Draft Minutes

Friday, January 25
12:00 – 1:30 p.m.

Present: Clara N. Bohrer, James G. Neal, Treasurer, Dora Ho, Sylvia Norton, Winston Tabb, Robert Walton, Patricia Wand, Janice Welburn, Rob Banks, J. Linda Williams

Absent: Alexander Villagran

Staff: Keith Michael Fiels, Mary Ghikas, Gregory L. Calloway, Keith D. Brown, Elaine T. Klimek, JoAnne Kempf, Susan Hornung, Sally Reed, Cathleen Bourdon, Ron Jankowski

Others: Barbara Stripling, Kay Cassell

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

FY 2014 Small Division Subsidy – BARC #23 (EBD #4.14)
G. Calloway summarized the general formula used to determine the small division subsidy for ASCLA and United for Libraries (UFL). Consistent with the general guidelines the budgeted revenue and expense level of ASCLA and the UFL met the 50% funding level test.

S. Hornung, ASCLA Executive Director, was present to highlight her division’s recent accomplishments. The ASCLA trip to France was a success; there are 47 registrations for their online course; they have a disaster preparedness preconference planned for
Annual Conference; they have 49 new members; they may need to use some of their reserves.

S. Reed, UFL Executive Director, was present to highlight her division’s successes. UFL received a Neal-Schuman grant for $30,000; the group membership availability is critical to UFL.

Based on a motion by BARC at the 2012 Midwinter Meeting, the subsidy was capped at $98,160 and scheduled to end in FY 2015. Since the subsidies were capped ASCLA will receive $41,577 and UFL will receive $56,583. The following action was taken:

**Moved by P. Wand, second, D. Ho**
F&A concurs with BARC and recommends to the Executive Board approval of the FY 2014 budgeted small division subsidy for ASCLA ($41,577) and United for Libraries ($56,583).
Motion carried.

**United for Libraries Subsidy Extension Request BARC (EBD #4.15)**

S. Reed requested a two-year extension of their small division subsidy through 2016. She indicated that the cost of the FOLUSA merger with ALTA was much more than anticipated which caused expected revenue/expense projections to be wrong. S. Reed reviewed the division’s business plan projections and indicated that there are efforts underway i.e. cost cutting and new revenue enhancements that should strengthen the financial success of UFL. If the expected financial success occurs prior to the scheduled end of the subsidy UFL will voluntarily end the subsidy. The following action was taken:
Moved by J. Welburn, second, P. Wand
F&A concurs with BARC and recommends to the Executive Board approval to extend the United for Libraries small division subsidy through FY 2016 with the understanding that if United for Libraries reaches an optimal net asset balance above the $50,910 small division subsidy prior to FY 2016, United for Libraries would accept an earlier withdrawal of the small division subsidy.
Motion carried.

Dues Proposal – BARC #20 (EBD #10.6)
Kay Cassell, Membership Committee Chair, Cathleen Bourdon, AED, Communications and Member Relations and Ron Jankowski, Membership Development Director met with the committees to discuss the adjustments to the previously approved (by the Executive Board, Fall 2012) dues proposal. It was noted that after receiving feedback from members on the original proposal that an additional item needed to be added – governance oversight. The item to be added to the proposal was to have an annual review by the Executive Board. The following action was taken:

Moved by W. Tabb, second, R. Walton
BARC approves the revised Dues Adjustment Proposal (2012-2013 ALA CD #14, Revised 1-11-13.)
Motion carried.

Proposed Presidential Initiatives Budget – BARC #19 (EBD #14.4)
Barbara Stripling, ALA President-Elect, and JoAnne Kempf, Governance Office Director, presented the proposed budget for the FY 2014 Presidential Initiatives (“Libraries Change Lives”). Three key action areas will be covered:

- Innovation
- Literacy
- Community Engagement
The action areas will be focused on libraries and communities. The efforts will cover the development of materials, promotion/marketing, the production and publication of materials and communication tools, webinars, virtual presentations, etc. The expected cost for these efforts will be approximately $67,000. Presidential programs at Midwinter and Annual will cost an additional $20,000; and a contingency reserve of $8,000. As a result, the total budget will be $95,000. The following action was taken:

**Moved by D. Ho, second, J. Welburn**
F&A concurs with BARC and recommends to the Executive Board approval of Barbara Stripling’s proposed Presidential Initiative Budget for FY 2013 – 2014. Motion carried.

**FY 2012 Final Results – BARC #5.2 (EBD #14.5)**

Greg Calloway summarized the final financial results of FY 2012. Total ALA revenues were under budget by approximately $731,942 (-1.4%) at $49.3 million. Most of the shortfall was in the divisions ($1.0 million). Other areas where revenue was less than budget included interest/dividends at $244,844 and the Round Tables at $80,057.

Total ALA expenses were under budget by approximately $413,585 (-0.8%) at $49.7 million. The most significant changes were in the Divisions and the General Fund. The Divisions were under budget by $2.1 million (-13.0%) at $14.3 million. The General Fund was over budget by $1.7 million (6.2%) at $28.8 million.

