Draft Minutes

Present: Clara Bohrer, BARC Chair, Rob Banks, Sylvia Norton, James Neal, Treasurer (via conference call)
Absent: Linda Williams
Staff: Gregory Calloway, Mary Ghikas, Keith Brown, Elaine Klimek, Keith Michael Fiels (via conference call)

Due to the heavy rain and flooding conditions, some members and staff arrived to the meeting late or were unable to attend the meeting.

F&A 2013 Midwinter Meeting Minutes – EBD4.18
Moved by C. Bohrer, second, R. Banks
Approved the F&A Midwinter Meeting minutes as written.
Motion carried.

Endowment Trustees Response to Council Referral on Fossil Fuel - EBD #13.6
John Vitali, Senior Trustee, joined the meeting via conference call. He updated the committee on the status of the Trustees’ report to BARC regarding the financial impact of the divestment of fossil fuel holdings from the ALA Endowment Fund. He noted that F&A was reviewing a draft report to BARC that was still a work-in-progress. The Trustees were referred to a study that was prepared by the Aperio Group, an investment manager that specializes in customizing socially responsible investment (SRI) portfolios. Using the information from this report the Trustees applied the metrics to the ALA Endowment Fund. The result was that the ALA portfolio contained only three defined fossil fuel holdings. On a longer-term basis the impact to the portfolio is significant. The Trustees will quantify what that impact might be before submitting their final report to BARC.
In addressing the request to invest in renewable energy initiatives, the Trustees found strong evidence to the fact that investing in this area is an expensive proposition. At this time investing in renewable energy initiatives are better suited for alternative investments. The track record of available investment vehicles in this area is very short in terms of history and the performance has been subpar and very risky.

**Endowment Trustees Report – EBD #13.5**

*Endowment Fund Performance* – J. Vitali reported that the performance of the endowment during the 1st quarter was good. During that period the portfolio grew by $1.9 million to $34.6 million. The return was 5.9% compared to its index of 6.2%.

**Organizational Member Special Promotion – EBD #10.9**

Ron Jankowski, Membership Marketing Director, updated the committee on the status of the Special Organizational Member Promotions. At the Midwinter Meeting in Seattle, the ALA Membership Committee reviewed and approved a proposal to offer a special membership promotion to small and very small organizational (library) members who have dropped their membership over the last 3-4 years. The goal of the program is to build ongoing relationships and show support for small libraries with limited budgets. It is estimated that approximately 100 libraries will rejoin and generate about $18,000 in net incremental revenue. The Executive Board previously approved during their March 19 conference call, and BARC approved through an email vote. After further discussion the following action was taken:

Moved by C. Bohrer, second, S. Norton
F&A recommends to the Executive Board and confirms the approval of this Organizational Member Special Promotion (EBD #10.9), which the Executive Board previously approved during their March 19 conference call, and BARC approved through an email vote.
Motion carried.

**FY 2013 Budget Update and Projections – EBD #14.7, EBD #Info #5**

G. Calloway and K. Fiels reviewed the year-to-date results comparing January, February and March results. The following represent the highlights of those discussions:

Through January total ALA (all combined funds) reported revenues were $17.5 million, which is $2.0 million (-10.2%) less than the budget of $19.5 million. Most of the variance was in the
General Fund where revenues were $1.7 million (-14.1%) less than budget of $12.2 million. Division revenues were $4.1 million and less than budget of $4.5 million by $319,041 (-7.2%).

In March, total ALA revenues were $24.1 million, which was less than the budget of $26.4 million or $2.3 million (-8.7%). It was noted that this result was more than $4.2 million less than (-14.8%) at the same time last year. The General Fund reported revenue of $13.8 million, which is less than the budget of $16.0 million by $2.2 million (-13.5%). This compares to $13.9 million last year, which is an indication of little or no revenue growth. Publishing Services accounts for most of the variance with revenues of $2.7 million, which is less than the budget by $2.9 million by (-5.3%). ALA Editions was less than budget of $2.8 million by $1.5 million (-34.7%). Digital Reference and ALA Graphics are also suffering from sluggish sales. Division revenues for the period were $6.0 million and $321,144 (-5.1%) less than the budget of $6.3 million. Round Tables revenues were $188,839 and $35,801 (-15.9%) less than budget. Grants and Awards revenues were $3.7 million and $272,332 (8.0%) more than budget due primarily to timing. Long Term-Investments revenue was $429,476 and less than budget by $59,225 (-12.1%)

Through January Total ALA expenses were $18.7 million, which is less than the budget of $21.3 million by $2.5 million (-12.0%). Most savings were realized in the General Fund and the divisions. The General Fund expenses were $11.2 million and less than the budget of $12.6 million by $1.4 million (-11.0%). Division expenses were $4.8 million and $1.1 million (-18.8%). Through March the General Fund reported expenses of $16.0 million, which is less than the budget of $17.8 million by $1.8 million (-9.9%). Most of the savings was in ALA Editions which reported expenses of $3.2 million, which is less than the budget of $4.0 million by $855,499 (-21.4%). Division expenses were $6.7 million and less than the budget of $8.3 million by $1.6 million (-18.8%). Round Tables had expenses of $71,942, which is less than the budget of $163,227 by $91,285 (-55.9%). Grants and Awards expenses were $3.7 million and $272,332 (8.0%) more than budget due primarily to timing. Long-Term Investments expenses were $266,996 and less than budget by $91,992 (-25.6%).
As a result of the above information, net revenue in the General Fund through March reflects a deficit of $2.2 million, which is $395,252 more than the budgeted deficit in the General Fund of $1.8 million (21.9%).

