

**American Library Association  
Budget Analysis and Review Committee Report  
to the ALA Executive Board  
June 27, 2016**

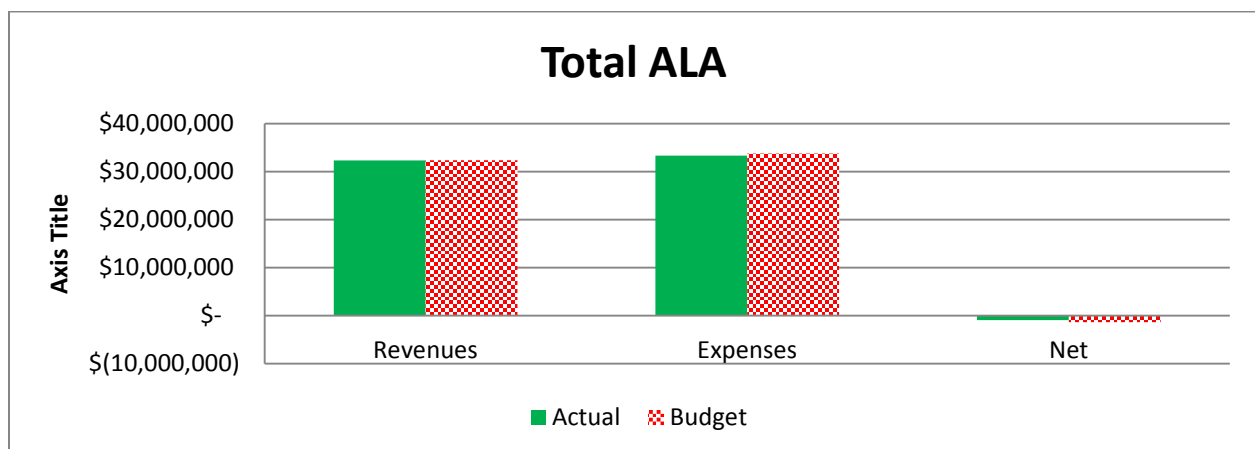
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The Budget Analysis and Review Committee (BARC) is pleased to report to the Executive Board on its recent activities. On Friday, June 24<sup>th</sup> BARC convened their meeting to discuss and review a number of financial issues. Below is a list of the primary topics discussed:

- YTD 2016 Financial Results – April - BARC #5.2 (EBD #14.8)
- Spectrum Update – BARC #22
- Publishing Update – BARC #23
- Five Year Plan – BARC #30
- Indirect Cost Overview – BARC Info #7
- Total ALA FY 2017 Budget - BARC #20.1 (EBD #14.9)  
– ACTION ITEM
- Your ALA Dollar – BARC #29
- Overtime Work Rule Changes - Information
- Treasurer’s Report to Council - BARC #6
- BARC Report to Council - BARC #28

**YTD 2016 Financial Results - April - BARC #5.2 (EBD #14.8)**

Mark Leon led the committee in a discussion of the nine month YTD FY16 April results. For the eight month period ending April 30, 2016, the Association generated the same overall positive financial results as the six month results reported at the Spring meeting in April. The following is a summary of the results for Total ALA :

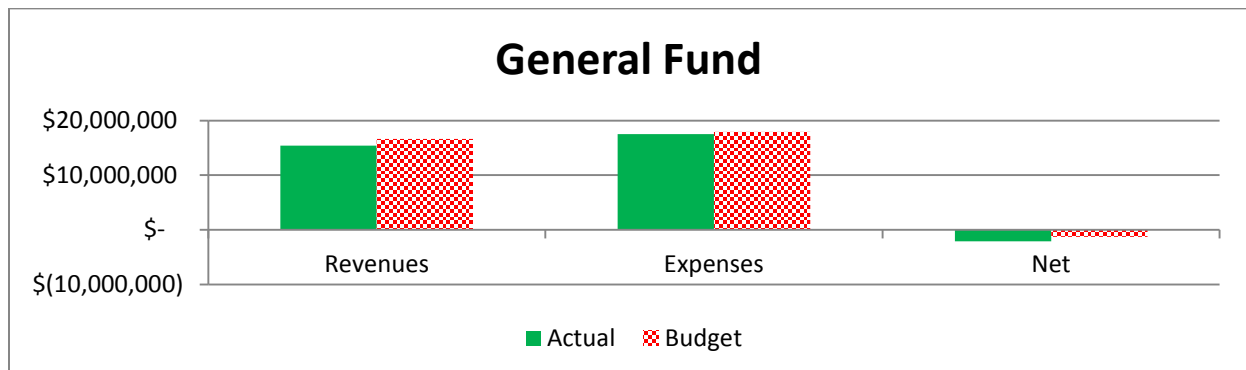


- Total ALA revenues were \$32.3 million compared to the budget of \$32.4 million;