The General Fund expenses exceeded revenue by $1.2 million largely due to the net loss in Publishing ($1.4 million), particularly ALA Editions ($1.2 million). Other considerations included a net loss in Conferences ($405,000), shortfalls in interest ($337,000) and overhead ($125,000). Expense savings were realized in multiple areas
i.e. Communications, Executive Office, Finance/Accounting ($786,000) and the BC/BS refund ($255,000).

ALA began the year with General Fund net assets of $1.4 million. The FY 2012 net loss of $1.2 million and 2015 project expenses of $182,441 resulted in the use of $1.4 million in net asset reserves. The ending FY 2012 General Fund net assets are $56,064. Careful planning and closely monitoring of expenses in the FY2013 budget is projected to add approximately $291,771 in net revenue for a year-end net asset balance of $347,835.

**FY 2013 1st Quarter Financial Report – BARC #5.1 (EBD #14.3)**

BARC and F&A reviewed the first quarter FY 2013 budget report, and noted the following highlights:

Total ALA revenue for the period was $8.8 million, which is $1.7 million (-16.7%) less than budget. There are two areas of concern – the General Fund and Grants & Awards. The General Fund realized the largest shortfall with revenues of $4.9 million, which is less than budget by $1.0 million (-17.4%). In the General Fund, Publishing Services was less than budget by $947,593 (-23.3%), primarily in ALA Editions where revenues were less than budget by $793,787 due to lower than expected book sales. Dues revenue was essentially on target at $1.4 million and slightly less than last year by $50,382. Grants & Awards for the period were less than budget by $442,084 (-29.1%), which is due to timing issues.
Division revenues of $2.6 million were less than budget by $221,592 (-7.9%) and less than last year by $1.2 million due to a division national conference (AASL) in the fall of FY 2012. Revenue from the Round Tables was $60,011 and less than budget by $38,081 (-38.8%).

Total ALA expenses of $10.4 million are $1.9 million (-15.5%) less than budget and approximately the same as last year. Expenses were less than budget across all expense categories. The General Fund expenses were $6.2 million and $858,417 (-12.2%) less than budget. Publishing Services realized the most significant change in the General Fund where expenses were $502,354 (-13.4%) less than budget but $830,374 more than last year due to the Neal-Schuman acquisition. Division expenses were $390,380 (-11.6%) less than budget at $3.0 million. Round Table expenses were $25,203 and $40,335 (-61.5%) less than budget. Grants and Awards were $442,084 (-29.1%) less than budget at $1.1 million. As a result, excess expenses over revenues resulted in a loss of $1.6 million compared to a budgeted loss of $1.8 million or $163,565 (9.2%) better than budget.

It was noted by management that the January financial results will be available about February 15 for review by unit managers to see if further budget reductions will be necessary. K. Fiels noted that the staff salary compensation increase has been postponed until March, after the January results are reviewed.
**Indirect Cost Study Assumptions – BARC Info #1 (EBD #4.11)**

K. Brown reviewed the indirect cost study assumptions to be used in the 2012 study. The study will be conducted in the same manner as the 2011 study. It was noted that there would be no changes in the general methodology used in conducting this year’s study. 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 2015 budget. One discussion point of note was the allocation method used for allocating ITTS costs.

With no further business to discuss, the joint meeting was adjourned.

---

**Finance & Audit Committee**
**Saturday, January 26**
**9:00 – 11:00 a.m.**

Present: J. Neal, Treasurer, C. Bohrer, BARC Chair, S. Norton, R. Banks, L. Williams

Staff: G. Calloway, K. Brown, E. Klimek, K. Fiels

Others: John Vitali, Sr. Endowment Trustee

**Fall Meeting Minutes – EBD #4.8**
**By consent the minutes were approved.**

J. Neal alerted the committee that the spring meeting date may change to April 19. He and K. Fiels will notify the committee as soon as it is decided.
Endowment Trustees Report – EBD #13.2 and CBD #10
John Vitali, Senior Endowment Trustee, thanked staff and Merrill Lynch for their fiduciary attentiveness.

He reported that as of December 31, 2012, the endowment had a value of $32.6 million, which is $2.3 million more than last year at $30.2 million. This resulted in a return of 10.5% compared to its benchmark of 12.1%. Although the results were positive, half of the managers on the equity side did under-perform their respective benchmarks. It was felt that this was more of a reflection that the portfolio was fairly defensive in view of the magnitude of uncertainty in the markets for most of the year.

