American Library Association
Finance & Audit Committee
2013 Annual Conference
Chicago, IL

Draft Minutes

Present:	James G. Neal, Treasurer, Clara Bohrer, BARC Chair, Rob Banks, Sylvia Norton, J. Linda Williams
Staff:	Keith Michael Fiels, Gregory Calloway, Keith Brown, Joanne Lee, Denise Moritz, Elaine Klimek
Others:	Mario Gonzalez, Robert Walton

J. Neal welcomed everyone and reviewed the agenda.

FY 2013 Budget Update and Projections, May Results – EBD #14.8

G. Calloway, K. Fiels and J. Neal reported that many of the members had previously heard the review and commentary during the BARC meeting. At their suggestion this discussion focused on the bigger picture issues in the General Fund and what to do in the event that projections are not met and other issues that may impact results. It was noted there will be a good deal of planning by management between now and the end of the fiscal year on August 31, 2013. Structural and programmatic issues will each have to be addressed as areas for potential significant changes.

The question was raised as to the accounting treatment for carrying a negative net asset balance in the General Fund. It was noted that there were three important points to consider:

- There have been significant negative net asset balances carried in the General Fund in prior years.

- The General Fund is just one of many funds within the consolidated results of the organization depending on the amount of the small negative net asset balance. The Executive Board has the fiduciary mandate to solve the net asset balance issue via net asset transfers from other funds.
- On a total ALA basis the overall health of the organization is quite strong and at this point the negative net balance may not result in a violation of the Associations bank covenants.

As previously noted, Publishing has accounted for much of the revenue shortfall in FY 2013, but is still viewed as a revenue opportunity area going forward in FY 2014. It is a wait and see moment for Publishing in the 4th quarter of FY 2013. K. Fiels reported that management will bring considerations/strategies to the Executive Board in October. The size of ALA needs to be fixed but at this time it is not clear how much needs to be cut.

BARC Report – EBD #3.2

C. Bohrer reported to the Committee on some of the work addressed by BARC during this Annual Conference. There were two items of note:

- Recommendation on the Council referral on fossil fuel divestment
- Implementation of the 2012 CPI on dues for the FY 2014 budget

C. Bohrer noted that the Committee received and reviewed the Endowment Trustees report regarding the Council resolution regarding the financial impact on the Endowment Fund. After reviewing their report, BARC gave weight to the two primary reasons for not supporting the resolution – 1) recognition of a $1.2 million loss to the Endowment Fund with its impact on the General Fund and 2) qualitative issues surrounding the day-to-day management of the fund. No action was taken by F&A.

C. Bohrer updated the committee on the proposal to set the CPI which would be applied to personal dues for FY 2014. The rate to be applied is 2.1% and will be reviewed annually. The proposed application is expected to generate approximately $80,000 for FY 2014. The following action was taken:

Moved by C. Bohrer, second, R. Banks
F&A concurs with BARC and recommends to the Executive Board approval to apply the 2012 change using the national average Consumer Price Index (CPI) to adjust personal dues in FY 2014.
Motion carried.

Endowment Trustees Report – EBD #13.7

R. Walton reported to the committee on the status of the Endowment Fund. For the five months ended May 31, 2013 the endowment has grown by $2.3 million (7.1%) to $34.9 million, producing a return of 8.4%. These results are in-line with its benchmark return of 8.5%. All of the managers, except one, met or exceeded their respective benchmarks. He went on to say that there were three general takeaways from this report that the committee needed to know regarding the endowment and its performance:

- Volatility in the market will continue for the foreseeable future
- Federal Reserve hints of winding down $85.0 billion monthly bond buying program
- Based on the expected future investing environment, long-term returns need to be adjusted down from 8% - 9% to 6% - 7%.

On the issue of fossil fuel divestment it was noted that the Endowment Trustees were unanimously opposed to the Council resolution. The Trustees understand the importance of the issues at hand, but strongly believe that their mandate is to maximize returns for the betterment of the Association.

Finally, he closed by saying that the Trustees are in the middle of some serious discussions on the merits of passive vs. active management. Currently the Trustees are committed to active management. However, because of the small size of the portfolio the Trustees are limited with respect to the investment tools available to enhance returns. Hence, another reason for not screening out fossil fuel holdings. The bigger the endowment, the more options it has to increase returns. In view of the risk that is taken and the returns currently being realized by active management, it is thought that passive management via Exchange Traded Fund's (ETF), ishares etc. should be considered.

FY 2014 Preliminary Budget – EBD #14.6

G. Calloway highlighted the most significant changes to the proposed FY 2014 budget since the spring meeting. Some of the items included the following:

- Incorporated approved grants received since the spring meeting
- Distributed depreciation expense based on added FY 2014 capital expenditures
- Additional project added for $58,000

The Committee noted that there could be additional adjustments to the FY 2014 budget depending on the degree to which the FY 2013 budget does or does not meet its year-end projections. After additional discussion the following action was taken to approve the FY 2014 budget:

Moved by R. Banks, second, C. Bohrer
F&A concurs with BARC and recommends to the Executive Board approval of the Preliminary FY 2014 General Fund Budgetary Ceiling of $28,821,439, including a $1,473,735 net asset transfer to offset the Plant Fund operating expenses.

F&A concurs with BARC and recommends to the Executive Board approval of the Preliminary FY 2014 Divisions Budgetary Ceiling of $27,395,489.

F&A concurs with BARC and recommends to the Executive Board approval of the Preliminary FY 2014 Round Tables Budgetary Ceiling of $1,659,369.

