

**TO:** ALA Executive Board

**RE:** **Controller's Report**

**DATE:** October 15, 2008

**ACTION REQUESTED/INFORMATION/REPORT:**

Presented for information.

**CONTACT PERSON:**

Russ Swedowski, Controller, 312/280-4253

**BACKGROUND:**

The Controller submits a quarterly information report to the Executive Board on some or all of the following:

- Inventory Levels
- Credit and Collections
- Annual Audit, FY 2008
- Cash Management/Bond Fund
- Regulatory Issues

Attachments

TO: Finance and Audit Committee

FROM: Russell Swedowski

DATE: October 15, 2008

RE: Fall Meeting Agenda Items

**Inventory Levels-ALA Editions and Products & Promotions-**

Inventory levels at August 31, 2008, schedule 1, are as follows; ALA Editions \$619,219 and Products and Promotions (Graphics) \$616,266. The ALA Editions inventory reflects a \$35,000 valuation (down from \$37,000 at August 31, 2007) for Guide to Reference Books, 11th Edition. The largest item in the inventory for Products and Promotions at August 31, 2008 are the Read products (36 in total), valued at \$73,366.

As of August 31, 2008 the excess and obsolete inventory reserves, schedule 2, reflect the following balances, ALA Editions (\$362,000) and Products and Promotions (\$110,000). In FY 2008, Graphics destroyed \$13,264 and ALA Editions destroyed \$30,315 of product deemed excess or obsolete. See schedule 3 for historical destruction levels. Additions to the reserve, net of reductions, through August are \$79,491 for ALA Editions and a \$(14,832) reduction for Graphics (schedule 4). Testing of the reserve levels was performed as a part of the year-end closing process. The tests resulted in a reduction of the Graphics reserve by \$50,000 and an increase in the ALA Editions reserve of \$50,000. In addition, ALA Editions wrote-off \$142,000 in costs associated with a Guide to Reference website authoring system that the vendor failed to complete.

**Credit and Collections-**

In 2007, the aging of our trade receivables experienced an unusual departure from historical trends. The 150+ day category increased to \$636,237 as compared to the August 31, 2006 balance of \$207,376, most likely due to early Midwinter exhibit billings. The 150+ day category at August 31, 2008 is at a historically normal level of \$225,438. Total trade accounts receivable are \$2,167,130 at August 31, 2008 as compared to \$2,716,514 at August 31, 2007.

The new fulfillment company, PBD, designed and provided several special year-end reports for use in the year-end close and audit. These reports are being used to test the adequacy of the bad debt reserve and the reserve for credit memos. The pre-adjusted reserve for bad debts had increased by \$118,042 at August 31, 2007 resulting in a balance of \$307,788. Year-end testing of this balance, to be completed with the third close, will likely note that the reserve is perhaps too high when compared to the total trade receivable balance. As a result, it is likely that the reserve will be decreased 25 to 50%. Excellent efforts by PBD and Credit and Collections at collecting accounts receivable are a major reason for the excessive reserve.

**Annual Audit 2008-**

On Monday, August 11, 2008 representatives from Ernst & Young, the Association's audit firm arrived at 40 East Huron to commence the preliminary audit work. Association accounting staff provided the auditors the workpapers and reconciliations they had requested so that they could complete the audit in a timely manner. The auditors will return for final fieldwork during the period November 17, 2008 to December 8, 2008. Audit work on the A-133 report will be scheduled for April, 2009.

**Cash Management and Bond Fund-**

Total cash and short-term investments at August 31, 2008 amounted to \$21,150,904 as compared to \$19,958,829 a year ago. The increase is mainly related to lower accounts receivable. Year-to-date interest income is \$831,640 which is \$9,723 less than the budget of \$841,363 and \$155,036 less than last year, due to lower interest rates in 2008.

