

**2018 Annual Meeting  
ARRL BOARD OF DIRECTORS  
Windsor, CT  
January 19-20, 2018**

**Report of the Chief Financial Officer**

In my last two reports to the Board of Directors I discussed the concept of change and the process of carrying that philosophy throughout 2017. I believe we needed to embrace the concept of change as we evaluated everything we do and use analytics going forward as we begin the next era of the ARRL. I am passionate about it and that was my sincere hope for the organization.

Consistent with that feeling, I began my mid-year report to the Board in 2017 talking about “change”. I realize that change can be difficult for some, almost impossible for others but I was optimistic. At that point, we had begun to see the beginnings of real change in the organization as we took steps to more clearly define our intended markets, worked to identify what potential members wanted from the ARRL and revised some of our programs and services based on analytics heretofore not used in evaluating our offerings. In other cases, we began identifying programs that we thought needed to be updated to keep them relevant as technologies and requirements changed. What progress we did achieve was made in spite of several internal and external distractions that threatened to sap organizational time and resources.

Having said that, in reflecting on 2017, a year that was my 28<sup>th</sup> with the ARRL, I have to honestly say we didn’t achieve as much as we had hoped across the whole spectrum of the organization. In fact, if I was being blunt, I would have to say that 2017 turned into one of the more tumultuous years, organizationally speaking, of my time in Newington. We expended an inordinate amount of organizational energy and time on issues that didn’t meet our internal objective of “Advancing the art, science and enjoyment of Amateur Radio.” Instead, we seemed to be dealing more with intermural struggles over changes to the organizational structure than we did dealing with the things we need to change in our existing services and programs to move the organization into the future and make us more attractive to new members—responding to what members were clearly telling us. While we did make progress in some areas, we could have made more.

To accomplish our goals will not be easy as the Amateur Radio industry continues to languish. While the number of new licensees and upgrades recovered somewhat in the second half of the year, they still fell short of the levels achieved in 2016. Companies in the industry continued to consolidate, downsize and, in the most unfortunate of cases, disappear altogether, which continued to put pressure on our advertising and revenues. In addition, changing attitudes about traditional activities, coupled with the nadir of the sunspot cycle, resulted in a significant decrease in our program fee revenues. Publication sales revenues were flat in comparison to a

year ago. Only the work we've been doing all year on expense management and several large, unplanned donations including the use of Ham Aid funds, resulted in the first positive gain from operations in several years and quite a large one at that. Admittedly, some of that was the result of one-time savings which are noted below but, overall, an excellent financial outcome in 2017.

Membership, as projected, continued to decrease in 2017 in reaction to the dues increase of 2016. Dues revenues increased however. Since the dues increase in January of 2016 we have lost 11,458 members or about 6.7%. This is right in line with our projections and historical results from other dues increases. If history repeats itself, which without any unusual influences we expect it will, we will continue to lose some members in 2018 but would expect to see a turnaround of this trend in 2019 and beyond.

The financial reports are included as Addendum #1 to this document. As always, at this point in our year-end cycle, they are to be considered "*preliminary and unaudited*". While we have included all the known transactions to this point, there will be additional invoices, etc. received before the books are finally closed for the year and the year-end audit is completed sometime in April.

## **Financial Results**

I will concentrate this report on the full year results for 2017 which were the best results we've had in a long, long time. I realize that the primary purpose of the ARRL is not to make money, but we do need to, every so often, have a strong earnings year to be able to fund new and or one-time programs. These results prove we can do it.

One of the objectives over the past two years was to stabilize ARRL finances. While one year is not enough to declare we have achieved our objective, I strongly believe that, given the current economic and financial environment for the Amateur Radio industry, we have taken a large step in reaching that goal.

## **Overall**

December results were a strong finish to the year, although not quite as good as originally anticipated, with revenues exceeding Plan by a wide margin. However, final expenses and catch-up adjustments at year-end caused total expenditures to be over Plan as well, offsetting more than the favorable revenue variance. Still, the organization produced a gain from operations in the last month of the year of \$173,000, short of the \$225,000 target, but enough to push the full year gain to \$866,000, over 13 times the small gain that was originally anticipated coming into the year and 4 times the mid-year reforecast for the annual gain. This result was also \$1 million better than was achieved in 2016. The largest factors in this turnaround this year included careful expense management which reduced total expenses by about \$650,000 from the prior year, some large, unplanned donations and higher dues which was the result of the dues increase implemented in 2016.

