ALA Midwinter Meeting
Boston, MA
Finance & Audit Committee Meeting Minutes
Saturday, January 9, 2016
(9-11 am EST)

Committee: Rob Banks, Mario Gonzalez, Peter Hepburn and Ann Martin

Absent: Jim Neal

Staff: Keith Brown, LaTasha Bryant, K. Michael Fiels, Joanne Lee, and Mark Leon

Mario Gonzalez began the meeting at 9:15 am with a review of the agenda. Rob Banks moved to approve the 2015 Fall F&A Meeting minutes and Ann Martin seconded the motion. Peter Hepburn joined the meeting at 9:30 am.

EBD 14.3 FY15 Final Executive Summary – Mark Leon

Mark Leon stated that ALA's operating results were fairly positive in FY 2015 even though it was a spend-down year. He noted that while there was a decrease in net assets, it was due to non-operating factors beyond ALA's control: the increase in ALA's post-retirement health care obligation, stemming from adoption of a new mortality table by actuarial standard setters and the decrease in the value of the endowment due to market fluctuations in August 2015.

Other important factors mentioned during review of the FY15 final executive summary were:

- Certain Divisions decreased their negative asset balance from the previous year.
- Roundtables continue to run solidly.
- The Grants & Awards amount reflects the release of funds from temporarily restricted to unrestricted in the year and the transfer of the scholarship grants which is a timing issue.
- The #1 priority is to strengthen support for IT. The cash needed is available in the Endowment and will be budgeted for FY17.
- The primary contributors to savings are in payroll due to open positions.
- Member and program services did not break even during the Midwinter Conference, but were able to make up the difference at the Annual Conference in San Francisco.

Keith Fiels and Joanne Lee led a brief discussion about the transition from the spend-down year method; in the future this pattern will change and it will become more stable. This will most likely take place in FY18.

EBD 14.4 FY16 First Quarter Report – Mark Leon

Mark Leon began his report by stating that the first quarter numbers are actually a more directional review due to the early Midwinter timing issue. The following observations were also made:

- The FY16 first quarter results compared to FY15 first quarter results are different because of the timing of Division conferences.

- The big trend with respect to publishing services was a more solid front list pipeline than in prior years. .
    - From an expense standpoint now that we have moved operations to Bright key, management anticipates that ALA will begin to see the efficiencies that prompted the move.
    - There will not be the inventory loss as in previous year.
- Member programs and services saw a 6% member increase with the biggest growth in group memberships
    - The number of library school students has dropped 33% due to lack of jobs. This is important to note for future membership potential.
    - We are looking at trends and market share to get the maximum numbers of members.
- For the Midwinter meeting operationally we are roughly on par with FY15 Midwinter in Chicago in terms of registration.

Keith Fiels briefly discussed United for Libraries support and affiliation and the benefit to the ALA. He also talked about the program budget and future goals for programming. He noted that our system is not set up to track our budget from a programmatic perspective so it's difficult to project.

EBD #13.2 Endowment Trustees Report – Rod Hersberger

Rod Hersberger reviewed the Endowment Trustees report. During his report he stated the following:

- 900 people have received Spectrum scholarships since its inception.
- There is $250,000 available to support the info technology systems.
- In addition to the Divisions receiving funds from the Endowment they are also donating to the Endowment fund.
- We are looking at returns on average of 5% and our stated goal is inflation +4%
- We conducted a search for a manager in September 2015 and we decided to stay with our long term manager (Merrill Lynch).
- As a result of our search we were made aware that we should improve on short-term capital and have decided to invest in private equity.

Keith Fiels stated that it is important that ALA be ready to answer questions regarding social responsibility when discussing future investment strategies.

EBD #13.3 Working Capital Analysis

Keith Brown updated the committee on the genesis and methodology used in the development of the Working Capital Analysis. The proposed analysis is in recognition of the desire by management and member leaders – Mario Gonzalez and Rod Hersberger -to identify the existence of any excess capital that could then be reallocated into higher yielding investments. It was noted that the process started at the 2014 Midwinter Meeting in Chicago when the Executive Board approved changes to the Working Capital policy for the express purpose of extracting higher returns. The idea of higher returns was also expressed by the Endowment Trustees at their fall meeting (September, 2016), at which point the Senior Trustee and the Treasurer approached the CFO about the merits of an analysis. Keith Brown noted that the initial analysis would entail the use of three years of monthly data on the following:

- Working Capital Investment Balance
- Interest Income
- Operating Cash Activity

This information will allow us to determine if any cash is available to be invested. The results of this initial analysis will be presented to the Endowment trustees at their February 16, 2016 meeting in NYC.

The meeting was adjourned at approximately 11 am EST.

ALA Midwinter Meeting
Boston, MA
Finance &Audit Committee / BARC Joint Meeting
Saturday, January 9, 2016
(12:00 – 1:30 PM)

Committee: Rob Banks, Maggie Farrell, Lori Goetsch, Mario Gonzalez, Peter Hepburn, Julius Jefferson, Rhea Brown Lawson, Ann Martin, and Jo Pinder

Absent: Bernie Margolis and Jim Neal

Staff: Keith Brown, LaTasha Bryant, Don Chatham, K. Michael Fiels, Mary Ghikas, Joanne Lee, and Mark Leon

Other: Julie Todaro, President-Elect

Mario Gonzalez began the meeting at 12:05pm and introductions were made. Maggie Farrell motion the approval of the agenda and Rhea Brown Lawson seconded the motion with the following modifications: the Indirect Cost report was moved to the first time slot to accommodate the schedule of the President-Elect, Julie Todaro.

