

**Spring 2018 Finance & Audit (F&A) Committee Meeting**

**Thursday, April 19th, 2018**

**Chicago, IL**

**Minutes**

**Committee Members:**

*Present:* Susan Hildreth-Treasurer, Loida A. Garcia-Febo-President-Elect, Andrew K. Pace,

*Absent:* Rhea Lawson-BARC Chair, Julius C. Jefferson, Jr.

**Staff:**

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

JoAnne Kempf

**Proceedings:**

* The F&A Meeting was called to order at 9:10am by Treasurer, Susan Hildreth
* Agenda was reviewed and approved with no changes
* The F&A minutes from 2018 Midwinter Meeting were approved

***(Motion moved by A. Pace and seconded by L. Garcia-Febo)***

Members of the Finance and Audit committee (F&A) held a meeting on Thursday, April 19th to discuss and review a number of financial issues. Below is a list of the primary topics discussed:

* FY 2018 Six Month Financial Results – Executive Summary (EBD #14.8)
* Updated Five-Year Plan (EBD #14.10)
* Ten-Year Financial Trends & Findings (EBD #14.11)
* Preliminary FY19 Budget and Budgetary Ceiling (EBD #14.9)

***Action Item***

* FY19 Budget Investment Plans
* Development Office (EBD #6.5)
* Advocacy (EBD #12.39)
* ITTS (EBD #12.33)
* Endowment Trustees Report (EBD #13.2)

***Action Item***

* Senior Endowment Trustee Succession for Senior Trustee – CBD #18.0

***Action Item***

**FY 2018 Year-to-Date Financial Results – EBD #14.8**

Mark Leon led the committee in a discussion on the six-month results ending 2-28-18. Taking a broad overview, the results reflected the Association is trending in a positive direction.

# Total ALA revenues of $23.2 million, compared to budget of $23.4 million

* Total ALA expenses of $24.9 million, compared to budget of $25.2 million
* Net operating expenses were ($1.7 million), compared to budget of ($1.8 million)
* Total Assets were $77.8 million
* Total Liabilities were $38.0 million
* Net Asset Balance was $39.8 million
* General Fund revenues were $12.3 million, compared to the budget of $12.9 million
* General Fund expenses were $13.7 million, compared to the budget of $13.3 million
* General Fund net expenses were ($1.4 million), compared to the budget of ($426,710)
* Management is optimistic about projected year-end Publishing results – strong AASL Standards’ sales
* Midwinter Meeting topline revenue is less than budget ($399,204)

Division revenues were less than budget by $145,491, but the shortfall was offset by expense savings of $519,655. Round Tables were better than budget for both revenues and expenses by $72,731 and $96,974, respectively.

**Five-Year Strategic Plan – EBD #14.10**

Mark Leon shared the most recent update of ALA’s five-year planning document, as updated by Denise Moritz. He reminded the committees that the document is updated twice a year, (December and March/April). Mark noted that the five-year plan will have a significant influence on the development of the upcoming FY19 budget and beyond. Significant enhancements to the model since the Fall meeting were highlighted:

* Updated with FY18 actuals with year-end projections
* Updated the FY19 budget based on year-end projections

He also noted that the information in the plan reflects the additional investments that staff will present at this Spring meeting. Additionally, there is a very good possibility that there will be deficit budgets over the next three years. However, if the investments have their intended effect, the Association will be on much more solid footing moving forward.

**Ten-Year Trend Information/Findings – EBD #14.11)**

Mark Leon briefed the committee on the significance of the ten-year trend information, (2007 – 2017), and how it informs the FY19 budget. Some of the key charts included the following:

* The downward trend in membership and dues revenue
* Comparing Publishing actual vs. budget
* Publishing overhead contribution
* Publishing Net Margins
* Division Operating revenue compared to Division grant-generated revenue
* Conference revenues, expenses (actual vs. budget) and attendance
* ITTS investment actual vs. budget

The information provided by the charts helped to clarify the significance of the Association’s current situation. It further highlighted the need to make some significant investments in identified critical areas of operation in order to ensure that the Association continues to move forward.

