

**2017 Second Meeting
ARRL BOARD OF DIRECTORS
Farmington, CT
July 21-22, 2017**

Report of the Chief Financial Officer

I began my report to the Board in January with a theme of “change”, organizationally, industry wide and financially. In deciding how to begin this report on the first half of 2017, I thought about that theme and spent some considering how much has happened in the past six months, how much we’ve changed as an organization and what we’ve done to affect even more change in the future to stabilize the health of the ARRL and grow it in the long term. Quite honestly, sometimes it seems as if we’re running in place, especially when I consider recent industry trends, the continuing struggle against the resulting loss of advertisers, results from our fee based programs (DXCC and others) and a decline in membership, although this was forecast in our projections because of the dues increase.

Couple those items with what seems to have been an inordinate amount of organizational energy expended on matters of corporate governance, it would seem that little, if any, forward progress could have been made. But then I considered the work being done for the future and the encouraging early results from the financial discipline we’ve instituted, the work on identifying “new hams” and expanding the membership which you will hear about at this meeting, and the strong results from our push into social media and other outreach programs. All of which show promise for the future. In addition, changes that improved the margins on some publications and services, reduced costs, restructured the organization and improving the way we do business, all have been implemented with an eye to the future of the organization. And we are seeing the effects of these changes, from a better than planned income from operations which includes a reduction in total expenses for over \$500,000 from last year at this time, to increasing engagement in our social media outlets, to a “new and improved” annual report which, in my opinion, does a much better job presenting the organization to those constituencies with whom we need to engage going forward to achieve our long-term objectives. Also, we’ve begun the work to upgrade our oldest, legacy systems and are making progress through the use of outside programmers.

Admittedly, we are still facing significant challenges. Our membership numbers continued to decline throughout the first half of 2017, likely due to a combination of factors including the continuing response to the dues increase and what appears to be a changing set of needs for what newer Amateurs want from their national organization that, at the moment, are not being met through our traditional programs and services. Again, you will hear more about this at the meeting but the basic message is that we believe additional change is necessary to attract and retain a new type of Amateur, one who may not be particularly interested in what the more traditional Amateur has been for low these many years.

As was the case in January, this report is in two parts, one concentrating on the financial results and the second part concentrating on operational issues and results. The financial reports are included as Addendum #1 to this document. It is a positive trend that, through the first six months of the year, we have improved the operational bottom line significantly from the same period of a year ago, mostly the result of spending reductions. But, as a result, we are now forecasting a bottom line gain from operations for 2017 in the neighborhood of \$216,000. This would be the first positive operating bottom line in several years. However, this improvement is mostly expense driven and we need to begin concentrating on the revenue side of the equation.

Financial Results

Overall

The operating results for the first six months of the year provide a stark, but very encouraging, contrast to where we were just 12 months ago. Admittedly, an unrestricted memorial gift on the last day of June of \$100,000 boosted the results, but even without this, we would have been well ahead of our planned loss at this point in the year. Total revenues are running slightly ahead of our projections with dues and publication sales leading the way. However, program fees are well behind expectations through June. And as mentioned above, expenses are below Plan by about \$325,000 so far this year. Total income from operations for the year-to-date is \$369,000, which is \$457,000 more than the planned loss. This year's result is also much better than the \$202,000 loss incurred in the first six months of 2016.

Voluntary contributions, including those amounts used to offset expenses, were well ahead of our expectations through June. Several larger, miscellaneous donations and one large (\$50,000) donation to the Defense of Frequencies Fund helped boost the results. In addition, there was the \$100,000 unrestricted memorial gift at the end of June. All in all, voluntary contributions reflected in the statement of activities totaled \$664,000 through June, \$148,000 more than planned and \$168,000 more than the same period of a year ago. The only area which is running behind our expectations is the Diamond Club which is about \$15,000 below expectations through June. In addition to these contributions reflected in the income statement, we have received several large, restricted donations including \$105,000 from Ed Snyder, W1YSM, to launch the ARRL Collegiate Radio Initiative. There are also two significant bequests that are nearing settlement, one for \$575,000 from a former member in Florida and the other a \$161,000 bequest from an Amateur in Pennsylvania. Both, in keeping with our longstanding policy, will be treated as endowment gifts.