Indirect Cost Study Assumptions EBD 4.8/BARC Info 7

Keith Brown reviewed document #EBD 4.8/BARC Info 7 which was distributed prior to the meeting. He noted that the results of the study will be applied to the FY16 budget. He also explained the current formula and how it will be modified in the future.

Publishing Update EBD 12.26/BARC 23.1

Don Chatham reviewed the Publishing operations' results for FY15 and outlook for FY16. There was a discussion about the implementation of an innovative strategy for shared revenue in FY17 and the prospects for a New Editions Publisher. Interviews for this position will continue on April 1st. The following are the highlights of the report:

- Neal Schuman was $31k less than budget which is an improvement.
- Subscriptions were better than budgeted because of expense cuts due to salary positions open.
- Publishing will complete the allocation of textbook titles educational books will be assigned to Neal Schuman and professional development materials will be assigned to ALA Editions.
- Future strategies include the transition of certain titles to an online resource unit so that the editor can review titles and get them through to publication and production more quickly and building on the value of making digital access content available to schools vs. hard copies of books.

Info #1/BARC Info #8 Budget Instructions/Process Inflation

The discussion regarding the budget instructions was led by Keith Fiels and Mark Leon. Keith Fiels reviewed the document that was distributed prior to the meeting via ALA Connect. He stated that the salary increase for FY17 is not included in the Budget Instructions, but believes that a salary increase might be feasible. The following highlights of the report were also noted:

- Indirect cost overhead rate will drop from 29% to 23.7%;
- The mileage rate will decrease.
- Subscription processing will be increased by $.25 each year.
- The grant rate is essentially revenue neutral. For FY17 the rate is more accurately reflecting our overhead rate.
- The change in salary cost for FY17 is 0%, given management's decision to budget conservatively a possible increase in healthcare benefits; which is a trend seen in prior years.
- Attrition rate assumption decreased from 4.8% to 4.5% for FY17.

There was a brief 10 minute discussion about the future of employment opportunities and/or additional resources for upcoming projects.

Proposed Presidential Initiative Budget for FY17 – Julie Todaro

Julie Todaro reviewed her document distributed prior to the meeting. The focus of her campaign is "The Expert in the Library" in addition to Libraries Transformed. She stated one key goal of her campaign is to provide ongoing support to the Diversity and Inclusion implementation group. She requested that the committee approve her budget allowance in the amount of $75,000. The following motion resulted:

MOTION: ***BARC recommends to the F&A Committee to recommend to the Executive Board that they approve the $75,000 budget for the Presidential Initiative for 2016-17. Motioned by Rob Banks second by Julius Jefferson Jr., and the motion carries unanimously.***

Julius Jefferson motioned that we adjourn and Maggie seconded the motion. The meeting was adjourned at 1:30 pm.

ALA Midwinter Meeting
Boston, MA
Finance & Audit Committee
Meeting with the Auditors
Monday, January 11, 2016

Committee: Rob Banks, Mario Gonzalez, Peter Hepburn, Ann Martin, and Jim Neal

Staff: Keith Brown, LaTasha Bryant, Keith Fiels, Joanne Lee, and Mark Leon

Guests: Jeff Delheimer and Jon Fedus, Mueller

The meeting was called to order at 7:30 am by Mario Gonzalez.

EBD 4.9 FY2015

Jon Fedus reviewed document EBD 4.9. The document was distributed prior to the meeting via ALA Connect. The following observations were the highlights of the report:

- There were no changes to goodwill or impairments to goodwill.
- The two biggest factors to ALA's change in net assets were the change in market value of the endowment and the change in post –retirement healthcare due to the adoption of new mortality tables.
- The ALA received an unqualified opinion – highest audit rating.

He also gave a brief explanation of the Margaret Alexander Edwards Trust fund.

EBD 4.10 FY2015 Single Audit

Jon Fedus gave a brief overview of the Single Audit which was distributed prior to the meeting. He noted that they tested two programs for the Single Audit this year. He also noted that there were no audit findings, due to the good work of the ALA accounting team.

EBD #4.11 – Auditor required communication

The auditor required communication document was reviewed by Jon Fedus. The results were as follows:

- There were no difficulties encountered in performing the audit
- There were no significant audit adjustments
- There were no unrecorded past adjustments
- There were no disagreements with management
- There was no awareness of management discussions with other Accountants

Jeff Delheimer spoke briefly about the adjustments on inventory. Jon Fedus explained the reassessment of the value of the Spectrum funds.

Jon Fedus also noted that the Financial Accounting Standards Board (FASB) is currently reviewing proposed changes to the way nonprofits report their financial results. He anticipates that nonprofit organizations will have 2-3 years to implement the new rules.

MOTION: ***Move to accept the FY2015 audited financial statements as presented by Mueller & Company, LLP. Motion by James Neal and second by Robert Banks***

EBD 4.12 Controller's Report

Joanne Lee did an overview of the Controller's report which was distributed prior to the meeting via ALA Connect. The following observations were made:

- The liquidity ratio as of November 15 is (-.57)
- The cash to debt ratio is 5.52 compared to 4.32 for the same time last year
- The inventory reserve level is lower
- The working capital balance was $13.8 million

Mark Leon stated that we are currently reviewing cash on hand to determine if we can reinvest in securities to get a higher return.

CLOSED SESSION - Auditor Evaluation

The meeting was closed and Keith Brown and LaTasha Bryant were excused at approximately 9:00 am EST for the Auditor evaluation.

As a result of the closed session the following motion was forwarded the Executive Board for approval:

MOTION: ***F & A recommends to the Executive Board to engage Mueller & Co., LLP for the FY16 audit.***