

American Philatelic Society

Board of Directors meeting, August 25, 2001, Rosemont, Illinois

Present - Board: McCann, Klug, Schnell, de Vries, Clark, Leshner, Prill, Washburne, Zeigler, Hotchner; absent Triggle.

APRL Board: Trenchard, Lawrence, Walker, Peterson, Evans-de Violini.

Others: Bob Lamb, executive director; Ken Martin, director of shows; John W. Allen, Rob Haeseler, Charles J.G. Verge, Lucy Lamb, Foster E. Miller III, Gordon C. Morison, representatives of Grand Rapids and Biloxi.

Meeting called to order at 11:03 a.m. No tape recorder was available.

MATCH FACTORY:

Ken Lawrence summarized the background of the Match Factory project: Space needed at APS headquarters; looked at other parts of the country; library consultant's services retained; architecture firm commissioned to do feasibility study. Expanding the present building would have cost \$5 million to build up and out to 50,000 square feet. A real estate appraisal uncovered that the "highest, best use" of the present facility was to tear it down and build a new facility somewhere, because of the incredible commercial growth in the area. By putting \$5 million into the building, "we wouldn't be increasing our equity by 5 cents."

His committee studied alternatives to remodeling, asked the realtor to look around. No existing properties in area, building new building was \$5 million plus the cost of the land. At that point, the Match Factory "fortuitously" became available.

Hoffman-Popovich architects was again commissioned to do a feasibility study on the Match Factory. The committee also looked at financing, "not frivolously....We have presented a (funding) proposal that is redundant in every way. There are two ways to fund this."

Chose to pursue the bond issue funding plan. One way to fund the project is rental revenue. Can service the entire debt on the bond issue with very conservative estimates of the spread between interest paid and interest earned. "Two percent is a very conservative spread."

Lawrence handed out the following projection of debt servicing costs compared with projected income from the Society's investments:

Debt Servicing Costs 2005-2015

	Debt Service	Investment Income	Net Earnings
2005	280750	738577	457827
2006	282062	707298	475236
2007	283111	772787	489676
2008	278895	784006	505111
2009	279681	819797	540116
2010	280202	820318	540116
2011	280460	839988	559528
2012	280455	860825	580370
2013	280186	882954	602768
2014	279653	906509	626856
2015	283858	936639	652781

LAWRENCE: Investment income is the other way to fund the Match Factory. Our investments are currently spread between 60% equities and 40% bonds. "A 60-40 split is more conservative than what (finance committee member and investment analyst) Al Kugel recommends to his own institutional clients." The spread stays the same, historically, even as markets fluctuate.

Architects were solicited and selected. Representatives of the APS have been meeting with Vitetta, the firm chosen, almost weekly.

ZEIGLER: Who did the appraisal on the current building?

LAWRENCE: Rutherford, considered the leading commercial appraiser in the State College area.

Lawrence says Rutherford was generous with his time advising on courses of action.

Lamb handed out the following comparison of projected income from rental income and operational expenses for the Match Factory:

	2005	2015
Income	488,929	611,000
10% Vacancy	(48,893)	(61,100)
Net income	\$440,036	\$549,900
Expense		
Depreciation	140,000	140,000
Management fees	30,803	405,593
Maintenance	170,000	225,000
Total	340,803	405,593
Gross Taxable Income	\$ 99,233	\$144,307
Deductible Expenses		
Executive Director's Office (25%)	44,084	55,105
Accounting Office (25%)	44,799	56,000
Administrative (20%)	22,268	29,535
Librarian (5%)	3,763	4,704
Total	\$114,913	\$145,344
Net Taxable Income	\$ (15,679)	\$ (1,037)
Depreciation	140,000	140,000
"Profit"	99,923	144,307
Cash Available for APS/APRL Use	\$ 239,923	\$ 284,307

LAMB: 2005 is the first year after the taxable bonds will be paid off, and therefore the first typical year after servicing. The figures shown above are adjusted for inflation, and include a 10 percent vacancy rate. The building can be depreciated over 21 to 39 years, and 30 years was chosen for these figures and analyses.

