**American Library Association**

**Budget Analysis and Review Committee and**

**Finance and Audit Committee joint report**

**to the ALA Executive Board**

 **June 25, 2018**

Members of the Budget Analysis and Review Committee (BARC) and the Finance and Audit committee (F&A) held a joint meeting on Friday, June 22nd to discuss and review a number of financial issues and are pleased to report to the Executive Board on their activities. Below is a list of the primary topics discussed:

* FY 2018 YTD April Financial Results - EBD #4.12
* FY 2019 Budget Overview and Review - EBD #3.5
* Indirect Cost Review - EBD #4.23
* Controller’s Report - EBD #4.27
* Endowment Trustees Report - EBD #13.3
* Endowment Trustee Candidate Discussion - CBD #20.0 (Closed Session – F&A only)
* BARC Report to Council – CD #33.1
* Treasurer Report to Council – CD #13.2
* Planning and Budget Assembly
* BARC/Division Leadership Meeting

**FY 2018 YTD April Financial Results - EBD #14.12**

Mark Leon led the committee in a discussion on the eight-month results ending 4-30-18. Taking a broad overview the results reflected the Association is trending in a positive direction.

# Total ALA revenues of $33.2 million compared to a budget of $32.9 million

* Total ALA expenses of $34.2 million compared to a budget of $34.4 million
* Net operating expenses were ($1.0 million) compared to a budget of ($1.4 million)
* Results for this period, compare very favorably to the results posted last year at the same time of net expenses of ($3.0 million).
* General Fund revenues were $15.5 million compared to the budget of $16.0 million, primarily due to the Midwinter meeting variance to budget
* General Fund expenses were $17.7 million compared to the budget of $17.1 million, primarily due to Midwinter meeting and Publishing variance to budget
* General Fund net expenses were ($2.2 million) compared to the budget of ($1.1 million)
* General Fund results are lagging slightly compared to budget for both revenues and expenses
* Overall, results are much closer to budget than in recent years due to improved planning and execution
* Depending on the final results of the Annual Conference in New Orleans, management expects the year to end on budget

Results for the Divisions and for both revenues and expenses were very positive Helped in large part to the continued success of AASL’s new standards, ALCS seal sales, positive results in EIMERT. Note that 17 of the 19 Roundtables to date have experienced an increase in membership.

**FY 2019 Budget Update EBD #3.5**

Mark Leon updated the committee on 2019 changes to the budget since the spring meeting.

Changes in the General Fund centered primarily on changes in three Publishing units:

* Digital Reference (RDA) – Reduced by approximately $61,000 due to lower subscriptions
* Booklist Reduced by $50,000
* eLearning Solutions were reduced by $27,000 due to lower expected online-sales
* Chapter Relations reflected a downward dues adjustment of $15,00 in shared Chapter Membership dues

As a result, the revised FY19 General Fund investment budget is now ($1,887,817). Note that Publishing adjustments represented 90% of the changes since the spring.

For the reminder of the budget highlights indicated that Division revenue increased by $35,000 as a result of increases in personal dues in AASL and PLA, Grants were up by $270,000 in PLA’s Gates Legacy grant, while there were no changes in the Roundtables and LTI.

**Indirect Cost Study Review EBD #4.23**

Mary Ghikas updated the committees on developments with the overhead rate for FY20. She noted that the preliminary results reflected an overhead rate of 26.7%. This compares to the negotiated rate of 26.5% last year for the FY18 budget. She indicated that in view of all the changes that are currently underway and or being proposed across the Association that stability was the more prudent route to take with respect to the indirect cost rate. As such, she reached out to the Division Executive Directors highlighting the study’s result and proposed maintaining the rate for FY19 at its current rate of 26.5% for one more year. The communication went out just prior to this conference there has been no comment to date. With this in mind it is possible that BARC and F&A could be revisiting this issue at its fall meeting.

**Controller’s Report EBD #4.27**

Joanne Lee, Controller reported to the committee on the findings of the organization as of 4-30-18. The discussion began by noting that it was her intention to provide some education to the committees on the relationship between the balance sheet/statement of financial position and the income statement. ALA is in a strong financial position. It’s debt ration is a strong 10.6X to 1.0X compared to its benchmark of 1.1X to 1.0X. Referring to a new document in the report she highlighted some examples of the relationship between the two sources of information. The committees felt that this was an excellent piece of work and needed to be placed on the Treasurer’s page under the financial learning series. Due to shortness of time an expanded session will be held in the fall.

**Endowment Trustees Report EBD #13.3**

Rod Hersberger reported to the committee on the status of the endowment as of 5-30-18. The discussion began by noting that ALA’s endowment fund had outperformed the Harvard University endowment, the largest in the country, over a ten-year period ending 6-30-17. He also briefly discussed the historical long-term returns of various asset categories and the current manager allocation. In talking about private equity, he took some additional time to educate the committee on the “J” curve and what it means to the endowment. After three years of no returns from this investment FY19 represents the beginning of the expected payback where returns are expected to be high double digits for years 4-10. The trustees are so confident of this particular investment that they have committed to reinvest the proceeds of the first investment in another investment when appropriate.

He finished the discussion by noting that the request to publish the holdings of the endowment were now up on the Treasurer’s page, a senior trustee succession plan was put in place (Pat wand and Mario Gonzalez) and that a strategic review/assessment was in the process of getting started with the interviews of possible facilitators.

**Endowment Candidate Review (CBD #20.0)**

F&A met in Executive Session to review and discuss the applications for two upcoming openings on the ALA Endowment Trustees committee. F&A will report out during the discussion with the full Executive Board

# Planning and Budget Assembly

*Planning and Budget Assembly* – The following represents highlights of the discussion:

* Summary Observation of FY18 YTD Results – Rhea Lawson, *BARC Chair*
* Summary Observations FY19 Preliminary Budget –Susan Hildreth, *Treasurer*
* ALA for the 21st Century: 5 Key Streams of Change – Mary Ghikas
* President Elect’s Efforts to Support ALA’s Existing Work – Loida Garcia-Febo
* Group Discussion on ALA Governance and Structure – Andrew Pace and Lessa Kanani'opua Pelayo-Lozada

**Division Leadership/BARC Meeting**

*Division Leadership/BARC Meeting –* The following represents highlights of the discussion:

* Fiscal 2019 budget – year 1 of a 3 year investment plan
* Results of conference committee meeting
* Background and update on the Board discussion of Chicago HQ real estate
* Division financial results for the fiscal year ending 2014 through April 2018

# Acknowledgement

BARC and F&A extends its sincere thanks to the ALA finance staff: Mark Leon, Joanne Lee, Keith Brown, and Ligia Barac for their work throughout the year and support in preparing for the committee meetings and discussions. The chairs would also like to thank Mary Ghikas for her insightful and helpful input and participation. The members from both committees also wanted to thank Rhea Lawson for here stewardship of the BARC committee of the last year, particularly in view of new approach to the budget process and other challenging issues.

Respectfully submitted:

Rhea Lawson, BARC Chair

Maggie Farrell

Mike Marlin

Carl Harvey, III

Karen Downing

Steven Potter

Susan Hildreth, Treasurer

Andrew Pace

Julius Jefferson, Jr.