

**American Library Association
Finance and Audit Committee
2012 Midwinter Meeting
January 20 – 24
Dallas, TX**

DRAFT Minutes

Friday, January 20

Present: *BARC*: Clara Bohrer, Chair, Mario Gonzalez, Dora Ho, Winston Tabb, Patricia Wand, Janice Welburn, Courtney Young

Absent: Alex Villagran

Finance & Audit: James Neal, Treasurer, Steve Matthews, Sylvia Norton, J. Linda Williams

Staff: Keith Michael Fiels, Mary Ghikas, Gregory Calloway, Keith Brown, Elaine Klimek

Others: Maureen Sullivan, JoAnne Kempf, Cathleen Bourdon, Ron Jankowski

On this day, *BARC* and the Finance and Audit Committee met jointly.

FY 2012 1st Quarter Financial Report – *BARC* #5.5 (EBD #14.7)

G. Calloway began the discussion with an update of ALA's new financial management system and the benefits to the work of staff and members. It was noted that the first quarter reports are the first to be produced by the new system and as might be expected with any new system implementation there are some procedures to be resolved. Before the Midwinter Meeting finance and accounting staff met with unit managers to discuss the status of financial reports. Assistance has been given to anyone having difficulty getting the 1st quarter reports. Staff was

understanding of the transition and exhibited patience related to the implementation of the new system.

BARC and F&A then reviewed the 1st quarter FY 2012 budget report, and noted the following highlights:

Total ALA revenue for the period was \$9.0 million, which is \$1.6 million (-15.6%) less than budget. It was also noted that this was \$300,000 less than the same time last year. Dues revenue was on budget at \$2.2 million, while interest and dividends were at \$337,196 or \$144,560 less than budget. Donations and royalties were also less than budget by \$170,565 and \$176,686 respectively.

The General Fund revenue was \$4.4 million and less than budget by \$361,641 (-7.6%) and less than last year by \$400,000. The biggest areas of concern are in Publishing where book sales were less than budget by \$169,956. It was noted that interest and dividends were less than budget by \$113,206. Dues revenue was essentially on target at \$1.5 million and slightly ahead of last year at \$1.4 million.

Division revenues of \$3.8 million are less than budget by \$392,344 (-9.5%) and more than last year by \$1.0 million due to the AASL division national conference in the fall. Revenue from the round tables was \$59,980 and less than budget by \$25,296 (-29.7%).

Investment interest and dividends at \$167,477 are more than budget by \$46,883 (38.9%), but down compared to last year at \$195,953 as rates have fallen.

Total ALA expenses of \$10.4 million are \$1.5 million (-12.7%) less than budget and \$100,000 more than last year. Expenses were less than budget across all expense categories. The General Fund expenses were \$5.6 million and \$393,494 (6.6%) less than budget. Expenses were down across the board with the exception of Payroll, which was up slightly. Major expense shortfalls were in outside services (\$210,026), operating (\$216,682) and publications related (\$145,576). Division expenses were \$893,136 (-20.5%) and less than budget at \$3.5 million.

Round Table expenses were \$15,735 and \$32,564 (67.4%) less than budget.

Grants and Awards were \$83,624 (-6.3%) less than budget at \$1.2 million.

Proposed Presidential Initiatives Budget – BARC #19 (EBD #14.8)

BARC and F&A reviewed the presidential initiatives proposed by President-Elect Maureen Sullivan. In addition to building on the work of previous presidential office holders, this budget will be focused in four areas:

1. “The Promise of Libraries in Transforming Communities” A continuation of previous advocacy efforts with this effort to bring together, in the form of a summit, a diverse set of leaders from outside the field and strong leaders within the profession to engage in a meaningful dialog - \$50,000
2. “Leadership in the Digital Age” Work with the Harvard Graduate School of Education to design and offer a 2.5 day leadership institute for administrators

and managers in libraries of all types to learn how to effectively in the face of new challenges of the Digital Age – \$5,000

3. “Leadership Development” A task force to develop a comprehensive plan for a sustainable association wide leadership program based on research of existing plans and best practice - \$9,000
4. “Rethinking ALA: How to Ensure ALA is the Most Effective Organization it Can Be” Convene a discussion group to engage in the careful consideration of rethinking ALA - \$8,000

Other activities include various presidential programs (\$20,000) and a contingency reserve (\$3,000) for likely unexpected expenses that may arise. The result is a total budget of \$95,000.

