



Spring 2019 Finance & Audit (F&A) Committee Meeting
Thursday, April 4th, 2019
Chicago, IL
Minutes

Committee Members:

Present: Susan Hildreth – Treasurer, Maggie Farrell – BARC Chair, Maria McCauley, Andrew Pace, Ed Garcia

Staff:

Present: Mark Leon, Mary Ghikas, Ligia Barac, Keith Brown, Denise Moritz, Joanne Lee, Brad Geene

Proceedings:

- The F&A Meeting was called to order at 9:00am by Treasurer, Susan Hildreth
- Agenda was reviewed and approved with no changes
- The F&A minutes from 2019 Midwinter Meeting were approved (EBD #3.12)
(Motion moved by Ed Garcia and seconded by Maria McCauley)

Members of the Finance and Audit committee (F&A) held a meeting on Thursday, April 4th, to discuss and review the following primary financial topics:

- FY 2019 Five-Month January Financial Results – Executive Summary (EBD #3.13)
- FY 2019 Financial/Operational Summaries with Projections + FY20 Operating Plan/Budget
- Preliminary FY 2020 Budget and Annual Estimate of Income (EBD #3.10)
 - ▲ Action Item on FY 2020 budget
 - ▲ Action Item on CPI increase to personal dues
 - ▲ Action Item on FY 2020 Presidential budget
- FY 2020 Budget Investment Plans
 - ▲ Development Office (EBD #6.4)
 - ▲ Advocacy (EBD #12.29)
 - ▲ ITTS (EBD #12.30)
- Endowment Trustees Report (EBD #13.2)

FY 2019 Five-Month January Financial Results – EBD #3.13

Mark Leon led the committee in a discussion on the five-month results ending 1-31-19. Taking a broad overview, total ALA is doing better than budget on a net basis by \$546,465 as revenues were higher by \$392,653 and expenses were lower by \$153,812. This was primarily from additional Grants & Awards (\$816,676) and the performance in the endowment (\$558,995). These results were offset by weakness in the General Fund (\$639,167) and lower than expected Division revenue (\$421,062) for this time of year. This resulted in a better net expense of (\$3.1 million). Other financial highlights included the following:

- ▲ Total ALA revenues of \$17.5 million compared to budget of \$17.1 million
- ▲ Total ALA expenses of \$20.6 million compared to budget of \$20.8 million
- ▲ Net operating expenses were (\$3.1 million) compared to budget of (\$3.7 million)
- ▲ Total Assets were \$79.7 million
- ▲ Total Liabilities were \$38.6 million
- ▲ Net Asset Balance was \$41.1 million
- ▲ General Fund revenues were \$9.8 million compared to the budget of \$10.4 million
- ▲ General Fund expenses were \$11.7 million compared to the budget of \$12.6 million
- ▲ General Fund net expenses were (\$2.0 million) compared to the budget of (\$2.2 million)

The General Fund revenue shortfall is attributed to lower publishing revenue and related overhead, lower interest income and higher than anticipated AV costs for the Midwinter Meeting in Seattle. Division revenues were less than budget by \$421,062 at \$4.0 million due to lower donations and royalties, while expenses were on budget at \$5.6 million. Round Table revenues of \$242,035 were better than budget by \$177,209, while expenses of \$130,510 were less than budget by \$30,159.

During the discussions, M. Leon took the opportunity to highlight the display of new information, (pp. 5 & 6), designed to provide member leaders with more concise and informed information.

Open Positions Report

Dan Hoppe reported to the committee on the status of several open positions within the Association. There are currently 12 positions throughout the Association that are in various stages of recruitment. It was noted that it currently takes approximately 77 days to fill an open position. As part of the discussion, he noted the importance of the EDI program within the Association. Anne Phibbs from the University of Minnesota led all the sessions held in Chicago. There were Diversity 101 sessions in October (4) and programs for supervisors in February (2). There are currently plans for 4 sessions of the program in the FY 2020 budget and going forward. The cost is approximately \$3,500 including speaker costs, travel and lodging per session.

FY 2019 Projections + FY 2020 Operating Plans (Financial and Operational Summaries)

Mark Leon began the discussion by referring the committee to document EBD #3.10 to point out the structure of the document. He noted that pp. 1-4 provided the background for FY17-FY19 decisions and outcomes, which included a review of the ten-year financial trend information, development of an investment plan, Development Office audit and a substantially revised (reduced) FY18 budget. Pp. 4-11 concentrated on the preliminary FY20 budget, which highlighted the FY19 performance to date and projections through end of the year. Management anticipates a \$1.2 million (-4.3%) larger General Fund net expense compared to the operating budget. Pp. 11-14 focused on FY20 and beyond including key assumptions, potential impacts from the SCOE, year 2 of the investment budget, new business development, etc. It was noted that this result did not include any input related to the potential real estate sale.

