Document #8

2018 SECOND MEETING
ARRL BOARD OF DIRECTORS
July 19-20, 2018

Report of the Chief Financial Officer

The first half of 2018 was filled with changes, challenges, accomplishments and disappointments. Tom Gallagher's abrupt departure brought sudden and significant changes for the entire staff. Almost every manager in our organization along with the Controllers and Advertising staff now report to someone new. This may not seem like a big deal since their responsibilities didn't change but they had to adapt to a different management style and wonder if expectations would change. With assurances from Barry and me, it was the staff's hard work, support and commitment to ARRL that kept the forward momentum created in 2017 going in the first half of 2018 and I believe the staff should be acknowledged for their continued efforts.

Financial Results

The financial reports are included as Addendum #1 to this report. For the most part, this report will focus on the year-to-date results.

Overall

Income from operations for the first six months of 2018 have been significantly better than Plan. The results were due to a variety of factors, both positive and negative, which are discussed below in detail. Revenues were slightly less than Plan while expenses were well under our original budgets. The majority of the underspending was due to timing differences rather than permanent expense savings. Income from operations for the first half of the year was a gain of $330,000, against a planned loss of $100,000, and just slightly greater than the same period in 2017.

Net Available Income (NAI) for the first half of the year was also greater than projected due to the large amount of underspending. Total NAI for this period was $1.6 million in comparison to the Plan of $1.3 million, about $315,000 more than planned and $107,000 more than the first six months of 2017.

The value of the ARRL portfolio decreased slightly during the first half of 2018 to a total of $26.7 million, down from $26.9 million at December 31, 2017. The portfolio had a year-to-date unrealized loss on investments of $375,000 as of the end of June. I will defer further discussion on the portfolio to the Treasurer and his report.

ARRL's balance sheet continues to be in very good shape. Assets grew to almost $33.0 million at the end of June with $29.7 million in cash and investments. This is up from $32.7 million and $29.3 million, respectively, at the end of 2017.

Income

Total revenues earned through June in the Income segment exceeded Plan by $13,000. While this is basically breakeven it is net of several significant variances in the revenue line items. Total revenues in the Income segment through June were $6.82 million against a plan of $6.81 million but lower than last year at this time by $72,000.

Publication sales revenue had a disappointing first half of 2018 falling short by $102,000. The major product areas of concern were training aids, Non-ARRL Publications, other books and membership supplies. Direct sales were down only 3% from last year however, dealer sales were down 11%. It should be noted that our top ten titles and merchandise lines contribute 61% of our year-to-date sales.

While we have lost some of our dealers to closing their doors, we cannot ignore the impact that lower Amazon sales had on our overall revenue. Over the last several years, we have discussed with the A & F Committee the significant impact Amazon orders have made on our dealer sales and warned that should they change their purchasing pattern; we would feel that impact directly and quickly. While we have no clear understanding why Amazon orders have decreased by $48,000 compared to the same period last year, we continue to be proactive in how our products are displayed and categorized on the Amazon website and monitor Amazon's activity closely.

The Training Aids product line contributes the most to the shortfall in publication sales for the first six months. Total Training Aid sales were $42,000 less than planned, a trend that may continue. Non-ARRL Publications (mostly third party books) have also been discouraging so far this year, contributing another $25,000 to the revenue shortfall. Also contributing to the year-to-date shortfall was the decision not to sell *Ham Radio from Indoors*. This title was expected to add $44,000 of revenue to the Other Books category during 2018. Year-to-date Membership supplies fell short of planned expectations by $25,000. The International Grid Chase product line failed to generate anywhere near the revenue that was expected and sales from the Field Day product line fell short of previous years. To offset some of this shortfall we are working on a handful of new products for the second half of the year. Year-to-date publication sales totaled $1.64 million against a plan of $1.74 million. While this was $102,000 less than Plan, it was also $83,000 less than last year at this time.

As total gross sales for the first half of the year have fallen short by $102,000, it should also be noted that net sales have only fallen short by $22,000 due to lower than estimated cost of goods.

Advertising revenue continues to decline. Although the targets for 2018 were lower than 2017, we are still unable to meet those expectations. The advertising group struggles to make up these losses but the number of businesses that advertise continues to shrink and ongoing advertisers are reducing their ad space or opt for one type of advertising over another. The declining QST related advertising target was missed by a shortfall of $46,000 through June. The expectation is that this trend will continue. Advertising sales for the first half of the year were $957,000, $35,000 lower than planned and $64,000 (6.3%) lower than the first six months of 2017.