The Senior Trustee also noted that as the portfolio has gotten larger and the need for more sophistication i.e. the tools used in managing the portfolio, access to information and expertise is being thrust upon the Trustees. As such, expansion of the approved number of Trustees (7) may be forthcoming. The Trustees are in the process of holding an “Investment Outlook” panel discussion at their February meeting in New York where industry experts including ALA’s investment advisor (Merrill Lynch) will provide their perspective on the markets and possible outcomes for the endowment. Additionally, it was noted that expenses related to the management and oversight of the endowment to be covered by the endowment itself. After the discussion two actions were taken:

Moved by C. Bohrer, second, R. Banks.
F&A concurs with the Endowment Trustees and recommends to the Executive Board to increase the previously approved spending/payout rate of 4% to 5% from the endowment for FY 2013 & FY 2014.
Motion carried.
Moved by C. Bohrer, second, S. Norton
F&A concurs with the Endowment Trustees and recommends to the Executive Board approval of the highlighted changes in ALA investment policy EBD #13.4. Motion carried.

**Endowment Trustee Selection CBD #10**

It was announced that the Trustees needed additional time before they present a recommendation to the Executive Board.

**FY 2012 Audit Report: Discussion/Acceptance – EBD #4.9**

John Fedus, Partner and Jeffrey Delheimer, Partner of Muller & Co., LLP presented the audit results related to the fiscal year 2012 audit results. ALA received an unqualified opinion, the best possible rating, and that the financial statements fairly represent all material respects, the financial position of the American Library Association. The same finding was made to the Association’s single audit for government grants.

There was one finding of a material weakness related to the Association’s internal controls. Last summer, at management’s request, an internal audit was conducted. During this audit it was determined that there was an issue with regard to the segregation of duties within the financial reporting system. The issue was a result of the implementation of a new financial reporting system. Management has remediated the findings. As a result, the following action was taken:

Moved by C. Bohrer, second, R. Banks
F&A recommends to the Executive Board acceptance of the FY 2012 Audit Report (2012-2013 EBD #4.9) as presented by Mueller & Co., LLP. Motion carried.
Auditor Evaluation/Engagement – CBD #13.0

Staff provided a briefing on their working relationship and the product of the work provided by Mueller & Co. LLP. In addition to maintaining a good working relationship and good communication, the quality of their work was considered to be good. As a result, the following action was taken:

Moved by C. Bohrer, second, R. Banks
F&A recommends to the Executive Board to engage the services of Mueller & Co., LLP for the FY 2012 403 (b) and FY 2013 ALA Audits.
Motion carried.

Controller’s Report – EBD #4.12

Joanne Lee, Controller, presented highlights of the Controller’s report for the committee.

Cash Management and Bond Fund – Total cash and short-term investments at November 30, 2012 amounted to $16.0 million as compared to $19.1 million a year ago. The decrease is related to the purchase of the Neal Schuman publishing company and investment in technology. 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 $13.6 million at November 30, 2012 as compared to $15.2 million the same time last year. This investment has produced over $9.5 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 2012 with a realized/unrealized loss of $6,528. At November 30, 2012 the cumulative (computed since December, 1991) net realized/unrealized gain was $423,769.
Liquidity Ratios – In the process of securing long-term debt arrangements with JP Morgan Chase and Bank of America, ALA is required to maintain certain covenants. ALA is also required to report and maintain a cash to debt service coverage ratio of 1.1 to 1.0 and a cash/debt ratio of 1.1 to 1.0.

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

Deferred Revenue – As of the end of the first quarter 11-30-12 deferred revenue was $11.4 million, which is down from $12.1 million last year. The most significant changes were in Subscriptions ($248,615), primarily CHOICE and Conferences ($446,333) as there was one division conference last fall (AASL) and none this year. It was noted that this area does affect cash flow and the Association’s liquidity ratios.

Long-Term Debt – The Association obtained a long-term loan from JPMorgan Chase on July 2, 2012 in the amount of $10.1 million. The loan was to support the acquisition of the Neal Schuman purchase and to refinance the properties in Washington, DC and Connecticut (CHOICE). The first scheduled payment ($647,500) is July 2, 2013. Staff is in the process of establishing an interest bearing account whereby regular deposits of $100,000 will be made monthly in order to make the June scheduled annual loan payment.
**New Business Advisory Group Update**

K. Fiels updated the committee on discussion held with the new business advisory group. Although the discussions were wide-ranging, the primary takeaways were the efforts being made in two areas;

- International Business Development
- Online CE (ALA Online University)

There is a macro level of a relationship with China since Molly Raphael, ALA Immediate Past President was there for two weeks speaking with librarians. Michael Dowling, International Relations Office Director, has been in contact with the ministry of culture and education in Hong Kong, who are interested in the possibility of investing in online training programs. K. Fiels noted that he will reach out to the CEO of the Special Libraries Association to see if ALA can work out a collaborative working relationship.

**Midwinter Meeting Time Changes**

For future Midwinter Meetings, the Treasurer and BARC Chair requested staff to change the meeting times to the following:

BARC and Finance & Audit – Friday, Noon – 1:30 p.m.

Finance & Audit – Saturday, 11:00 a.m. – 12:00 p.m.

BARC – Saturday, 12:00 – 1:00 p.m.

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