Management fees have been projected at 7% of net income. The maintenance costs are our best guess and are probably on the high side. They do not include the \$85,000 which we spend annually on the current building since they are intended only to show cost increases. These maintenance charges include such things as snow removal, gardening, insurance, lighting, heating, air conditioning, cleaning and supplies for the common areas.

In response to questions raised by APRL trustee W. Danforth Walker at the meeting August 22:

Lamb reported that rental income would be considered unrelated business income, and therefore subject to income tax. The tax rate is 15 percent up to \$50,000, 25% for \$50-75,000, 34% to \$100,000, then 39%. The APS has considerable experience with non-related business income. Gross taxable income is typically about \$500,000 a year for the Society at this time — \$469,000 last year, \$497,000 the year before. This consists mainly of income from magazine advertising, credit card royalties, some insurance fees, and sales of specialty items.

The APS has never paid any taxes on this: Accounting procedures deduct for services provided — accounting, executive director, administration, etc., leaving negative net taxable income. For example, the current chargeable costs of the Executive Director's office is \$160,000 yearly. For the purposes of this analysis, we have assumed a 2.5% per year increase for inflation.

Based on this analysis, the positive cash flow — profit plus depreciation — could be expected to yield about \$240,000 in 2005.

PRILL: Will the APS have to hire additional personnel for the Match Factory?

LAMB: Not sure. Might need someone on the account side. Bond issues and debt servicing will require strict adherence to payment schedules, with penalties that we do not have to face now.

WALKER: Happy to see the numbers. What about security? An alarm system?

LAMB: Not included. There are plans for additional security.

WASHBURN: Does the 25% of the executive director's time charged to rental income take this deduction away from other activities?

LAMB: No, because we only have to consider this deduction for taxable activities. Since most of the Society's activities are not taxable, this is not a factor.

ZEIGLER: Asked whether one-fourth of the Executive Director's time would be devoted to handling tenant matters, being a landlord.

LAMB: Pointed out that the charge was based on the costs of the entire office, not just his time. But it would not be 25% of the office's time, but 25% of the chargeable time. Twenty percent of the Executive Director's office is not charged to anyone. Therefore 25% of 80% would be 20% of the office costs would be charged.

SCHNELL: Asked about the arbitrage.

LAWRENCE: By 2005 we will have paid off the taxable portion of the bond issue, so investment income pays the debt servicing.

FRAZIER: Reads faxed letter from Joel Mock of Ritchey, Cox, Hollis, Mock & Klein, the auditors and tax accountants for the APS and APRL, in response to questions raised at the August 22 meeting:

"Depreciation can be allocated to the unrelated business income and used to decrease taxable income. The allocation would be based on square footage of taxable and non-taxable space. Common areas can also be allocated between the two and depreciated.

"Indirect general and administrative expenses can also be allocated to the unrelated business income and used to decrease taxable income."

LAWRENCE: The bonds are callable annually, meaning the APS can pay them off at any time without penalty.

WALKER: Asked if depreciation could be calculated on a square-footage basis or the ratio of taxable to non-taxable bonds.

FRAZIER: By square footage.

WALKER: Will the investments grow?

LAWRENCE: Thinks that's likely.

McCANN: What about cost overruns?

LAMB: Have thought about it. Getting to upper limits of what the Society can afford. Will have to trim back and have explored what can be cut back. Building 4 would be first, then Building 11, a storage area. August Hall could be done later.

KLUG: What happens to the purchase agreement without tenants?

LAMB: One of the contingencies in the purchase agreement is the requirement for tenants. Without tenants we do not have to buy the property. But we need tenants to proceed. The bankers want to see tenants before they will go ahead with our financing. If we do not have tenants when we are ready to purchase the property, we will come back to the board for a reevaluation.

Real estate agent has six good prospects for tenants. But it is very difficult to negotiate with tenants when there are serious questions about whether we are going to go ahead with the project. "If we have a good statement of support from the board, I believe that we can get the tenants."

In response to a question from KLUG, LAMB said the August 22 APRL motion to proceed was sufficient.

WALKER: Is 22,000 square feet rented sufficient for the bankers?

LAMB: Believes so.

LAWRENCE: Quality of the tenants is more important to bankers than the square footage.

