities:
 - EDISJ-centered products
 - 'Stacked' products, which create a pathway for CE
 - Exclusive content for members
 - Bulk purchases through organizational sales rather than one-off sales: this impacts net revenue prospects because the cost is lower for one-time delivery but with bigger revenues
- Concerns:
 - Economic slow-down
 - Competition for instructors and content
 - Keeping pace with free content
 - Relationship between ambition and staff resources
 - Slow start to sales as the site was launched but returning to larger revenues
 - Expenses are 40% lower than anticipated for the year, and applying some of those savings to the IT costs of the new site
 - Bulk and institutional customers are doing better than goal
 - One of the biggest challenges is knowing who are the institutional gatekeepers

FY22 YTD Financial Results (January 2022), EBD #3.28-28a

CFO Dina Tsourdinis provided the following updates:

- Five months ending in January reflect a surplus of \$184,000, which is inclusive of two one-time funding sources: \$1.5 million endowment transfer and \$2 million PPP
- Net results represent a favorable variance of \$2.5 million compared to budget
- Comparison with the same fiscal period in FY21 show a \$1.2 million unfavorable variant over the prior fiscal year, which is due to the \$4.4 million PPP loan forgiveness. Compared to FY20, reflects a favorable variance of \$4.1 million
- Revenues totaled \$19.5 million, with the general fund contributing 55% of the total revenue, followed by the divisions at 22%, grants at 21%, round tables at 1%, and long-term investment at a negative 1%
- Overall, the divisions realized a net amount of over \$213,000
 - Total revenue was \$4.3 million and expenses were \$4.1 million. Divisions performed better than budget by \$953,000 total, which includes \$600,000 in allocation of PPP funds.
 - Timing difference for revenue recognition with respect to the PLA Conference, which occurred in March
- Round Tables realized a net of \$81,000, which is better than budget by \$57,000
- At a high level, the loan balances amounted to \$4.7 million, which is a significant decrease from 8/31/2021
- Financial projections for end of year will be available at the next Executive Board meeting
- Developed a very aggressive plan to catch up with reporting and be ready for year-end audit
- BARC/F&A members discussed the report, including the sustainability of contributed revenue over time and the financial results of the PLA Conference, which should be ready later this summer

Controller's Report, EBD/BARC #3.32

Controller Joanne Lee provided the following updates:

- FY22 audit: preliminary work audit will be performed from July 5-8 and build work is scheduled for November 7-23
- Financial position as of January 2022 compared to January 2021:
 - Total assets increased by \$7.2 million, which is 7.7% increase total liabilities increased by \$3.9 million, which is an increase of 12%
 - Net assets increased by \$3.3 million, another increase
- Increase in assets and liabilities primarily due to the various cash of many grants received and disbursed between February 2021 and January 2022:
 - PPP loan in the amount of \$2 million, which was forgiven in November of 2021
 - \$5 million grant from Fidelity to support the Libraries Transform project, with \$3.5 million to be disbursed in early FY23
 - December 2021: received \$2 million from Acton for libraries, with \$1.5 million to be disbursed later this month
 - Received two \$500,000 donations/grants from Hewlett and AT&T: used to pay down our line of credit in the amount of \$2 million in January 2022, and we paid down the \$1.5 million line of credit in February
 - Utilized cash received to transfer \$2 million in January to working capital to increase our short-term investment and \$3 million in February 2022
- Working capital is available funds that can be used for operations to meet short-term obligations and indicates an opportunity to invest in cash on hand. The working capital in January 2022 is \$4.8 million compared to \$3.8 million in January 2021
- Total cash balance increased by \$5 million compared to January 2021

- Long-term investment grew by \$3 million due to strong market last year
- \$8 million line of credit with JPMorgan with, \$1.5 million outstanding as of January 2022 but paid in full as of February 2022
- Financed the purchase of furniture and IT equipment for the headquarters office for \$1.68 million, and the pending loan balance as of January is \$1.34 million
- EIDL balance as of January is \$500,000.
- Cash-to-debt ratio – or liquidity ratio -as of January is 6.09. The benchmark is 1.1 to 1.0, so this reflects a strong balance sheet for ALA

