American Library Association
Budget Analysis and Review Committee Report
to the ALA Executive Board
Monday June 29, 2015

The Budget Analysis and Review Committee (BARC) is pleased to report to the Executive Board on its recent activities. The Committee met on Friday June 26th and below is a list of the primary topics discussed:

- YTD 2015 Financial Results (April/May) - BARC #4.3/#4.3.1 (EBD #14.10/#14.11)
- Loan Refinancing – BARC #25
- Publishing Update - BARC #23
- Discussion on the Role of BARC
- BARC Term Limit Discussion by COO - BARC #24
- Total ALA FY 2016 Budget - BARC #20.1
  Action Item - BARC #20.2
- Round Tables – Role, Value and Cost
- Annual Conference Meetings
  - Planning and Budget Assembly Discussion
  - Division Leadership/BARC Meeting

Welcome to Mark Leon

The meeting began with a committee welcome to new Chief Financial Officer (CFO) Mark Leon. He has been in his position since June 1, 2015 and has fully immersed himself into his new role. He said he has embraced the challenges he faces and appreciates the warm welcome and support of the committee members, staff as well as former CFO Greg Calloway for making himself readily available to answer questions.

YTD 2015 Financial Results (April/May) - BARC #4.3/#4.3.1 (EBD #14.10/#14.11)

Mark Leon, CFO, and Joanne Lee, Controller, reviewed the FY15 year-to-date results for April 30, 2015 and May 31, 2015. Mark highlighted the fact that ALA's financial results have trended positively for the first nine months of the year.

The following represent some of the highlights of ALA's financial position:

April Results – *Total ALA Revenues* were $30.7 million compared to the budget of $29.9 million for a positive variance of $870,054. Most of the variance was in the Division results (+$716,351) and Grants & Awards (+$658,815). *Total ALA Expenses* were $30.7 million compared to the budget of $32.4 million for a positive variance of $1.7 million. The result was excess revenue over expenses (*Net Revenue)* of $84,637.

May Results - *Total ALA Revenues* were $33.5 million compared to the budget of $33.4 million for a positive variance of $133,132. Most of the variance was again in the Division results (+$478,341) and Grants & Awards (+$679,734). *Total ALA Expenses* were $34.3 million compared to the budget of $36.0 million for a positive variance of $1.7 million. The result was excess expenses over revenues (*Net Expenses)* of (-$761,101), which is better than the budgeted excess expenses over revenues of (-$2.6 million).

The impact on the financial position of the Association resulted in *Total Assets* of $81.9 million which is $810,186 (-1.0%) lower than this time last year. The change is due primarily to lower cash ($2.6 million) related to the prepayment of the long-term debt and a decrease in fixed assets (-$886,416) due to the continued amortization of the ALA financial system. These results were offset by an increase in long-term investments (+$2.5 million) and prepaid expenses ($801,587). *Total Liabilities* were $43.2 million which is $3.5 million (-7.5%) less than this time last year. The reduction was due primarily to lower long-term debt (-$2.9 million) and the current portion of long-term debt (-$712,566). These increases were offset by an increase in deferred conference revenue (+$1.1 million), primarily related to the upcoming Annual conference. The cumulative result is an increase in the organizations *Net Asset Balance* by $2.7 million (7.4%) to $38.7 million.

General Fund Revenues for the period were $17.2 million which is less than the budget of $18.0 million by $795,001 (-4.4%). Most of the variance was related to lower book sales in Publishing[1] (Neal Schuman and Booklist) and Midwinter registration. *General Fund Expenses* were $19.0 million which is less than the budget of $19.3 million by $279,434. All expense categories were better than budget with the exception of Overhead Recovery, which was subsequently analyzed by management. After reviewing the allocation timing of overhead recovery, management confirmed that the projected timing did not accurately reflect the historical pattern. Page 12 of EBD #14.11 shows a revised overhead recovery in line with the historical pattern, which results in a lower budgeted overhead expense for the period, a lower variance from budget (-$76,411 vs. $592,310), and an operating net revenue variance that matches overall tracking to the FY15 budget.

Loan Refinancing – BARC #25

[1] 30% of publishing revenue is generated in the last quarter of the year.

Joann Lee updated the committee on the work since the Spring meeting when authorization was given to explore options for renegotiating the Associations' outstanding long-term debt for better terms. After reviewing the options and merits of refinancing, staff began formal action to enter into a new loan arrangement.

The prevailing interest rate at the time was 3%. Additionally, the term of the loan was shortened from 2024 to 2020. In order to lock in the 3% rate, a principle payment of $2.2 million was made on May 21st. This, along with the regularly scheduled payment of $647,500, resulted in a new loan balance of $6.0 million due August 1, 2020. The combination of the new rate and a shorter term resulted in potential savings of approximately $342,097. The new loan will result in interest savings for the publishing operation. In addition staff was able to convince JP Morgan Chase to waive its prepayment penalty, resulting in a savings of $105,233.

ALA has since received the First Amendment to the loan agreement, dated August 3, 2015, which is the scheduled close date. There are some final details being addressed by ALA's legal representative Arent Fox and JP Morgan Chase bank, but at this point there are no major issues standing in the way of meeting the close date.

Publishing Update – BARC #23

The committee was joined by Don Chatham, AED of Publishing, to provide an update. The discussion began by noting that the Neal Schuman (NS) operation was behind in its budgeted revenue by approximately 28%. This percentage is expected to expand to 30% through the third quarter results. This is partially due to 1) a two week shutdown of book order shipments related to the transition to a new fulfillment house and 2) of the 12 titles scheduled to be published during the year, 4 were moved to Booklist, 4 were published and 4 are still in progress. As a result, revenue from NS is under budget while revenue from Booklist is over budget.

