

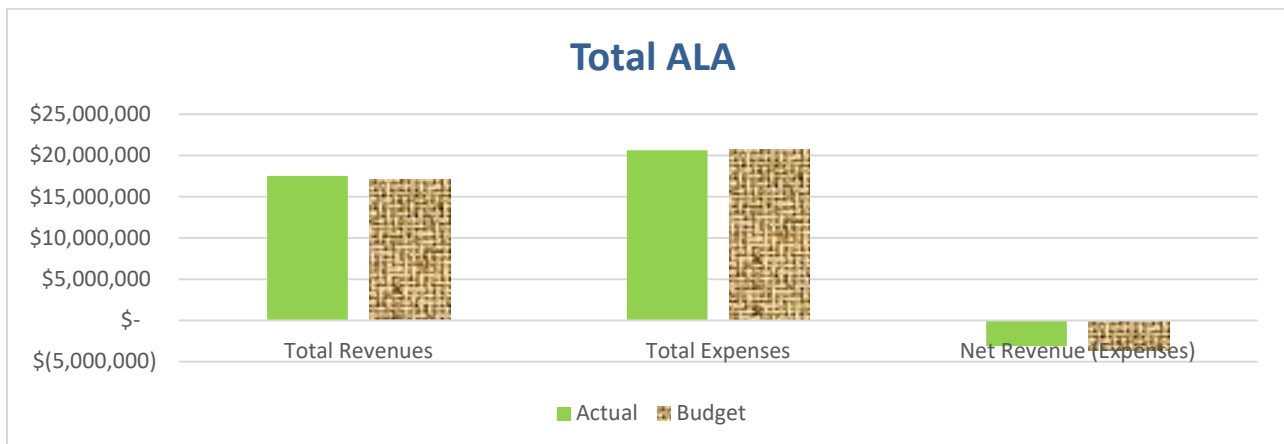
**American Library Association
Finance and Audit Committee Report
to the ALA Executive Board
April 6, 2019**

Members of the Finance and Audit committee (F&A) held a meeting on Thursday, April 4th 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:

- FY 19 Five Month January Financial Results – Executive Summary (EBD #3.13)
- Preliminary FY20 Budget and Annual Estimate of Income (EBD #3.10)
 - Action Item on FY20 budget
 - Action Item on CPI increase to personal dues
 - Action Item on FY20 Presidential budget
- FY20 Budget Investment Plans
 - Development Office (EBD #6.4)
 - Advocacy (EBD #12.29)
 - ITTS (EBD #12.30)
- Endowment Trustees Report (EBD #13.2)

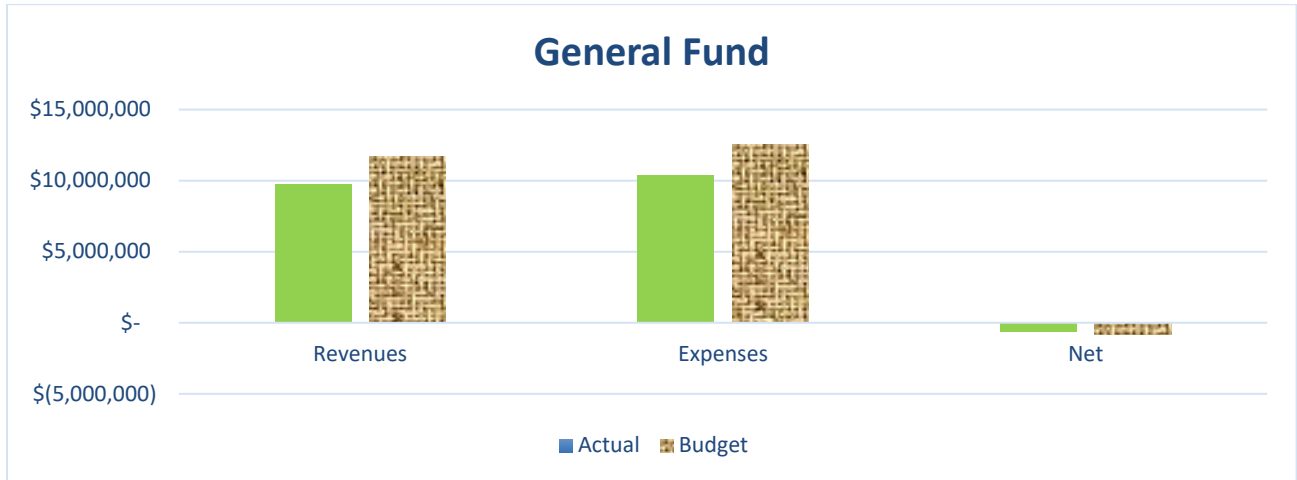
FY 19 Five Month January Financial Results - EBD #3.13