LAMB, in response to SCHNELL's concern about the length of leases, said that those interested want long-term commitment from us. But we have to move quickly if we are going to be able to deliver space when it the tenants want it.

ZEIGLER: Still don't have tenants; weren't we supposed to have them?

LAMB: We hadn't "sold" the project to the Board.

ZEIGLER: According to previous Board minutes, it was promised there would be tenants.

LAMB: Thinks there was uncertainty over whether the APS/APRL was going to go ahead, and that has hurt getting tenants.

McCANN: If we don't get tenants, we don't do it.

CLARK: Moves to authorize Lamb and his staff to move forward, with the contingencies already in place. Seconded by LESHNER.

ZEIGLER: Concerned. Agrees we need a new headquarters, new building on present site would pass up the increased value of the property. Does not see offered the possibility of building to our own specifications on cheaper land. Not sure we should be in the landlord business: It's a new set of obligations, the income stream is uncertain. He's still concerned about flooding. There isn't much commercial property available in Bellefonte, but is that because there's no market for it? Maintenance costs will rise sharply, nobody knows the Heating/Air Conditioning costs. Wants reasonable estimate by an engineer of those costs.

Concerned that the Executive Director says we're close to the limit of what can be afforded. Not enough

attention to the "cow pasture" option (erecting a new building on cheaper land). Won't be able to expand into tenant space if we are near our debt limit. Favors building a new building to our specifications.

VOTE: Aye – Klug, Schnell, de Vries, Clark, Leshner, Prill, Washburne, Hotchner. Nay – none. Abstain – Zeigler. Passes 8-0-1 to authorize Lamb and his staff to move forward, with the contingencies already in place.

Match Factory discussion ends, APRL members and many others leave.

DIVERSITY:

McCANN introduces Dr. John Allen of North Carolina A&T, chairman of the Diversity & Outreach Committee, and turns the floor over to him.

Mandate of committee has been to look at how diversity can increase our membership. Hands out report (c). Says shows need more advance advertising. Next to the APS show in Cleveland in 1999, there was a long line of people for the stadium, and he asked people there if they knew about the stamp show, and most didn't.

Regarding documentaries (documentary films), Allen has been talking to APS staff and others. Comments that the Westminster dog show got six hours on Turner Broadcasting. Shows films clips from "Antiques Road Show" in England, where there was a four-hour line in the rain of people waiting to get in. Often four hours for this show here in the U.S. ARS often goes to local museums, too.

McCANN asks the committee to look further into the TV idea. Says PRILL, already a member of the committee, will be its liaison to the Board.

COMMITTEES AND APPOINTMENTS:

McCANN outlines committee appointments and requests approval:

- Accreditation of National Exhibitions and Judges (CANEJ) Chairman - Janet Klug
- Affiliate Co-ordination Chairman - CWO James E. McDevitt
- By-Laws Chairman - David A. Flood, Esq.
- Chapter Activities (CAC) Chairman - Thomas M. Fortunato
- Ethics in APS Chairman - Jeanette Knoll Adams
- Finance Chairman - Nancy B. Z. Clark
- Hall of Fame Chairman - Herbert A. Trenchard
- International Chairman - Stephen D. Schumann
- Kehr Award Chairman - John M. Hotchner
- Luff Award Chairman - Gordon C. Morison
- Outreach and Diversity Chairman - John W. Allen, Ph.D
- Preservation and Care of Philatelic Materials Chairman - Douglas N. Clark
- Stamp Theft Chairman - Ephraim W. Day, Jr.
- Translation Chairman - Dmytro Bykovetz
- USPS Liaison Chairman - John M. Hotchner

AD HOC COMMITTEE:

- APS/APRL Expansion Chairman - Ken Lawrence

Computers in Philately and Long-Range Planning will disband; Internet Ethics will not be renewed, but becomes part of Ethics Committee's overall responsibilities.

ZEIGLER moves to accept, CLARK seconds, passes unanimously.

