

**American Library Association
Finance and Audit Committee Report
to the ALA Executive Board
June 27, 2016**

The Finance and Audit Committee (F&A) is pleased to report to the Executive Board on its recent activities. Committee met on Saturday June 25th to discuss and review a number of financial issues. Below is a list of the primary topics discussed:

- FY 2016 April Financial Results - EBD #14.8
- Five Year Plan - EBD #4.21
- Indirect Cost Review - EBD #4.22
- FY 2017 Preliminary Budget Overview - EBD #14.9
 - Action Item
- Treasurer's Report to Council - EBD #4.20
- Your ALA Dollar - EBD #4.23
- Controller's Report - EBD #4.29
- Endowment Trustees Report - EBD #13.5
- Endowment Trustee Candidate Review (Closed Session) – CBD #15

FY 2016 April Financial Results - EBD #14.8

Mark Leon led the committee in a discussion on the eight month results for the period ending 4-30-16. He noted that due to a number of factors a good deal of staff time has been spent to produce timely and accurate financial information, particularly for the budget allocation. Overall, ALA's eight month financial results reflect that the Association is closely tracking the FY16 budget, ending with a small favorable (positive) variance from the projected net expense.

- Total ALA revenues of \$32.3 million compared to budget of \$32.4 million
- Total ALA expenses of \$33.3 million compared to budget of \$33.8 million
- Net expenses were (\$959,580) compared to budget of (\$1.4 million)
- Overall, the total ALA budget is on track positively

While the Association as a whole is trending in the right direction, there are still some areas that will need our continued attention, particularly the General Fund. Actual revenues were lower than budgeted in Publishing Services (\$894,625) and Member Programs & Services (\$276,080.) This was partially offset by higher revenue from Grants & Awards, the Divisions and Long-Term Investment income. The success of PLA's Denver conference will certainly contribute to the General Fund (overhead) and the Association's, FY16 financial performance. Despite the revenue shortfall in the General Fund there were also some expense savings (\$457,153). The following represent the highlights:

- For the General Fund :
 - Revenues were \$15.4 million compared to the budget of \$16.7 million;
 - Expenses were \$17.5 million compared to the budget of \$18.0 million;
 - Net expenses were (\$2.1 million) compared to budget of (\$1.3 million);
 - Results were impacted by lower exhibit and registration revenue from the Midwinter Meeting, lower product sales (titles) in the Neal-Schuman operation and lower subscription/Advertising revenue in Booklist;
- Overall, total ALA generated a net expense 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 there would be a number of adjustments at year-end. The following represents the major changes:

- Total assets were \$77.5 million compared to \$84.2 million at this time last year
 - Principal loan payment in August on renegotiated loan
 - A decline in the value of the endowment;
- Total liabilities were \$47.3 million compared to \$44.7 million at this time last year
 - Higher accrued payroll related to Post Retirement obligation
 - Lower long-term debt related to the principal loan payment;
- Net assets were \$30.2 million compared to \$39.4 million at this time last year.

Despite the decline in net assets the Association's financial position remains quite strong. The discussion ended by noting that both the Divisions and the Roundtables are operating satisfactorily.

Five Year Plan - EBD #4.21

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 could be provided by the model. The model identifies the key sources of top line gross revenues, impact of the overhead rate & overhead provided and the expense areas to be covered. 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 Review - EBD #4.22

Keith Fiels, Mark Leon and Keith Brown discussed with the committee the Indirect Cost overview. Keith Brown 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 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. Referred to attachment A the committee was 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’s provides tangible evidence of its recognition of the importance by supporting Division operations through the provision of space and services.

Keith Fiels went on to address the point 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. He noted that due to the impact of the Post-Retirement obligation change, which is a once every 6-8 year occurrence, the idea of negotiating a more stable multi-year overhead rate would be very desirable.

FY 2017 Preliminary Budget Overview - 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>
General Fund	\$30,120,362	\$30,120,362	\$0
Division Fund	28,387,887	28,349,272	(38,615)
Round Tables	2,091,551	2,090,736	(815)
Grants & Awards	3,413,210	4,475,827	1,062,617
Long-Term Investment	366,268	367,018	750
Total ALA Budgetary Ceiling =	\$64,379,278	\$65,403,215	\$1,023,937

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: F&A concurs with BARC recommends to the Executive Board approval of the FY 2017 Total ALA Budgetary Ceiling as follows:

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

Treasurer’s Report to Council - EBD #4.20

Mario Gonzalez reviewed for the committee the information in 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 will be \$65,403,215.

Your ALA Dollar - EBD #4.23

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.

Controller’s Report – EBD #4.29

Joanne Lee, Controller, reported to the committee on a number of financial items that were not previously covered in other reports. She noted that the preliminary audit, to be conducted by Mueller & Company, is scheduled to be conducted between July 5th – July 8th. Additionally, that the Association maintains a strong balance sheet as evidenced by working capital of \$2.8 million and a current ratio of 1.13 to 1.0. There was some debate as to whether or not the Association would be better served with a higher ratio of 1.5 or 2.0 to 1.0. Staff will look for some industry benchmarks for similar sized organizations.

Endowment Trustees Report - EBD #13.5

Rod Hersberger reported to the committee on the status of the ALA endowment fund. He began the discussion by commenting on the recent outcome of the Brexit vote, which will result in the United Kingdom withdrawing as a member of the European Union. Although the vote was expected to be close very few political and market experts predicted this outcome. As a result the market immediately suffered a significant sell off. He noted that while most US market indices suffered 3% - 5% declines, ALA's endowment fund only suffered a 2% loss from its 5-31-16 value of \$39.0 million. He also noted that while the European markets are expected to take months if not years to recover from the vote's outcome, US markets are likely to recover in weeks rather than months. He reminded the committee that while volatility is here to stay with us the ALA portfolio has been constructed to withstand such volatility better than the broader indices and other portfolios. He went on to highlight a number of items that will likely impact the market:

- Brexit outcome will have a long lasting impact on
 - Europe
 - US banks
 - Federal Reserve interest rate hikes will be slowed;
- Large cap stocks still remain the investment choice of most investors;
- Chances of a recession in the US are small.

He closed his discussion by highlighting some of the work that the Trustees had completed at their Spring Meeting (May) in Chicago:

- Adjusted the portfolio's risk profile by reducing the domestic equity allocation by 5% to fixed income;
- Replaced the large cap core manager London with Clearbridge ESG, an SRI portfolio manager that now accounts for 19.6% of the portfolio;
- Replaced Goldman Sachs SMID and reallocated to Double Line Total Return and hired Jones Lang LaSalle – commercial real estate manager, in the alternatives space;
- Replaced Eaton Vance Bond with Guggenheim Total Return Bond;
- Templeton Global Total Return with Domestic Western Core Plus Fund;
- Met with the new Director of the Development Office to discuss fundraising.

Endowment Trustee Candidate Review - CBD #15.0

The committee went into closed session to discuss the candidates for the upcoming Trustee opening at the end of this conference. As a candidate for the open position Mario Gonzalez recused himself and turned the meeting over to Ann Martin, BARC Chair to continue the meeting. Committee members discussed the candidates and will relay their findings and impressions to the full Executive Board on Monday, June 27th, 2016.

Acknowledgement

F&A extends its sincere thanks to the ALA finance staff: Mark Leon, Brad Geene, Joanne Lee, Keith Brown, Denise Moritz 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:

Mario Gonzalez, Treasurer & Chair

Jim Neal

Peter Hepburn

Loida Garcia-Febo

Ann Martin, BARC Chair