- Actual revenues were lower than budgeted revenue in the General Fund (\$1.2 million). This was offset by higher actual revenue than budgeted in Grants & Awards (\$619,585), LTI (\$387,386) and Division activity (\$182,426);
- Total ALA expenses were \$33.3 million compared to the budget of \$33.8 million;
- Lower total expenses were the result of savings in the Divisions (\$652,471) and the General Fund (\$457,153). Expenses for Grants & Awards were higher than originally budgeted by \$619,585 due in part to the recent receipt of a Gates Foundation grant. This was completely offset by equal unbudgeted grant revenues;
- The result was net expenses of (\$959,580), which compares to the budgeted net expense of (\$1.4 million) for a positive net variance of \$427,679.

Referring the committee to the Statement of Financial Position, Mark Leon noted that the information being reviewed represented just a moment in time and that a number of year-end adjustments that will typically take place. He noted that total assets were \$77.5 million, a decrease of \$6.7 million from the same period last year due to a pay down of the Association's long-term debt and a decline in the market value of the endowment fund. Total liabilities for the period were \$47.3 million, which is an increase of \$2.6 million from the same period last year primarily in Accrued Payroll, which includes the Postretirement Benefits obligation. The result was a fund balance of \$30.2 million, which is a decline of \$9.2 million (-23.4%) from the same period last year. Despite the decline in net assets the Association's financial position remains quite strong.

The committee was then referred to the General Fund. As noted earlier the General Fund represented the significant drag on revenue. The results are reflected below:



- General Fund revenues were \$15.4 million compared to the budget of \$16.7 million;
- Actual revenue was lower than budgeted due to shortfalls in Publishing (\$894,625), particularly ALA Editions (fewer released titles/no Editor) and Booklists (lower subscriptions), and Midwinter Meeting, particularly exhibit sales revenue and registration. Both Publishing and Midwinter did contribute to the General Fund substantially via overhead contribution, however;
- General Fund expenses were \$17.5 million compared to the budget of \$18.0 million

- Expenses savings were offset by higher General Administration expenses related to legal and healthcare obligation
- The net results was net expenses of (\$2.1 million) compared to budget of (\$1.3 million) resulting in a negative variance of (\$786,798)

In closing staff noted that both Publishing and Conference Services will be reviewed closely as the FY18 budget is being developed. Also, that both the Divisions and Roundtables have been performing quite well and meeting budget expectations.

*Fiscal Year-End Projections* – Mark Leon noted that staff has been monitoring the results of the Association, particularly the General Fund since early spring in order to make any material adjustments necessary to close the year with a balanced results. As the revenue shortfall in Publishing and Conferences became clearer, an analytical review was completed and some tough decisions had to be made with some sacrifice by all concerned. The exercise resulted in deferring the expenditure of certain costs in Publishing, not filling General Fund open positions, reducing the use of professional services and identifying additional expense reduction for the Annual Conference. In conclusion, based on the identified cost saving there is every expectation that the year will close with a balanced budget.

### **Spectrum Update - BARC #22**

Keith Brown and Gwendolyn Prellwitz updated the committee on the status of the Spectrum scholarship program since the findings of the in-depth review of the program completed in the spring of 2015. Keith Brown provided the committee with a brief background on the genesis of the original review. He noted that the central issue was the low level of scholarship expenses listed for the Spectrum family of funds on the 2014 audited financial statements. It was determined that Accounting had implemented a recommended change in the accrual method used to track scholarships. It was felt by accounting personnel that the accrual change would provide better record keeping by matching actual scholarship expenses to the year in which the expense were incurred i.e. keep the scholarship class expenses together in a given fiscal year.

As part of the review, additional issues were uncovered and addressed:

- Staff audited the complete endowment history for the Spectrum endowment and its family of funds beginning in 1997;
- Staff recognized \$530,000+ of Scholarship Bash funds held in a deferred revenue account, which was then used to increase and fund 10 additional scholarship for a three year period from FY16 – FY18;
- Provided an additional \$25,000 in administrative help for the same three period to increase in the program's operational capacity.

