

**Core Q&A - 5/22/24**

1. What are the specific revenue, expenses, and NOS amounts (descriptively, not in numbers) to which the OH percentage is applied?

All revenues and expenses, except for division “friends” funds and restricted donations. Two other exceptions are federal conditional grants and those corporate grants that have overhead as part of the submitted grant budget.

- Option 1

- Should budgeted revenue subtract donations, contributions, and grants [i.e., GRANTS/CONTRACTS/AWARDS(4300), GRANTS AWARDS - TEMPORARILY RESTRICTED (4301), DONATIONS/HONORARIA (4400)]? Yes. See answer above in #1.

This is a new overhead calculation that is designed to address the 6 objectives that were set by interviewing member leaders and other stakeholders in FY23.

One of the purposes of refreshing the overhead application was to simplify the process without burdensome procedures that increase administrative costs.

The methodology for calculating revenue is described in detail on slide #15 of the PowerPoint document sent to you by the treasurer. As noted on that slide, “Revenue” is based on audited financial statements. Except as those excluded in Answer #1 above.

- Should budgeted revenue subtract endowment revenue (transfers in) [ENDOWMENT GAIN/LOSS - REALIZED (4422), ENDOWMENT GAIN/LOSS - UNREALIZED (4423)]?

Transfers from the endowment are reflected in the expenses section as a contra expenses. Units include transfers as part of the operating budgets to cover budget gaps or fund projects, so these become part of the budget and part of the Overhead.

Endowment Gain/loss – Realized and Endowment Gain/Loss - unrealized are not included.

- Option 2

- Should budgeted expenses subtract overhead [i.e., IUT/OVERHEAD (5911)]?

No. The methodology for calculating expenses is described in detail on slide #16 of the power point. As noted on that slide, “Expenses” is calculated before OH, per audited financial statements.

○ Option 3

- Should budgeted NOS subtract donations, contributions, and grants [i.e., GRANTS/CONTRACTS/AWARDS

The methodology for calculating NOS is described in detail on slides #17 and #18 of the PowerPoint. These funds are posted according to the accounting guidance as follows:

- FUND 49 holds Unrestricted contributions for specific projects- Must have a project code assigned to them. Not subject to OH.
- They also will hold Friends funds- small donations. Not subject to OH.
- Corporate donations will continue to be posted to the same account as always for general operating purposes, it is unrestricted. Subject to OH.
- If restricted these donations will go to Fund 48, because they specify a Unique project they want to fund and it will include budget- Not Subject to OH.

- (4300), GRANTS AWARDS - TEMPORARILY RESTRICTED (4301), DONATIONS/HONORARIA (4400)]?

See answer #1 above.

- Should budgeted NOS subtract endowment revenue (transfers in) [ENDOWMENT GAIN/LOSS - REALIZED (4422), ENDOWMENT GAIN/LOSS - UNREALIZED (4423)]?

As previously noted, transfers from the endowment are reflected in the expenses section as contra expenses. As such, they reduce expenses and are part of the Overhead calculation in options 2 and 3.

- Should budgeted NOS exclude overhead [i.e., IUT/OVERHEAD (5911)]?

Yes. As described on slides #17 and #18 of the Power Point, NOS is calculated before OH, per audited financial statements.

2. With Options 1 and 2 decreasing total overhead compared to 2024 actual by \$310,985 (4.9%) and \$396,696 (6.3%) respectively, while Option 3 increases total overhead by \$480,619 (7.6%), will ALA units that receive OH revenue adjust their budgets accordingly?

Yes. However, the Overhead paid by units and divisions do not cover all the costs of General Fund Units. Please see Note (11) on slide #32 of the PowerPoint. Note that

In FY24 budget, **only 10% of the general fund expenses are covered by Division and Round Table OH charges.** The remainder is supported by the General Fund.

3. Since overhead will be calculated based on budgeted revenue/expenses/NOS respectively, will OH be adjusted if ALA requires the units to make midyear budget reductions?

**The overhead in the first year of implementation will be based on the actual activity from FY 24 and budgeted activity- two-year average in FY25. There will be no adjustments during the year.**

The next questions relate to ALA's financial goal:

4. Can we help ALA get to the 6-month expenses faster? or is 15 years the best? Could 30 years work? (have the alternatives been reviewed?)

It is projected, if the financial activity is the same as the two recent years used in our modeling, to reach that goal in 10 years. If finances improve, the goal can be reached sooner.

5. The 6-month expenses number is our current budgetary benchmark – but how would budgeting change after we hit that mark?

As we get closer to that we will revisit the calculations and allocations.

6. Why split the NOS after overhead? It feels like 25% is not going to be helpful to many Divisions or RTs? If ALA is trying to hit their target number using this, why not take it all and dispense with OH? Couldn't that get ALA to their desired amount faster?

To provide Divisions and departments with the ability to fund their endowments and incentivize them to grow their programs. This is one of the objectives that member leaders desired to achieve when interviewed last year.

The next questions relate to shared services:

7. We will really have the OH number Jan 15th- when the budget opens? Concerns have been expressed regarding whether the amount for the year will be already added as a line in the budget and would it change based on the budgets the Share services submit?

Yes. We will provide the OH information during the first iteration of the FY 26 budget and after the audit report is completed by the end of January 2025. Budget opens on February 1<sup>st</sup>.