After some additional discussion, Susan Hildreth asked the committee if they had a clear understanding of the difference between the Association's operating results and its assets or financial position, as the projected net expense will be covered using net assets. Members confirmed their understanding.

At this point the financial and operational summaries were provided by:

- Publishing (EBD #12.26) – Mary MacKay
- Conference Services (EBD #12.27) – Mary Ghikas
- Grants & Awards (EBD #3.14) – Deb Robertson & Sheila O'Donnell
- Membership (EBD #12.28, EBD #12.24, EBD #12.32) – Lorelle Swader

Action Item: Motion: Moved by Andrew Pace and seconded by Ed Garcia

F&A recommends to the Executive Board that they approve applying the calendar year 2019 change in the national average Consumer Price Index (CPI) 2.2% to adjust personal member dues in the FY 2020 budget.

FY 2019 Progress to Date and FY 2020 Investment Budget Areas

Development Office – EBD #6.4

Sheila O'Donnell presented to the committee highlights of the investment needs for the current year and FY 2020. For FY 2019, the investment amount was budgeted at \$208,000, primarily for the following areas:

- Funding of 2.5 positions reallocated to Development Office
- Designing, printing and mailing fundraising materials

Due to the slow ramp up of staffing in FY 2019, S. O'Donnell felt that FY 2019 & FY 2020 should be considered investment years, with likely positive returns on the investments in FY 2021. Investment in these areas are expected to bolster member/public engagement with ALA's mission, increase general fundraising and track the return on investment.

ITTS – EBD #12.25, EBD #12.30

Jim Gibson and Sherri Vanyek presented to the committee highlights of the identified investments deemed critical to ITTS and the Association. For FY 2019, \$1.4 million was budgeted as an investment. It covered several critically deemed projects, i.e. eCommerce System improvements, IT project manager position, Salesforce Advocacy tracking system, membership auto renewal, etc. For FY 2020, an overview was provided on key projects and outcomes, which included the proposed move, financial system migration, a new CIO, business analyst, etc. The plan is for three new positions in FY 2020 and FY 2021, for a total of 15 in the department by end of FY 2021. It was acknowledged that there were essentially three budgets within the department:

- Operating budget
- Investment budget
- Moving budget

In closing, it was pointed out that after the ITTS review it was felt that much of what the department deems as necessary and priorities could be completed approximately \$800,000 less than planned.

Advocacy – EBD #12.29, EBD #6.4

Kathi Kromer presented to the committee highlights of the investments that were identified as important to support 21st century advocacy and create a stronger infrastructure (National Network) for advocacy. She identified the following as critically important:

- A combination of the “Fly-In” and National Library Legislative Day (a revamped version)
- Phase II of the Customer Relationship Management (CRM) System – Salesforce
- Commitment by ALA to building a national Advocacy network based on a minimum of one key contact in every congressional district
- ALA participation in external events
- \$60,000 for a national policy corps

It should be noted that there was some discussion with respect to whether the additional funding for the national policy corps represented an increase in the Advocacy investment budget (\$492,000 vs \$432,000). It was deemed as necessary and important to the Association and further discussion is planned.

F&A recommended tracking or delineation of investment funding in contrast to operational funding. Currently, operational and investment funds are mixed in the budget. BARC is taking a leadership role in developing outcomes from this critical investment funding and would like to identify the funds and outcomes distinctly. Mark Leon agreed to work on an approach or framework to delineate/track the investment funds.

Preliminary FY2020 Budget and Annual Estimate of Income – EBD #3.10

Mark Leon walked the committee through the FY 2020 planning document throughout the day as individual presentations were given during the meeting. In addition to some basic background, (pgs. 1-4, EBD #3.10) and a review of key assumptions, the discussion included analyzing the YTD FY 2019 results and projections for the remainder of the year. Management spent a great deal of time and effort to identify those things that would best position the Association to regain its financial footing for years beyond the investment budgets of FY 2019 – FY 2021. It was noted that the FY 2019 and FY 2020 budgets do not consider the potential sale of the HQ building, which will have a significant cash flow impact.

FY 2019 projections for the General Fund were also covered during the discussion. It was pointed out that, while the budget had a planned deficit of (\$2.4 million), the estimate projection for the end of FY 2019 is (\$3.6 million). Projected gross revenues are \$27.2 million, which compares to the budget of \$28.1 million.

