TO: ALA Executive Board

RE: Controller’s Report

DATE: December 30, 2010

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:

- Financial System Implementation
- Liquidity Ratios
- Cash Management
- Credit and Collections
- Inventory Levels
- Regulatory Issues: 403(b) Retirement Plan Audit
Financial System Implementation-
Formal planning for the selection and conversion to a new financial accounting system began in January, 2010. Initial meetings were held with relevant accounting and finance staff to define the process and develop a timeline for the various steps in the process. Project coordinators and participants were identified within the department and Association, and a general timeframe was developed. The Not-For-Profit IT Business Solutions Consulting group of McGladrey was engaged to provide system selection assistance. McGladrey was contracted to assist in documenting workflow requirements, matching those requirements to available software, identifying vendors with the appropriate software and developing an RFP.

The documentation of workflow assessment for the month-end and year-end close included a review of the “as is” process and the development of a “to be” process. The review focused on identifying steps in the “as is” process that could be amended to ultimately reduce the time allotted to the closing process. Two areas of concentration were the accounting for grants and the long-term investments, previously accounted for by spreadsheet analysis in the “as is” process, and subsequently identified as a process that will be accounted for through the new accounting system.

The results of the workflow assessment have been completed and available software was reviewed, resulting in the identification of a preferred vendor. Changes to existing accounting procedures for Grants and the Endowment are in place and functioned beyond expectations during the year-end close. The development of required software specifications (development of a RFP was replaced by a preferred vendor) commenced in mid-June.

Following the meetings with McGladrey, ALA decided to proceed with implementing Microsoft Dynamics GP. McGladrey has built a proto-type of our system that will become the basis of the new system. The three major components of the new system will be Microsoft Dynamics GP, SharePoint and Knowledge Lake. Microsoft Dynamics GP is the core financial system and General Ledger, SharePoint allows us to tie financial data to supporting documents, and Knowledge Lake provides ALA with document imaging and capture, plus workflow rules for SharePoint and Dynamics GP.
Beginning in October, the ALA Finance and Accounting Department team met with McGladrey and ALA staff members to discuss current purchase order/accounts payable policies and procedures, proposed new workflow processes, suggested changes to existing policies and procedures and other issues and benefits pertaining to the implementation of a new financial system. Additional small group discovery discussions were held throughout November, to document and evaluate the requirements for expenditure requests and authorizations (formerly referred to as Purchase Orders).

On December 28, McGladrey and ALA Finance and Accounting presented the New Financial System at the Senior Management meeting. The presentation included a Financial System Design Overview, Proposed Implementation Schedule, Policies and Procedures and the Expenditure Authorization Process, Discussion of the Reporting and Training Task Forces to be formed, and steps in the implementation process. Briefly, the installation of the software to be acquired would begin in February, the use of SharePoint and Knowledge Lake for the expenditure authorization and invoice approval processes would begin in May, and the implementation of the General Ledger would begin in September, with reporting from the new system becoming available in November.

During January and February, the implementation team will define the workflow rules and resolve any policy or procedural issues that have been identified. The workflow rules will be incorporated into the final system design. During this time, McGladrey will work with Finance and ITTS to resolve any implementation issues that may arise, as they build an initial version of the new system.

Installation of new hardware and software will be coordinated with ITTS, which has a number of major implementation projects, the primary being the website migration.

**Liquidity Ratios-**
In conjunction with various long-term debt arrangements, the Association is required to maintain certain quarterly and semi-annual financial ratios. The most recently reported ratios, as of August 31, 2010, were submitted to JP Morgan Chase and Bank of America on November 23, 2010:

The Chase unrestricted cash and investments to funded debt ratio, measured 11.34:1.0, where the required ratio is 2.0:1.0.

The Bank of America debt service coverage ratio measured 9.48:1.0, where the required ratio is 1.15:1.0.

**Cash Management-**
Total cash and short-term investments at November 30, 2010 amounted to $18,606,558 as compared to $18,456,744 a year ago. The increase is mainly related to the timing of
deferred revenue collection for Midwinter, which is $618,635 higher this year. Year-to-
date interest income is $175,335 which is $17,846 less than the budget of $193,181 (and
$68,576 less than last year), due to lower interest from the bond investments and the
endowment interest transfer.

The Neuberger Berman bond fund investment balance is $15,687,846 at November 30,
2010. As noted in schedule 6, this investment has produced over $8,617,000 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, at November 30, 2010 the account
has a realized/unrealized loss of $90,182. At November 30, 2010 the cumulative
(computed since December, 1991) net realized/unrealized gain is $320,663. See
schedule 7 for additional details.

