

**American Library Association
Budget Analysis and Review Committee and
Finance and Audit Committee joint report
to the ALA Executive Board
February 12, 2018**

Members of the Budget Analysis and Review Committee (BARC) and the Finance and Audit committee (F&A) held a joint meeting on Friday, February 9th 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:

- Publishing Update
- Proposed Presidential Initiative Budget –BARC #15.0 (EBD #14.03)
 - Action Item
- FY 2017 YE Financial Results - BARC #4.5 (EBD #4.08)
- FY 2018 Four Month Financial Results – BARC #5.0 (EBD #14.04)
- Updated Five Year Plan - BARC #1.0 (EBD #14.05)
- Endowment Trustees Report – BARC #13.1 (EBD #13.01)
- Treasurer Meeting with Division Fiscal Officers
- Planning and Budget Assembly
- BARC-Division Leadership Meeting
- FY 2017 Audit Report – EBD #4.10
- FY 2017 Single Audit Report – EBD #4.11
- Auditor Required Communications – EBD #4.12
 - Action item
- Auditor Evaluation (Closed Session) – CBD #11.0
 - Action Item
- Controller's Report - EBD #4.13

Publishing Update

Mary MacKay – Director of Publishing, was joined by Chris Murphy – ALA Editions/Neal Schuman and Sandy Hirsch – Head of the Publishing Committee, to update the committees on the status of the publishing operation. There were three primary points that the group wanted to get across to the committee during the discussion:

1. There are real signs of a turnaround in the publishing operation
2. Overall there are many creative efforts underway
3. Publishing still faces challenges in the industry that must be addressed and overcome

It was noted that the depth of titles within publishing is strong as the top 40 titles are doing better than last year by some 7% - 8%. This is particularly true of the bottom 20 titles which are doing better by 18% over last year. It was noted that the project with AASL and the AASL

Standards is on track and that the model with AASL is producing positive results. This has idea has led to a good deal more collaboration both inside and outside of ALA. The trends in Neal Schuman operation have been strong despite the late store opening. There were 19 titles produced in the first quarter and 11 more were produced in January. It was pointed out that advertising, particularly in Booklist and American Libraries is feeling some stresses. This is particularly true as advertisers are demanding more exposure i.e. work from ALA for their advertising dollars. The discussion was closed with the statement that there is every expectation that publishing will end the year on budget.

Proposed Presidential Initiative Budget (BARC #15.0 & EBD #14.03)

Loida Febo-Garcia joined the committee to discuss her proposed FY19 Presidential budget. The overarching theme of planned Presidential year is "Together: Libraries Building Communities." It was noted that this initiative will be designed to build on the things that are already underway within other corners of ALA. There will be five primary focus areas:

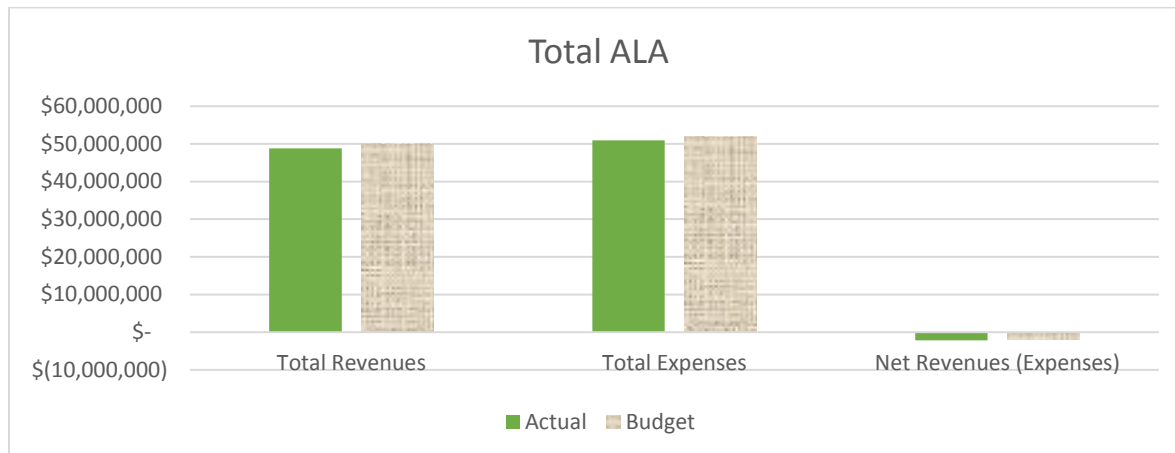
- Advocacy
- Diversity
- Wellness
- Professional Development
- International Relations

National and global tours will be used to raise libraries profile, engage community members and advocate for libraries by highlighting library success stories serving all types of members of the community by all types of libraries. This plan will be carried out with the expenditure of \$75,000.