The Neuberger Berman bond fund investment balance is \$14,801,391 at August 31, 2008. In early August, an additional \$2,000,000 was moved from operating funds to the bond investment to increase the earnings yield. As noted in schedule 6, this investment has produced over \$7,025,000 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 2008 with a realized/unrealized gain of \$89,373. At August 31, 2008 the cumulative (computed since December, 1991) net realized/unrealized loss is \$286,289. See schedule 7 for additional details.

**Regulatory Issues-**

On November 16, 2007 the Department of Labor, IRS and Pension Benefit Guarantee Corporation published revisions to the 209 Form 5500 Annual Report/Return of Employee Benefit Plans. The revisions cover Internal Revenue Code Section 403 (b) plans. The new rules will require additional schedules to be included with Form 5500 as well as an audit of the plan. The changes are effective for plan years beginning January 1, 2009.

AMERICAN LIBRARY ASSOCIATION  
HISTORICAL INVENTORY LEVELS  
AS OF AUGUST 31, 19XX

SCHEDULE 1

YEAR	GRAPHICS	% CHANGE	ALA EDITIONS	% CHANGE	TOTAL	% CHANGE	
1989	544,608		697,828		1,242,436		
1990	757,983	39.18%	718,588	2.97%	1,476,571	18.84%	
1991	661,005	-12.79%	769,198	7.04%	1,430,203	-3.14%	
1992	686,760	3.90%	711,549	-7.49%	1,398,309	-2.23%	
1993	715,912	4.24%	696,409	-2.13%	1,412,321	1.00%	
1994	729,317	1.87%	635,325	-8.77%	1,364,642	-3.38%	
1995	809,352	10.97%	604,194	-4.90%	1,413,546	3.58%	
1996	790,814	-2.29%	1,092,104	80.75%	1,882,918	33.21%	
1997	729,902	-7.70%	963,897	-11.74%	1,693,799	-10.04%	
1998	569,061	-22.04%	1,094,600	13.56%	1,663,661	-1.78%	
1999	463,294	-18.59%	956,806	-12.59%	1,420,100	-14.64%	
2000	573,551	23.80%	991,841	3.66%	1,565,392	10.23%	
2001	557,678	-2.77%	849,889	-14.31%	1,407,568	-10.08%	
2002	534,669	-4.13%	728,283	-14.31%	1,262,951	-10.27%	
2003	498,778	-6.71%	794,103	9.04%	1,292,881	2.37%	
2004	571,892	14.66%	835,846	5.26%	1,407,737	8.88%	
2005	622,796	8.90%	718,072	-14.09%	1,340,868	-4.75%	
2006	664,832	6.75%	699,378	-2.60%	1,364,210	1.74%	
2007	692,621	4.18%	726,314	3.85%	1,418,935	4.01%	
2008	31-Aug-08	616,266	-11.02%	619,219	-14.74%	1,235,485	-12.93%

