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**American Library Association**

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**Joint Meeting Report of the**

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**Budget Analysis and Review Committee**

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**and the Finance and Audit Committee**

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**to the ALA Executive Board**

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**October 28, 2017**

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Members of the Budget Analysis and Review Committee (BARC) and the Finance and Audit committee (F&A) held a joint meeting on Thursday, October 26th to discuss and review a number of financial issues and are pleased to report to the Executive Board on our activities. Below is a list of the primary topics discussed:

- BARC and F&A Committee Orientation
- YTD Preliminary Year-End 8-31-17 Financial Results (Executive Summary) - BARC #4.0 (EBD #4.02)
- FY 2018 Final Budget Approval – BARC #20.0 (EBD #14.0)
  - **Action Item**
- Financial Reporting and Compliance Report – BARC #16.0 (EBD #4.03)
  - **Action Item**
- Membership Dues Proposal - BARC #7.0 (EBD #4.04)
  - **Action Item**
- Controller’s Report – BARC #13.0 (EBD #4.05)
- Endowment Trustee’s Report – BARC #13.0 (EBD #13.0)

**BARC and F&A Committee Orientation**

During this meeting the members of both committees engaged in an orientation presentation that was significantly different from previous efforts. A good deal of time was spent on both the composition and the purposes of each committee. Since committee members each had varying degrees of understanding (general) of the make-up and authority of their perspective committees, learning of the details was in many cases eye-opening. The most engaging portion of the presentation was the discussion surrounding the varying levels or steps involved with making or forwarding an action or resolution through the decision-making process. One result of the discussion was the formation of a small group (Andrew Pace, Peter Hepburn and a member of the Resolutions committee TBD) to review and discuss “Best Practices” related to resolutions with a financial/budget impact from a process and notification perspective.

**YTD Preliminary Year-End 8-31-17 Financial Results (Executive Summary) - BARC #4.0 (EBD #4.02)**

Mark Leon led the committee in a discussion of the preliminary 12-month FY 2017 results. In reviewing the results, he also referenced the ALA Five-year plan (BARC #5.0/EBD #14.1) and the 2017 – 2019 Strategy and Budget (BARC #21.0/EBD #14.02). Using these materials and taking a broad overview, the results reflected the following:

- FY17 was a challenging year, particularly in the General Fund
- Total ALA revenues were \$48.8 million compared to the budget of \$50.1 million
- Revenues were lower primarily from the results in the General Fund (\$27.7 million)
- Also contributing was lower revenues from Long-Term investments (-6.4%)
- Total ALA expenses were \$51.1 million compared to the budget of \$51.9 million
- The Net Revenues (Expenses) were (\$2.4 million) compared to the budget of (\$1.9 million). The resulting increase in net expenses over budget by \$495,862 is less than 1% of reported revenue

The committee was reminded that this was a one division conference year and the budget called for net expenses of (\$1.9 million), which is typical in a one division conference year.

The committee was then referred to the General Fund which reflected the following:

- General Fund revenues were \$27.7 million compared to the budget of \$29.6 million
- Lower revenue than budget from Publishing Services (\$1.4 million)
- Dues revenue lower than budget by \$242,035 due to higher retirement rates and lower organizational members
- The combined net revenue for the MW/AC activities (\$752,015) were better than the budgeted net revenue by \$21,978.
- General Fund expenses were \$29.0 million compared to the budget of \$29.5 million for a net expense variance of (\$516,451)
- The overall net revenues (expenses) were (\$1.3 million), which compares to the budget of (\$1.4 million)

*Statement of Financial Position* - The discussion shifted to the Association's balance sheet and how changes impact the cash position. Net assets for the Association increased over last year by \$10.0 million or 32.9% due primarily to a decline in the Postretirement liability (\$10.4 million) – see compliance report (BARC #16.0/EBD #4.3). Total assets were \$73.2 million, which is down by \$2.6 million (-3.4%). The most significant changes were a reduction in short-term investments (\$6.0 million) due to operating needs and an increase in the value of the endowment (\$3.5 million) related to market activities. Total liabilities were \$32.7 million which is a decline of \$12.6 million (27.8%) due primarily to a reduction in the Association's Post-retirement liability (\$10.4 million). As a result, the Association's net asset increased by \$10.0 million (32.9%) to \$40.5 million.

The committee was then directed to ALA's five-year planning tool. M. Leon is a strong supporter of the five-year plan as a planning tool for management and an information tool for member

leaders and the membership. The plan highlights some of the financial history i.e. Three years, the FY17 preliminary results, the FY18 budget presented at the Annual conference and budget changes for FY18 since the annual conference. It was noted that the document is updated twice a year and will be updated to reflect the most currently available information later this fall in preparation for the Midwinter Meeting.