Although net revenue for NS is less than expected, all other publishing areas are doing well. On a consolidated basis the year-end net revenue for publishing is projected to be only $7,000 less than the budget of $840,000. Going into FY15, publishing management still viewed this as a transition year. The budget for FY16 calls for budgeted net revenue of $1.1 million, an increase of 26.6%. The FY16 results are helped by the reduction in amortization expenses of approximately $290,000. As noted earlier there will be an additional benefit from the renegotiated loan resulting in a savings in interest expense estimated to be about $40,000.

RDA is well positioned to be key to future library success as the product has been designed to be a new standard for the digital age that will enhance discovery and description of all resources, including those available in the data formats and exchange protocols of the Semantic Web and Linked Data. Graphics will be releasing its fall catalog in August, which will feature higher profit margin products i.e. super hero related items, moving away from bookmarks, tee shirts etc. One item to keep an eye on is the inventory reserve which may not be high enough due to the need to destroy some old inventory. The impact could be an additional expense of $80,000 in FY15.

Collaboration with other units, particularly the divisions, within ALA is still something that Publishing would like to accomplish. One model that is currently in use holds some promise. Under this joint model Publishing will receive all the revenue and incur all the expenses. However, the *net revenue* will spilt 50/50 with the division. It's a model that produces additional overhead revenue for the General Fund.

Discussion on the Role of BARC

The committee engaged in a discussion on the role of BARC and if the committee was maximizing its efforts to carry out its charge. It was felt that more time should be devoted to analyzing longer term trends and issues that may have a profound impact on the future success of the Association and identifying/addressing issues that may need more immediate action. One area where the committee focused its attention was on the role of the liaison. There was agreement that there was a need to better define the role of a liaison, both with staff and member leaders. It was also emphasized that the role should be that of communicator and not of advocate.

BARC Term Limit Discussion by COO - BARC #24

The committee reviewed ALA COO Document #13 regarding the issues surrounding the term limits of BARC committee members, particularly that of a person who serves as ALA Treasurer. The general policy is that members may serve only one lifetime term on the committee. However, it has been noted and recognized that a member elected as Treasurer has served on the committee despite having served as an appointed member in the past and vice-verse. The committee reviewed the situation and took no position in the issue.

Total ALA FY 2016 Budget - BARC #20.1

Keith Fiels and Brad Geene summarized the changes in the proposed FY16 budget since the spring meeting. The changes will be presented to the F&A/Executive Board on Monday for final approval by Council on Tuesday during Council session III. The most significant changes i.e. additional expenses (-) and expense savings (+), included the following:

- Inclusion in the General Fund for two standing committees whose expenses had been overlooked earlier ($19,630) (+)

- Budget reductions by two Divisions ($18,000) (-)
- Round Tables ($7,849) (+)
- Grants and Awards related to the Public Awareness Campaign ($20,270 (+)
- No change in capital budget of $1.7 million (-)

The impact of these changes resulted in a budgeted net revenue for FY16 of $271,182 and a budgetary ceiling of $67,087,027. This is a decrease in the budgetary ceiling of $15,725 from the Spring meeting total of $67,102,752.

The committee took the following action electronically:

Action: BARC recommends to the Executive Board approval of the FY 2016 Budgetary ceilings as highlighted in BARC #20.2 (EBD #14.13).

Round Tables

The committee discussed accounting practices currently used to track expenses related to Round Tables. Staff provided a brief overview of the history of Round Tables and how support for them has evolved. There are now 20 Round Tables in the Association and each fills a valued function, contributing in significant ways to the profession.

Financial Learning Series

The committee was updated on the status of the latest BARC committee Financial Learning Series tutorial, which has the working title of " Budget Planning for a Pre-conference or One-time Event." This module is expected to be ready to publish on the Treasurer's web page later this summer. The *ALA Financial Handbook* was published in February on the Treasurer's Page and serves as a resource to members and staff. The Chair noted that through its educational effort, the committee has benefited members, particularly those with fiscal responsibilities in the units.

Planning and Budget Assembly (PBA)

The committee met on Sunday with members of the PBA. BARC chair provided some basic financial highlights and answered questions raised regarding the BARC report to the Membership Information Session on Saturday. The agenda focused on implementing the new Strategic Directions, particularly those around the "Libraries Transform" campaign which will be formally launched on Tuesday by incoming ALA President Sari Feldman. Her presentation was followed by a lively discussion and exchange of ideas.

Division Leaders/BARC Joint Meeting

Division Leaders/BARC Joint Meeting **–** This joint meeting focused entirely on ALA's investment in technology, its progress and plans for the next two years. The comprehensive presentation by Sherri Vanyek, Director of ITTS[2], and Mary Ghikas, Associate Executive Director, incorporated questions along the way and was followed by strong support from division leaders.

Acknowledgement

BARC 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 thanks Keith Michael Fiels and Mary Ghikas for their insightful and helpful input and participation.

Finally, special thanks are extended to John Moorman, Janice Wellburn and Patricia Wand whose terms are ending at the conclusion of this conference. The committee thanks each of them for their contributions to the committee during their terms.

Respectfully submitted:

Patricia Wand, Chair
Lori Goetsch
Mario Gonzalez, Treasurer
Ann Martin
John Moorman
Jim Neal
Jo Ann Pinder
Janice Welburn

[2] Information Technology and Telephone Services