AMERICAN LIBRARY ASSOCIATION  
HISTORICAL E&O RESERVE LEVELS  
AS OF AUGUST 31, 19XX

SCHEDULE 2

YEAR	GRAPHICS	% CHANGE	ALA EDITIONS	% CHANGE	TOTAL	% CHANGE	% OF TOTAL INVENTORY	
1989	181,200		253,172		434,372		34.96%	
1990	181,200	0.00%	186,009	-26.53%	367,209	-15.46%	24.87%	
1991	133,866	-26.12%	135,898	-26.94%	269,764	-26.54%	18.86%	
1992	125,082	-6.56%	117,891	-13.25%	242,973	-9.93%	17.38%	
1993	137,328	9.79%	92,309	-21.70%	229,637	-5.49%	16.26%	
1994	76,767	-44.10%	110,047	19.22%	186,814	-18.65%	13.69%	
1995	103,033	34.22%	100,011	-9.12%	203,044	8.69%	14.36%	
1996	121,319	17.75%	116,322	16.31%	237,641	17.04%	12.62%	
1997	225,403	85.79%	173,195	48.89%	398,598	67.73%	23.53%	
1998	109,080	-51.61%	287,228	65.84%	396,308	-0.57%	23.82%	
1999	151,508	38.90%	333,862	16.24%	485,370	22.47%	34.18%	
2000	130,652	-13.77%	301,402	-9.72%	432,054	-10.98%	27.60%	
2001	77,539	-40.65%	217,774	-27.75%	295,313	-31.65%	20.98%	
2002	50,870	-34.39%	236,096	8.41%	286,966	-2.83%	22.72%	
2003	75,094	47.62%	280,851	18.96%	355,945	24.04%	27.53%	
2004	75,390	0.39%	295,668	5.28%	371,058	4.25%	26.36%	
2005	116,109	54.01%	268,718	-9.11%	384,827	3.71%	28.70%	
2006	159,162	37.08%	295,589	10.00%	454,751	18.17%	33.33%	
2007	137,698	-13.49%	276,886	-6.33%	414,584	7.73%	29.22%	
2008	31-Aug-08	109,602	-20.40%	326,062	17.76%	435,664	-4.20%	35.26%

AMERICAN LIBRARY ASSOCIATION  
HISTORICAL INVENTORY DESTRUCTION  
AS OF AUGUST 31, 19XX

SCHEDULE 3

YEAR	GRAPHICS	ALA EDITIONS	TOTAL
1989	0	139,729	139,729
1990	0	67,163	67,163
1991	116,334	68,283	184,617
1992	64,677	88,007	152,684
1993	24,324	61,613	85,937
1994	149,748	17,501	167,249
1995	59,954	46,884	106,838
1996	29,484	28,449	57,933
1997	7,306	37,396	44,702
1998	218,188	39,048	257,236
1999	73,439	35,221	108,660
2000	63,290	94,208	157,498
2001	97,112	139,990	237,102
2002	67,969	35,841	103,810
2003	26,276	2,693	28,969
2004	4	0	4
2005	21,981	64,403	86,384
2006	1,147	841	1,988
2007	46,930	42,714	89,644
2008	31-Aug-08 13,264	30,315	43,578
	----- 1,081,427 =====	----- 1,040,300 =====	----- 2,121,726 =====

AMERICAN LIBRARY ASSOCIATION  
HISTORICAL INVENTORY RESERVE ADDITIONS  
AS OF AUGUST 31, 19XX

SCHEDULE 4

YEAR	GRAPHICS	ALA EDITIONS	TOTAL
1989	56,248	55,000	111,248
1990	0	0	0
1991	69,000	18,172	87,172
1992	55,893	70,000	125,893
1993	36,570	36,031	72,601
1994	89,187	35,239	124,426
1995	86,220	36,848	123,068
1996	47,770	44,760	92,530
1997	111,390	94,269	205,659
1998	101,865	153,081	254,946
1999	115,866	81,855	197,721
2000	42,490	61,748	104,238
2001	43,999	56,362	100,361
2002	41,300	54,163	95,463
2003	50,500	47,448	97,948
2004	300	14,817	15,117
2005	62,700	37,453	100,153
2006	44,200	27,712	71,912
2007	25,466	24,011	49,477
2008	31-Aug-08 (14,832)	79,491	64,659
	----- 1,066,132 =====	----- 1,028,460 =====	----- 2,094,592 =====