To be fair, there were other factors which gave us a one-time boost to earnings in 2017. We had one large specific bequest for the benefit of Spectrum Defense (\$100,000), an unrestricted gift of \$100,000 and about \$30,000 of small, undesignated bequests. In addition, we had several positions that went unfilled for long periods of time as well as several employees on medical leaves which reduced our compensation commitments. The total of all these personnel items was over \$100,000.

Voluntary contributions, unrestricted and restricted used to offset expenses including those large amounts mentioned above, totaled \$1.4 million for the year. This was \$291,000 more than the original Plan for the year. Very good results were produced in the Diamond Club which brought in over \$378,000 this year, an increase of over \$11,000, and earnings on the Second Century endowment which we've chosen to show with contributions in our internal reporting. This source produced \$95,000, about \$35,000 more than last year. A unique situation caused by generally accepted accounting principles (GAAP), resulted in \$84,000 of donations used to purchase Ham Aid equipment being booked as revenue in 2017. The offsetting costs were capitalized on the balance sheet so operating income benefited.

As everyone is aware, the investment markets were on an upward trend for most of the last half of the year, reaching record levels early in 2018. This pushed the value of the League's portfolio and resulted in almost \$1.65 million in unrealized investment gains which increased our net assets. Total cash and investments at December 31<sup>st</sup> stood at \$29.3 million, in comparison to a year ago when we had cash and investments valued at \$25.1 million. Total assets for the corporation were \$32.8 million at the end of the year with total net assets of \$20.7 million.

In short, the League's overall financial condition is very good. And the League's operating performance has improved greatly.

## **Income**

As we have been reporting throughout the past 12 months revenues have by and large, lagged but a strong finish to the year in publication sales and dues, helped create a small favorable variance for total revenues. Total revenues, excluding contributions, finished the year at \$14.0 million, an increase of 0.6% over the results in 2016 and just \$26,000 more than planned. Most revenue categories except for program fees and other revenues either met or exceeded the annual targets.

Total publication sales revenues for 2017 stood at \$3.74 million, \$31,000 better than planned and very slightly ahead of the prior year's result. Publication sales had a strong last month of the year as we caught up with delivery of all the hardcover *ARRL Handbook* orders that included the special black membership badge. While we didn't sell nearly as many units as we had anticipated, the premium offer raised the average unit selling price of the book almost \$9.00 which helped us meet our overall revenue goal for the year in the Handbook category. We recorded sales of \$647,000 from all Handbook products in 2017, an increase of over \$300,000 based on the major revision in this year's edition. Unfortunately, almost all the other categories of titles produced disappointing results except for the Other Books category. One category that missed the annual target was the ARRL Repeater Directory which sold out by August and we

made a conscious decision not to reprint it in 2017. Because of our restructuring the costs of the publication, we actually earned more net than prior years and, by not reprinting, have created some buzz for the introduction of the 2018 edition in January 2018. Profits from the book were increased because of our royalty arrangement with RFinder, the provider of the data for the publication. Training Aids, including the *Ham Radio License Manual*, underperformed our expectations and revenues for these titles declined on a year-to-year basis. We did see some uptick in purchases of the HRLM by Amazon late in the year which is encouraging and possibly driven by the recent hurricane season and an interest in public service. Finally, the big winner in publication sales was the Other Books category which produced total revenues of \$817,000 for the year, \$153,000 more than planned. This category includes titles such as *Grounding and Bonding* (a huge hit this year), the *ARRL Antenna Book*, *ARRL Operating Manual* and several other titles.

Dealer sales accounted for 39% of total sales, down from 41% a year ago. Total sales from this source were down 6% this year. Amazon accounted for \$833,000 in sales in 2017, slightly more than in 2016 which means the decrease in total dealer sales came mostly from traditional radio stores.

While subscription revenues from two other periodicals, QEX and NCJ, increased over 2016 and finished, in total, this was solely due to the price increase instituted at the beginning of the year. The number of subscribers to these magazines decreased slightly. Total subscriptions to QEX increase by over 15% to \$175,000 while NCJ saw only a very slight increase to \$50,000. Total revenues from this combined revenue source (which includes a small amount of newsstand sales of QST), was \$239,000 for the year, about \$3,000 more than planned.