As discussed in detail in the Treasurer's report, the investment markets have helped our overall financial position in the first half of 2017. Though the markets have cooled somewhat recently, we've accrued over \$780,000 in unrealized gains so far this year.

Balance Sheet

The ARRL's balance sheet improved in the first half of 2017 as a result of both the operating gains and the unrealized investment gains in the portfolio. Total assets grew to \$30.2 million from \$28.5 million at the end of the prior year. Total net assets grew to \$18.1 million from \$16.5 million at December 31st. Unrestricted net assets totaled \$2.2 million. Accounts receivable aging is in good shape and accounts payable are within reasonable limits.

Income

Total traditional revenues for the first six months exceeded the original Plan but, when including the revenue results from the National Parks on the Air event, this reversed the overall result and the total fell short of expectations. The categories of product sales and dues paced our revenue results in the first half of the year while program fees and NPOTA both missed their respective revenue targets significantly. Total revenues stood at \$6.9 million through the end of June, only \$28,000 less than Plan even with the significant shortfalls in program fees and NPOTA.

Publication sales were strong in the first half of the year, although they slipped below Plan somewhat in June. Total revenues from sales of publications including other product related revenues stood at \$1.7 million. This is slightly above our targets (\$32,000) so far this year, although it is a decrease of 9.5% from sales in the first six months of 2016. The gross margin from this business is also down slightly from last year. At the six-month mark, the margin in 2017 was 21% while it was 22% in the prior year. Of the product sales revenues generated so far this year, the top 10 titles represent roughly 61% of the total sales. Top producers, revenue-wise so far this year include the *Ham Radio License Manual*, although this title is well below our expectations so far), the *ARRL Handbook*, the *General Class License Manual*, the 2017 line of Field Day supplies and *Grounding and Bonding for the Radio Amateur*. This last title produced almost \$83,000 in gross revenues and is one of the most popular titles of the year. Individual versus dealer sales stand at 61% versus 39% so far this year. Dealer sales are driven, in large part, by Amazon.com and their ordering patterns and Amazon sales are down by \$10,000 so far this year. In addition, year-to-year dealer sales comparisons are hurt by the closure of Amateur Electronic Supply stores last year.

Revenues from subscriptions to our other periodicals and single copy sales of *QST*, are right about on target so far in 2017, and are up slightly over 2016. Total revenues of \$113,000 are up about \$6,000 from the prior year. *QEX* is running ahead of our projections through June by \$5,000 while *NCJ* is lagging expectations by almost the same amount. *QEX*, having the larger subscriber base is still producing positive net revenues, and is outpacing *NCJ* by a wide margin.

Advertising revenues, although down over \$100,000 from a year ago, are right on target with our expectations so far in 2017. For quite a while we've been noting the decline in print advertising in general and the impact of the declining Amateur Radio market on *QST* advertising revenues, although this remains by far our largest source of ad revenues. We continue to see some small and medium size clients cutting back on their advertising commitments or, in the extreme case,

make the decision to suspend advertising altogether. Some are leaving the business through consolidation or closure. We did pick up a couple new advertisers in ACK Radio Supply and Alpha RF Systems while welcoming back Compline, who will take over Cover 3 of *QST*, and Heil Sound for a limited run. Total advertising revenues in the first six months were \$1.02 million.

As noted earlier in this report, membership has decreased this year as the shakeout from the dues increase instituted in 2016 continues. However, the rate increase is beginning to be reflected in the overall revenue numbers from this source in a positive way. First, membership at the end of June was 161,118, a decrease of 2,952 (1.8%) from the end of 2016. Year-to-date dues revenues stood at \$3.37 million, about \$110,000 more than planned at this point in the year. This also represents an increase of \$241,000 over the same period of last year and we expect this gap to widen through the rest of the year as we continue to convert members to the new dues rates.

Program fees have been an issue for all of this year so far. Activity levels in our awards programs, most notably DXCC, and the ARRL VEC are down both from our expectations and last year's levels. Some of the awards activity can be traced to sun spots but there may be signs that these programs are less attractive to newer Amateurs than in the past. There has also been a substantial decrease in applications this year for new and upgraded Amateur licenses which has shown up in our revenue numbers in the VEC. We have seen this phenomenon in other years when there were no question pool changes and its impacting sales of training materials as well. Through the six months, total program fees stood at \$489,000, about \$104,000 less than planned. Of this shortfall, DXCC and awards fees make up \$41,000, the VEC shortfall is \$36,000 and QSL Bureau fees are \$20,000 less than planned. Not included in these numbers is the shortfall in revenues from fulfillment of NPOTA awards which totals \$66,000 which also speaks to the developing theory of Amateurs looking to participate in events, but possibly not "chasing the wallpaper" as many did in the past.

