

TO: ALA Executive Board

RE: Endowment Benefits to ALA and Units – Information Report

ACTION REQUESTED: None

FROM: ALA Endowment Trustees

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DRAFT OF MOTION: NA

DATE: Tuesday, June 11, 2021

INTRODUCTION

The Association's ongoing financial stress required ALA to review, examine, analyze, and understand its options with respect to benefits and costs of operations and programs. This applied to all components of the Association, including the ALA Endowment.

Financial support from the endowment continues to grow in importance, including for the general fund. How exactly does the endowment benefit ALA, units, and members? Is the endowment maximizing investible dollars relative to its growth and income and in view of costs related to its investments and operations?

Gathering data about endowment management costs and examining endowment benefits to ALA mission and programs align with increased transparency of endowment operations and the Trustees' objective to better inform themselves and members about the endowment. This initiative was one outgrowth of the Trustees' strategic review in 2018.

In the process of reviewing the endowment cost structure, Trustees noted various ways the endowment benefits the association operating budget and programs sponsored through units and offices.

The following report is intended to serve as an overview of the benefits associated with increasing the principal of the endowment and increasing its value through best investment practices for non-profit organizations.

attachment

**American Library Association
Endowment Trustees**

**Endowment Benefits to ALA and Units
Information Report**

June 11, 2021

Prepared by:

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Approved June 11, 2020

Endowment Support for ALA and Units - Information Report

OVERVIEW

The ALA endowment comprises the Future Fund (38.2% of endowment) and a group of 73 restricted accounts created by units within the association. Trustees are entrusted to invest the entire corpus and recommend to the Board what percentage of annual earnings is available for payout each fiscal year. Payouts from the Future Fund support the ALA operating budget, while payouts from restricted accounts meet programmatic commitments to donors and fund creators.

This report is a study of endowment benefits and follows an in-depth review of all expenses related to managing the ALA endowment. Support from the endowment to the association falls into two categories: first is an annual transfer from the Future Fund to the ALA general operating budget and second are payouts from the remaining 73 restricted accounts to fulfill programmatic commitments to donors and restricted account founders. Both categories of support are explained in this report.

Transfers and expenses paid from the endowment come from endowment earnings; that is, interest and dividends paid by various portfolio investments and the market value of the endowment.

In this report, dollars from the endowment to support association operations and unit programs are called ‘expenses’ of the endowment even though those *reductions* in the endowment fund are *benefits* to the association.

By necessity, accounting practices dictate that payouts from the endowment are called ‘expenses’ or transfers, depending on where and how they are tracked in accounting. For the sake of simplicity, in this report the word ‘expense’ will be used generically and, unless otherwise specified, will include payouts from the endowment that are tracked as either an expense or a transfer or both.

This report begins with an explanation of internal financial reports and then examines the differences between ‘transfers’ from the Future Fund and ‘expenses’ attributed to restricted accounts. These endowment ‘expenses’ are tracked over five years. A brief summary closes the report. Attachments offer exhibits with details.

1. INTERNAL REPORTS OF ENDOWMENT TRANSFERS AND EXPENSES

On a daily basis, the ALA Finance Department and authorized staff can monitor activities of the endowment through ALA’s internal financial reporting system Prophix. The system covers all aspects of the endowment’s activities – revenues & expenses.

Since this report is specifically about transfers and *expenses*, rather than revenue, it focuses on expense categories *below* the total revenue line on the Prophix spreadsheet (Exhibit #1).

(NOTE: For this discussion FY19 is used as the last available full year of information. This sample report represents *unaudited* FY19 information as of August 31, 2020; that is, data may change.)

Revenues (not shown in this exhibit) include:

- Donations – individual/member gifts, organizations/sponsorships, transfers, etc.
- Interest & Dividends – income from portfolio investments
- Increase/decrease in market value of endowment

Expenses as line items in Prophix (Exhibit #1) include:

1. Payroll & Related Expenses
2. Outside Services
3. Travel & Related Expenses
4. Meetings & Conferences
5. Publication-Related Expenses
6. Operating Expenses
7. Indirect Expenses
8. Overhead/Taxes

Expenses related to the endowment are tracked in seven of the eight accounting categories (not overhead and taxes).