Motion: BARC recommends and F&A concurs to recommend to the Executive Board approval of the proposed 2018-19 Presidential Initiative budget of President-Elect Loida Febo-Garcia in the amount of \$75,000.

FY 2017 twelve Month Financial Report - BARC #4.5 (EBD #14.08)

Mark Leon led the committee in a discussion of the Executive Summary on the twelve-month results ending 8-31-17.

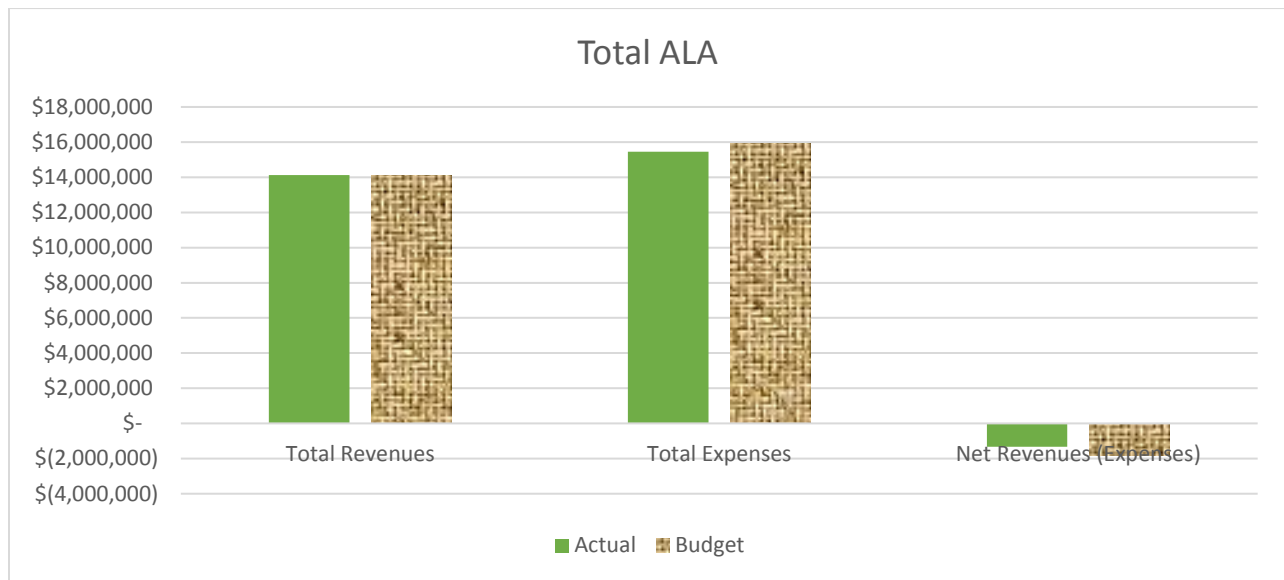


- Total revenues were \$48,8 million compared to budget of \$50.1 million
- Total expenses were \$50.9 million compared to budget of \$51.9 million
- Net expenses were (\$2.1 million) compared to budget of (\$1.9 million)