*Status of Program* – Since the original review in 2015 the following can be stated regarding the operation of the program:

- The amount of program scholarship funds increased from \$113,346 to \$147,653 and YTD 2016 of \$283,500;
- The current value of the Spectrum family of funds as of 4-30-16 was \$5.9 million;
- In FY16 an additional 10 scholarships for a total of 60 +1 has been processed;
- The increase in organizational capacity via the additional administrative funding has proven to be very useful and productive.

### **Publishing Update - BARC #23**

Don Chatham updated the committee on the results of the Publishing operation through April 30, 2016. The most significant highlights through April 30, 2016 included the following:

- Total revenue is less than budget by \$895,000;
- Net revenue is less than budget by \$707,000;
- Publishing overhead contribution to the General Fund is \$2.0 million.

Expectations for the remainder of the year include the following:

- Total revenue will be less than budget by \$300,000;
- 26 of 50 frontlist titles will be coming out in the last four months of the year;
- Unit Sales of Rubin's Foundations is Neal-Schuman's best-selling textbook;
- Total expenses will be less than budget by \$649,000;
- Net revenue will be \$260,000 more than budget;
- Contribution margin will be \$350,000 more than budget.

Looking forward:

- New Publisher is now in place for ALA Editions;
- In FY17 Neal-Schuman's 2<sup>nd</sup> best-selling textbook planned for release - Cassell & Hiremath;
- In FY18 Neal-Schuman's 3<sup>rd</sup> best-selling textbook planned for release – Evans;
- Partnering with AASL on the FY18 publication of AASL Standards and new revenue sharing model.

### **Five Year Plan - BARC #30**

Keith Fiels updated the committee on the Association's "Five Year Plan" planning model. After a brief history on the genesis of the model, he walked the committee through the information provided by the model. The model identifies the key sources of top line gross revenues, the impact of the overhead rate & overhead, and ALA expenses. For the first time management now has a tool that can filter down to the resources that are truly available to the Association (i.e. management in carrying out its mission and any strategic initiatives.) It provides management with the ability to look into the future (5 years) and identify potential bottlenecks, threats and opportunities. Management will now be able to make better long-term plans and

be more strategic in the allocation of its resources. Critical to making the model work are the assumptions that will be used to project future revenue and expense growth. As a result, the assumptions will need to be constantly reviewed. It is the plan of management to update this model twice a year – once before the Midwinter Meeting and once before the Annual Conference.

#### Indirect Cost Overview – BARC Info #7

In the absence of Keith Fiels, who had another commitment, Mark Leon and Keith Brown discussed with the committee the Indirect Cost overview. Mark Leon began the discussion by noting that the subject had been discussed in great detail during the spring meeting and that the current discussion was more of a recap of the information that Keith Fiels was sharing with the Division Presidents, Division President-Elects and Division Executive Directors. The document covered the basic infrastructure or pool of allocable direct/indirect costs that are covered by the annual Indirect Cost study, as provided by the Operating Agreement. These costs were agreed upon as costs needed to carry-out the mission related programs serving libraries, librarians and the public. The committee was referred to attachment A and walked through the process that's used to determine the overhead rate. It was noted that the direct/indirect cost that is generated from the model is applied to the formula of direct/indirect costs for Conferences and Publishing/ the gross revenue for each. This generated rate is then applied to certain revenues at 100% of the rate or 50% of the rate depending on the type of revenue applied – Dues revenue is exempt. The document concludes by emphasizing the essential contribution that Divisions make to the mission and strategic goals of the Association. Additionally, ALA provides tangible evidence of its recognition of the importance by supporting Division operations through the provision of space and services.

*Note: that per the flexibility provided by the Operating Agreement the ALA Executive Director and the Division Executive Directors discussed and agreed to adjust the operating practice and will implement a new fixed rate overhead rate of 26.4% for each of the next two years – FY17 and FY18.*

#### Total ALA FY 2017 Budget - BARC #20.1(EBD #14.9)

Mark Leon updated the committee on the changes made to the proposed FY 2017 budget since the spring meeting in Chicago.