BARC took the following action:

**Moved by C. Young, second M. Gonzalez
Finance and Audit Committee concurs with BARC and recommends to the Executive Board approval of Maureen Sullivan’s proposed Presidential Initiative Budget for FY 2012 - 2013.
Motion carried.**

FY 2013 Budget Guidelines – BARC Info #4

BARC and F&A reviewed the budget planning strategies for FY 2013 and the guidelines provided to ALA unit managers. The FY 2013 budget will provide financial support to the following:

- Support for the Key Action Areas
- Support for ALA 2015 Goals
- Support for unit and divisional programmatic and member service goals
- Support for the ALA organizational goals

Some of the key assumptions in the budget's development include:

- Budgets will be prepared with a 1/2 percent decrease over FY 2012 approved budget
- No compensation adjustment

At this time, the joint meeting was adjourned.

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**Saturday, January 21**

Present: James Neal, Treasurer, Clara Bohrer, Steve Matthews, Sylvia Norton, J. Linda Williams

Staff: Keith Michael Fiels, Gregory Calloway, Keith Brown, Elaine Klimek

Others: Dan Bradbury, Senior Trustee

**Agenda Review**

J. Neal noted that the committee will recommend to the Executive Board the addition of two new Trustees. He asked that D. Bradbury, Senior Trustee stay as a resource person during the closed session to be held at the conclusion of this meeting.

**F&A Fall Meeting Minutes – EBD #4.4**

**Moved by C. Bohrer, second, S. Norton  
The minutes were approved as written.  
Motion carried.**

**Endowment Trustees Report – EBD #13.2**

Staff distributed the Trustees draft report, which D. Bradbury highlighted for the committee. D. Bradbury first reported on the performance of the ALA Endowment Fund. He reported that the

endowment, as of December 31, 2011 had a value of \$31.0 million, which is down by \$722,587 from last year at \$31.7 million. This resulted in a loss of (1.8%) compared to its benchmark of 2.6%. Volatility was highlighted as a major contributing factor in the portfolio's performance. In addition to issues in the Euro zone related to capitalized banks and legislative gridlock in Washington. He referred to exhibits #3-5, which highlighted the extreme levels of negative results in the markets around the world. As expected, equities had a particularly difficult time during the year as only one manager reported a positive return - REIT manager Invesco @7.9%. On the fixed income side the results were mixed as only those managers with exposure to equities (convertibles) and real assets were negatively impacted. The intermediate bond manager – Neuberger – and the primary fixed income manager - Pimco - posted solid returns of 5.6% and 5.2% respectively, while the global bond manager was at 0.7%.

It was also noted that due to poor performance, the large cap core manager, Alliance, was replaced by the London Company. It was felt that Alliance's performance too often lagged its benchmark or was out of favor with the market too long for certain periods.

Finally, D. Bradbury presented three actions advanced by the Trustees at their fall meeting for the committee to consider. They were:

**Moved by C. Bohrer, second, S. Norton**

**F&A concurs with the Endowment Trustees and recommends to the Executive Board the establishment of the International Relations Round Table (IRRT) Endowment Fund in the amount of \$25,000.**

**Motion carried.**

**Moved by S. Matthew, second, C. Bohrer**

**F&A concurs with the Endowment Trustees and recommends to the Executive Board increasing the minimum amount to start an endowment to \$50,000. Additionally, to allow those endowments under \$50,000 five years to determine the path they want to take and ten years to reach the goal.**

**Motion carried.**

**Moved by S. Norton, second, C. Bohrer**

**F&A concurs with the Endowment Trustees and recommends affirmation of the 4% payout rate from the endowment for the FY 2014 budget.**

**Motion carried.**

### **Indirect Cost Study Assumptions - EBD Info #1**

K. Brown reviewed with the committee the indirect cost study assumptions to be used in the 2011 study. The study will be conducted in the same manner as the 2010 study. It was noted that there would be no changes in the general methodology used in conducting this year's study. The sources of the information used in the study i.e. 2011 audit report and internal performance reports etc., the allocation methods to be used and timeline. The results of the study will be summarized and presented for review at the spring meeting. The rate that results from this study will be applied to the FY 2014 budget. One discussion point of note was the allocation method used for allocation ITTS costs.

### **Spring Meeting Dates**

F&A will meet on April 19 and the Executive Board will meet April 20 – 22. It was also noted that BARC will meet on April 30 and May 1. All meetings will be held at ALA headquarters.