Total advertising revenues dropped to \$2.06 million in 2017, a decrease of about 6.5%. The decrease came across almost all sources of advertising from *QST* to *NCJ* and *QEX* to electronic and LoTW banner ads. This is a continuing sign of the softness in the Amateur Radio market coupled with the constant reevaluation of advertisers regarding their commitments. All is not doom and gloom however as we did get additional ads from large manufacturers like Yeasu and Heil Sound. Losses, unfortunately, outpaced increases.

Despite the loss of about 3% of the membership in 2017, dues income continually outpaced our projections throughout the year and we finished the year with earned dues of \$6.68 million, an increase of almost 5% over 2016 and \$254,000 more than was planned for the year. As we've reported throughout most of the year, this decrease in membership (we finished the year at 159,070 members) was anticipated and was following the historical patterns after other dues increases. In fact, this year's decrease was smaller than our expectations.

The largest soft spot in our revenues in 2017 was clearly the Program Fee category where most of our activity based fees are recorded. From the QSL Bureau to the ARRL VEC to DXCC and Awards, almost every category finishes significantly below our original expectations for the year. Restructuring the QSL Bureau pricing structure did not have the expected impact on revenues but, overall, the loss from this activity was narrowed while revenues actually decreased slightly in 2017. The ARRL VEC processed almost 3,000 fewer exams in 2017 than the prior

year and, as a result, revenues from the VEC dropped by about \$38,000 (8.3%). The actual revenues for 2017 were \$29,000 less than planned. The largest drop in revenues came in the DXCC and Awards category where we collected only \$398,000 in comparison to what is now clear was an unreasonably aggressive target of \$513,000 for the year and 2016 actual collections of \$469,000. Total Program fee revenues were \$907,000, \$203,000 less than the annual plan.

December is usually a larger month for stock dividends but December 2017 was larger than usual for the ARRL portfolio. Total investment income allocated to operations was \$41,000, about \$15,000 more than planned. This brought the year-to-date allocation of investment income to \$204,000, \$17,000 more than planned and \$17,000 more than the result from last year.

Miscellaneous income totaled \$128,000, about \$8,000 less than planned. Most of the small programs such as the ARRL Credit card and affinity insurance programs included in this category did not produce as much revenue as anticipated for the year. It is difficult to project these small revenue sources but, in summary, our affinity programs have been producing less revenue in recent years and 2017 is the continuation of that trend.

Spending in the Income segment totaled \$1.08 million in December, about \$186,000 over budget for the month. Although this seems like a significant variance, the month of December always brings annual adjustments and late submissions of expenses in a rush to get everything accounted for properly. The better measure is the year-to-date spending which, in this segment, was \$10.73 million for all of 2017, \$245,000 under Plan for the year. Less than a handful of functions were over budget for the year, including Administration, Personnel and Building accounts. The Administration category includes legal costs for the governance activities and this is primarily the reason that this function was over budget for the year. Personnel included the costs of unemployment benefits that we paid out in the year which were more than planned due to various personnel actions and the Building account included much larger snow removal and sanding costs in December due to the weather.

## **Spend**

Spending in 2016 on advocacy, member programs and governance, totaled \$3.8 million in comparison to a budget of \$4.1 million. This also represents a decrease in spending of \$361,000 from the 2016 level, a reduction of 8.6%.

Total advocacy spending was \$774,000 against a budget of \$828,000. The Washington Office spending was right on track for the year. It should be noted that IARU expenditures were well under budget (\$27,000) which reduced the ARRL's contribution to the Secretariat's annual revenue/expense gap. The ARRL Public Relations (Communications) function was also under budget for the year, partially due to the change in managers mid-year and the impact that had on operations and costs. We did use some of the underspending to add equipment to upgrade our video social media offerings.

Spending in the membership program areas was, by and large, under budget for the year. The one obvious example was in the area of Emergency Preparedness and Response. This relates

specifically to the purchase of equipment for the response in the Caribbean, primarily Puerto Rico. Some of the equipment remains there and is no longer on our books, hence the expense impact. We did recover much of the equipment and that portion remains as a corporate asset on our books and will be depreciated according to appropriate guidelines.