1. Payroll & Related Expenses – salaries/benefits associated with staff supporting endowed accounts
2. Outside Services – investment advisors (‘Bank S/C’) and other
3. Travel & Related Expenses – travel and lodging for Endowment Trustee meetings and activities and associated with programs supported by restricted accounts
4. Meetings & Conferences – Note: Awards line includes payouts to recipients of scholarships and awards funded by restricted accounts
5. Publication-related expenses – outside printing and web-based activities related to programs of units
6. Operating Expenses – supplies, postage, promotion, miscellaneous, etc.
7. Indirect Expenses – Transfer to/from Endowment tracks payouts to ALA and unit operating budgets

2. BENEFITS TO ASSOCIATION TRACKED AS TRANSFERS AND EXPENSES

2.a. TRANSFERS TO SUPPORT GENERAL OPERATING FUND

Every year transfers are made from the Future Fund, the endowed account controlled by the ALA Executive Board, to support the general operating budget. Trustees recommend and the Board approves an annual payout ceiling based on the rolling average of the previous 20 quarters, a formula established in the ALA Endowment Trustees *Investment Policy Statement*. The payout ceiling is not a mandate but rather establishes the maximum available to ALA and unit managers. Financial constraints of the association in recent years have necessitated the entire authorized amount to be transferred from the Future Fund to the general operating budget.

The chart below summarizes transfers from the Future Fund to the general operating budget for the period FY15–FY19.

Endowment Transfers From Future Fund, 5 Years*				
<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
\$ 533,568	\$ 559,576	\$ 581,059	\$ 588,583	\$ 603,295
*Transfers to General Fund as determined from the annual 20-Quarter calculation				

2.b. EXPENSES OF PROGRAMS MANDATED BY RESTRICTED ACCOUNTS

Expenses related to the work of ALA units—divisions, round tables, and offices—are incurred by implementing the intentions defined by the creators of the 73 restricted accounts within the endowment. These expenses are determined by staff in units and offices of the association or are unit-driven program expenses.

The upper limit of the expenses is determined by the annual payout percentage established by the Executive Board upon the recommendation of Trustees. In a given year, many units do not request the entire authorized payout to cover costs of the designated programs.

In ALA accounting reports, expenses of programs mandated by donors of restricted accounts are unit-managed and appear in Prophix in various expense categories; including “Awards” (including scholarships); “Transfers from Endowment”; and seven “Other” categories. Awards and scholarships represent expenses incurred when money is paid to recipients of designated awards and scholarships. (“Awards” appear in the “Meeting and Conferences” category in Prophix – Exhibit #1.)

Endowment Expenses from Restricted Accounts, 5 Years										
	<u>FY15</u>		<u>FY16</u>		<u>FY17</u>		<u>FY18</u>		<u>FY19</u>	
Awards	\$ 290,474	37%	\$ 456,462	49%	\$ 421,140	45%	\$ 418,431	49%	\$ 443,915	40%
Transfers from Endowment	\$ 232,970	30%	\$ 237,041	25%	\$ 170,517	18%	\$ 225,210	26%	\$ 312,704	28%
Other*	\$ 260,272	<u>33%</u>	\$ 242,758	<u>26%</u>	\$ 351,128	<u>37%</u>	\$ 215,018	<u>25%</u>	\$ 365,798	<u>33%</u>
Total	\$ 783,716	<u>100%</u>	\$ 936,261	<u>100%</u>	\$ 942,785	<u>100%</u>	\$ 858,659	<u>100%</u>	\$ 1,122,417	<u>100%</u>
*See explanation of “Other” below										
Source: Unaudited FY19 report from Prophix, the ALA internal financial reporting system										

*The “Other” expense category in the chart above includes the sum of expenses related to activities that support programs of restricted accounts. See breakdown in following chart.