**Preliminary FY19 Budget and Budgetary Ceiling – EBD #14.9**

Mark Leon and Mary Ghikas walked the committee through the planning document throughout the day as individual presentations given during the meeting. In addition to some basic background, which included analyzing the FY17 results and projections for FY18, management spent a great deal of time and effort to identify those things that would best position the Association to regain its financial footing. Development, ITTS and Advocacy were identified as the areas for organizational investment. In addition to the proposed investments, management recognized that internal reorganization would be essential to meet the need for new/additional staffing in the investment areas. As a result, some changes were made in the General Fund.

Management’s strategy is to make substantial strategic investments, which includes structural changes, that will position the Association for continued success and financial stability going forward. As this is a three-year investment plan, there will be a need to use some of the Association’s net asset balances over time to cover a portion of the funding. A more detailed funding strategy will be discussed in New Orleans at the Annual Conference.

**FY 2019 Investment Budget Areas**

***Development Office – EBD #6.5***

Sheila O’Donnell presented to the committee highlights of the necessary investments needed in the Development Office. Based on findings of an audit of the fundraising activities across the Association and the Development Task Force, it was determined that fundraising needed additional support to enhance performance. Investment in this area will bolster member/public engagement with ALA’s mission, increase general fundraising and track the return on investment. Total investment - $223,000. See EBD #6.5 for details.

***ITTS – EBD #12.33***

Sherri Vanyek presented to the committee highlights of the identified investments deemed critical to ITTS and the Association. Note that the investments being recommended were endorsed by the Technology Advisory Group and the Staff Advisory Group. The return on these investments will be an enhanced user (member, staff, customer) experience, more success in recruiting and networking capacity. Total investment – $632,200 (Operating) and $728,298 (Capital). See EBD #12.33 for details.

***Advocacy (Membership and Marketing) – EBD #12.31***

Kathi Kromer presented to the committee highlights of the investments that were identified as important to combat the assault on the public policy priorities of the Association. She identified the following as critically important:

* Establishing a new Advocacy Fly-In program
* Advocacy Outreach and Engagement and Information Resources
* Update the Customer Relationship Management (CRM) System – Salesforce

Total investment - $410,000. See details in EBD #12.31.

After additional discussion of all the facts on the table, and an assurance of understanding all the issues, the committee took the following action to approve the proposed preliminary budget:

***Action Item Motion: Moved by A. Pace and seconded by L. Garcia-Febo***

F&A recommends to the ALA Executive Board management’s proposed FY 2019 preliminary budget with referral to the ALA Budget Analysis and Review Committee (BARC) for further discussion, review and analysis, and to come back to the Executive Board for further discussion and approval, including any changes, at the 2018 ALA Annual Conference meeting of the Executive Board.

**Endowment Trustees Report - EBD #13.2**

Rod Herzberger – Senior Endowment Trustee, updated the committee on the status of the endowment and other important related information and activities. He noted that the market had been extremely volatile during the first quarter because of an increase in the number of forecast interest rate hikes, a change in monetary policy and talk of a global trade war. As of 3-31-2018, the value of the portfolio was $44.8 million with a return of (0.5%). While the loss in the endowment was minimized, other indices experienced significant losses. The investment advisor’s general feeling is that as long as interest rates remain tamed and corporate earnings growth continues to be strong, the market will be fine.

He continued by noting that the Association has benefited from having a well-diversified portfolio via asset allocation, which has helped the endowment withstand the type of volatility currently being experienced in the market. This diversification also addresses the ESG question. The current level of ESG (24.3%) fits well within the asset mix of the portfolio. He emphasized that the Trustees work very hard to strike a balance between its fiduciary responsibility of maximizing returns and embracing the values of the Association. The Trustees are currently working with its Investment Advisor, Merrill Lynch, to fulfill the Council’s request to review the endowment’s portfolio holdings. Additional work needs to be done in order that process will be as easy as possible, as publicly held mutual funds and ETF’s in the portfolio are not easily navigated.

He concluded his remarks by discussing the Association’s newly reconstituted New Business Development Group, whose goal is to generate new revenue opportunities. In order to take advantage of any potential opportunities, funds must be available, i.e. seed money must be available/accessible in order to capitalize. The Endowment Trustees discussed and supported the idea of making available a portion of the gains that have been realized in the endowment fund over the last few years. A loan of $500,000 was suggested and supported with the stipulation that the funds be restricted to funding proposals approved by the New Business Development Group.