SCHEDULE 5

AMERICAN LIBRARY ASSOCIATION  
AGING OF TRADE ACCOUNTS RECEIVABLE

FISCAL 06-07	CURR	30 DAYS	60 DAYS	90 DAYS	120 DAYS	150 DAYS	TOT. ACCT REC
September 2006	1,627,751	326,773	283,207	118,500	7,525	105,407	2,469,161
October 2006	1,288,110	565,430	227,457	193,648	63,363	94,735	2,432,741
November 2006	1,109,530	382,761	246,057	94,213	181,519	133,957	2,148,037
December 2006	1,127,204	378,967	202,611	144,106	62,276	328,530	2,243,695
January 2007	1,104,163	542,860	208,105	91,340	49,886	259,594	2,255,948
February 2007	1,384,985	377,790	228,431	157,301	118,247	437,511	2,704,264
March 2007	1,647,399	496,042	253,553	89,043	85,114	1,075,292	3,646,443
April 2007	1,314,809	534,492	263,846	105,067	30,204	315,651	2,564,069
May 2007	1,140,654	393,083	283,645	87,970	(25,264)	233,714	2,113,802
June 2007	1,489,006	352,485	234,490	137,248	58,598	205,944	2,477,771
July 2007	1,106,929	723,957	198,349	44,449	110,031	251,437	2,435,152
August 2007	1,113,493	439,651	386,842	136,656	3,635	636,237	2,716,514
06-07 Totals	15,454,033	5,514,290	3,016,593	1,399,540	745,133	4,078,008	30,207,597
FISCAL AVG	1,287,836	459,524	251,383	116,628	62,094	339,834	2,517,300

SCHEDULE 5

AMERICAN LIBRARY ASSOCIATION  
AGING OF TRADE ACCOUNTS RECEIVABLE

FISCAL 07-08	CURR	30 DAYS	60 DAYS	90 DAYS	120 DAYS	150 DAYS	TOT. ACCT REC
September 2007	1,496,018	494,551	335,010	261,218	70,161	375,680	3,032,638
October 2007	893,198	731,776	205,991	185,131	72,322	268,577	2,356,996
November 2007	885,370	395,467	358,332	101,572	121,358	165,552	2,027,650
December 2007	660,163	358,928	150,788	212,027	46,057	257,351	1,685,314
January 2008	1,311,525	309,006	228,306	53,500	49,956	235,664	2,187,958
February 2008	1,501,437	373,329	111,508	28,829	12,996	196,714	2,224,812
March 2008	1,293,216	532,397	240,597	117,461	25,096	908,004	3,116,771
April 2008	1,187,665	298,763	307,345	81,090	(386)	174,607	2,049,084
May 2008	1,323,963	332,009	252,893	149,834	2,238	77,728	2,138,665
June 2008	1,146,577	604,518	194,092	78,051	107,941	98,361	2,229,539
July 2008	948,106	370,308	397,311	82,055	62,589	173,423	2,033,792
August 2008	1,300,545	298,765	198,600	150,560	(6,778)	225,438	2,167,130
07-08 Totals	13,947,782	5,099,817	2,980,773	1,501,328	563,549	3,157,098	27,250,348
FISCAL AVG	1,162,315	424,985	248,398	125,111	46,962	263,092	2,270,862

HISTORY OF DEPOSITS TO THE NEUBERGER BERMAN ACCOUNTS

SCHEDULE 6

AS OF AUGUST 31, 19XX

DATE	AMOUNT	# MONTHS	31-Aug-08	YEAR	MARKET VALUE	INTEREST INCOME	YIELD
15-Dec-91	1,500,000	203	1991	1991	1,493,202	5,529	6.66%
15-Feb-92	500,000	201	1992	1992	2,107,981	91,630	6.82%
15-Feb-93	1,000,000	189	1993	1993	4,717,417	174,093	5.93%
15-May-93	1,000,000	186	1994	1994	4,726,074	264,791	4.94%
15-Jun-93	500,000	185	1995	1995	5,784,008	319,958	6.57%
15-Jun-95	750,000	161	1996	1996	5,990,229	374,246	6.53%
21-Mar-01	400,000	91	1997	1997	6,377,031	400,808	6.25%
29-Mar-01	400,000	90	1998	1998	6,855,814	418,743	6.30%
20-Apr-01	555,400	90	1999	1999	7,005,423	422,880	6.11%
18-Aug-08	2,000,000	0	2000	2000	7,324,250	422,114	6.12%
			2001	2001	9,794,308	521,609	5.90%
			2002	2002	10,399,702	579,012	5.09%
			2003	2003	11,037,007	474,382	3.81%
			2004	2004	11,248,222	444,196	4.19%
			2005	2005	11,429,831	485,123	4.26%
			2006	2006	11,685,678	477,319	4.68%
			2007	2007	12,238,592	570,448	4.17%
			31-Aug-08	31-Aug-08	14,801,391	578,827	4.54%
						7,025,708	