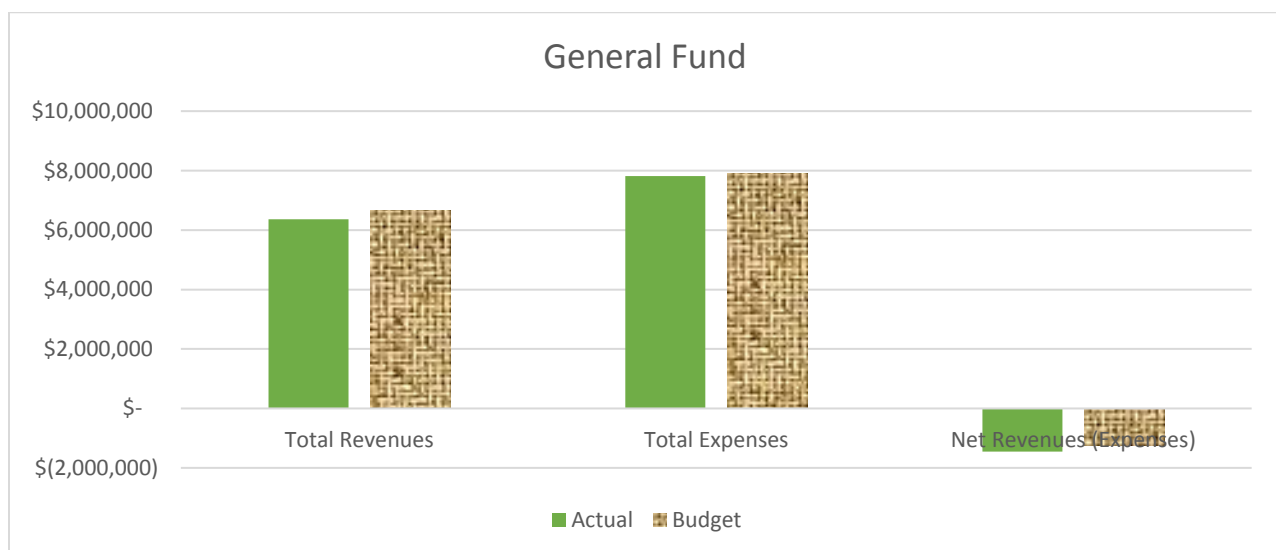
The shortfall in revenue was a result of lower revenue in the General Fund (publishing and conferences). Expenses were under budget as a result of incurring fewer production related expenses in publishing, lower expense in MW/AC and less overhead recovery related to lower than expected revenues. The result was that net expenses were slightly higher than budget at (\$2.1 million) vs. (\$1.9 million). It was pointed out that 2017 was budgeted with a net expense.

FY 2018 Four Month Financial Report - BARC #5.0 (EBD #14.04)

Mark Leon led the committee in a discussion on the four month results ending 12-31-17. Taking a broad overview the results reflected the Association is trending in a positive direction.



- Total ALA revenues of \$14.1 million compared to budget of \$14.1 million
- Total ALA expenses of \$15.5 million compared to budget of \$16.0 million
- Net operating expenses were (\$1.3 million) compared to budget of (\$1.9 million)
- While revenues from the General Fund and the Divisions lagged, they were offset by interest income from the Endowment related to tax required year end distributions from mutual funds in the portfolio.



- General Fund revenues were \$6.4 million compared to the budget of \$6.7 million
- General Fund expenses were \$7.8 million compared to the budget of \$7.9 million

- General Fund net expenses were (\$1.5 million) compared to the budget of (\$1.3 million)
- Overall, the General Fund is under budget but revenues are trending upward with expected pick up in Jan/Feb and rest of the year in Publishing which is expected to meet budget

Five Year Strategic Plan – BARC #1.0 (EBD #14.05)

Mark Leon shared the most recent update of ALA's five-year planning document. 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. Significant enhancements to the model since the fall meeting were highlighted:

- Updated with FY17 actuals
- Revised the FY18 budget – lower General Fund by \$939,514
- Added FY2023

He also noted that the information in the plan does not yet reflect the additional investments that staff is likely to present at the Spring meeting in April. 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 affect the Association will be on much more solid footing moving forward.

Endowment Trustees Report (BARC #13.1 & EBD #13.01)

Rod Herzberger – Senior Endowment Trustee, updated the committees on the status of the endowment and other important related information and activities. He noted that the market had been extremely volatile in the last two weeks. Prior to this period the portfolio was up by 8% for the year but now has the same value as at the start of the year at \$45.9 million. Discussions with our Investment Advisor has indicated that the volatility was due primarily to margin calls that forced unwanted sales, program trading and some general investor panic. 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 that we are currently experiencing. 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. It was further noted that ESG has moved from just over 1% of the portfolio two years ago to its current level. ESG investing is an area that the Trustees will continue to explore and expand their use in the portfolio as appropriate. In reference to the proposed SRRT resolution on fossil Fuels, the Trustees are of the position that it would definitely impact returns and negatively impact their ability to exercise their fiduciary responsibility. As a result they would not support such a resolution.