Earned dues income exceeded our expectations. Year-to-date earned dues was $3.4 million, about $82,000 more than planned and $15,000 more than the same period last year. The greater than expected results were from the increased number of transactions than originally planned. While forecasting the number of transactions and the timing of the transactions each year is always difficult, the fact that we are slightly above target for the number of members as of June end is a positive sign. Total membership decreased in June to 158,147 members but was still 369 members greater than the forecast.

The magazine revenue category in total is close to plan, however, QEX revenues fell short of Plan year-to-date by $3,000 while NCJ revenues exceeded Plan by $2,000. This same pattern is also seen in comparison to last year. At this point in 2017, QEX was below Plan by $1,000 while NCJ was above Plan by $1,000. Year-to-date totals for this category stood at $113,000 against a Plan of $114,000 and were relatively the same as the first six months of 2017.

Actual Subscriber Numbers

Issue >	May/June 2017	May/Jun 2018	Variance
NCJ	2,069	1,976	(93)
QEX	5,832	5,547	(285)

Total program fee revenues for the first half of 2018 were ahead of target by $38,000. While most other areas were close to Plan, the greater than Plan DXCC awards revenues were more than enough to offset the lower than planned VEC fees. The results for DXCC awards revenues were due to the new DXCC entity (Kosovo-Z6) and the popularity of the FT-8 mode. DXCC awards combined with the CQ Awards brought in an additional $52,000 over target. These revenues were more than enough to offset the shortfall in VEC fees of $8,000. VEC fees were lower than planned due to ARRL's market share decreasing to 74% and VEs retained an average of $0.47 per candidate more than planned. Program fees year-to-date were $554,000 against the Plan of $515,000, $38,000 greater than Plan and $65,000 greater than the first six months of last year.

Investment income allocated to regular operations was $117,000 through June 2018, $17,000 greater than planned and $24,000 greater than the same period of last year. The actual rate of interest and dividend yield was higher than the rate used in the planning process.

Voluntary contributions fell short of the Plan through June by $43,000. Most of this shortfall was associated with Education and Technology Fund spending that did not occur resulting in a zero net effect on the bottom line. The remaining contribution sources netted a positive $12,000. Making up the shortfalls in Diamond Club and Legislative Advocacy Fund were higher than planned miscellaneous contributions, earnings on the Capital Campaign and Dave Bell Funds (a function of better than planned realized investment income) and Spectrum Defense.

Year-to-date Diamond Club contributions stood at $146,000 against a planned $173,000, falling short by $28,000. Although we cannot confirm our suspicions and can't quantify the impact, we received several critical messages of concern regarding the negative publicity surrounding the Board from donors during the first quarter of this year. This shortfall was as high as $36,000 in April and slowly began to recover. While Diamond Club is still a concern and will be monitored closely, it is believed that we can still make our annual projection. The Legislative Advocacy Fund fell short of its target due to the decision not to run an Advocacy Fund campaign this year. In other words, we did not incur expenses that this revenue would offset resulting in a zero impact on the bottom line. Contributions year-to-date were $463,000 against the Plan of $506,000, $43,000 less than Plan and were $151,000 below last year at this time (excluding the $50,000 "pass through" donation last year to the ARRL Foundation we handled through the Education & Technology Fund due to the donor's requirements).

The year-to-date total for the other revenue category was $64,000. This was $13,000 greater than Plan primarily due to the earlier than planned Region 1 dues payment.

Spending in the Income segment was under Plan for the first six months of 2018. Year-to-date spending was $5.2 million, about $302,000 less than planned and $138,000 less than this time last year. While some of this variance will be retained for the entire year, such as salaries related to vacant positions, unpaid medical leave and the elimination of a part-time position in the Sales and Marketing Department, the majority is due to timing differences. Most department variances across the board were either better than or close to plan.

- Product Sales was underspent by $80,000 as this is the cost of goods sold offset to the lower than planned sales revenues.
- QST expenses were down $23,000 due to the lower number of magazines being printed and mailed than planned.
- The unpaid salary of the Business Services Manager resulted in Advertising expenses lower than planned by $28,000.
- Membership ($25,000), Development ($32,000) and IT ($27,000) expenses were lower than planned however, these are all timing related.
- Administration expenses were lower than planned by $72,000 primarily due to lower overall legal fees and the difference between the breakdown of actual billings between FCC related topics (Washington) versus governance and contract review items (Administration) and the breakdown used for the Plan.