The Association maintains a $2,500,000 line of credit with JP Morgan Chase. Draws on
the line bear interest at the prime rate. In addition, there is a 0.20% fee for the unused
portion of the line. Transactions on the JP Morgan Chase line of credit included a draw
on September 1, 2010 for $1,000,000 to compliment operating cash needs. The line was
repaid in full on December 8, 2010.

Credit and Collections-
At November 30, 2010, trade accounts receivable were $2,040,164 as compared to
$2,083,497 at November 30, 2009. The 150+ day category decreased to $101,044 as
compared to the November 30, 2009 balance of $186,292, due to aggressive collection of
Midwinter exhibit billings. The 150+ day category at November 30, 2010 is at a
historically normal level.

Inventory Levels-ALA Editions and Products & Promotions-
Inventory levels at November 30, 2010, schedule 1, are as follows; ALA Editions
$797,129 and Products and Promotions (Graphics) $634,725. The ALA Editions
inventory reflects a $33,000 valuation ($34,000 at November 30, 2009) for Guide to
Reference Books, 11th Edition. The largest items in the inventory for Products and
Promotions at November 30, 2010 are the Read products (50 in total), valued at
$101,538.

As of November 30, 2010 the excess and obsolete inventory reserves, schedule 2, reflect
the following balances, ALA Editions ($266,000) and Products and Promotions
($163,000). In FY 2011, there has not been any destruction of product deemed excess
or obsolete. See schedule 3 for historical destruction levels. Additions to the reserve
through November are $9,733 for ALA Editions and $4,643 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 ALA Editions reserve by $70,000 and no change
in the Graphics reserve.
**Regulatory Issues: 403(b) Retirement Plan Audit**

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

The Association retained McGladrey & Pullen to perform the audits of the two TIAA-CREF 403(b) retirement plans. The audit commenced in late July, 2010 and has not yet been concluded. At issue is the accuracy of contributions applied by TIAA-CREF to individual retirement contracts. In addition, TIAA-CREF will not certify the market values of the plan assets at December 31, 2009. The resolution of contribution application remains an open item with the audit firm awaiting TIAA-CREF provided documentation.

The market value certification is an issue that all clients of TIAA-CREF are facing and is currently being reviewed by the audit profession, the federal government and the retirement plan investment industry.

The two 5500 filings, due October 15, 2010, were filed on October 11, 2010 with an attachment detailing the issues preventing an audit opinion as a substitute for the auditor’s opinion. An amended return will be filed when the issues are resolved and an opinion is available.
**AMERICAN LIBRARY ASSOCIATION**  
**HISTORICAL INVENTORY LEVELS**  
**AS OF AUGUST 31, 19XX**  

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

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<th>ALA EDITIONS</th>
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## AMERICAN LIBRARY ASSOCIATION
### HISTORICAL INVENTORY DESTRUCTION
#### AS OF AUGUST 31, 19XX

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### SCHEDULE 3

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

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<td>79,491</td>
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<td>2009</td>
<td>107,547</td>
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<td>77,353</td>
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<tr>
<td>2010</td>
<td>22,575</td>
<td>(29,978)</td>
<td>(7,403)</td>
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## American Library Association

### Aging of Trade Accounts Receivable

#### Schedule 5

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<th>Current</th>
<th>30 Days</th>
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<th>30 Days</th>
<th>60 Days</th>
<th>90 Days</th>
<th>120 Days</th>
<th>150 Days</th>
<th>Total Accounts Receivable</th>
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</thead>
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<tr>
<td><strong>Fiscal 10-11</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>September 2010</td>
<td>2,018,470</td>
<td>193,946</td>
<td>101,120</td>
<td>4,113</td>
<td>(4,918)</td>
<td>491,533</td>
<td>2,804,265</td>
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<td>592,587</td>
<td>74,545</td>
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<td>August 2011</td>
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<th>Current</th>
<th>30 Days</th>
<th>60 Days</th>
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<th>120 Days</th>
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<td><strong>Total</strong></td>
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### Aging of Trade Accounts Receivable

#### Schedule 5

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<th>Fiscal Year</th>
<th>Current</th>
<th>30 Days</th>
<th>60 Days</th>
<th>90 Days</th>
<th>120 Days</th>
<th>150 Days</th>
<th>Total Accounts Receivable</th>
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</thead>
<tbody>
<tr>
<td><strong>Fiscal 10-11</strong></td>
<td>2,018,470</td>
<td>193,946</td>
<td>101,120</td>
<td>4,113</td>
<td>(4,918)</td>
<td>491,533</td>
<td>2,804,265</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4,620,080</td>
<td>1,109,574</td>
<td>441,855</td>
<td>90,928</td>
<td>9,373</td>
<td>852,653</td>
<td>7,124,443</td>
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</table>