### **New Business Update**

*Neal-Schuman Acquisition* – As part of the new business development discussion the committee was updated on the current status of the acquisition. Management is now working with its

attorneys and bankers to evaluate both taxable and non-taxable options to complete the financing. The loan facility for the Neal-Schuman acquisition will include the CHOICE and Washington Office mortgages (both currently held by Bank of America). It is expected that the total amount will be \$10.2 million. Terms and conditions (covenants) are being evaluated with the expected financing to be completed by May 2012.

*Endowment Trustee Selection* – F&A went into executive session to review and discuss the credentials of four candidates for two open Endowment Trustee positions. A final decision will be made by the Executive Board.

At this point the meeting was adjourned.

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Present: James Neal, Treasurer, Clara Bohrer, Steve Matthews, Sylvia Norton,
J. Linda Williams

Staff: Keith Michael Fiels, Gregory Calloway, Keith Brown, Elaine Klimek,
Russ Swedowski, Joanne Pak

Others: Grant Thornton representatives: Frank Jakosz, Carrie Charles

FY 2011 Audit Report – EBD #4.7

F. Jakosz, Partner and C. Charles, Manager of Grant Thornton presented the audit results related to the fiscal year 2011 audit results. ALA received an unqualified opinion and that the financial statements fairly represent in all material respects, the financial position of the American Library Association. There was one finding of material weakness related to ALA’s classification of certain leases. Grant Thornton has identified specific language in ALA’s lease documents that they believe requires a reclassification of ALA’s leases from “Operating” to “Capital.” This has resulted in a prior year restatement of FY 2010 with the net result being an increase in assets by \$506,000, an increase in liabilities by \$522,000 and a decrease in net assets by \$15,000. As a result the following action was taken:

Moved by C. Bohrer, second, S. Matthews
F&A recommends to the Executive Board acceptance of the FY 2011 audit as presented by Grant Thornton.
Motion carried.

Controller’s Report – EBD #4.6

R. Swedowski was present to highlight his report for the committee.

ALA Financial System Replacement - The finance department and ITTS continue to work with its consultant, McGladrey, on the implementation of a new financial system. Producing and providing accurate reports are now a primary focus during the initial stages of the systems implementation.

Cash Management and Bond Fund - Total cash and short-term investments at November 30, 2011 amounted to \$19.1 million as compared to \$18.6 million a year ago. The increase is due to timing of deferred revenue collection for Midwinter, which is \$808,905 higher this year. Year-to-date interest income is \$159,114, which is \$113,206 less than the budget of \$272,320 and \$16,221 less than last year.

The Neuberger Berman bond fund investment balance is \$15.2 million at November 30, 2011 as compared to \$15.7 million at November 30, 2010. The increase reflects an improved market since there were no additions/withdrawals to the investment. This investment has produced over \$9.2 million in interest income since December, 1991 and the yield has been well above the yield from certificates of deposit. With regard to risk of principal, the account finished FY 2011 with a realized/unrealized loss of \$17,901. At November 30, 2011 the cumulative (computed since December, 1991) net realized/unrealized gain is \$389,911.

Liquidity Ratios – In the process of securing long-term debt arrangements with JP Morgan Chase and Bank of America, ALA is required to provide and maintain quarterly and semi-annually certain liquid financial ratios. For the last reporting period 8-31-11 the Chase funded unrestricted cash & investments to funded debt measured 9.9 to 1.0 compared to the requirement of 2.0 to 1.0. Bank of America debt service coverage ratio measured 5.1 to 1.0 compared to the requirement of 1.2 to 1.0. The unencumbered liquid asset ratio was 1.3 to 1.0 compared to the required 0.6 to 1.0. As a result the Association is well positioned and has met both of its liquidity ratio requirements.

Inventory and Credit and Collections – Information related to these two topics were covered in the controller's report and were well within the acceptable levels for required reserves (excess and obsolete), aging of receivables and reflected no issues.

Regulatory Issue: 403 (b) Retirement Plan Audit – Audits were performed in late August 2011 by the firm McGladrey & Pullen. Two 5500 filings due on October 17, 2011 were filed with details highlighting the issues that are preventing an auditor opinion. An amended return will be filed when the audit reports are available for attachment to the returns.

Auditor Evaluation – CBD#9

The committee reviewed the evaluation prepared by staff. The bottom line is that they performed well; there is no continuity with the auditors. This was only C. Charles second audit with ALA.

With no further business to conduct, the meeting was adjourned.