Contributing to the projected deficit was:

- Higher AV cost for the MW meeting
- Lower Publishing revenue
- Lower interest income
- Lower overhead (MW/Publishing/Divisions)

For FY 2020, gross revenues are budgeted at \$28.1 million, which is comparable to the FY 2019 budget of \$28.1 million and higher than the FY 2019 year-end projection of \$27.2 million. Publishing revenue will be slightly higher due to the anticipated ALA Editions/Schuman pipeline of publications. Conference Services expects a strong performance in Philadelphia for FY 2020 Midwinter, although it is a high labor cost city. It also expects strong performance in Chicago for FY 2020 Annual. Interest income will be higher than the FY 2019 projection but lower than the FY 2019 budget. This could be impacted positively by any real estate sale. On the cost side, the Association would be looking at several months with unplanned lease expenses.

FY 2020 expenses are very similar to FY 2019. FY 2019 overhead is budgeted at \$7.2M as FY 2020 is a two-conference year. (\$6.8M was actual FY18 overhead). A 7% increase in benefits is included, as well as a 2% salary increase for staff as of January 1, 2020. The overhead rate is anticipated to remain the same as FY 2019, 25.6%. After additional discussion of the information presented, and an assurance of understanding of all the issues, the committee took the following action to approve the proposed preliminary budget:

Action Item: Motion: Moved by Andrew Pace and seconded by Ed Garcia

F&A recommends to the Executive Board approval of the Preliminary FY 2020 Budget proposal (EBD 3.10) with referral to the Budget Analysis and Review Committee (BARC) for further analysis and review. The Board affirms the strategic directions of this budget and requests that BARC report back on its analysis at the 2019 Annual Conference in Washington, DC.

President-Elect Budget – EBD #3.11

Wanda Brown, President-Elect and JoAnne Kempf from the Governance Office, joined the committee to discuss the proposed Presidential budget. A broad outline of activities was shared with the committee at the Midwinter Meeting in Seattle, and more details and costs were included in the document reviewed on April 4th. At \$75,000, four broad areas will be addressed:

- Addressing social/economic inequity among young African American & Hispanic men and the library's role – \$25,000
- "Finding Your ALA" – Reaching new professionals via activities at Chapter/state association conferences to connect students and new library staff with ALA - \$30,000
- Change Management with ALA Staff – \$15,000
- Reserve for other potential expenses that arise during the year as different ideas and opportunities present themselves i.e. speakers, internal/external events – \$5,000

Action Item: Motion: Moved by Andrew Pace and seconded by Ed Garcia

F&A recommends to the Executive Board approval of the proposed FY 2020 Presidential Initiative budget of President-Elect Wanda Brown in the amount of \$75,000 subject to further review, discussion and analysis by BARC, as part of their review of the preliminary FY 2020 total ALA budget.

The committee closed by noting their enthusiasm regarding the President-Elect's recognition of the need to help and guide staff as they confront and deal with the amount of change that is taking place across the Association related to the "Change Streams."

Endowment Trustees Report - EBD #13.2

Pat Wand, reporting for Senior Endowment Trustee Rod Hersberger, updated the committee on the status of the Endowment and other important related information and activities. The Endowment is valued at \$45.4 million as of 2-28-19. Pat highlighted several items:

- Diversity among asset classes is still vitally important to the portfolio
- The Endowment's performance compared to the rest of the world markets was acceptable
- Highlighted actions/conditions around the world that are or have the potential to negatively impact the portfolio, which are beyond the control of the Trustees
- Highlighted the continuing work from the November strategic operational review
- Discussion around the SRRT/SRT recommendation for the endowment
- Discussed the criteria for development of a new investment policy statement

It was noted that during the Trustee's meeting in February there was a good time of time and effort spent on addressing the recommendations of the SRRT/SRT leadership. Several communications have been made back and forth between the group and the response has generally been well received. The Trustee's will continue to work in a collaborative way by making themselves available to meet and discuss issues at the upcoming Annual conference in Washington, DC.

The committee reviewed and had an extended conversation on elements of the proposed investment policy statement. The committee made a few recommended changes with respect to Economic, Social and Governance (ESG) language in the proposed statement. F&A will plan to discuss with the Executive Board and will refer the statement back to the Trustees for further consideration. The Trustees will review the F&A comments and Executive Board comments and discuss at their May meeting. It is anticipated a final document will be presented to F&A and the Board at the 2019 Annual Conference.

With no further business, the meeting was adjourned.