

# MINUTES

## Finance and Audit Committee

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*Date | time* 6/23/2017 11:30 AM | *Meeting called to order by* Susan Hildreth

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### In Attendance

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Susan Hildreth – Treasurer, Peter Hepburn, Andrew Pace, Loida Garcia-Febo and Ann Martin – BARC Chair

Staff: Mark Leon, Keith Fiels, Mary Ghikas, Cathleen Bourdon, Keith Brown, Brad Geene, Joanne Lee, Denise Moritz, Mary McKay, Bill Ott, Chris Murphy and Ligia Barac

Other: Rod Hersberger

### Closed Session

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The committee met in closed session to discuss the merits of four Endowment Trustee candidates for two upcoming openings on the Endowment committee. At the request of the Treasurer, the committee received input from Rod Hersberger, the Senior Endowment Trustee and members of the finance staff. After their input was provided, the committee members met among themselves to further discuss the merits of each candidate. The results of those discussions will be detailed when they meet with the entire Executive Board on Tuesday, June 27<sup>th</sup>.

### Agenda Review

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As this was a joint meeting, Ann Martin, BARC Chair, and Susan Hildreth, Treasurer, convened the meeting by making introductions and reviewing the agenda. It was noted that Loida Garcia-Febo and Peter Hepburn needed to leave the meeting earlier at 1:00 and 1:30 respectively.

### Approval of Minutes

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Ann Martin introduced the minutes from the April 10-11, 2017 spring BARC meeting. After some discussion, no changes. The following action was taken:

**Motion: L. Goetsch and seconded by G. Persichini**

**The 2017 Spring Meeting minutes were approved as written**

Susan Hildreth introduced the minutes from the April 6, 2017 spring BARC meeting. After some discussion, no changes. The following action was taken:

**Motion: P. Hepburn and seconded by A. Pace**

## **The 2017 Spring Meeting minutes were approved as written**

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### **YTD 2017 Financial Results (EBD #4.16)**

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Mark Leon led a discussion on the ALA 2017 financial results through April 30<sup>th</sup>, 2017, (eight months). He began the discussion by providing the committee with a review of the ALA Dollar Infographic, which had been updated using FY17 financial results. He noted that it has proven to be a very useful tool as it highlights for members the sources of the Association's revenue and how it allocates its resources on the expense side.

Mark Leon then presented the financial results for the entire Association, highlighting the following:

- Total ALA revenues were \$28.6 million, compared to the budget of \$30.6 million
- Revenues were lower primarily due to lower actual revenues from the General Fund, Divisions and Grants than projected
- Total ALA expenses were \$31.6 million, compared to the budget of \$32.8 million, a favorable variance of 3.3%
- The Association's net expenses were (\$3.0 million), compared to budget of (\$2.2 million)

He then reviewed the General Fund's results with the committee:

- General Fund revenues were \$14.7 million, compared to the budget of \$16.2 million
- Lower revenue than budgeted from Publishing Services in every business line
- General Fund expenses were \$17.2 million, compared to the budget of \$17.7 million
- Eight-month net expense variance of (\$993,418) from budget

The Divisions and Roundtables reported overall positive results for the year to date. The Divisions generated a net expense of (\$406,717), compared to their budget of net expenses of (\$738,968), driven primarily by a strong ACRL conference. The Roundtables reported net revenue of \$149,549, compared to their budget of \$88,914, as expenses were well controlled during the year.

While not in the report, he noted that the May results reflect an increase in the General Fund's net expense. He closed by noting that the June through August quarter will be key in determining how the General Fund finishes the year.

Due to time constraints, the discussion shifted to the Publishing operation as Mary McKay, the newly hired AED of Publishing, Bill Ott, the Interim AED of Publishing, and Chris Murphy, the ALA Editions Publisher, (who was hired less than a year ago), met with the committee. Bill Ott began the discussion by confirming that the third quarter results were weaker than expected, and shared market and operational details explaining those results.

Publishing management reported that they project total Publishing revenue for the year of \$11.3 million. This compares to the Budget of \$12.8 million. Due to the circumstances of the third quarter, there is every expectation for a stronger than anticipated 4th quarter. It was noted that two products scheduled for the 1<sup>st</sup> quarter of FY18 have been pushed into the 4<sup>th</sup> quarter of 2017. Chris Murphy noted that authors can be unpredictable and the early release of some titles and the late release of others left a hole in the April results. More titles are expected in the 4<sup>th</sup> quarter. He also noted that 60 titles are expected in FY18, which is considerably more than the last two years. Mary McKay added that good work has been done on the infrastructure in Publishing. E-books have been identified as an area with strong potential. Additionally, ALA Editions is expected to benefit from the new e-commerce store. Finally, it was noted that Publishing is doing some strategic planning for each of its units with performance goals that will be analyzed to enable a proactive reaction for each unit.