Mark Leon led the committee in a discussion on the five-month results ending 1-31-19. Taking a broad overview, total ALA is on budget, but with less than anticipated performance in the General Fund. The weakness in the General Fund was offset by growth in the endowment (\$558,995) and Grants & Awards (\$816,678). He noted that Division revenue was also lower than expected for this time of year



- 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)

General Fund revenue losses are generally attributed to lower publishing revenue and related overhead, lower interest income and higher than anticipated AV costs for Midwinter in Seattle. See FY20 proposed budget for a more detailed discussion (pg. 4 of this report).

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.

Open Positions Report

Dan Hoppe reported to the committee on the status of 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 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. 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 FY20 budget and going forward. The cost is approximately \$3,500 including speaker costs, travel and lodging per session.

Financial and Operational Summaries

Financial and operational summaries were provided by:

- Publishing
- Conference Services
- Grants & Awards
- Membership

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 FY20 budget.

FY19 & 20 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 FY20. For FY19 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 FY19, S. O'Donnell felt that FY19 & FY20 should be considered investment years with likely positive returns on the investments in FY21.

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

Jim Gibson presented to the committee highlights of the identified investments deemed critical to ITTS and the Association. For FY19 \$1.4 million was budgeted as an investment. It covered a number of critically deemed projects i.e. eCommerce System improvements, IT project manager position, Salesforce Advocacy tracking system etc. For FY20 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 3 new position in FY20 and FY21 for a total of 15 in the department by end of FY21. It was acknowledged that there were essentially 3 budgets within the department:

- Operating budget
- Investment budget
- Moving budget

Advocacy 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 additionally requested 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 agree to work on an approach or framework to delineate/track the investment funds.

Preliminary FY20 Budget and Annual Estimate of Income - EBD #3.10

Mark Leon walked the committee through the FY20 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 FY19 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 FY19 – 21. It was noted that the FY 19 and Fy20 budgets do not take into account the potential sale of the HQ building, which will have a significant cash flow impact.

FY19 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 FY19 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 FY20 gross revenues are budgeted at \$28.1 million, which is comparable to the FY19 budget of \$28.1 million and higher than the FY19 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 FY20 Midwinter, although it is a high labor cost city. It also expects strong performance in Chicago for FY20 Annual. Interest income will be higher than the FY19 projection but lower than the FY19 budget. This could be impacted positively by any real estate sale.

FY20 expenses are very similar to FY19. FY19 overhead is budgeted at \$7.2M as FY20 us 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 FY19, 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:

F&A recommends to the Executive Board approval of the Preliminary FY20 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 course of the year as different ideas and opportunities present themselves i.e. speakers, internal/external events - \$5,000

F&A recommends to the Executive Board approval of the proposed FY20 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 FY20 total ALA budget.

Endowment Trustees Report - EBD #13.2

Pat Wand – Endowment Trustee reporting for Senior Endowment Trustee Rod Hersberger, updated the committees 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 impacting the portfolio, which are beyond the control of the Trustees
- Highlighted the continuing work from the November strategic operational review
- Discussed the criteria for development of a new investment policy statement

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 referred the statement to the Trustees for further consideration. The Trustees will review F&A comments as well as 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 Annual Conference.

Acknowledgement

F&A extends its sincere thanks to the ALA finance staff: Mark Leon, Joanne Lee, Denise Moritz, Brad Geene, Keith Brown, and Ligia Barac for their work throughout the year and support in preparing for the committee meetings and discussions. The chair would also like to thank Mary Ghikas for her participation, insight, and helpful input.

Respectfully submitted:

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