Governance spending totaled \$353,000 in 2017, about \$25,000 less than planned. This was also less than total governance spending in 2016 of \$404,000. Spending on Division and Officer activities were much less than planned as well as much less than in 2016. Having a National Convention in Orlando in February of 2016 and not having one in 2017 likely contributed to the decrease. Spending on Board meetings was up a bit in 2017 as a result of our forced venue change for the July 2017 meeting. Committees were very active in 2017 as well which resulted in over budget spending in this area, although the work was necessary.

### **Cash Flow**

As you would suspect with our excellent operating bottom line, we finished the year with positive cash flow from operations of \$455,000. This is the best result in quite some time. 2009 was the last year we had a larger positive cash flow than we just produced. Just a reminder, cash flow was actually better than this because the investment income earned on the portions of the portfolio allocated to Life membership and regular operations is retained in the portfolio. We didn't have to draw on any of those funds in 2017.

### **Operational Results**

2017 was a year filled with challenges, accomplishments and some disappointments. As was reported above, the financial results were much better than expected through a variety of factors. From an operational standpoint, while "change" was a constant companion, there was also a component of "keeping the trains running" which included steady improvements in certain stable operations within Headquarters. Some of the more notable highlights for the year are discussed below.

The ARRL VEC managed by Maria Somma, AB1FM, had another successful year, albeit a year that included a reduction in the total number of new and upgraded licensees. One again this year, there was a prolonged absence on the staff but the rest of the department pulled together, as well as others from the building, to help meet the demands of our Volunteer Examiners and the VE teams spread across the country.

In the first half of the year, new amateur licenses issued were down from the comparable period of 2016 by 8%. However, interest in Amateur Radio took an upturn in the second half of the year, possibly due to a heightened awareness of Amateur Radio's potential role during natural disasters. By year-end the decrease had narrowed to about 1%. The ARRL VEC continues to maintain its position as the largest VEC in the nation. Throughout the year, our market share of total Amateur Radio exams administered remained stable at 74%. The actual numbers are:

<b>NEW AND UPGRADED FCC LICENSES ISSUED PER YEAR</b>							
Year	2011	2012	2013	2014	2015	2016	2017
New	24,072	27,082	28,886	33,241	32,077	32,552	32,196
Upgraded	10,337	10,283	9,325	10,556	11,224	10,617	9,576
<b>TOTAL</b>	<b>34,409</b>	<b>37,365</b>	<b>38,211</b>	<b>43,797</b>	<b>43,301</b>	<b>43,169</b>	<b>41,772</b>

Other highlights of the year in the ARRL VEC:

- 31,014 total license application forms were filed by ARRL, compared to 32,403 in 2016.
- A total of 7,075 exam sessions were conducted by ARRL in 2017, down slightly from 7,494 in 2016. For the fourth year in a row, we have conducted more than 7000 Amateur Radio exam sessions, an important milestone for the ARRL VEC.
- ARRL served 35,352 exam applicants in 2017, compared to 38,097 in 2016.
- Exam elements administered by ARRL decreased from 50,081 last year to 47,152 this year.
- 1,813 new Volunteer Examiners (VEs) were added to our program.
- Had to respond to the FCC’s short window for changes to Form 604 regarding the mandated “felony” question. We updated forms and dealt with all the expected questions for a change of this magnitude.

There is a downside to managing a large contingent of volunteers however. Due to FCC rule violations, examination discrepancies, and/or VEC policy abuses, four ARRL VE Teams were discredited and their VE status’ were suspended during 2017. The irregularities were reported to the FCC as required for teams from the following cities: Lisle, IL, Toccoa, GA, Clermont, FL, and Vanceboro, NC. Because the session administration and/or the examination documents were compromised, licenses earned at these sessions were not granted by FCC.

The Business Services Group managed by Debra Jahnke, K1DAJ, is responsible for all sales of advertising and sales of publications to commercial dealers. As noted above, advertising revenues were down again in 2017, although we met our original goal for the year. It continues to be an uphill battle for these revenues. In 2017, we had several advertisers either reduce or totally cancel their advertising commitments which represented a loss of almost \$63,000. Offsetting that were new advertising commitments during the year amounting to about \$21,000 of new advertising dollars. Overall, QST continues to be a popular advertising vehicle, just not quite as popular as it was, with advertisers reducing their commitments to advertising in our

other periodicals such as *QEX*, *NCJ* and our electronic newsletters. All the news is not bad, however, as Heil Sound has committed to a full year's worth of advertising in 2018.