Components of "Other" Related to Program Mandated by Restricted Accounts*										
	FY15		FY16		FY17		FY18		FY19	
Salary	\$ -	0%	\$ 87,349	36%	\$ 166,330	47%	\$ 76,867	36%	\$ 65,938	18%
Outside Services	\$ 36,669	14%	\$ 21,366	9%	\$ 23,672	7%	\$ 41,805	19%	\$ 70,862	19%
Travel	\$ 30,020	12%	\$ 33,800	14%	\$ 80,039	23%	\$ 60,154	28%	\$ 38,648	11%
Meetings & Conferences	\$ 49,237	19%	\$ 39,244	16%	\$ 49,479	14%	\$ 32,974	15%	\$ 48,406	13%
Operating Expenses	\$ 77,508	30%	\$ 49,717	20%	\$ 21,697	6%	\$ (1,716)	-1%	\$ 113,403	31%
Miscellaneous	\$ 66,838	26%	\$ 11,282	5%	\$ 9,911	3%	\$ 4,934	2%	\$ 28,541	8%
Total	\$ 260,272	100%	\$ 242,758	100%	\$ 351,128	100%	\$ 215,018	100%	\$ 365,798	100%

1) **Salary** expenses are related to the Cultural Communities endowment, whose activities are managed by grant-funded personnel in the ALA Public Programs Office. This expense activity is being reduced and eventually will be eliminated.

2) **Outside Services** cover expenses of consultants, legal counsel, etc. and do not include “Bank S/C (Fees).” (See Exhibit #1)

3) **Travel** includes transportation, meals, and lodging related to programs, business meetings for staff.

4) **Meetings and Conferences** are expenses incurred in delivering activities designated by restricted endowed accounts: e.g. speakers, awards, A/V equipment rental.

5) **Publications**

6) **Operating Expenses** relate to marketing/promotion, telecommunications, supplies, postage, etc.

7) **Indirect Expenses – Transfers to / from endowment**

3. TRACKING TRANSFERS AND EXPENSES OVER FIVE YEARS

The chart below summarizes transfers and expenses paid from the endowment as benefits to the association for the period FY15–FY19.

Endowment Transfers / Expenses Supporting ALA Budget and Programs, Five Years					
	2015	2016	2017	2018	2019
Future Fund Transfers	\$ 533,568	\$ 559,576	\$ 581,059	\$ 588,583	\$ 603,295
Cost of Supporting Programs for Divisions, Roundtables and Units	\$ 783,716	\$ 936,261	\$ 942,785	\$ 858,659	\$ 1,122,417
Total	\$ 1,317,284	\$ 1,495,837	\$ 1,523,844	\$ 1,447,242	\$ 1,725,712

4. SUMMARY

The primary categories of transfers and expenses of the endowment that benefit the association are:

- 1) Transfer of funds from Future Fund to ALA General Operating budget for FY19
- 2) Cost of supporting programs of ALA divisions, round tables, and units funded by restricted accounts in FY19
 - Awards (and scholarships)
 - Transfers from endowment
 - Other support for programs defined by restricted accounts

Benefits from the Endowment supporting ALA operations and programs mandated by 73 restricted accounts in FY19:

Total FY19 transfer and expenses in both categories were: \$1,725,712

1) Transfer from Future Fund to general operating budget FY19	\$ 603,295
2) Cost of supporting programs funded by restricted accounts FY19	
Awards (and scholarships)	\$ 443,915
Transfers from Endowment	\$ 312,704
Support for programs defined by restricted accounts (Other)	<u>\$ 365,798</u>
Total	\$1,122,417

TOTALS FY19

Transfer to general operating budget	\$ 603,295
Expenses to units managing programs FY19 (\$):	<u>\$ 1,122,417</u>
Total Endowment support to ALA and units FY19	\$ 1,725,712

Total market value FY19: \$46,736,916

Endowment support for general operations and program FY19 (%): 3.7%

ATTACHMENTS: (See below Exhibits #1, #2, #3)

Exhibit #1 ALA Internal Performance Report (via Prophix)