He concluded his remarks by discussing the Association efforts to reconstitute the New Business Development Advisory 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 and the endowment fund may play a role. The Trustees will discuss this idea at their next meeting later this month.

Treasurer Meeting with Division Fiscal Officers

Susan Hildreth held her second meeting with the Division fiscal officers to discuss issues the group felt were important to address. In addition to the fiscal officers the meeting was attended by Mary Ghikas – Executive Director, Rhea Lawson – BARC Chair and Mark Leon – CFO.

On Sunday, February 11th BARC participated in the following activities:

Planning and Budget Assembly

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

- President Initiatives – Loida Febo-Garcia, *President-Elect*
- Summary Observation of FY17 Results – Susan Hildreth, *Treasurer*
- Summary Observations FY18 Four Month Results – Rhea Lawson, *BARC Chair*
- ALA Governance and Structure - Uncomplicating ALA: What should ALA Look Like –
Andrew Pace, Executive Board and Governance
Task Force

Division Leadership/BARC Meeting

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

- ALA IT Plan
 - ALA Organizational Effectiveness
 - Membership and Communications Studies
 - Midwinter Document at ALA Conference Committee
 - Washington Office Initiatives
 - Also provided financial information on
 - Ten Year Historical Trends
 - ALA Five Year Plan
 - Division Financials
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On Monday, February 12th F&A participated in the following activities:

2017 Audit Report (EBD #4.10, #4.11 and #4.12)

John Fedus – Partner and Tim Kuhel reported to the committee and led them through a discussion on the 2017 audit results for the ALA. The discussion covered three areas:

- *Audited Financial Statements* (EBD #4.10)
- Single Audit (EBD #4.11)
- Required Communications (EBD #412)

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Library Association as of August 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Chicago, Illinois i.e. An unmodified opinion.

Auditor Evaluation (CBD #11.0)

The committee met in closed session with Mark Leon – CFO, to discuss the quality of the field work and general relationship with staff during the execution of the 2017 audit. It was noted that there were a number of criteria used to assess the performance of the auditor. The results of these findings suggested a strong recommendation to continue using the firm for the 2018 audit. It was further noted that with the continuity in the firms staff, has played a major role in the success of the audit process. The audit firm is in the strong position of knowing how ALA operates. It is important to note that the firm will be taking the step to change out the reviewing partner in order to have fresh set of eyes on the process.

Motion: F&A concurs with staff and recommends to the Executive Board approval to engage Mueller & Co, LLP for the FY18 audit

Controller's Report (EBD #4.13)

Keith Brown reported to the committee. A number of information pieces were covered in other reports presented by the CFO. The following represents some of the other highlights covered in this session:

- The Association's current ratio was 0.80x compared to 0.96x last year
- The Association's Cash to Debt ratios were strong at 9.4x compared to 6.2x to 1.0 last year.
- The Working Capital (Cash) balance was \$7.0 million compared to \$12.0 million last year
 - In FY17 there were four draws totaling \$5.2 million (see page 5 of report) to cover operating needs
 - Interest income earned since 1991 on this investment \$11.2 million
- ALA has a line of credit of \$2.5 million from JP Morgan chase with a no outstanding balance.
- Deferred revenue was \$19.1 million compared to \$17.4 million last year due to higher Grants & Awards and PLA conference revenue.
- Long-Term debt was \$3.2 million with the next scheduled payment (\$1.2 million) 8/18. Note that funds are set aside monthly to cover the scheduled payment.

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 chair would also like to thank Mary Ghikas for her participation, insight, and helpful input.

Respectfully submitted:

Rhea Lawson, BARC Chair
Maggie Farrell
Peter Hepburn
Dr. Karen Downing
Mike Marlin
Carl Harvey, II
Steven Potter
Susan Hildreth, Treasurer
Julius Jefferson, Jr.
Andrew Pace
Loida Febo-Garcia, President-Elect