

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

TO: Finance and Audit Committee
FROM: Russell Swedowski
DATE: December 30, 2010
RE: Midwinter Meeting Agenda Items

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

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	616,266	-11.02%	619,219	-14.74%	1,235,485	-12.93%
2009	739,434	19.99%	716,785	15.76%	1,456,219	17.87%
2010	641,745	-13.21%	798,104	11.34%	1,439,849	-1.12%
2011	30-Nov-10 634,725	-1.09%	797,129	-0.12%	1,431,854	-0.56%

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	-8.83%	29.22%
2008	109,602	-20.40%	326,062	17.76%	435,664	5.08%	35.26%
2009	201,328	83.69%	285,829	-12.34%	487,157	11.82%	33.45%
2010	158,100	-21.47%	255,851	-10.49%	413,951	-15.03%	28.75%
2011	30-Nov-10 162,743	2.94%	265,584	3.80%	428,327	3.47%	29.91%

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	13,264	30,315	43,578
2009	15,821	10,039	25,860
2010	65,803	0	65,803
2011 30-Nov-10	0	0	0
	----- 1,163,051 =====	----- 1,050,339 =====	----- 2,213,390 =====

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	(14,832)	79,491	64,659
2009	107,547	(30,194)	77,353
2010	22,575	(29,978)	(7,403)
2011 30-Nov-10	4,643	9,733	14,376
	----- 1,200,897 =====	----- 978,021 =====	----- 2,178,918 =====

AMERICAN LIBRARY ASSOCIATION
AGING OF TRADE ACCOUNTS RECEIVABLE

SCHEDULE 5

FISCAL 09-10	CURR	30 DAYS	60 DAYS	90 DAYS	120 DAYS	150 DAYS	TOT. ACCT REC
September 2009	1,610,520	325,977	322,307	22,736	23,632	118,595	2,423,766
October 2009	1,144,395	601,901	157,625	116,567	7,531	127,150	2,155,169
November 2009	998,746	414,824	316,479	94,287	72,869	186,292	2,083,497
December 2009	1,169,352	367,995	123,479	182,114	49,787	254,872	2,147,599
January 2010	2,096,767	371,905	105,678	129,221	177,020	833,346	3,713,936
February 2010	1,515,362	899,915	140,993	50,796	88,372	918,450	3,613,889
March 2010	1,443,792	451,674	478,750	76,633	32,741	744,247	3,227,836
April 2010	1,277,623	310,366	213,160	268,618	56,587	467,806	2,594,161
May 2010	1,076,873	260,726	119,593	135,370	103,981	345,506	2,042,049
June 2010	1,007,656	138,426	24,663	47,687	76,385	193,775	1,488,591
July 2010	1,632,515	115,435	7,028	(14,423)	43,568	263,552	2,047,675
August 2010	1,189,838	359,833	21,722	253	(19,702)	166,382	1,718,326
09-10 Totals	16,163,439	4,618,977	2,031,477	1,109,860	712,770	4,619,973	29,256,495
FISCAL AVG	1,346,953	384,915	169,290	92,488	59,398	384,998	2,438,041
	55%	16%	7%	4%	2%	16%	100%

AMERICAN LIBRARY ASSOCIATION
AGING OF TRADE ACCOUNTS RECEIVABLE

SCHEDULE 5

FISCAL 10-11	CURR	30 DAYS	60 DAYS	90 DAYS	120 DAYS	150 DAYS	TOT. ACCT REC
September 2010	2,018,470	193,946	101,120	4,113	(4,918)	491,533	2,804,265
October 2010	1,314,242	582,587	74,545	47,354	1,210	260,076	2,280,014
November 2010	1,287,347	333,041	266,190	39,462	13,081	101,044	2,040,164
December 2010							
January 2011							
February 2011							
March 2011							
April 2011							
May 2011							
June 2011							
July 2011							
August 2011							
10-11 Totals	4,620,060	1,109,574	441,855	90,928	9,373	852,653	7,124,443
FISCAL AVG	1,540,020	369,858	147,285	30,309	3,124	284,218	2,374,814
	65%	16%	6%	1%	0%	12%	100%

