

**American Library Association
Finance & Audit Committee
Spring Meeting
April 16, 2015**

DRAFT Minutes

Present: Mario Gonzalez - Treasurer, James Neal, Rob Banks, Gail Schlachter and Patricia Wand - BARC Chair

Staff: Keith Michael Fiels, Mary Ghikas, Tom Nowak – Interim CFO, Keith Brown, Brad Geene, Denise Moritz, Joanne Lee and Latasha Bryant

Agenda Review

M. Gonzalez opened the meeting and welcomed the members. He went on to review the agenda and the topics to be discussed during the meeting. He noted that the only change was the addition of a review on the performance of the endowment fund from the Senior Endowment Trustee Rod Hersberger.

Midwinter Meeting Minutes – EBD #4.12

By consent, the minutes were approved as written.

FY 2015 Budget Update and Projections (February/March) – EBD #14.8

J. Lee - Controller, reviewed for the committee the year to date results using the Executive Summary narrative for the six month results ending February 28, 2015 and the seven month preliminary March results. (See EDB #14.8)

FY16 Preliminary Budget – EBD #14.9

K. Fiels and B. Geene provided a broad overview of the primary strategic initiatives, enabling strategies and financial highlights of the FY16 budget. It was noted that issues impacting the FY15 budget have impacted the development of the FY16 budget. Details of the full plan were to be presented to the Executive Board on Saturday - April 18, 2015.

Some of the key initiatives, enabling strategies and highlights include the following:

- Strategic Direction includes – Advocacy, Information Policy and Professional and leadership Development
- The total ALA budget of \$50.7 million is an increase of \$1.2 million over FY15
- The General Fund budget is flat at \$29.4 million
- Strategic repositioning of some staff
- A 2% compensation increase for staff
- General Fund Dues up slightly at \$5.8 million
- Development of a lead department in each strategic initiative area
 - Information Policy (ALA Washington Office)
 - Professional and Leadership Development (Member Programs & Services)
 - Advocacy (Advocacy and Member Relations/Communications Departments)
- Support for advocacy initiatives at the national, state and local levels
- Sustaining technological infrastructure with a strategic technology investment of \$250,000
- Annual Conference in Orlando and Midwinter Meeting in Boston
- National Division conferences for AASL (Columbus, OH) and PLA (Denver, CO)
- ITTS, with various parts of the Association, will look to replace ALA Connect
- United for Libraries and Membership Development will work to support 1,200 new Trustee and Friend's group members

Other details related to the FY16 budget were discussed. As a result of the discussion the following action was taken:

Motion: G. Schlachter, seconded by R. Banks

F&A recommends to the Executive Board that the Preliminary FY 2016 Budget proposal (EBD #14.9) be forwarded to the Budget Analysis and Review Committee (BARC) for further analysis and review. The Board affirms the strategic directions of this budget and request that BARC report back on its analysis at the 2015 Annual Conference in San Francisco.

Spectrum Analysis – EBD #4.18

Keith Fiels discussed with the committee the finances of the Spectrum program that were raised at the Midwinter Meeting in Chicago. He began the discussion by noting that a number of people were responsible for doing the analysis. He noted K. Brown for providing the history of the

scholarship, D. Moritz for matching the historical records with the ALA audits and W. Prellwitz for managing the operation of the program. The financial statements highlighted what seemed to be a reduction on the dollars spent on Spectrum scholarships between 2013 and 2014. To address this concern a full review of the scholarship program was conducted. This review included all activities since the program's inception in 1997, the Spectrum Presidential Initiative fundraising effort, pass-through scholarships provided by the Development Office and scholarship recipient impact information from the Office of Diversity, Literacy and Outreach Services.

The results of the review have highlighted the fact that the Spectrum Scholarship program is a very complex undertaking. The basis behind the original concern is the result of a change in the accounting for scholarship per an accounting department recommendation and the program officer. This change will eliminate intermingled scholarship classes, which was making budgeting and tracking overly complex. As such, a change in the accrual for scholarships shifted payments out of the FY 2014 and will be realized in FY 2015. As we move forward the amount listed for scholarships under spectrum will begin to reflect its more historical scholarship level.