	Spring BARC	AC Orlando	(\$) <i> change</i>
<b>General Fund</b>	\$30,120,362	\$30,120,362	\$0
<b>Division Fund</b>	28,387,887	28,349,272	(38,615)
<b>Round Tables</b>	2,091,551	2,090,736	(815)
<b>Grants &amp; Awards</b>	3,413,210	4,475,827	1,062,617
<b>Long-Term Investment</b>	366,268	367,018	750
<b>Total ALA Budgetary Ceiling =</b>	<b>\$64,379,278</b>	<b>\$65,403,215</b>	<b>\$1,023,937</b>

As illustrated in the table the most significant change was the increase in Grants & Awards due largely to the inclusion of the multi-year Gates Foundation Legacy grant, which now has a total value of \$1.1 million. After some additional discussion the following action was taken:

**Motion: BARC recommends to the Executive Board approval of the FY 2017 Total ALA Budgetary Ceiling as follows:**

<b>General Fund</b>	<b>\$30,120,362</b>
<b>Division Fund</b>	<b>\$28,349,272</b>
<b>Round Tables</b>	<b>\$2,090,736</b>
<b>Grants &amp; Awards</b>	<b>\$4,475,827</b>
<b>Long-Term Investment</b>	<b>\$367,018</b>
	=====
<b>Total ALA Ceiling</b>	<b>\$65,403,215</b>

#### **Your ALA Dollar – BARC #29**

Cathleen Bourdon discussed with the committee on the genesis of the infographic illustrated in BARC #29. The discussion began with President-Elect Julie Todaro and the CFO Mark Leon during her Board orientation last fall. She noted that members regularly asked her about the value or benefits of their membership i.e. “What do I get for my membership?” The Divisions were asked to use the FY16 budget information and allocate their expenses among the Association’s programmatic priorities. The result, after a number of iterations, was the infographic “Your ALA Dollar.” As a result of additional discussions it was decided that illustrating the sources of ALA’s revenue in a similar fashion would also be useful. After review both documents it was felt that the membership would find this information very useful. Additionally, this information will be placed on the Treasurer’s page with a link to the Membership page.

#### **Overtime Work Rule Changes**

Dan Hoppe, Director of Human Resources, met with the committee to provide an update on announced (5/17/16/) changes by the Obama Administration on a change in the salary threshold for overtime. The change will increase from \$23,660 per year (\$455 per week) to \$47,476 per year (\$913 per week). It has been determined that ALA has 10 full time exempt employees earning less than the \$47,476 in base pay and 4 part time exempt employees earning less than \$913 per week. The cost to bring them up to this level and maintain their exempt status would be \$29,722.83 in pay and \$9,808.53 in benefits for a total of \$39,531.37. All conversations with the impacted departments, managers and employees will occur after this conference. Note: all part time employees will be reclassified as non-exempt as all earn less than \$913 per week.

**Treasurer's Report to Council - BARC #6**

Mario Gonzalez distributed his report to Council. The report will focus on the strategic highlights and key initiatives of the FY 2017 budget. The Total Budgetary Ceiling for FY17 being requested for Executive Board and Council approval at this conference is \$65,403,215.

**BARC Report to Council - BARC #28**

Ann Martin, BARC Chair, reviewed for the committee the information in her report to Council. The report focused primarily on the YTD results for the eight month period ended April 30, 2016, in addition to good sources of financial information on the Association.

**Planning and Budget Assembly**

The following represents highlights of the discussion:

- President-Elect's "Transform" Initiatives – Julie Todaro
- Summary Observation of FY16 YTD Budget Results – Ann Martin
- Summary Observations Proposed FY17 Budget – Mario Gonzalez
- Strategic Plan Update – Keith Fiels

It was noted that there has been a strong emphasis to get information out to the PBA on an early and regular interval.

**Division Leadership/BARC Meeting**

This meeting had a healthy discussion among the participants (40) about the future possibilities for the Annual Conference and Midwinter Meetings. A number of ideas were shared with the group and all were encouraged to provide as much input as possible in order to review and comment on potential options in order to end up with a stronger conference product. Questions were also raised regarding the overhead rate. As opinions were shared clarifications were made. Additionally, it was clear that all parties involved want to be as transparent as possible and understand that the investment in certain things like technology are necessary and will likely result in a higher rate, which is understandable and acceptable.

**Acknowledgement**

BARC extends its sincere thanks to the ALA finance staff: Mark Leon, Brad Geene, Joanne Lee, Denise Moritz, Keith Brown, and Latasha Bryant for their work throughout the year and support in preparing for the committee meetings and discussions. The chair would also like to thank Keith Michael Fiels and Mary Ghikas for their insightful and helpful input and participation.

Respectfully submitted:

Ann Martin, Chair  
Maggie Farrell

Lori Goetsch  
Mario Gonzalez, Treasurer  
Julius Jefferson, Jr.  
Dr. Rhea Brown Lawson  
Bernard Margolis (Resigned)  
Jim Neal  
Gina Persichini  
Jo Ann Pinder