### American Library Association

### Aging of Trade Accounts Receivable

#### Schedule 5

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Current</th>
<th>30 Days</th>
<th>60 Days</th>
<th>90 Days</th>
<th>120 Days</th>
<th>150 Days</th>
<th>Total Accounts Receivable</th>
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<tr>
<td><strong>Fiscal 10-11</strong></td>
<td>2,018,470</td>
<td>193,946</td>
<td>101,120</td>
<td>4,113</td>
<td>(4,918)</td>
<td>491,533</td>
<td>2,804,265</td>
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<tr>
<td><strong>Total</strong></td>
<td>4,620,080</td>
<td>1,109,574</td>
<td>441,855</td>
<td>90,928</td>
<td>9,373</td>
<td>852,653</td>
<td>7,124,443</td>
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### American Library Association

### Aging of Trade Accounts Receivable

#### Schedule 5

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<th>Fiscal Year</th>
<th>Current</th>
<th>30 Days</th>
<th>60 Days</th>
<th>90 Days</th>
<th>120 Days</th>
<th>150 Days</th>
<th>Total Accounts Receivable</th>
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<tbody>
<tr>
<td><strong>Fiscal 10-11</strong></td>
<td>2,018,470</td>
<td>193,946</td>
<td>101,120</td>
<td>4,113</td>
<td>(4,918)</td>
<td>491,533</td>
<td>2,804,265</td>
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<tr>
<td><strong>Total</strong></td>
<td>4,620,080</td>
<td>1,109,574</td>
<td>441,855</td>
<td>90,928</td>
<td>9,373</td>
<td>852,653</td>
<td>7,124,443</td>
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## HISTORY OF DEPOSITS TO THE NEUBERGER BERMAN ACCOUNTS

### AS OF AUGUST 31, 19XX

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<th>DATE</th>
<th>AMOUNT</th>
<th># MONTHS</th>
<th>YEAR</th>
<th>MARKET VALUE</th>
<th>INTEREST INCOME</th>
<th>YIELD</th>
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<td>231</td>
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<td>229</td>
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<td>217</td>
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<td>8,616,796</td>
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### Statement of Realized Gains and Losses

**For the Three Months Ending November 30, 2010**

#### Monthly Realized/Unrealized Gain/(Loss)

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<th>Month</th>
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<th>NB #1 Realized</th>
<th>NB #2 Unrealized</th>
<th>NB #2 Realized</th>
<th>ML-PPG Unrealized</th>
<th>ML-PPG Realized</th>
<th>NET</th>
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<tr>
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<td>(10,198)</td>
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<td>(9,517)</td>
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<td>(38,145)</td>
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<tr>
<td>January</td>
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<tr>
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<tr>
<td>April</td>
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<td>FY 1993 CFWD</td>
<td>(31,402)</td>
<td>7,031</td>
<td>(8,776)</td>
<td>(24,159)</td>
<td>(45,761)</td>
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<td>(90,182)</td>
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<td>FY 1994 CFWD</td>
<td>(156,399)</td>
<td>(69,198)</td>
<td>(22,622)</td>
<td>(105)</td>
<td>(225,597)</td>
<td>70,931</td>
<td>73,931</td>
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<td>FY 1995 CFWD</td>
<td>93,596</td>
<td>(13,983)</td>
<td>4,226</td>
<td>(30,200)</td>
<td>67,291</td>
<td>75,095</td>
<td>142,386</td>
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<td>FY 1996 CFWD</td>
<td>(40,905)</td>
<td>(22,489)</td>
<td>3,738</td>
<td>(34,284)</td>
<td>(87,639)</td>
<td>78,796</td>
<td>166,435</td>
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<td>FY 1997 CFWD</td>
<td>26,587</td>
<td>24,234</td>
<td>22,728</td>
<td>(6,023)</td>
<td>67,960</td>
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<td>(34,831)</td>
<td>(60,828)</td>
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<td>(48,716)</td>
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<td>(3,901)</td>
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<td>(44,618)</td>
<td>(10,436)</td>
<td>(22,627)</td>
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<td>(31,551)</td>
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<td>(14,040)</td>
<td>38,930</td>
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<td>(27,305)</td>
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<td>2,372</td>
<td>191,239</td>
<td>(89,612)</td>
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<td>146,792</td>
<td>(2,911)</td>
<td>92,065</td>
<td>29,923</td>
<td>315,084</td>
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<td><strong>Total</strong></td>
<td><strong>110,799</strong></td>
<td><strong>(250,885)</strong></td>
<td><strong>311,332</strong></td>
<td><strong>(98,268)</strong></td>
<td><strong>212,463</strong></td>
<td><strong>35,222</strong></td>
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