Investment income allocated to regular operations totaled \$93,000, right on target for the year-to-date.

Miscellaneous revenues, in total, are slightly behind where we expected them to be at this point in the year, owing in part to timing differences in payments from our ham radio and club insurance programs. Total miscellaneous revenues were \$49,000 through June against a target of \$52,000.

Expenses in the Income segment of the operation were well under budget for the first six months of the year. Total spending in this area was \$5.33 million, about \$183,000 (3.4%) less than budgeted. Spending results in this segment have been helped by reduced marketing costs, lower than planned costs for *QST* production and forwarding, lower cost of goods sold including savings in the area of publications forwarding developed by one of our warehouse staff and the overall approach we've taken to spending throughout the entire management group. Where we're seeing some overbudget spending so far this year is in the area of corporate legal fees (Administration) and credit card and bank fees (Controller's). This year's spending in this segment is also more than \$300,000 less than the same period of 2016.

Spend

As in the case of the Income segment, spending on advocacy, member programs and governance was well below planned levels in the first half of the year. Total spending in these areas was \$1.86 million through the first six months of the year, about \$154,000 less than planned. It was also \$184,000 (9%) less than the spending in this segment for the same period of a year ago. There are only a small number of functional areas in this segment that are over budget for the year-to-date and only one of any significance. The one area where there is a large unfavorable variance is Education and the sole reason for the overage is the separation agreement (severance) for the former department manager. The Education and Technology Program is also showing an overage for the six months but this is related to the pass through of a donation to the ARRL Foundation.

Other functions which are well under budget for the year-to-date include DXCC, Contest and VEC, all of which are related to less activity than anticipated in our Plan and forecasts for the year.

Cash Flow

Overall cash flow from operations has been very good so far this year, even taking into consideration the negative cash flow in June which included three paychecks and five Wednesdays where payables checks were processed. Positive cash flow from operations was over \$400,000 in the first half of the year. It should be noted that this did include the \$100,000 memorial donation received on the last day of the period but even without this, we are in a very strong cash position. We will need some of this as we are proceeding with the DXCC software upgrade and the summer months historically produce negative cash flow months.

Operating Matters

Just as we did in the reports for the Annual Meeting of the Board in January, this report will cover the highlights from across the departments that make up our Headquarters operations.

As discussed in the section of this report on Financial Matters, publication sales are good in certain pockets of our product line. Contributing to those results were new titles so far this year including the *2017 Repeater Directory*, *Grounding and Bonding for the Radio Amateur*, and *More Arduino Projects for Amateur Radio* which was just released in May. *Grounding and Bonding*, introduced in April, has been a particularly big hit and has produced almost \$83,000 in sales through the end of June. One other title planned for introduction in the first half of the year, *Radio Amateur's Low Frequency Handbook* has been delayed as the author slowed his work considerably and there is some concern about this title reaching the market anytime in the near future.

Earlier in the report, it was noted that the top ten titles in the ARRL catalog produced almost 61% of the sales revenues in the first half of the year. For those stat geeks in the audience, here are the ARRL's Top Ten titles of 2017 (by total sales) so far:

**Top 10 Grossing Publication Titles and Merchandise Lines
January 1 through June 30, 2017**

Note: our warehouse maintains inventories for over 550 SKUs.

Product Description	QTY	Gross Sales
<i>The ARRL Ham Radio License Manual</i>	1,015	\$220,245
<i>The ARRL Handbook for Radio Communications 2017</i>	3,128	\$124,924
<i>The ARRL General Class License Manual</i>	4,559	\$103,732
2017 ARRL Field Day supplies – NEW PRODUCTS		\$92,557
<i>Grounding and Bonding for the Radio Amateur</i> – NEW BOOK	4,380	\$82,746
<i>The ARRL Extra Class License Manual</i>	3,433	\$80,612
<i>The Antenna Book for Radio Communications 23rd edition</i> (2015)	1,815	\$67,024
<i>The ARRL Repeater Directory 2017-2018</i> – NEW EDITION	4,440	\$58,564
<i>The ARRL Operating Manual 11th edition</i> (2016)	2,037	\$38,247
<i>More Arduino Projects for Ham Radio</i> – NEW BOOK	961	\$26,956
TOTAL		\$895,607