Mark Leon closed the discussion by thanking the unit managers for their help and input in preparing the April financials being reviewed by the committee.

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## **FY 2018 Budget Presentation and Approval (EBD #14.6.1)**

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Mark Leon and Keith Fiels led a discussion on the changes to the FY 2018 Budget since the spring meeting. Keith Fiels noted immediately that management is looking closely at the FY17 results and its potential impact on FY18. Based on where things stand at this point with the results in publishing, there will have to be a reduction in the budgeted revenue in publishing and corresponding expenses in the General Fund. At the spring meeting, the Executive Board approved a budgetary ceiling of \$66,766,324. Since the spring meeting, the changes have been minimal as follows:

- General Fund - \$150,000 in new strategic initiatives. GF surplus is now \$36,372
- Division Fund – A reduction in budgeted of \$241,273, primarily in AASL
- Grants & Awards – A small reduction of (\$61)

These changes resulted in a revised budgetary ceiling of \$66,674,990. This is a reduction of \$91,334. After further discussion, the following action was taken:

### **Motion: Peter Hepburn and seconded by Andrew Pace**

F&A concurs with BARC and recommends to the Executive Board approval of the FY 2018 Total ALA Budgetary Ceiling as follows:

General Fund	\$29,792,027
Division Fund	28,875,232
Round Tables	2,206,967
Grants & Awards	4,551,555
Long-Term Investment	<u>1,249,209</u>
Total ALA Budgetary Ceiling	\$66,674,990

Mark Leon discussed the impact on the ALA five-year plan. He noted that the plan's results will be updated in October or November as the FY17 results becomes clearer. He emphasized the fact that the plan is still a vitally important tool to be used by management in the process of planning.

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## **Overhead Cost Review**

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Keith Fiels led a discussion on the recommended indirect cost rate resulting from the study for 2019 based on 2016 data. He noted that after the study the resulting rate was 27.6%. Due to the impact that the Post Retirement cost obligation had on the 2015 rate (31.2%), which was subsequently negotiated down with the Division Executive Directors to 26.4% for two years, the finance staff was directed to do projections of the rate if calculated without the obligation. The result was 26.5%, which is essentially the same as the previously negotiated rate for FY17 and FY18 at 26.4%. It was determined that the Post-Retirement cost obligation would not be included in the indirect cost rate calculation for 2019 and future years. Finally, it was noted that the portion of the cost being excluded from the calculation is a non-cash impact on ALA, is below the operating line on the financial statements but does add to the increasing cost of the Post-Retirement obligation, which now stands at \$22.2 million (2017 audit).

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## Controller's Report (EBD #4.17)

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Joanne Lee – Controller - reported to the committee on several items. They included the following:

- Mueller & Co will be conducting their sixth audit for 2017, which is the last year of a three-year contract
- Preliminary audit work will be conducted July 10<sup>th</sup> – 14<sup>th</sup> with audit field work October 30<sup>th</sup> – November 17<sup>th</sup>
- ALA's financial position reflected a reduction in total assets of \$1.1 million to \$76.4 million (lower cash and working capital) and an increase in total liabilities of \$780,909 to \$48.1 million (deferred conference/grants revenue, post retirement and Line of Credit (LOC)).
- Balance sheet working capital was (\$1.4 million) compared to \$2.8 million last year
- LOC of \$2.5 million was drawn (\$1.0 million) upon on 8/5/16 and \$500,000 has been repaid. LOC expires 6/18/17 and is expected to be renewed by JP Morgan Chase in July
- Loan payment of \$1.3 million due 8/1/17. To date \$1.0 million has been set aside
- The Association's liquidity ratio (Cash to Debt) was a strong 6.6x:1.0x
- Received approval of the grant indirect cost rate of 22.42%, which is good from 9/1/16 – 8/31/19

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## Endowment Trustees Report (EBD #13.4)

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Susan Hildreth reported on behalf of Rod Hersberger. She noted that the Endowment was performing well with a current value of approximately \$42.0 million. She also noted that amount of time that the Trustees have been dedicating to ESG investing and how it now accounts for 20% of the portfolio.

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## BARC Chair Report to Council (CD #33.1))

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Ann Martin noted that she will be reporting on the current YTD results through April.

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## Treasurer's Report to Council (CD #13.2/#13.3)

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Susan Hildreth noted that she will report on the FY18 Budget. She will be providing more detail at the Saturday session at the Information meeting, and an abbreviated version to Council on Tuesday (6/27). She will be emphasizing that the budget will be adjusted again because of the FY17 results and finalized at the fall meeting.

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## Fall Meeting Plans

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- Executive Board (October 27 – 29)
- Finance & Audit Committee (October 26)
- BARC (October 26)

With no further business, the meeting was adjourned.