				American Library Association					9/14/2020 10:51 AM
Fund: LT Endowment Funds/34&35&36: LT Endowment Funds				Performance Report					
Unit_Project: All: All				For the 12 Months Ending August 2019					
				Year-To-Date					
August 2019				Full Year Budget	Actual	YTD Budget	Variance	Variance %	Prior Year
Actual	Budget	Prior Year	Actual					Actual	
23,659	38,212	7,360	Total Revenues	579,632	1,225,948	579,632	646,316	112%	834,941
3,962	7,836	-7,086	(5000) SALARIES & WAGES	88,477	45,626	88,477	42,851	48%	54,558
0	0	0	(5001) WAGES/TEMPORARY EMPLOYEES	0	2,328	0	-2,328	-100%	2,857
0	0	0	(5002) OVERTIME WAGES	0	3,043	0	-3,043	-100%	2,299
1,498	2,359	-3,390	(5010) EMPLOYEE BENEFITS	26,636	14,891	26,636	11,746	44%	17,152
0	0	0	(5016) PROFESSIONAL MEMBERSHIPS	0	50	0	-50	-100%	0
5,460	10,195	-10,476	(500) Payroll & Related Expenses	115,113	65,938	115,113	49,175	43%	76,867
0	0	25,368	(5100) TEMPORARY EMPLOYEES/OUTSIDE	0	17,457	0	-17,457	-100%	25,518
7,043	2,325	0	(5110) PROFESSIONAL SERVICES	27,900	53,390	27,900	-25,490	-91%	16,180
0	0	-75	(5120) LEGAL FEES	0	15	0	-15	-100%	0
48,990	21,166	23,066	(5122) BANK S/C	255,036	277,057	255,036	-22,021	-9%	276,418
0	4	0	(5150) MESSENGER SERVICE	50	0	50	50	100%	107
56,033	23,495	48,359	(510) Outside Services	282,986	347,919	282,986	-64,933	-23%	318,223
0	0	0	(5210) TRANSPORTATION	40,600	27,301	40,600	13,299	33%	50,069
0	0	0	(5212) LODGING & MEALS	46,400	41,640	46,400	4,760	10%	38,878
0	0	0	(5216) BUSINESS MEETINGS	0	2,148	0	-2,148	-100%	58
0	0	0	(520) Travel and Related Expenses	87,000	71,089	87,000	15,911	18%	89,005
607	0	0	(5301) CONFERENCE EQUIPMENT RENTAL	0	607	0	-607	-100%	301
3,462	0	2,300	(5302) MEAL FUNCTIONS	0	21,794	0	-21,794	-100%	7,463
11	1,258	-166	(5304) SPEAKER/GUEST EXPENSE	15,100	248	15,100	14,852	98%	1,489
0	0	0	(5305) SPEAKER/GUEST HONORARIUM	0	6,800	0	-6,800	-100%	13,450
9,263	833	4,819	(5306) AWARDS	300,000	443,915	300,000	-143,915	-48%	418,431
2,000	0	6,306	(5309) AUDIO/VISUAL EQUIPMENT RENTAL & LABO	0	18,957	0	-18,957	-100%	10,271
15,343	2,092	13,259	(530) Meetings and Conferences	315,100	492,321	315,100	-177,221	-56%	451,405
123	575	-864	(5402) PRINTING-OUTSIDE	6,900	8,509	6,900	-1,609	-23%	18
0	0	-558	(5404) DESIGN SERVICE-OUTSIDE	0	0	0	0	0%	558
777	750	267	(5430) WEB OPERATING EXPENSES	9,000	16,791	9,000	-7,791	-87%	3,579
41	0	36	(5433) ORDER PROCESSING/FULFILLMENT	0	914	0	-914	-100%	408
941	1,325	-1,120	(540) Publication Related Expenses	15,900	26,215	15,900	-10,315	-65%	4,563
153	92	-1,781	(5500) SUPPLIES/OPERATING	1,100	1,730	1,100	-630	-57%	2,553
0	0	0	(5501) EQUIPMENT & SOFTWARE/MINOR	0	319	0	-319	-100%	0
3,761	8	63	(5522) TELEPHONE/FAX	100	4,101	100	-4,001	-4001%	596
551	104	0	(5523) POSTAGE/E-MAIL	1,250	1,004	1,250	246	20%	623
189	0	58	(5540) ROYALTY EXPENSE	0	457	0	-457	-100%	191
824	383	152	(5550) PROMOTION	4,600	5,484	4,600	-884	-19%	3,647
31,003	0	0	(5560) ORG SUPPORT/CONTRIBUTION	0	74,943	0	-74,943	-100%	-18,194
417	0	492	(5599) MISC EXPENSE	0	25,365	0	-25,365	-100%	8,869
36,898	588	-1,017	(550) Operating Expenses	7,050	113,403	7,050	-106,353	-1509%	-1,716
114,675	37,694	49,066	Total Direct Expenses	823,149	1,116,885	823,149	-293,736	-36%	938,347
150	42	0	(5901) ILIT/CPU	500	562	500	-62	-12%	221
312,204	28,960	221,400	(5904) TRANSFER TO/FROM ENDOWMENT	347,516	312,704	347,516	34,812	10%	221,400
57	0	12	(5909) ILIT/DIST CTR	0	1,165	0	-1,165	-100%	2,464
49	0	0	(5910) ILIT/REPRO CTR	0	599	0	-599	-100%	1,125
312,461	29,001	221,412	(52) Total Indirect Expenses	348,016	315,030	348,016	32,986	9%	225,210
427,136	66,695	270,418	Total Expenses Before OH and Taxes	1,171,165	1,431,915	1,171,165	-260,750	-22%	1,163,557
-403,477	-28,483	-263,058	Contribution Margin	-591,533	-205,967	-591,533	385,566	65%	-328,616
0	0	371	(5600) TAXES/INCOME	0	0	0	0	0%	371
0	0	371	(OH&TX) TOTAL OVERHEAD / TAXES	0	0	0	0	0%	371
427,136	66,695	270,789	TOTAL EXPENSES	1,171,165	1,431,915	1,171,165	-260,750	-22%	1,163,928
-403,477	-28,483	-263,429	Net Rev / (Expense) From Operations	-591,533	-205,967	-591,533	385,566	65%	-328,987
71,399	0	142,522	(4422) ENDOWMENT GAIN/LOSS-REALIZED	0	1,147,835	0	1,147,835	100%	1,605,070
-569,642	0	548,795	(4423) ENDWMENT GAIN/LOSS-UNREALIZED	0	-1,234,636	0	-1,234,636	-100%	2,031,212
-149,999	-100,000	-265,000	(5900) Transfer To Endowment	-100,000	-149,999	-100,000	-49,999	-50%	-265,000
-751,721	71,517	692,888	Net Rev / (Expense)	-491,533	-142,770	-491,533	348,764	71%	3,572,296
45,829,614	71,517	43,701,927	Ending Net Asset Balance	-491,533	46,438,565	-491,533	46,930,099	9548%	46,581,335