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SCHEDULE 7

AMERICAN LIBRARY ASSOCIATION  
 NEUBERGER BERMAN BOND FUND  
 STATEMENT OF REALIZED GAINS AND LOSSES  
 FOR THE TWELVE MONTHS ENDING AUGUST 31, 2008

MONTHLY REALIZED/UNREALIZED GAIN/(LOSS)

	BOND FUND #1 SUBTOTAL		BOND FUND #2 TOTAL		PPG MERRILL LYNCH		NET
	UNREALIZED	REALIZED	UNREALIZED	REALIZED	UNREALIZED	REALIZED	
SEPTEMBER	2,591	7,191	4,741	7,076	10,487	0	32,086
OCTOBER	6,587	2,715	8,886	8,866	13,472	1,954	42,480
NOVEMBER	33,265	2,448	58,918	3	53,589	3,369	151,592
DECEMBER	743	1,880	(10,317)	1,106	(3,571)	(3,208)	(13,367)
JANUARY	22,561	13,098	49,566	7,703	67,326	0	160,254
FEBRUARY	(10,768)	11,410	(17,060)	14,625	(1,820)	9,532	5,919
MARCH	(42,738)	8,870	(26,439)	1,181	(10,332)	0	(69,458)
APRIL	(19,998)	1,345	(18,003)	848	(32,067)	954	(66,921)
MAY	(18,488)	(1,188)	(54,147)	2,068	(43,165)	0	(114,920)
JUNE	(11,949)	0	(16,369)	0	(10,838)	12,682	(26,474)
JULY	10,290	(12,566)	(18,816)	(157)	(20,163)	0	(41,412)
AUGUST	5,769	(4,518)	11,735	(1,760)	22,197	4,953	38,376
IND SECURITIES					(8,259)	(523)	(8,782)
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FY 1993 CFWD	(22,135)	30,685	(27,305)	41,559	36,856	29,713	89,373
FY 1994 CFWD	58,654	12,277					70,931
FY 1995 CFWD	(156,399)	(69,198)					(225,597)
FY 1996 CFWD	93,596	(22,622)	4,226	(105)			75,095
FY 1997 CFWD	(66,905)	(1,983)	(22,489)	3,738			(87,639)
FY 1998 CFWD	26,857	24,234	22,728	(6,023)			67,796
FY 1999 CFWD	66,645	2,908	29,601	6,348			105,502
FY 2000 CFWD	(92,624)	(34,831)	(60,828)	7,844	(56,811)	(17,950)	(255,200)
FY 2001 CFWD	56,095	(48,716)	36,945	(30,200)	31,671	(34,284)	11,511
FY 2002 CFWD	125,591	39,538	51,791	22,697	34,830	24,279	298,726
FY 2003 CFWD	(39,265)	17,957	73,991	14,918	(3,901)	14,517	78,217
FY 2004 CFWD	(76,357)	2,002	(112,917)	87,065	(53,834)	34,883	(119,158)
FY 2005 CFWD	(47,062)	(44,618)	(10,436)	(22,627)	(15,989)	2,356	(138,376)
FY 2006 CFWD	12,975	(94,536)	(58,538)	(31,551)	(18,621)	(26,748)	(217,019)
FY 2007 CFWD	43,418	(70,473)	18,414	(61,209)	(30,270)	(32,026)	(132,146)
FY 2008 CFWD	34,262	(1,670)	36,894	(14,040)	38,930	(2,681)	91,695
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	17,346	(259,046)	(17,923)	18,414	(37,139)	(7,941)	(286,289)