Contributed Revenue Analysis, EBD/BARC #3.29

CFO Tsourdinis & Director Moritz provided the following updates:

- The analysis was requested by the Board
- Contributed revenue is comprised of grants and contributions which flow to the bottom line become part of the operating budget to support the mission of the Association. This includes both overhead from pass-through grants, as well as the grants and donations for operating purposes
- Beginning in FY21, ALA significantly increased contributed revenue goals as part of pivot plan
- Outliers:
 - PPP funding in FY21 and FY22, totaling \$6.2 million
 - Significant Public Programs Office (PPO) grant in FY22 of \$10 million and disbursed in FY23 & FY24
- On average, programmatic grants are \$3.5 million a year, and contributed revenue is \$5 million a year, representing 32% of total revenue for FY21; 49% for FY22; and 18% for FY23.
- Against a metric for the Chicagoland not-for-profits, which is 46%, there is room for growth
- 41% is paid out to libraries, librarians, and our communities, and scholarship recipients

The Board discussed the report, including TAG's effect on GuideStar rating, which should not be affected as the score reflects primarily accounting practices and tax/audit transparency.

Membership Report, EBD #12.34

Melissa Walling, AED for ALA Offices and Member Relations, provided the following updates:

- Membership dues revenue as of January 2022: Budgeted less revenue than we would have had before the pandemic:

○ Total Revenues Budgeted/Actual/Remaining:	\$ 4,505,792	\$ 1,940,348	\$ 2,565,444
○ Total Expenses Budgeted/Actual/Remaining:	\$ (100,000)	\$ (33,604)	\$ (66,396)
○ Contribution Margin:	\$ 4,405,792	\$ 1,906,744	\$ 2,499,048
- Centralized billing for Divisions and Round Tables, which are usually about \$2 million to \$3 million annually
- Personal dues trending right at budget
- Organizational and corporate dues are slightly ahead
- Expenses are slightly over
- Net budget for FY22 at about 1% ahead of budget
- Challenges:
 - Experiencing declines prior to the pandemic, which exacerbated the decline
 - Economic inflation and burnout are affecting recovery in dues, as well as volunteerism
 - Planning to coordinate membership strategies in the coming year with Divisions and Round Tables to help increase
 - Approved a simplified membership model in January and still working on pricing for that
- FY 23 projections:

- Slight increase in projected revenue
- Still down from pre-pandemic levels of \$5.2-5.4 million, but edging closer
- Dues increase approved in April, and that will be rolled out for FY23
- Round Tables dues standardization work is continuing, and there is some early thinking about standardization around Divisions

Endowment Trustees Report, EBD #13.3

Mario Gonzalez, Senior Trustee, provided the following update:

- The Endowment approved a pay out to ALA with target allocation up to 5% this year, which takes into account rolling averages of 20 quarters
- Market has had a turbulent few months with a number of factors impacting it:
 - Inflation rate has gone up to 6%
 - Federal Reserve has increased interest rates three-quarters of a point, which is the first time they have done that in 30 years
 - Unemployment is down to 3.6%, which is good but could send us into a recession
 - 11.5 million jobs available
- Book value of \$12.2 million and market value at \$58 million.
- Need to continue to put money into the endowment, especially to grow the book value
- Always reviewing investment policy to ensure ALA meets its target allocations
- Environment, social, and governance (ESG) investments at 57.5% of portfolio
- Already transferred \$1.5 million to ALA with a 1% interest to be paid back to the endowment
- Previous to January 2022, seeing an average of 20% return on investment, and the removal of funds see a loss of that 20% return on investment
- Compared to other indices, ALA return is doing well, down by 16%, while S&P is down 20%
- Trustee activities:
 - Met at ALA headquarters in May
 - Engaged another private equity manager, Partners Group Fund, which is an ESG fund for a \$1 million commitment - half of that, \$500,000 for cash, and the other \$500,000 came from the Capital Group - so portfolio will be at 59.2% ESG
 - Rebalanced and reduced exposure to equities, in view of the market, and reallocates private equity and fixed income
 - Approved the establishment of the Joann Sweetland Lum Memorial Fund endowment
 - Updated and codified guidelines on the selection and reappointment of Endowment Trustees
 - Established timelines for a new RFP for an ALA investment advisor, as part of due diligence every five years
 - Set timeline for updating our Investment Policy Statement, to be completed this summer