HISTORY OF DEPOSITS TO THE NEUBERGER BERMAN ACCOUNTS

SCHEDULE 6

AS OF AUGUST 31, 19XX

DATE	AMOUNT	# MONTHS	YEAR	MARKET VALUE	INTEREST INCOME	YIELD
15-Dec-91	1,500,000	231	1991	1,493,202	5,529	6.66%
15-Feb-92	500,000	229	1992	2,107,981	91,630	6.82%
15-Feb-93	1,000,000	217	1993	4,717,417	174,093	5.93%
15-May-93	1,000,000	214	1994	4,726,074	264,791	4.94%
15-Jun-93	500,000	213	1995	5,784,008	319,958	6.57%
15-Jun-95	750,000	188	1996	5,990,229	374,246	6.53%
21-Mar-01	400,000	118	1997	6,377,031	400,808	6.25%
29-Mar-01	400,000	118	1998	6,855,814	418,743	6.30%
20-Apr-01	555,400	117	1999	7,005,423	422,880	6.11%
18-Aug-08	2,000,000	28	2000	7,324,250	422,114	6.12%
29-May-09	(900,000)	18	2001	9,794,308	521,609	5.90%
22-Sep-09	(500,000)	14	2002	10,399,702	579,012	5.09%
			2003	11,037,007	474,382	3.81%
			2004	11,248,222	444,196	4.19%
			2005	11,429,831	485,123	4.26%
			2006	11,685,678	477,319	4.68%
			2007	12,238,592	570,448	4.17%
			2008	14,801,391	578,827	4.54%
			2009	15,260,990	759,392	4.10%
			2010	15,642,158	689,946	3.66%
			30-Nov-10	15,687,846	141,750	3.61%
					8,616,796	5.25%

AVG

SCHEDULE 7

AMERICAN LIBRARY ASSOCIATION
 NEUBERGER BERMAN BOND FUND
 STATEMENT OF REALIZED GAINS AND LOSSES
 FOR THE THREE MONTHS ENDING NOVEMBER 30, 2010

MONTHLY REALIZED/UNREALIZED GAIN/(LOSS)

	NB #1		NB #2		ML-PPG		NET
	UNREALIZED	REALIZED	UNREALIZED	REALIZED	UNREALIZED	REALIZED	
SEPTEMBER	(9,485)	8,096	29,060	(24,159)	(10,198)	(2,831)	(9,517)
OCTOBER	10,707	(1,215)	8,148	0	2,582	14,429	34,651
NOVEMBER	(32,624)	150	(45,984)	0	(38,145)	1,287	(115,316)
DECEMBER							0
JANUARY							0
FEBRUARY							0
MARCH							0
APRIL							0
MAY							0
JUNE							0
JULY							0
AUGUST							0
IND SECURITIES							0
FY 1993 CFWD	(31,402)	7,031	(8,776)	(24,159)	(45,761)	12,885	(90,182)
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			(255,200)
FY 2001 CFWD	56,095	(48,716)	36,945	(30,200)			11,511
FY 2002 CFWD	125,591	39,538	51,791	22,697			298,726
FY 2003 CFWD	(39,265)	17,957	73,991	14,918			78,217
FY 2004 CFWD	(76,357)	2,002	(112,917)	87,065			(119,158)
FY 2005 CFWD	(47,062)	(44,618)	(10,436)	(22,627)			(138,376)
FY 2006 CFWD	12,975	(94,536)	(58,538)	(31,551)			(217,019)
FY 2007 CFWD	43,418	(70,473)	18,414	(61,209)			(132,146)
FY 2008 CFWD	34,262	(1,670)	36,894	(14,040)			91,695
FY 2009 CFWD	(22,135)	30,685	(27,305)	41,559			89,373
FY 2010 CFWD	74,398	2,372	191,239	(89,612)			382,050
FY 2010 CFWD	50,457	(1,242)	146,792	(2,911)			315,084
	110,799	(250,885)	311,332	(98,268)	212,463	35,222	320,663