Spend

Spending on Advocacy, Member Programs and Governance was also under Plan for the first half of the year. Total spending on these activities stood at $1.8 million, about $157,000 less than planned and $95,000 less than the same period of 2017. With the exception of the Washington Office and VEC, most departments were under spent or close to Plan. The Washington Office overspending was a result of the legal fee allocation of the actual billings versus the planned allocation as previously discussed, while the VEC overspending was due to higher and unexpected printing costs.

The Education and Technology Fund is underspent by $46,000 to date due to a combination of consulting fees that will not be utilized and the manager position that remained open for the first four months of the year. These expenses are offset against the lower than planned revenues mentioned in the contribution section of this report. The large expense incurred in June in Education Services was the earlier than planned $25,000 payment to ARISS.

Underspending in all the other areas reflect timing issues.

Cash Flow

Cash balances continued to be strong despite the negative year-to-date operating cash flow of $226,000 before taking into account Life member dues and investment income which are retained in the investment portfolio. In addition, excess cash of $500,000 was transferred to the investment account back in February. Usually at some point during the summer months cash is transferred to the operating account from the investment cash to support operations. At this time, I do not expect to need this transfer.

Operational Results

Publications and Product Sales

As mention earlier in this report the top ten publications and merchandise lines make up 61% of the year-to-date publication sales. As you can see, new titles drive our sales.

Top 10 Grossing Publication Titles and Merchandise Lines – January to June 2018

Note: our warehouse maintains inventories for over 550 SKUs.

Product Description	QTY	Gross Sales
The ARRL Ham Radio License Manual **– NEW EDITION (June)**	8,301	$187,414
The ARRL Handbook for Radio Communications	3,674	$144,836
The ARRL General Class License Manual	3,812	$86,288
ARRL Field Day Supplies **– NEW PRODUCTS annually**		$85,590
The ARRL Repeater Directory® – **NEW EDITION (January)**	6,189	$82,624
The ARRL Extra Class License Manual	2,927	$67,950
The Antenna Book for Radio Communications 23rd ed (2015)	1,535	$55,288
Get on the Air with HF Digital **– NEW 2ND EDITION (April)**	2,765	$47,590
Receiving Antennas for the Radio Amateur **– NEW BOOK (March)**	2,404	$47,158
Portable Operating for Amateur Radio **– NEW BOOK (April)**	2,276	$37,610
TOTAL		**$842,348**

As we prepare to send off the 2019 Handbook to the printer, there is exciting news to share about this year's edition. For the first time, the Handbook will be available in a six volume box set:

Volume 1: Introduction and Fundamental Theory
Volume 2: Practical Design and Principles PART 1
Volume 3: Practical Design and Principles PART 2
Volume 4: Antenna Systems and Radio Propagation
Volume 5: Equipment Construction and Station Accessories
Volume 6: Test Equipment, Troubleshooting, RFI and Index

Based on feedback from an online survey conducted back in February there is reason to believe that this *limited edition* will do well and it will help drive Handbook sales in an otherwise "off" year. The softcover edition of the Handbook will also be available. Producing this six-volume set will also allow us to place the Handbook in the Kindle market for the first time. While there is not a significant amount of net revenue from the Kindle version, based on these sales, it will help to identify areas of interest to focus on for future publications.

Other notables for Publication and Product Sales:

- After numerous hours of work by an interdepartmental team the specifications for the new Membership/Development module are now complete.

- As part of the 2018 Plan, printed membership cards were discontinued in January, eliminating the high cost of fulfilling the cards by mail (savings of nearly $38,000 annually). Instead, we have introduced an ARRL Membership Confirmation, emailed to new members – requiring daily administration. The new Membership/Development module specifications include automating the acknowledgements for all membership transactions by email, regardless of the payment channel (by mail, phone, email, FAX, etc.).

- Publications and Products sales staff successfully supported a number of the largest annual ham radio conventions and events during the first half of the year:
  Orlando HamCation - the ARRL Florida State Convention
  Hamvention, Xenia, Ohio -the ARRL Great Lakes Division Convention
  SEA-PAC, Seaside, Oregon - the Northwestern Division Convention
  International Exhibition of Radio Amateurs, Germany

- Work (started in 2017) continued on reducing the shipping fees paid by members to purchase ARRL publications and products along with our own shipping expenses. Currently we are investigating alternative shipping methods for packages between 2 and 3 pounds, which is a highly competitive niche among shipping carriers and one we are hoping to exploit in our favor.

