

**American Library Association  
Finance & Audit Committee  
Saturday, June 25, 2016  
Annual Meeting, Orlando, FL**

**Attendees:**

Present: Mario Gonzalez (Chair), Loida Garcia-Febo, Peter Hepburn, Ann Martin and James Neal

Staff: Keith Brown, LaTasha Bryant, Keith Fiels, Joanne Lee, and Mark Leon

The meeting began at approximately 11:15 AM.

**Agenda Review**

Mario Gonzalez reviewed the agenda. James Neal suggested that a discussion on a pending Council resolution regarding the Spectrum scholarship program be added.

**Approval of Spring Meeting Minutes**

The Spring Meeting minutes were reviewed and approved:

**Motion: Jim Neal, seconded by Ann Martin**

**To approve the 2016 Spring Meeting minutes as written**

**YTD 2016 Financial Results (EBD# 14.8)**

Mark Leon reviewed the report detailing the nine month YTD FY16 April results. Highlights include:

- Total ALA Revenues were \$32.3 million compared to the budget of \$32.4 million
- Revenues were impacted by lower budgeted revenue in the General Fund (\$1.2 million). This was offset by high revenue 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 expenses were impacted by expense savings in the Divisions (\$652,471) and the General Fund (\$457,153). Expenses for Grants & Awards were higher than budget by \$619,585 due in part to the recent receipt of a Gates Foundation grant
- 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

Specific to the General Fund, the following was noted:

- General Fund revenues were \$15.4 million compared to the budget of \$16.7 million
- Lower revenue across all lines from Publishing Services (\$894,625) particularly ALA Editions (fewer released titles/no Editor) and Booklist (lower subscriptions)
- General Fund expenses were \$17.5 million compared to the budget of \$18 million
- Expenses savings were offset by high General Administration expenses related to legal and healthcare obligation

- The net results were net expenses of (\$2.1 million) compared to budget (\$1.3 million) resulting in a negative variance of (\$786,798)

### **BARC Report (EBD# 3.3)**

Ann Martin reviewed for the committee her BARC report on the activities of the committee during this Annual Conference. She highlighted the following items:

- Discussion of the five year plan which has become an important planning tool for management;
- A Publishing update that highlighted the current results (less than budgeted revenue), positive expectations for the remainder of the year and the positive outlook going forward in FY17 and FY18 with the hiring of a new Editor;
- Indirect Cost overview which recognized the pool of direct costs that are allocated, along with the mutual beneficial relationship between the Divisions and ALA in carrying out the mission of the Association. Also discussed was the negotiated two year rate of 26.4% got FY17 and FY18 between the LA Executive Director and the Division Executive Directors;
- Approval of the FY17 budgetary ceiling with a discussion on the changes to the budget since the Spring meeting, primarily an additional \$1.1 million from a Gates grant;
- Your ALA dollar;
- Update on the Spectrum scholarship program;
- Coming changes resulting from overtime work rule changes approved by the Obama administration.

Mario Gonzalez requested that the information report (BARC #22) be shared with the F&A committee. It was further noted that there was a referral from Council regarding the Spectrum program. While it is not clear what the full intent of the resolution, it was known that it did cover staffing (additional), recruitment and marketing. As a result, Jim Neal felt that there needed to be a conversation with the Council resolution chair on the process they use for notifying the BARC Chair of pending resolutions that BARC needs to consider.

### **Five Year Plan (EBD# 4.21)**

The ALA Five Year Financial Plan was presented by Keith Fiels who first thanked Denise Moritz for her help in streamlining and updating the model by tying it to the audited financial results. He went on to explain document # 4.21 in detail to Peter Hepburn who was the only committee member present that did not hear the update at the BARC meeting the day before. He noted the plan will become an integral planning tool for management and will be updated at least twice a year, likely before Midwinter and Annual. Management believes it will now be in a position to identify potential issues, as well as, opportunities and make sure that its resources are appropriately allocated.