8. How much do the shared services need to operate currently? (seeing those numbers would help our Board understand the flow of money)

Please see Note (11) on slide #32 of the power point, which states in part: “Actual shared services costs for 2024 are budgeted to total approximately \$19 million, but the OH charges to the units in 2024 total only \$6.2 million – or about 1/3<sup>rd</sup> of the total shared services costs. The remaining 2/3<sup>rd</sup>s has been – and will continue to be –

absorbed by the ALA operations budget” In addition, as stated above, the Divisions and Round Tables only supported 10% of the general fund.

9. What costs, specifically, are shared services covering? (for example: the Connect problem, which impacted our members and potentially our dues. So an issue that might be the job of a share service could decrease our revenue and impact our ability to pay the OH amounts)

See slide #14 of the PPT, which is titled “List of all units partially supported by collected overhead”. As previously noted above, the Division and Department overhead charges only cover a portion of those services.

10. What happens if Shared Services' expenses make it so Core's NOS is wiped out? How will shared services adjust their budgets to prevent or accommodate this? (It currently feels, since we don't see the whole picture, that the burden of adjusting budgets is solely on us)

Each unit (Departments, Divisions or RTs) – including Core -- only pays for a small portion of shared services. Some units already have zero or negative NOS. As noted above, 2/3<sup>rd</sup>s of Shared services costs have been – and will continue to be – absorbed by the ALA operations budget. In all organizations, whether for-profit or nonprofit, there are functions that generate revenue and functions that are necessary but do not generate revenue. We control costs using a variety of strategies, best practices, and annual budgetary limits.

11. How do we give feedback, evaluate, or request more from a shared service unit?

See Peter Hepburn's email. The standard acceptable practice is the Unit Manager can contact the department head, report the problem, and if no action is taken, refer the issue to the AED. If the AED does not handle it, refer it to the ED of the Association.

Next questions ask about how these models might change given certain circumstances:

12. How do these models change now that LLX is ceasing?

They do not get impacted.

The discontinuing of LLX will affect the General fund contribution to the overhead but it does not affect the model that the Departments and Divisions are reviewing. As previously noted, the cost of Shared Services are only partially-funded by Revenue producing Units and Divisions.

13. What happens if we don't have an NOS for multiple years?

See PPT slide # 7. As noted above, there are currently several units that already have a zero or negative NOS, and in all organizations, whether for-profit or nonprofit, there are functions that generate revenue and functions that are necessary but do not generate revenue.

Questions 14-18 are grouped together:

14. Cost containment such as reduced travel and limited hiring ultimately negatively affect growth. How will ALA be able to balance rebuilding or 6 month operating expenditures, maintaining operations, and strategic growth initiatives?

All organizations, whether for-profit or nonprofit, continuously face and grapple with this question. And this question remains constant no matter what system or methodology is used to calculate OH charges. This Task Force was created to develop a recommendation regarding the best way for our organization to calculate OH charges – but this Task Force cannot be expected resolve questions such as this.

15. What is being done to promote or rebuild trust between ALA and Divisions? As trust is needed to foster a healthy collaborative ALA.

See Peter Hepburn's response.

16. How will this model or ALA promote or incentivize creating larger NOS or just not minimize budgets to yield the smallest OH possible?

Divisions that report surpluses will be able to save in their Endowments annually. In addition, once the ALA target is reached the 25/75 split will be revisited, which will (a) provide an incentive to reach the goal as quickly as possible, and (b) increase the incentive for continued larger NOS after the goal is attained.

17. Will Revenue targets for Divisions be something on the table?

All divisions and revenue producing units must produce a net operating surplus unless it is a non-conference year.

18. ALA tends to send budgets back and request we cut more. Core works to be realistic when submitting our budgets so cuts can be extremely challenging. Can we have requests like that up front? As this seems like more work for both sides and concerns have been expressed that the consistent cutting may mean that budgets are artificially inflated.

ALA experienced an overall decline in revenues in FY 25. The directive by the Treasurer was to have a balanced budget. To meet this objective every unit needed to revisit their budget equally. We have no way of knowing the overall revenue and expenses in a participatory budget model.

In a "NOS" model, as long as the NOS stays the same or grows year over year, there is no limits on total expenses. However, if the budgeted NOS is dependent on projected future increases in revenue, then ALA must reserve the right to make a determination as to whether the revenue projections are realistic and attainable.

The next 3 questions relate to each other:

19. Why do things such as ALA Annual pay OH?

Income producing units need the shared services in order to operate. Overhead is assessed to show the true financial performance of an income producing unit.

20. Shouldn't all their NOS be ALA's to use? They are not a division or RT, but they generate revenue. Couldn't their revenue help ALA reach it's monetary goal sooner or support the Shared Services as it isn't something like ALA Annual shared by all?

All of their NOS are being – and has always been -- used by ALA. That is how ALA covers the 2/3<sup>rd</sup>s of the cost of shared services that is NOT charged to the Divisions or RTs (see Note (11) on slide #32 of the power point). Legally and financially, there is one legal entity, the association.

21. (relating to previous question) If they stay on their own lines, why are the associated cost burdens being shifted to other sectors?, ex: RTs pay ALA Annual AV costs for their programs.

Because they use the services for their specific activities during the conference.

22. How ultimately will a choice be made?

The ALA Executive Board will receive a recommendation from the ALA Treasurer based on feedback collected by all revenue-producing units and the ALA CFO.