McCANN outlines International Federation of Philately appointments and requests approval:

FIP Representatives:

President FIP Delegate - Dr. Peter P. McCann
 Alternate FIP Delegate - Stephen D. Schumann
 Aerophilately - Stephen Reinhard
 Astrophilately - Reuben A. Ramkissoon
 False Issues - John E. Lievsay
 Literature - Ken Lawrence
 Maximaphily - Daniel C. Olsen
 Postal History - W. Danforth Walker
 Postal Stationery - Stephen D. Schumann
 Revenues - Ronald E. Leshner
 Thematics - Ann M. Triggler
 Traditional Philately - Dr. Roger G. Schnell
 Youth - Patricia Stilwell Walker

FIAF Representative - Dr. James P. Mazepa

McCANN also wishes to reappoint Herbert A. Trenchard as Historian

ZEIGLER moves, HOTCHNER seconds, passes unanimously.

McCANN wishes to reappoint Irving Miller as the dealer liaison to the Board. PRILL moves, ZEIGLER seconds, passes unanimously.

For Washington 2006, McCANN wishes to replace departing director Jeanette Adams with SCHNELL. KLUG moves, LESHER seconds, passes unanimously.

McCANN outlines responsibilities he has asked the Directors-at-Large to take:

PRILL will handle the Diversity committee and programs for youth. McCANN asks for report by next meeting.

LESHER is the liaison to all committees, replacing Triggler who is now a Vice President.

ZEIGLER will look at election procedures, after misunderstandings in the 2001 election.

WASHBURNE will keep an eye on the Sales Division, Internet Sales Unit and Expertizing operations.

SHOWS - Stampshow 2005:

APS Director Of Shows KEN MARTIN hands out recommendations for Stampshow 2005. Grand Rapids is less expensive than Memphis, has more local support, the post office is near the convention center.

Hand-Out:

Candidates For Summer 2005 APS Show

	<u>Grand Rapids, Michigan</u>	<u>Memphis, Tennessee</u>
Dates:	August 4-7, 2005	August 4-7, 2005
Facility	\$12,500 base rate (estimated) New facility being built downtown Reasonably-priced parking	Cook Convention Center Base rental rate - \$23,520 (firm)
Hotel	4 (1000 rooms) within walking distance Hdqtrs hotel ranked 12th best in America	2 within half mile (Marriott & Wyndham Garden)
Hotel Cost	Amway Grand Plaza - \$108 + 12% tax (gtd) Days Inn - \$89 (gtd)	Marriott - \$145 + 14.95% tax Wyndham - \$125

Nearby Attractions	Walking Distance – Ford Presidential Museum , Art Museum , Children's Museum , 40 restaurants	
Transportation Access	170 daily flights (82% jet) No dominant carrier	Excellent Air Service (500 flights/day) Dominant Carrier (Northwest Hub)
Population	100 mile radius - 5,192,878 5-hour drive - 18 million Detroit - 150 miles Chicago - 180 miles Indianapolis - 250 miles	Two-thirds of U.S. population within 8-hour drive
Local Support	3 APS Chapters and Local USPS campaigning for show (have already suggested ideas for artwork for show cancel, etc.) 100 APS chapters, 200 dealers in Michigan, Ohio, Indiana, Illinois	Less certain

McCANN questions whether a show in Grand Rapids will draw. Member Ron Mrosinski of Grand Rapids responds that it will draw from Chicago and Detroit, with strong stamp clubs in Kalamazoo and Muskegon.

HOTCHNER says if Grand Rapids is cheaper, the extra money should be put into advertising.

KLUG asks what's within 8 hours of Grand Rapids? Handout shows Detroit, Chicago, with Indianapolis 250 miles away.

Five representatives from Grand Rapids are present. MARTIN says APS shows need local support.

To hold Stampshow 2005 in Grand Rapids, Michigan, is moved by CLARK, seconded by HOTCHNER.

McCANN: It's probably the smallest city for a summer show (in recent years).

LESHER: Says he's reluctant.

Wes Kent of Grand Rapids says a club activity for children this summer made local television; club members regularly visit local schools with the encouragement of school officials. Stamp collecting wouldn't get this much attention in a bigger market.

McCANN asks how dealers will feel about Grand Rapids.

MARTIN predicts they will be skeptical.

HOTCHNER says they will be skeptical anywhere in the South, too.

PRILL asks if we can offer a better deal for dealers.