A positive result of this review was the realization that the Scholarship Bash had accumulated reserves in the amount of \$530,000 and was available for additional scholarships. It was determined that scholarships could reasonably be increased from its current level of 50 to 60 for each of the next three years, 2016, 2017 and 2018. In doing so it was also determined that the capacity to manage the increased scholarship would also require additional administrative help. It was determined that \$25,000 for administrative help was adequate. As such the following action was taken:

Motion: R. Banks, seconded by G. Schlachter,

F&A recommends to the Executive Board approval to increase the number of Spectrum scholarships from 50 to 60 for 2016, 2017 and 2018 and the allocation of \$25,000 in deferred revenue for each of these three years to support administration of the expanded scholarship program.

Controller's Report – EBD #4.15

Joanne Lee – Controller was present to highlight the report for the committee.

Total ALA Financial Position - On a year to year basis as of February 28, 2015 ALA's financial position (Net Assets) improved by \$4.4 million (12.9%) to \$38.4 million. The most significant influence was the impact of improved long-term investment results, which was higher by \$4.2 million.

Cash Management and Bond Fund - Total cash and short-term investments at February 28, 2015 amounted to \$20.2 million as compared to \$19.5 million a year ago. The increase was due to a

transfer of \$1.5 million from the ALA operating account to short term investment to take advantage of higher yields.

The Neuberger Berman bond fund investment balance is \$13.1 million at February 28, 2014. This investment has produced over \$10.2 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 YTD with a realized/unrealized gain of \$31,626. The cumulative (computed since December, 1991) net realized/unrealized gain is 194,547. *Note: The recent changes to the Cash Management Policy approved at the 2015 Midwinter Meeting are now in the process of being implemented. The Finance staff is in the process of evaluating if the approved changes are accomplishing the desired outcome.*

The Association maintains a line of credit in the amount of \$2.5 million with JP Morgan Chase. There were no outstanding draws on the line as of 2-28-15.

Deferred Revenue – As of February 28, 2015 deferred revenue totaled \$17.6 million. This is an increase of \$408,368 (9.2%) and is due primarily to higher Grants & Awards (\$704,005) as Gates and Dollar General grants were received.

Long-Term Debt – ALA has an outstanding loan with JP Morgan Chase in the amount of \$9.5 million. Scheduled payments of \$647,500 were made on July 1, 2013 and 2014 with the next scheduled payment on July 1, 2015. The scheduled payment for July 2016 will increase to \$1.0 million. In order to meet this obligation management has been setting aside \$50,000 on a monthly basis from the operating fund. Interest payments on this obligation are made monthly.

Inventory and Credit and Collections – Information related to this topic was covered and each was well within the acceptable levels for required reserves (excess and obsolete), aging of receivables and reflected no issues.

Liquidity Ratio – In conjunction with the JP Morgan Chase long-term debt arrangements, the Association is required to maintain certain financial ratio – debt Service Coverage and Cash to Debt. As of February 28, 2015 the ratios are 0.9 and 4.3 respectively compared to the requirement of 1.1.

Note: As the report concluded it was determined that in view of the ALA's strong liquidity ratios and cash position, that the timing might be good to consider renegotiating its outstanding long-term debt. . The next scheduled payment is in July. The loan expiration date is scheduled for 2019. The Association's cash position is very strong and the difference between the interest that can be earned vs the interest saved on the loan could be considerable. The scenario of paying down the current obligation of \$8.8 million by \$2.8 million to \$6.0 million may work to the advantage of the Association. As such, the finance staff will begin the process of investigating options available to the ALA and present to the committee various scenarios for refinancing the outstanding loan.

Endowment Trustee's Report – EBD #13.3

Rod Hersberger reported to the committee on the status and performance of the endowment fund through the three month period ending 3-31-15. He noted that results through the first quarter of the year were uneven at best. For the period the portfolio was valued at \$40.6 million and returned a gain of 1.8%. The major contributor to these results was the performance of the international equity portion of the portfolio as the strong US dollar begins to negatively impact corporate earnings. US indices lagged all major international indices which performed very well. He also referred the committee to the top ten holdings of each of the large cap managers. In addressing a concern from Council on fossil fuels at the Midwinter Meeting, the Trustees with the help of their Investment Advisor Merrill Lynch reviewed the portfolio for such holdings. None were found.