**Indirect Cost Review (EBD# 4.22)**

Keith Brown discussed the document that was sent to the Division leaders earlier in the spring. 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. Referring to attachment A, Keith explained the process 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. He went on to say that the scheduled rate for FY17 was 23.4% and that this year's study for FY18 resulted in a rate of 31.2%. He noted that the FY18 results from the 2015 study were impacted by the change in the Association's Post-Retirement Obligation (\$5.2 million) due to the use of an updated mortality table as provided by the Society of Actuaries. Management recognized that this rate was well outside the historical range and would be difficult to implement. As a result, discussions began with the Division Executive Directors to modify the study's rate. The negotiations resulted in an agreed upon two year rate of 26.4% for FY16 and FY17. The change will result in the Divisions paying an additional \$163,820 in FY17 and realize savings of \$389,938 in FY18. The agreed upon change will result in a two year net savings in overhead paid for the Divisions of \$226,118.

Keith Fiels expanded on the document by highlighting the vital and important relationship between ALA and the Divisions. He emphasized 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. He concluded by saying that any opportunity to provide a stable rate over an extended period would be very desirable to all parties as other more pressing issues could then be addressed.

**FY 2017 Budget Presentation (EBD# 14.9)**

Mark provided a brief overview of the Budget report which notes all of the requested changes since the Spring meeting.

**Motion: By Peter Hepburn seconded by Loida Garcia-Febo  
F & A recommends to the Executive Board approval of the FY2017 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>=====</b>
<b>Total ALA Ceiling</b>	<b>\$65,403,215</b>

There was a break at 12:50 and the meeting resumed at 1:00 pm. It was noted that the most significant change since the Spring meeting was the increase in Grants & Awards (\$1.1 million), due largely to the inclusion of the multi-year Gates Foundation Legacy grant, which now has a total value of \$1.1 million. As such the budgetary ceiling increased from \$64,379,278 to \$65,403,215.

**Your ALA Dollar (EBD# 4.23)**

Cathleen Bourdon discussed the genesis of the infographic illustrated in BARC #29. The initial discussion began with a meeting with President-Elect Julie Todaro and the CFO Mark Leon during her Board orientation last fall (August/September 2015). During their meeting Ms. Todaro noted that members regularly asked her about the value or benefits of their membership i.e. “What do I get for my membership?” As a result the finance staff began the process of attempting to answer the question by enlisting the help of Cathleen Bourdon, Director of Communications and Ron Jankowski, Membership Director. After a number of meetings it was determined that input from the Divisions would be vital. As such the Divisions were asked to use their 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 also decided that illustrating the sources of ALA’s revenue in a similar fashion would also be useful. All parties involved in the process and that have reviewed both documents, felt that the membership would find this information very useful. Finally, this information will eventually be placed on the Treasurer’s page with a link to the Membership page.

**Endowment Trustees Report (EBD# 13.5)**

R. Hersberger reviewed document #13.5. He noted two primary points. First, he noted the market value of the endowment decreased \$990,000 due to market uncertainty caused by the Brexit vote. He also discussed on exhibit 7 and 9 the major changes made by the Trustees at the last meeting. The highlights of the report were as follows:

- 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 alternative 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

**Controller’s Report (EBD# 4.19)**

Joanne Lee reviewed the document which was distributed prior to the meeting. She stated that the working capital as of April was \$2.8 million and the current ratio was 1.13. There was some discussion about whether the current ratio was adequate. She also stated that the agreement between ALA and Brightkey has not been finalized in respect to who is responsible for collections. This factor was affecting the Trade Accounts Receivable balance. The Accounting manager has since put actions in place to decrease the balance. In conclusion, there was a brief discussion about the grant indirect cost rate, which staff is in the process of preparing for submission to the NEH. The meeting was adjourned at 1:45 pm for a closed session with Peter Hepburn and Ann Martin.

**Endowment Trustee Candidate Review - CBD #15.0**

The committee went into closed session and was joined by committee member Loida Garcia-Febo to discuss the candidates for the upcoming Trustee opening at the end of this conference. Mario Gonzalez recused himself and turned the meeting over to Ann Martin, BARC Chair. Committee members discussed the candidates and will relay their findings and impressions to the full Executive Board on Monday, June 27<sup>th</sup>, 2016.

With no further business the meeting was adjourned.