VEC

The ARRL VEC continues to maintain its position as the largest VEC in the nation despite our market share dropping to 74% from 75%. Current license statistics compared to last year at this time are up.

FCC RESULTS THROUGH JUNE			
License Action	**2017**	**2018**	**% Change**
New Licenses	16,804	18,352	9%
Upgraded Licenses	5,244	5,202	-1%
Total Licenses	22,048	23,554	7%

Other highlights from our VEC department include:

- Amanda Grimaldi, N1NHL became VEC assistant manager in January replacing Perry Green, WY1O who retired from our organization after 16 years of service. Amanda has extensive knowledge of FCC rules, NCVEC protocols and ARRL VEC procedures and policies. She has been a member of the VEC team since 2006.

- Maria Somma, AB1FM, is participating in the review and production of the new Element 3 General class question pool which will take effect July 2019. She is our representative to the NCVEC Question Pool Committee (QPC), replacing the retired Perry Green.

- New Technician Class Examination booklets that must be used at exam sessions starting on July 1, 2018, were completed and 50 copies (10 each of 5 versions) were mailed in mid-June to nearly 1,000 VE Teams. By working with IT and the mailroom to automate the shipping process, shipping materials and postage costs were reduced by approximately $2,000.

- The ARRL VE Exam Maker test generating software was updated to comply with the new Technician question pool that became effective on July 1, 2018.

Administrative Operations

The true administrative operations in the organization generally happen behind the scenes and if things are going well, as expected, no one ever hears about them. These areas include the Controllers Department (which include the Mailroom and Purchasing), the Human Resource function and maintenance of the Building. Some of the accomplishments of this group for the first half of the year include:

- The annual audit was completed with no adjustments made to the financial statements, an unmodified opinion from the auditors and no management letter comments. The A&F Committee will meet with the audit partner, as they do annually, at their upcoming meeting on July 19.

- The annual IRS Form 990 is in the final stages of review.

- Delivered various required government filings including the Affordable Care Act Form 1095 and Form 720 (PCORI Fee), Flexible Spending Non-Discriminatory testing, monthly and quarterly sales tax filings, CT & Town business and Tax filings along with various Census filings as requested (required) by the Federal Government.

- The Controller's Department also welcomed a new Controller, Lou Treglia. The shift in responsibilities is progressing nicely as he gains an understanding of our organization.

- As approved in the Plan, the renovation of the Editorial office space took place over the past several months and is now complete. The Editorial staff and Public Relations staff have moved in and appear to be settled in nicely.

- Between late May and early June, the entire Headquarters staff received workplace harassment training provided by Mark Soycher, an HR lawyer from the Connecticut Business & Industry Association (CBIA). The Connecticut Legislature recently considered new, more stringent legislation on the topic and while it did not pass, we have been assured the topic will be back next session. This combined with all the headlines recently about harassment in the workplace we thought it would be prudent for the entire staff to undergo formal harassment training sooner than later.

The month of May brought great sadness to Headquarters as we said goodbye to Deb Jahnke, K1DAJ, our longtime friend and Business Services Manager. She is greatly missed by all. It will not be easy to fill the void she leaves behind but we must move forward and for those of us who knew Deb, she wouldn't have it any other way. The Business Services Manager position is currently posted in-house and on the website. The plan is to place an ad in the September QST along with the ARRL Letter and a posting on Media Bistro.

In Summary

By line item our income statement tells a very different story than our original Plan. However, with the permanent one-time savings in 2018 and a continued commitment to expense and resource management, we expect to increase our original net income of $83,000 to $213,000 by the end of 2018. Some factors such as the start date of a new CEO and the extent in which the board decides to engage Mintz and Hoke could alter this estimate but, nonetheless ARRL is in position to handle these endeavors.

On a personal note, I would like to thank the Board and especially the Administration and Finance Committee for the opportunity to serve ARRL as the Chief Financial Officer. I am committed to serving our organization and its membership to the best of my abilities with all the professionalism and respect they deserve.

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

Respectfully Submitted,

Diane Middleton, W2DLM
Chief Financial Officer