MARTIN doesn't want to commit to that.

McCANN says the booth rates for Stampshow are already very reasonable.

SCHNELL says Stampshow 2005 will get more grass roots interest and exposure in Grand Rapids.

MARTIN says costs are a factor in a bigger city.

For: Klug, Schnell, de Vries, Clark, Prill, Washburne, Zeigler, Hotchner.

Against: Leshner

Motion passes 8-1.

SHOWS - Winter 2003

MARTIN presents a chart of Atlanta vs. Biloxi, Mississippi, for the Winter 2003 show:

Candidates For Winter 2003 APS Show

	<u>Atlanta, Georgia</u>	<u>Biloxi, Mississippi</u>
Dates	February 14-16, 2003	February 2003
Facility	Cobb Galleria (approx. \$15,000) or Hyatt Regency (unclear)	Convention Center (about \$12,500)
Hotels	Galleria - 4 within quarter mile Hyatt Regency - Exclusive Hotel	One adjacent, one other walking distance, numerous within couple miles
Hotel Cost	Galleria - Hdqtrs \$119 + 14% Tax Hyatt - \$129+	Headquarters - about \$85/night Others as low as \$50/night
Transportation Access	One of the busiest airports in the U.S.	Weak air service (5 airlines including Northwest and Continental, 42 flights/day)
Population	Major city	New Orleans - 60 miles Mobile, Alabama - 40 miles
Local Support	Less committed but more experienced	Strong but inexperienced

Other Options:

Dallas, Texas - 10th floor of office building, rental cost \$12,000+, hotel cost similar to Atlanta, unclear support

Greenville, SC - similar rental cost, hotel cost between the two, strong but inexperienced (and limited) local support, probably less a attractive destination than Biloxi.

MARTIN: Atlanta has poor hotel support, bad reputation for shows. Dallas "turned down flat" the APS. Biloxi is about the cheapest convention city in the U.S.

Biloxi's representative to the meeting, BOB MAROUSKY, says it's really a bid for the entire Gulf Coast, the second most popular tourist destination in the U.S. after Las Vegas.

MAROUSKY says although it's not a WSP show, the local club has run a successful show for the past 30 years. Biloxi has a population of about 200,000, but the Gulf Coast has 800,000.

He was asked why it's a popular destination. Because it's warm, cheap. Some one else mentions because gambling is legal there. MAROUSKY says hotels would provide shuttles to the convention center. Most going to Biloxi fly into Mobile, Alabama.

KLUG: How many dealers are likely for these locations?

MARTIN: About 100 dealers for Atlanta, 60 for Biloxi.

HOTCHNER moves going to Biloxi, SCHNELL seconds.

CLARK says Peach State show's move to Atlanta is successful, and there's a waiting list of dealers for it.

ZEIGLER asks if holding the 2003 winter show in Atlanta would hurt Peach State.

CLARK says Atlanta would like to overcome the problems of Stampshow 22 years ago.

WASHBURNE asks if Hugh Wood (insurance) will cover APS' losses at the show.

[Wood has only agreed to underwrite the Winter 2002 show.]

PETER MARTIN: ANA (American Numismatic Association) found Atlanta to be one of its weakest shows.

KLUG moves Biloxi, SCHNELL seconds.

For: Klug, Schnell, de Vries, Prill, Washburne, Zeigler, Hotchner.

Against: Clark

Abstaining: Lesher

LESHER comments that he would have liked more information further in advance about the show locations' merits. There was general agreement.

Status of Future APS Shows

Febratry 8-10, 2002 – Riverside, California
Contract Signed with Convention Center and Hotels

August 15-18, 2002 – Atlantic City, New Jersey
Contract Signed with Convention Center

August 7-10, 2003 – Columbus, Ohio
Contract Signed with Convention Center and Headquarters Hotel

August 12-15, 2004 – Sacramento, California
Letter of Intent Signed with Convention Center

PETER MARTIN comments he now wants to publish committee summaries in the American Philatelist.

CLARK moves to adjourn, seconded by ZEIGLER, unanimously passed.

Respectfully submitted:

Attest:

Lloyd A. de Vries, Secretary

Peter P. McCann, President