**Senior Endowment Trustee Recommendation – CBD #18.0**

As part of his report, Rod Hersberger noted that with the extension by the Board of his term to 2019, the Trustees were asked to discuss a succession plan for the Senior Trustee position. Such a plan was developed and discussed at the Trustees February meeting in NYC. The result was a recommendation for Patricia Wand and Mario Gonzalez to follow as Senior Trustee with each serving two-year terms.

After the end of the report and further discussion, the committee took the following actions:

***Action Item Motion: Moved by A. Pace and seconded by L. Garcia-Febo***

F&A concurs with the ALA Endowment Trustees and recommends to Executive Board approval of the following succession plan to serve as Senior Endowment Trustee:

* + - * **Rod Hersberger from June 27th, 2018 – June 25th, 2019 (End of Annual Conference 2019)**
      * **Patricia Wand from June 26th,2019 – June 29th, 2021 (End of Annual Conference 2021)**
      * **Mario Gonzalez from June 30th, 2021 – June 27th, 2023 (End of Annual Conference 2023)**

***Action Item Motion: Moved by L. Garcia-Febo and seconded by A. Pace***

F&A concurs with the Endowment Trustees and recommends to the ALA Executive Board approval of a $500,000 loan from the ALA Endowment Fund, (Future Fund), to cover the investments of the New Business Development Advisory Group. [[1]](#footnote-1)

**President-Elect and Presidential Year Initiatives/Budgets – EBD #4.19**

The committee discussed the history of President-Elect and Presidential year budgets and activities, and the general impact on staff with the year-to-year changes.

The issue is being raised as a result of comments made at the Midwinter Meeting surrounding the size of the budget, the year-to-year changes in initiatives and the impact on staff and the units. It was noted that the Strategic Directions are broad enough that proposed initiatives can generally find a hook to latch on to. While staff is dedicated to making sure that each initiative gets the support that it needs to be successful, it is much easier to support a project that builds on an existing/sustained project, i.e. Emerging Leaders. The committee was reminded that while the officers are supported through the Governance Office with three staff, execution extends across the Association to Units, Divisions, etc., i.e. no dedicated staff. There was general agreement that the Executive Director should work closely with the Vice-President early in their tenure to ensure that presidential initiatives were aligned with and supportive of strategic priorities of the association.

With no further business, the meeting was adjourned.

**Finance and Audit Committee (F&A)**

**Ad Hoc Meeting for Spring 2018 – Conference Call**

**June 13th, 2018**

**Minutes**

**Committee Members:**

*Present:* Susan Hildreth – Treasurer, Andrew Pace and Rhea Lawson – BARC Chair

*Absent:* Julius Jefferson, Jr. and Loida Garcia-Febo

**Staff:** Mark Leon, Ligia Barac, Denise Moritz, Brad Geene and Keith Brown

**Agenda Review**

S. Hildreth welcomed the committee and reminded them of the purpose of the meeting – to review an updated version of the Budgetary Ceiling, now known as the Annual Estimates of Income. She noted that BARC reviewed and discussed the new format on its May 24th call. She then highlighted the major differences between the two documents. As management has reviewed how deficits in the General Fund have been covered in the past, i.e. via net assets of the entire Association, as well as, at the suggestion of President Jim Neal to use net assets, it was clear that the old Budgetary Ceiling method did not specify all of the Association’s resources available for use. At the spring meeting, the Finance staff provided BARC with the action taken by Council (1991) to define the Annual Estimates of Income. Taking this Council policy definition into account, a more comprehensive format was appropriate. The new format now takes into account all of the available resources of the Association. As such, available resources increased from $61,704,752 under the old format to $84,304,634 with the new format.

With that understanding and some additional discussion, the following action was taken:

***Action Item Motion: Moved by A. Pace and seconded by R. Lawson***

F&A recommends to the Executive Board approval of the Annual Estimates of Income as highlighted in documents EBD #14.12/ BARC #20.1

Finally, S. Hildreth noted that in presenting this information to Council for their approval, that BARC strongly recommended that both forms be highlighted to note the transition to the use of the Annual Estimates of Income document and why it was necessary.

With no further business, the meeting was adjourned.

1. Ten-year loan with a 3% interest rate. [↑](#footnote-ref-1)