Publication sales to dealers comprised 39% of overall sales (41% a year ago), and total sales were down 6% in comparison to 2016 dealer sales. Dealer sales continue to be dominated by Amazon, our number one publication reseller. Sales to Amazon are difficult to predict, but they did increase slightly in 2017.

	2017	2016	2015
<b>Amazon Sales</b>	\$832,787	\$822,694	\$687,074

The Sales and Marketing Department, managed by Bob Inderbitzen, NQ1R, is responsible not only for publication sales, but much more including the ARRL presence at major conventions throughout the year, operations of the ARRL warehouse, a team of customer service representatives whose job is to interact with members, resolving issues and taking orders for sales and memberships, and managing a series of promotions and member communications that need to be coordinated across many ARRL departments.

While total publication sales were discussed earlier in this report, it should be noted that 10 titles account for almost 66% of the gross publication sales number. Those titles include:

#### **Top 10 Grossing Publication Titles and Merchandise Lines in 2017.**

<b>Product Description</b>	<b>QTY</b>	<b>Gross Sales</b>
<i>The ARRL Handbook for Radio Communications</i> (all editions sold in 2017)	14,000	\$645,733
<i>The ARRL Ham Radio License Manual</i>	22,096	\$481,267
<i>The ARRL General Class License Manual</i>	9,184	\$208,960
<i>The ARRL Extra Class License Manual</i>	6,833	\$159,234
<i>Grounding and Bonding for the Radio</i>	7,802	\$141,723
<i>The Antenna Book for Radio Communications</i> 23 <sup>rd</sup> ed (2015)	3,779	\$138,972
ARRL Field Day Supplies – <b>NEW PRODUCTS</b> annually		\$92,390
<i>The ARRL Repeater Directory</i> <sup>®</sup> – <b>NEW EDITION</b> annually	6,952	\$82,762
<i>The ARRL Operating Manual</i> 11 <sup>th</sup> edition (2016)	3,944	\$73,320
<i>More Arduino Projects for Ham Radio</i> – <b>NEW BOOK</b> in 2017	1,731	\$47,158
<b>TOTAL</b>		<b>\$2,071,520</b>

We have over 500 different items in our warehouse but these 10 items account for a significant portion of our annual revenues.

Other operational metrics and highlights for the past year in this area include:



- Royalties for Kindle e-book sales were down slightly in 2017. We follow a parallel print-and-digital publishing strategy for most of our new publication introductions.

	2017	2016	2015
<b>Kindle royalties</b>	\$93,000	\$98,700	\$63,800

- We studied shipping expenses and methodologies throughout the year and found operational changes that resulted in significant savings:
  - a. We realized savings in postage costs of approximately \$30K in 2017 following steps taken in February to reclassify some packages (under one pound) from Priority Mail to First Class. The 2018 plan includes a similar reduction in expenses.
  - b. We negotiated lower prices for FedEx express shipping to non-U.S. destinations, for packages weighing 5 to 10 lb. The effort, intended to help increase sales of ARRL publications to international members and customers, is already showing promising results.
- ARRL earned royalties of \$43,692 in 2017 for the ARRL Visa Credit Card program (\$47,910 in 2016). There are currently 2,574 open cards. Card holder sales volume was over \$7.7 million. ARRL earns royalties on newly opened cards and on net purchases. The affinity benefit was introduced to members in 2005.
- Member Service Representatives handled a total of 40,238 phone calls in 2017, compared to 43,258 calls in 2016. This team also administers all data-entry, customer service, and related administration for direct sales, membership, and periodical circulation. Throughout the year, work has continued with an interdepartmental team on specifications for new software to support the next generation of our membership and development recordkeeping systems.

The Information Technology Department managed by Mike Keane, K1MK, was tasked with a significant amount of work in 2017, much of it not related to software development.