Finally, he discussed the benefits of the Trustee's education efforts. Since meeting in New York once a year the Trustees have benefited greatly. As a result of holding once a year meetings in New York, the Trustees are now being exposed to new and appropriate investment vehicles, as well as, new/different thinking and perspectives. This experience is expected to benefit the portfolio in terms of higher returns.

Indirect Cost Study – EBD Info #4.21

Keith Brown summarized for the committee the results of the 2014 Indirect Cost study. Using the 2014 ALA audited financial reports, internally generated performance reports and updated allocation information, the resulting rate was 23.7%. This is a decrease from last year's rate of 25.9%. The primary drivers behind the reduction in the rate were related to a reduction in the cost of Post-Retirement Benefits (\$683,755), ITTS (\$285,399) and Fiscal Services (\$127,814). As a result, the combination of direct and indirect costs declined year to year by \$1.1 million (-6.0%) to \$16.5 million.

Due to the significance of the decline in the rate specific information was challenged, specifically the changes in ITTS related costs. K. Brown provided the source document for the year to year changes in ITTS costs (8/31/14 year end performance reports for unit 505). As highlighted in the study summary ITTS was impacted by a reduction in payroll and related (\$170,110) as a result of a number of open high level positions. Additionally, depreciation (\$90,781) was lower due to fewer equipment purchases during the year.

This year's rate will be applied to the FY 2017 budget at 100% (23.7%) on General Fund, Publishing and Conferences and certain division conference revenue and 50% (11.9%) on certain division publishing related revenue. Finally, a discussion developed around the need to review and analyze the allocation methods used in the study. ITTS was a particular area discussed by the committee. The current allocation method is by the number of PC's in each area. This method is viewed as antiquated. The suggestion of using the departments Help-Desk "Track-It system was forwarded as an option but after further discussion it is viewed as problematic. As a result of this

discussion other allocation methods in this and other areas will be discussed further. Also, as a result of these discussions additional analysis will be conducted on the entire study in order to ensure that the most complete and fair picture of the results are determined.

Director of Compliance and Financial Reporting Report - EBD #4.20

Denise Moritz – Reported to the committee on a number of compliance topics. It was noted that ALA was in the information gathering stage for the retirement plan form 5500 and form 8955-55A for 12-31-14. The information will be submitted by Deloitte Tax LLP. Fiscal year end 8-31-14 filings for form 990 and 990T are currently being prepared. Other state forms are also in the process of being prepared. Filings (5) related to the Margaret A. Edwards Trust are in various stages of completion. Finally, due to a new presence in the state of Maryland related to Publishing's decision to use the services of a new fulfillment vendor (Bright Key), ALA is registering for a Maryland sales and use tax account.

New Business Development Update

Keith Fiels updated the committee and noted that new initiatives were still progressing. He noted that ALA's web site was being upgraded to better support the development of continuing education as the Association moves toward being a course provider. He also noted that China continues to represent a major opportunity for the association, as does Asia and the Middle East.

Endowment Trustee Candidate Review - CBD #13

In closed session the committee reviewed five candidates for three openings that will be available after the 2015 Annual Conference in San Francisco. In reviewing the candidates the committee reviewed the current composition of the Trustees, general investment skills/experience, knowledge of ALA, diversity and how to best utilize the portfolio's resources.

The committee identified three candidates who in their opinion are in the best position to positively impact the endowment. The committee will submit these names to the other Executive Board members for further discussion and input.

Annual Conference Planning

Mario reviewed for the committee the upcoming conference meeting schedule. He reviewed for the committee two documents prepared by staff that highlighted the meetings for BARC, F&A, the Treasurer, BARC Chair and Senior Endowment Trustee. All the committee members were encouraged to attend as many of the scheduled meetings as possible. For the Division Leadership/BARC session it was noted that discussion on the investment in ITTS and their business plan going forward would be a good topic to discuss. M. Ghikas will also be soliciting potential agenda items to discuss.

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