**FY 2018 Budget Approval - BARC #20.0 (EBD #14.0)**

As the FY17 discussion closed down, M. Leon wanted to transition to FY18. He noted that the FY18 budget was modified to account for the FY17 results and any new information on expected revenues and expenses, as well as, any expected operational improvements throughout the Association.

*FY2017-2018 Budget and Strategy* – It was noted that management had adopted a longer-term horizon in planning for FY19 and beyond. This includes foundational investments that will increase mission attainment and improve the Association’s long-term health. Here are some of the item that were changed/considered since the annual conference:

- Publishing revenue reduced by \$911,007
- All ALA Publishing unit budgets reviewed and revised
- Membership dues reduced by \$118,000
- Grant revenue increased by \$1.5 million
- General Fund net revenue reduced by \$235,821
- Publishing revenue reduced by \$235,821
- Overhead from Divisions increased by \$99,309
- Overhead from Grants increased by \$202,804
- General Fund expenses decreased by \$325,741

As a continuation of his discussion on 2017 – 2019 budget and strategy handout, the Publishing team was asked to join the discussion. Mary McKay and members of her team – Bill Ott and Chris Murphy, joined the meeting to discuss the FY18 plans for the publishing operation. In FY17 the Publishing operation provided \$2.5 million in overhead to the General Fund. Going into FY18 the team is very confident that the operation is positioned to better execute their plan. There have been a number of changes in personnel, operations, processes used, training and better coordination with vendors/authors/ALA units/Finance staff. The thinking is focused on streamlining the operation, strengthening their competitive advantages, identifying new markets/products/collaborations to exploit, developing closer ties to authors and customers. Due to improvements in the Neal-Schuman operation marketing staff will be free to implement more extensive marketing plans. The new AASL standards with projected revenue of \$726,215. The new online store will launch in 12/17, which will increase customer flexibility. More extensive survey information is available to ALA Graphics to be analyzed for better marketing and product targeting.

**Action Item**

BARC recommends to F&A and the Executive Board approval of the final FY 2018 budget & budgetary ceiling of \$67,792,738 and its related actions, as presented in BARC document # 20.0.

**Financial Reporting and Compliance Report – BARC #16.0 (EBD #4.03)**

D. Moritz provided the committees with an update of ALA's compliance activities. The following represents highlights of the discussion:

- Filed form 5500 for ALA's Employee Benefit Plans (7/17)
- Filed form 5500 and 8955-SSA for ALA's Retirement plan (8/17)
- The 12-31-16 403(b) audit was completed and delivered (8/17)
- Form 990 and 990T filings to the IRS for FY16 and other filings (7/17)
- Form 990-EZ to IRS for the ALA-APA
- All required filings for the Margaret Alexander Edwards Trust
- Impairment testing on the ALA publishing operation<sup>1</sup>
- Actuarial analysis for the post-retirement benefit obligation

There were two significant discussion points during this report – the impairment testing for the publishing operation and the actuarial analysis related to the post-retirement benefit obligation.

*Impairment Testing* – Because goodwill is carried on the books for the Neal Schuman operation impairment testing is required every year. As a result of internal transitional and strategic meetings between the Executive Director, Publishing and the finance department an updated business plan was provided to Plante Moran, ALA's valuation expert. Note that this business plan for the first time included the combined business units of ALA Editions and ALA Neal Schuman and the expected future cash flows. The preliminary findings, which will be finalized 11/6/17, illustrate an impairment (loss) of Approximately \$842,000. Note that this does not represent a cash outlay and is a below the operating line expense.

*Actuarial Analysis* – After meeting with ALA's actuary and auditors met in August to discuss the assumptions to be used in the calculation of the post-retirement benefit obligation. The result was a discount rate 4.5%, which is a reduction from 5.0% last year. The change resulted in an increase of \$500,000 expenses for the Association. In addition to the discussion on the discount rate it was noted that there was a significant change in the post-retirement benefit obligation,

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<sup>1</sup> ALA Editions and Neal Schuman

which declined by \$10.4 million to \$11.9 million. The change is a result of the decision to split the pool of covered/insured employees into two groups – retired and current. The amount was also impacted by a reduction of \$260,000 related to a decrease in expected longevity in the mortality table.

**Action Item**

F&A recommends to the Executive Board acceptance of the calendar year 2016 403 (b) audit as issued by Mueller & Co., LLP as highlighted in document BARC #16.0/EBD #4.3.

