Finance & Audit Committee Meeting  
Thursday, October 22, 2015  
Krug Room

Committee Members: Mario Gonzalez - Treasurer, Peter Hepburn, Jim Neal, Rob Banks and Ann Martin – BARC Chair

Staff: Denise Moritz, Brad Geene, Mark Leon, Joanne Lee, Keith Brown, LaTasha Bryant and Keith Fiels

Guests: John Fedus – Partner, Muller LLP and Mike Marlin – Executive Board

Proceedings:
- Meeting was called to order at 9:30 AM by the Chair Mario Gonzalez – Treasurer
- Introductions of meeting participants were made

Approval of the Annual Conference Minutes

Minutes from the 2015 Annual Conference in San Francisco were approved

FY15 Unaudited Results Based on 4th Close - EBD #14.1

The CFO, Mark Leon reviewed the budget document EBD #14.1 for FY2015. The major highlight of the presentation was that the ALA remains a financially strong organization. Taking a broad overview, the results reflected total ALA revenues of $52.3 million. Minus expenses this reflects a net revenue (expenses) of $1,026,129, which is more than the budgeted net expense of (-$2.2 million) for a positive variance of $3.2 million.

<table>
<thead>
<tr>
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<th>8-31-15 Actual</th>
<th>8-31-15 Budget</th>
<th>Variance</th>
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</thead>
<tbody>
<tr>
<td>Total Revenues</td>
<td>52,357,435</td>
<td>49,524,973</td>
<td>2,832,462</td>
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<tr>
<td>Total Expenses</td>
<td>51,331,306</td>
<td>51,761,705</td>
<td>430,399</td>
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<tr>
<td>Net Rev(Exp)</td>
<td>1,026,129</td>
<td>(2,236,732)</td>
<td>3,262,861</td>
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Other highlighted points included the following:
- General Fund exceeded its net operating revenue budget by $348,139
- Publishing was under its net revenue budget by $252,862
  - No expected impairment charge on Neal-Schuman operation
  - Hiring a full time Editor in progress
  - Guide to Reference (retired) and Huron Street Press (suspended)
- The Annual Conference exceeded its net revenue budget by $253,878
• Division net revenue better than budget by $1.2 million
• Round Table net revenue better than budget by $135,846
• Postretirement benefit charge of $4.8 million due to updated actuarial table
• Endowment realized a decline of $1.6 million due to market conditions

**FY 2015 Audit Status Update**

John Fedus joined the committee to discuss the timeline for the upcoming FY 2015 audit of the Association’s financial statements. The audit process began with some preliminary work and planning meetings in May and July of this year. In August they participated as an observer in the inventory fulfillment house transition from PDB to BrightKey. Meetings (2) were also conducted with ALA management and Plante Moran regarding potential valuation issues related to the Neal-Schuman operation. As of the most recent meeting, there does not appear to be any impairment issues. In closing it was noted that on-site field work will be conducted from November 2nd – 20th, a conference call to update the Treasurer will be scheduled in December and a final presentation will be made to the ALA Executive Board at the Midwinter Meeting on Monday, January 11th.

**Division Leader Meeting**

The committee breaks for approximately 30 minutes to attend a Division leader meeting where the Treasurer and BARC Chair were providing a financial overview of the Association’s finances and structure. It was an opportunity to meet with the incoming division leaderships and answer any pressing questions related to ALA’s finances.

**BARC Report (EBD #3.1)**

Ann Martin presented a brief overview of the BARC committee’s activities during their fall meetings on October 19th and 20th. Those sessions resulted in a number of actions that were forwarded to F&A for further review and discussion. Two issues that received additional discussion were that the financial system Grants module is currently an issue and will be getting special attention in the coming year and that the ITTS department will be getting an external review of its operation between now and the end of the calendar year.

**FY 2016 Final Budget Review (EBD #14.2)**

Mark Leon and Brad Geene reviewed document #14.2. It was highlighted that the budgetary ceiling had increased since the Annual conference by $1.5 million to $68.7 million. Most of the change was due additional Grants & Awards that were secured ($1.2 million). It also included updated information on healthcare costs which increased by 9.5%. After some additional discussion the following action was taken:

**Motion –**

**Action:** F&A concurs with BARC and recommends to the Executive Board approval of the final FY 2016 Budgetary Ceiling of $68,657,188 as highlighted in BARC #20.2 (EBD #14.2) plus the approval of an IRRT transfer request of $5,000 from their operating fund to their Long Term investment fund

**Controller’s Report (EBD #4.1)**
Joanne Lee - Controller, provided the committee with an update of financial information in the Controller’s report. This information included some of the following:

**Liquidity Ratio** – Bank required financial/liquidity ratios for Debt Service and Cash to Debt were strong at 1.7 and 5.9 to 1 respectively.