F&A concurs with BARC and recommends to the Executive Board an $87,255 transfer from the Division Fund to offset the Plant Fund operating expenses.

F&A concurs with BARC and recommends to the Executive Board approval of the Preliminary FY 2014 Grants and Awards (Restricted Fund) Budgetary Ceiling of $4,578,354.

F&A concurs with BARC and recommends to the Executive Board approval of the Preliminary FY 2014 Long Term Investment Fund (Endowment Fund) Budgetary Ceiling of $1,148,898 including $99,387 capital gain to be allocated for funding the ALA Spectrum Initiative and a transfer of $440,539 interest and dividends from the Endowment Fund to the General Fund in accordance with Policy 8.5.1.

F&A concurs with BARC and recommends to the Executive Board approval of the Preliminary FY 2014 total ALA Capital Budget of $2,285,854.

F&A concurs with BARC and recommends to the Executive Board approval of the Preliminary FY 2014 Technology Reserve Fund expense of $341,068.

F&A concurs with BARC and recommends to the Executive Board approval of the Preliminary FY 2014 General Fund Small Division allocation of $20,789 for ASCLA and $28,292 for UFL.

F&A concurs with BARC and recommends to the Executive Board approval of the Preliminary FY 2014 Total ALA Budgetary Ceiling as follows:

General Fund	**$28,821,439**
Division Fund	**27,395,489**
Round Tables	**1,659,369**
Grants & Awards	**4,578,354**
Long Term Investment	**1,148,898**
Total ALA Budgetary Ceiling	**$63,603,549**
Tech Reserve Fund Depr Exp	**341,068**
TOTAL	**$63,944,617**

Motion carried.

Controller's Report – EBD #4.22

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

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

Total ALA Financial Position - On a year- to- year basis as of May 31, 2013, ALA's financial position (Net Assets) improved by $1.6 million (5.6%) to $30.9 million. The most significant influence was the impact of improved long-term and short-term investment results.

Cash Management and Bond Fund **-** Total cash and short-term investments at May 31, 2013 amounted to $16.5 million as compared to $12.0 million a year ago. The increase was mainly related to the deposit of $5.5 million related to the funds received for the Neal-Schuman acquisition.

The Neuberger Berman bond fund investment balance is $13.9 million at May 30, 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 ($149,955). The cumulative (computed since December, 1991) net realized/unrealized gain is $244,749.

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 was made in full on May 30, 2013.

Deferred Revenue – As of May 30, 2013 deferred revenue totaled $14.2 million. This is an increase of $1.1 million (8.7%) and is due to improved Annual Conference registration and exhibits for Chicago compared to Anaheim.

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 and is in a position to make the payment on time. 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. These are ratios that management gives a great deal of attention. As of May 31, 2013 the ratios are (0.56) and 3.06 respectively compared to the requirement of 1.1.

Report of the Director of Financial Reporting and Compliance – EBD #4.23

Denise Moritz, Director of Financial Reporting and Compliance, reported to the committee on information included in the Director's report.

Form 990 and 990-T – These returns were filed with the IRS on June 6 and April 25, respectively. The 990 was distributed to the Executive Board by the Executive Director prior to filing.

403(b) Audit Preparation – The engagement letter for the December 31, 2012 audit has been finalized and fieldwork has been completed. We are now in the final wrap-up stages of the audit.

Audit for Fiscal Year August 31, 2013 – The scope of the valuation work for Neal Schuman has been discussed with the valuation specialists at Plante Moran and the ALA auditors at Mueller & Co., LLP. Work will begin in the September/October timeframe so that staff can incorporate the expected heavy sales activity in the last quarter of the fiscal year.

Actuarial Analysis – The actuary and the auditors had an initial planning meeting on June 10, 2013. After discussing the assumptions to be used, the yield curve analysis as of May 31 produced a discount rate of 4.5%. Another yield curve analysis will be taken on August 31 for comparison. Based on current market indicators a rate of 5% is expected. If realized, this has the potential to reduce ALA's post retirement obligation by $400,000 – $600,000.

Internal Controls – Improving internal controls is still very much a priority in the Finance and Accounting Department. To that end, over the next two months staff will be conducting an internal review by pulling a sample of cash disbursements and examining the underlying documentation to test for timeliness of payments, coding accuracy and appropriate and required approvals. In addition, the rights and permissions of the Accounting Department personnel are being reviewed to ensure optimal segregation of duties and that there is no overlap or access into unintended areas.

Change Management Policy - Finance personnel are working with ITTS to develop and implement a Change Management Policy that works for ALA. Software to help in this area has been identified and will be purchased in FY 2014. In the interim, ITTS personnel are moving toward June implementation and use of the existing Track-it! ticket system in order to prioritize projects and assign staff.

Cash Flow Projections – In an effort to better anticipate the Association's cash needs and optimally utilize its line of credit, monthly/quarterly cash projections are now being prepared. As this is a new process it will be monitored and refined.

Endowment Settlement – In May 2013, $328,845 was transferred from the Endowment Fund to the ALA operating account. The settlement is between the Endowment Fund activities for scholarships and awards and the ALA operating account.

Bill Payment Process SharePoint – Staff continues to work to stabilize the system. Discussions are underway with the IT consultants regarding a Phase II upgrade.

Fall Meeting Planning

The Finance & Audit Committee meeting is scheduled for October 24 with the Executive Board meeting October 25 – 27.

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