**Membership Dues Proposal – BARC #7 (EBD #4.4)**

The committee was joined by Arthur Miller, Chair of the Membership committee, to discuss a proposed change to the membership dues. Cathleen Bourdon and Ron Jankowski were also present to provide additional support. The committee felt that the proposal under consideration was fairly straight forward with two pieces:

1. A \$5 dues increase for 3<sup>rd</sup> year members in year one (9/18)
2. Adjust dues annually tied to the CPI index for four years through 9/22

After some in-depth discussion, the committee was very comfortable with the idea of tying any proposed dues increase to the CPI. The issue was the presentation of the \$5 increase. The committee did not feel that a \$5 increase was unreasonable but understood that it could be difficult for a large segment of the membership as a whole. After some additional discussion it was determined that from a percentage standpoint the increase would impact the many dues categories quite differently. Also, it was further determined that the difference between the regular CPI typically charged and the proposed dues increase would result in an additional \$20,000 to the Association.

After further discussion the committee supported the proposed recommendation of the Membership committee but expects that additional discussion will be made at the Executive Board. As such the following action was taken:

**Action Item**

BARC recommends to F&A and the Executive Board that the Board approve the proposal to adjust personal member dues and directs the Membership Committee to forward the recommendation to ALA Council for their consideration during the 2018 ALA Midwinter Meeting.

**Controller's Report – BARC #13.0 (EBD #4.05)**

Before the actual Controller's report, M. Leon began the discussion with a handout to the committee in order to provide a brief tutorial of the Association's Statement of Financial Position or balance sheet. He discussed assets (what we have), liabilities (what we owe) and net assets (difference between what we own and what we owe). In many instances net assets are considered

equity or ownership. He pointed out that net assets account for 55% of the Association's assets, which is a strong indicator of the health of the Association. He went on to further explain the sources and uses of cash and how the periodic changes in the balance sheet impact cash flow.

J. Lee, Controller, joined the discussion to provide some detail to the highlights of M. Leon's discussion. As noted earlier cash and short-term investments i.e. working Capital declined by \$5.3 million, which is a direct result of the overall impact of the financial results in FY17 i.e. lower revenue generation. Other balance sheet changes that impacted cash were lower Grants Receivable (\$326,744), lower Accounts Receivable (\$159,397), higher Prepaid Expenses (\$491,223), lower Accounts Payable (\$870,125), lower Long-Term debt (\$1.2 million), the current portion of Long-Term debt (\$345,734) and Grants & Awards (\$848,045). Other information reported on included the following:

- Bank required liquidity ratio was a strong 10.8x more than required
- Deferred revenue was flat at \$13.5 million
- Loan payment of \$1.3 million made in 8/17 leaving a loan balance of 3.2 million
- Net intangible asset declined by \$360,165 to \$1.1 million

While not critical management will continue to monitor the level of working capital. ALA is in a solid financial situation currently but must be careful to develop strategies and actions to maintain that financial solidarity on an annual basis and begin to plan to do so in the next 1-2 years.

#### **Endowment Trustee's Report – BARC #13.0 (EBD #13.0)**

Reporting on behalf of Senior Endowment Trustee Rod Hersberger, S. Hildreth reported on the endowment fund and the activities of the Trustees. For the calendar year to date 9-30-17 the endowment reflected a value of \$44.1 million with a return of 11.4%. It was noted that the market has been setting record highs throughout the year, which has led to some concerns about the market being overvalued. She pointed out that the Trustees continue to place a priority on the inclusion of ESG/SRI<sup>2</sup> type investments in the portfolio, which now stands at approximately 23%. As part of that effort the Trustees met at the Washington office where much of the agenda covered ESG related managers and educational items. During the meeting the Trustees hired the manager for the Calvert Short Duration Income ESG bond fund. This hire represented an opportunity to add an ESG component to the fixed income side of the portfolio compared to the more common equity side.

#### **Acknowledgement**

BARC extends its sincere thanks to the ALA finance staff: Mark Leon, Joanne Lee, Keith Brown, Brad Geene, Denise Moritz and Ligia Barac for their work and support in preparing for

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<sup>2</sup> Environmental, Social and Governance/Socially Responsible Investing

the committee's meeting and discussions. The chair would also like to thank Mary Ghikas for their insightful and helpful input and participation.

Respectfully submitted:

Finance & Audit

Susan Hildreth, Treasurer and Chair

Andrew Pace

Julius Jefferson, Jr.

Rhea Lawson, BARC Chair