**Cash Management** – Cash and Short-term investments were down by $941,502 to $15.5 million as $700,000 set aside for future loan payments were used to pay down the loan in May.

**Deferred Revenue** – Increased by $728,149 to $12.3 million primarily due to additional Grants & Awards ($743,699) and the two national division Conferences ($230,070).

**Long Term Debt** – In renegotiating the Association’s outstanding loan, staff was able to reduce the rate of 3.5 % to 3%, the loan amount from $8.8 million to $6.0 million and the loan term from 2024 to 2020. It was noted that the renegotiated amount will have a significant benefit to the Association and the Publishing operation with interest expense savings of approximately $740,000 and $365,000 respectively. Additionally, approximately $156,000 in prepayment penalties were negotiated away. At the conclusion of this section of the report Mario Gonzalez thanked Joanne Lee and the rest of the Finance and Accounting staff for the good work and effort on renegotiating the loan.

**Director of Financial Reporting and Compliance Report (EBD #4.2)**

Denise Moritz, Director of Compliance and Financial Reporting reported to the committee on the activities of the office since the Annual conference.

Actuarial Analysis – Staff met with the ALA actuary on 8-12-15 to discuss assumptions to be used in the calculation of the postretirement benefit obligation. After some discussions it was agreed to use a 5% discount rate. Additionally, in accordance with Best Practices, ALA decided to adopt a new mortality table as recommended by the actuary and provided by the Society of Actuaries. Use of the updated table is not required for this year but will be at some future date. Management made the decision to incorporate the new information for this year’s audit. The new information will result in a higher postretirement increase of $4.9 million of which $2.7 million is a result of the new mortality table. The last time ALA adopted a new mortality rate was 2004. It was noted that despite the increased cost there would be no impact on cash, just a recognition of the expense.

**Impairment Testing of Goodwill** – Staff met with Mueller and Plante Moran in mid-September to discuss the valuation of the Neal Schuman operation. Based on the preliminary findings no impairment is expected for FY 2015.

**403 (b) Audit (EBD #4.3)** - There was a brief discussion about the 403 (b) Audit conducted by ALA auditor Mueller, LLP, which covers the calendar year 12-31-14 and was delivered on 7-16-15.

**Motion –**

**Action:** F & A recommends to the Executive Board acceptance of the 12-31-14 403 (b) audit as highlighted in EBD #4.3
There was a discussion about independent contract arrangements concerning payroll tax liability.

**Midwinter Meeting Preparation**

The committee members discussed preparation for the Midwinter meeting. Meetings were highlighted as sessions where attendance would be encouraged. These meetings included the following:
- Planning and Budget Assembly
- BARC, Endowment and Treasurer’s Report at Information Session
- Treasurer and Programmatic Priorities Report to Council

**Endowment Trustees Report (EBD #13.1)**

Via teleconference Rod Hersberger provided the committee with an update of the performance of the endowment and related activities for the calendar year through 8-31-15. The following presents the highlights of the discussion:
- Provided a summary of global events affecting the endowment, particularly the slowdown in china
- Value at 8-31-15 was $37.8 million with a return of -5.3%, which compares favorably with the global markets
- Conducted a new Trustee orientation with Investment Advisor in September
- Conducted Investment Advisor Request for Information interviews (5) and retained Merrill Lynch. Learned a great deal and will utilize the information gained
- Added two private equity managers Blackstone ($2.0 million) and KKR\(^1\) ($750,000)
- Maintained a spending rate of 5% for the FY17 budget
- Expressed concern that the endowment is growing due to investment gains and no contributions or fundraising. Plan to meet and discuss with the new Development Office Director
- Considering the possibility of investing an additional $1.0 million in the SRI asset class

The meeting was adjourned at approximately 3:30 pm for a closed session regarding new business development headed by Keith Fiels and Mary McKay.

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\(^1\) Kohlberg, Kravitz and Roberts