*General Fund Projections* – As a result of some preliminary work, management has projected end of year revenues and expenses of $29.1 million. This is $2.5 million or -8.1% less than budget. Management met in March to address the issues. G. Calloway went on to discuss with the committee a number of additional options to cover the projected deficit. Management has made the following decisions:

- Freeze open positions in FY 2013 and FY 2014
- Freeze staff development budget
- Freeze Executive Director’s contingency fund
- Further savings will come from the Executive Board and committees
- Eliminate Division Organizational Support
- 10% reduction in pay by Senior Management
- Defer compensation adjustment in FY 2013 and 2014

After further discussion the following action was taken:

**Moved by C. Bohrer, second, R. Banks**
F&A has reviewed and supports the budget adjustments made for FY 2013, as proposed by management and refers to BARC and the Executive Board with a strong recommendation that if budget results are better than anticipated that staff compensation be a top priority. Motion carried.

**FY 2014 Preliminary Budget – EBD #14.6**
G. Calloway and K. Fiels met with the committee in closed session to discuss the details of the FY 2014 budget. Details of the full plan will be presented to the Executive Board at their meeting on Saturday, April 20, 2013.

**Moved by C. Bohrer, second, R. Banks**
F&A recommends to the Executive Board that the Preliminary FY 2014 Budget proposal (EBD #14.6) 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
requests that BARC report back on its analysis at the 2013 Annual Conference in Chicago with a strong recommendation that consideration given to staff compensation if the budget results are better than anticipated. Motion carried.

**Controller’s Report – EBD #4.17**
Joanne Lee, Controller, was present to highlight her report for the committee.

*Audit Planning Year* – Mueller & Company has been retained to conduct their second audit of the ALA financial results for FY 2013. A planning meeting for the year is scheduled for May 29. Additionally, preliminary work is scheduled to begin on July 22 and final field work November 4 – 22.

*Total ALA Financial Position* - On a year-to-year basis, as of February 28, 2013, ALA’s financial position (Net Assets) improved by $887,936 (3.1%) to $29.8 million. The most significant impact is due to the improved long-term investment results.

*Cash Management and Bond Fund* - Total cash and short-term investments at February 28, 2013 amounted to $17.4 million as compared to $13.5 million a year ago. The increase was mainly related to the cash received ($5.5 million) related to the Neal-Schuman acquisition. The Neuberger Berman bond fund investment balance is $13.9 million at February 29, 2013. This investment has produced over $9.6 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 loss of ($87,572). The cumulative (computed since December 1991) net realized/unrealized gain is $342,725.

The Association maintains a line of credit in the amount of $2.5 million with JP Morgan Chase. There was one draw on April 5, 2013 for $1.0 million. Repayment is expected by June.

*Deferred Revenue* – As of February 28, 2013 deferred revenue totaled $13.3 million. This is a reduction of $710,291 (-5.1%) and is due primarily two national division conferences in FY 2012 compared to only one in FY 2013.
**Long-Term Debt** – ALA has an outstanding loan with JP Morgan Chase in the amount of $10.1 million. The first scheduled payment of $647,500 is due July 1, 2013. In order to meet this obligation management has been setting aside $100,000 on a monthly basis from the operating fund. Interest payments on this obligation are made monthly.

**Inventory and Credit and Collections** – Information related to these two topics was 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.

**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, 2013 the ratios are (-0.13) and 3.12 respectively compared to the requirement of 1.1. The cash ratio is very strong despite the negative debt ratio. On a proforma basis, the ratios should be in compliance.

**Financial Reporting and Compliance Report – EBD #4.19**
Denise Moritz, Director of Financial Reporting and Compliance, met the committee for the first time and reported on several topics. The committee was updated on the status of the Association’s 990 and 990T filing. Both are close to completion and will be filed in the next 30 days. The returns will be available for review by the Executive Director and the Executive Board. Planning for the Association’s FY 2012 403(b) i.e. retirement account audit is underway. Fieldwork is planned for early June 2013. The committee was also updated on the status of the internal controls for accounts payable. She noted that the addition of an Accounts Payable manager has been very helpful in this regard. The Association is now taking advantage of discounts offered by vendors, set-up is quicker and more thorough, communication with vendors and staff is improving etc. There will also be a planned internal review of operations over the next three months. Efforts are now being made to clarify rights and permissions for personnel in order to optimize the segregation of duties. Staff have been working with ITTS personnel to develop and implement a “Change Management” policy that fits ALA. A software package has been identified to help in this regard and is planned for the FY 2014 budget.
Indirect Cost Study – EBD Info #4.20

K. Brown summarized the results of the 2012 Indirect Cost Study. Using the FY 2012 ALA audited financial results, and updating the allocation information, the resulting rate was 25.4%. This was an increase from last year’s rate of 24.2%. This year’s rate will be applied to the FY 2015 budget at 100% (25.4%) on certain division conference revenue and 50% (12.7%) on certain publishing revenue.

The primary driver of the increase was related to the impact of the Neal-Schuman acquisition. In addition to increasing expenses in ALA Edition by $2.0 million, there was also an increase in the number of FTE’s, office space and higher allocable time for Finance/Accounting, ITTS and Human Resources in order to complete the integration in to ALA publishing.

Annual Conference Planning

J. Neal noted that he intends to focus his remarks and presentation on the points discussed by the Executive Board on the financial strategies for the Association.

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