FY23 Revised Preliminary budget and annual estimates of income, EBD/BARC #3.30-3.30a

CFO Tsourdinis provided the following updates:

- First four budget assumptions were approved with the preliminary budget, but an additional assumption has been added reflecting a 5% endowment payout from units, in order to ensure a small surplus is achieved
- Total revenue: \$48,897,000
- Total expenses: \$48,847,000
- Net positive financial result of \$50,000
- Started off with \$4,044,000 deficit in preliminary budget and asked budget managers to look again at the budget:
 - \$917,000 was found by our revenue-producing units

- Found \$3,177,000 of savings
- Finance staff was asked by the Board to explain how the alignment of expenses to the revenues for FY23 would impact Member Services in the revised budget; ultimately able to add new positions to strengthen the member experience
- All departments revised and adjusted expenses for this iteration
 - Travel reductions implemented, while minimally impacting conferences
 - Expenses in consulting and professional services were also reduced, with the idea of renegotiating expiring or existing contracts to find a more cost-effective way of doing business
- Capital requests are unchanged at \$2,235,000
- Project net assets at the end of FY22 to be \$65,186,000. For FY23, at this time, forecasting budgeted revenues at just over \$49 million, which gives a total Annual Estimates of Income of \$114,539,660.

The group discussed the report, including the 5% endowment payouts, which are a last resort to occur only if needed and after the FY23 audit. The payouts will not be used if budget performance is better than projected.

The group also discussed strategies for long-term planning around inflation and contributed revenue distribution.

Chair Lippard moved that BARC recommends to F&A subcommittee and the Executive Board approval of the FY23 revised preliminary budget and annual estimates of income of \$114,539,660, as highlighted in EBD/BARC #3.30

APPROVED that BARC recommends to F&A subcommittee and the Executive Board approval of the FY23 revised preliminary budget and annual estimates of income of \$114,539,660, as highlighted in EBD/BARC #3.30

Treasurer Farrell moved that the Finance and Audit Subcommittee concurs with BARC and recommends to the Executive Board approval of the FY23 revised preliminary budget and annual estimates of income of \$114,539,660, as highlighted in EBD/BARC #3.30

APPROVED that the Finance and Audit Subcommittee concurs with BARC and recommends to the Executive Board approval of the FY23 revised preliminary budget and annual estimates of income of \$114,539,660, as highlighted in EBD/BARC #3.30

BARC Member Hildreth requested that when presenting the FY23 Budget, Treasurer Farrell convey to the Executive Board that there was extensive discussion about the use of endowment funds at this meeting.

Operating Agreement Work Group (OAWG) Update and Recommendations, EBD #10.12.

OAWG Co-Chairs Maggie Farrell & Andrew Pace provided the following updates:

- Three recommendations will be presented to Council and provided in more detail in the written report:
 - Operational practices
 - Formation of small implementation group around the budget process work
 - Policy rewrite should be forwarded to Committee on Organization (COO)

- No actions are requested of this group but asking for any questions or discussion regarding financial implications of the recommendations.

BARC Member Lehner expressed ongoing concern regarding incentivizing Divisions to generate revenue with one net asset balance for ALA, rather than a balance for each Division. Chair Pace noted the goal was to remove this from the Operating Agreement, as it was not the appropriate place to hold the policy on net asset balances, but there is still room for discussion on the actual policy.

The group discussed the proposals, including the need for more frequent review and revision of the agreement.

Transforming ALA Governance (TAG) Discussion

A memo drafted by BARC Member Lehner was distributed via Connect regarding the fiscal impacts of two TAG action items going before Council, one reconstituting the Executive Board and the other is creating an Advisory Council.

In summary, it is estimated that there would be a modest increase in expenses for the Executive Board, and significant savings in terms of the proposal regarding the new Advisory Council compared to current expenses. Overall, the proposals should have a positive financial impact on ALA.

The group agreed to provide feedback that BARC projects a positive financial impact on the organization should the proposals move forward.

The BARC/F&A Meeting adjourned.