The two major ongoing development projects include the DXCC system replacement project with an outside vendor and the replacement for the membership and development modules of the existing Siebel system. The DXCC project has been proceeding, but very slowly and we have been concerned for some time about the efficiency of the vendor’s understanding the process and their development process. They’re work is good, but the time (and expense) of them getting to where they are, is consuming too much resources. We will be making recommendations to the Administration and Finance Committee at the upcoming meeting regarding this project. After getting final sign-off from the user groups, we are now ready to go to the market to find a

suitable membership/development system to replace the last major modules of the Siebel system. My preference is not to try and build this from scratch but possibly modify existing software.

Other development projects completed in 2017 that didn't receive a lot of attention but were accomplishments nonetheless:

- Re-coded NPotA leader board site into Grid Chase leader board.
- Implemented a new process to find and fix bad addresses being pulled in from the FCC daily updates. This will increase the number of pieces actually being delivered and reduce the returns, ultimately increasing the number of new members.
- Updated AddThis sharing code throughout website to gather sharing analytics. Also added inline share buttons for easier sharing of website news stories.
- Converted all website CMS functions, including adding, editing and logins on the website to utilize HTTPS secure protocol.
- Managed the Starship shipping USPS change from Endicia to Pitney Bowes. This was a required change with the Starship software.

There was a significant amount of work on LogBook of the World with the two most visible projects being a) the deployment of the Open Databases Connection (ODBC) based version of LoTW server software to production (major technical debt retirement milestone) and b) implementing CQ WAZ award in Logbook of the World (currently in beta testing).

In addition to development, the care and feeding of the corporate IT infrastructure takes significant effort and produces victories, both large and small. Some of them included:

- Updated display template for ARRL Letter to render correctly in Gmail and other web email services.
- Expanded HQ LAN CORE switch by adding a second 48 port switch and enabling stacking on it.
- Setup special mailing list to support ARRL hurricane relief effort in Puerto Rico.
- Upgraded Cisco firewall software to latest versions. No network down time.
- Completed installing FirePOWER software on the two Cisco ASA5512 firewalls to better analyze network traffic.

And finally, based on the addition of the .radio Internet domain, we were able to acquire several new domain names for future use including ARRL.radio, DXCC.radio, QST.radio, W1AW.radio and others.

Last but not least, the administrative areas of the operation which generally work in the background and are only visible if something goes wrong continue to perform very well. This includes the Controller's Department, Mail Room and Building facilities. Diane Middleton, KC1BQF, manages the first two of these functions. In no particular order, Diane and her staff were able to record all the organization's transactions, produce timely financial and other reports monthly and still have time to:

- Completed the annual tax return (Form 990) prior to the July Board meeting.
- Played a major role in the negotiations and analysis of health insurance proposals which resulted in a single digit increase in premiums for 2018.
- Rewrote and trained the Development Department staff on the use of a reporting template they could use for periodic Board and other reporting requirements.
- Negotiated a contract for printer maintenance and supplies providing cost savings overall for the organization and reduced time that the IT staff had to allocate to simple routines.
- Support other departments through extended managerial absences.

## Summary

At this point in the report, looking back on what I've written so far, I realize that there was actually more accomplished than I originally thought. The staff worked hard and we did affect some of the changes we set out to implement. Not all of it went well, but we knew there would be hurdles and sometimes, good results are achieved from making mistakes, stepping back and learning from them, and proceeding down a different path to achieve the same objective.

We produced an excellent financial result, something that we will need to continue into the future to provide the resources necessary to expand our offerings and provide the things a new generation of Radio Amateurs want from their national association.

At this meeting, you will hear about work we plan to do in 2018, using the information gleaned from our recent member/non-member survey, to define, construct and deliver on a Lifelong Learning Program which is intended to provide a basis from which to attract and retain members. Once defined, we will need to decide how this will be integrated into the very fabric of the organization, including new information delivery mechanisms throughout all our platforms including social media, web site and print. This work represents an exciting change for the organization and one I hope isn't derailed by the current external distractions.

As always, as I begin my 29<sup>th</sup> year with the ARRL, I must thank both the staff and volunteers, who have worked hard to achieve these results. Change is not easy, and some resist it, but we've had enough people buy in to the changes and work hard to affect them, that I believe we're making forward progress.

As always, I also want to thank the Board and, specifically the Administration and Finance Committee who have supported our efforts.

If anyone has any questions on the contents of this report, please don't hesitate to contact me prior to the meeting.

Respectfully Submitted,

Barry J. Shelley, N1VXY  
Chief Financial Officer