Exhibit #2 Transfers from Future Fund to General Fund over 5 Years

<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
\$ 533,568	\$ 559,576	\$ 581,059	\$ 588,583	\$ 603,295

Exhibit #3 Endowment Benefits to ALA and Units over 5 Years

	Endowment Benefits to ALA and Units Over Five Years									
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Awards	\$ 290,474	22%	\$ 456,462	31%	\$ 421,140	28%	\$ 418,431	29%	\$ 443,915	26%
Transfers to General Fund	\$ 533,568	41%	\$ 559,576	37%	\$ 581,059	39%	\$ 588,583	41%	\$ 603,295	35%
Transfers from Endowment	\$ 232,970	18%	\$ 237,041	16%	\$ 170,517	11%	\$ 225,210	16%	\$ 312,704	18%
Activities Supported by Restricted Accounts (in other)	\$ 260,272	20%	\$ 242,758	16%	\$ 351,128	23%	\$ 215,018	15%	\$ 365,798	21%
Total	\$ 1,317,284	100%	\$ 1,495,837	100%	\$ 1,523,844	101%	\$ 1,447,242	100%	\$ 1,725,712	100%
Endowment Value	\$ 38,680,372		\$ 40,016,169		\$ 43,536,279		\$ 47,357,522		\$ 46,736,916	
% of Endowment Value	3.4%		3.7%		3.5%		3.1%		3.7%	