In addition to managing the sales of ARRL products across the array of platforms, the Sales and Marketing Department also organized the revised ARRL Expo at the 2017 Hamvention® in the new location in Xenia, OH. We had to negotiate the exhibit space which, due to the smaller overall size of the venue was reduced by about one-third from what it has been for some time now. And although at times there were long lines, we had a generally very positive response to the operation. Sales were down this year (\$42k vs. \$51k last year) but we returned slightly more membership applications, new and renewal, than in 2016. Of the 1,059 applications taken at the event, 129 (12%) were from new or lapsed members.

And, in another example of the drive to reduce costs across the organization, I want to commend Michael Scharr of our Sales and Marketing Department warehouse team. On his own initiative, Michael discovered a software option previously not identified in the shipping software to override the shipping mode assigned to specific order types. He implemented the change and, without any impact to our customers, has saved the ARRL an estimated \$65,000 on an annualized basis!

As noted above, the number of both new and upgraded license transactions is down significantly this year. This has impacted the operation of the ARRL VEC somewhat although the number of total sessions administered in comparison to last year is down but not as much as licenses issued.

In short, there are fewer exams being given in roughly the same number of sessions. A few statistics from the first 5 months of 2017:

- New license issued by the FCC are down 8% this year (14,274 in 2017 vs. 15,586 in 2016)
- Upgraded licenses issued by the FCC are down 13% this year. (4,413 vs. 5,089)
- Total sessions administered by the ARRL VEC in 2017 were 3,118 vs. 3,369 in 2016, a decrease of 7.5%
- ARRL has served 16,189 exam applicants so far in 2017 vs. 19,025 in 2016, almost 15% fewer.

One of the reasons for the decrease is a historical trend for years when there are no question pool revisions. However, we will have to wait and see if we get a pick up next year. Another potential reason is simply fewer people being attracted to Amateur Radio after some very strong interest in the past several years.

In other matters and in response to the recommendations of the Entry Level License Committee, ARRL VEC staff have been working with the Question Pool Committee (QPC) to adopt an effective “Question Pool Guide” to build better pools. The QPC will now refer to the International System of Units (SI) Check-List to communicate clearly across all three pools. Additionally, with the help of the ARRL editorial group, we have incorporated relevant parts of the *QST* Style Guide into the question pool directions and will be using their proof reading expertise.

Like the ARRL VEC, the Radiosport Department’s activities have not generated as much revenue as we had originally anticipated in 2017. From the National Parks on the Air event to our more traditional awards, revenues are down. To help offset some of the impact of that decline, the staff has undertaken a fairly comprehensive review of the costs and operating practices across the department. So far, there have been several steps taken that have helped reduce costs:

- In conjunction with the Mailroom, began using Federal Express’ International Mail Service (FIMS) which has reduced the cost of mailing individual certificates and plaques overseas by up to 75% in some cases.
- Instituted policies and procedures that reduced the abuse of the Outgoing QSL Bureau, thereby reducing costs in the long run.
- Began new inventory management and ordering procedures for plaques and other awards to eliminate excess purchases and reduce current expenditures.

Admittedly, revenues from the QSL Bureau are down slightly from a year ago, likely a reaction to the new fee structure implemented a year ago, but costs are also down and the year-to-date loss is less than the same period of 2016.

The Development Department has seen a recent surge in bequests which has provided a significant boost to our financial resources and is a testament to the groundwork that was laid over the years in promoting estate gifts. Unfortunately, it also means we have more members dying which only emphasizes the need to attract a new generation of Radio Amateurs. One other item to note regarding our Development area is that the clearing house we have used for several years to process vehicle donations closed due to the owner's retirement. We are actively searching for a new clearing house to process these transactions for the organization.

The Field Services Department has continued its work in supporting the vast Field Organization. A highlight so far this year was the improvements in the on-line forms to report activities from the Field. This, in conjunction with a push to stress the importance of providing us the information, has improved the percentage of Sections reporting monthly activity from 20% only three years ago, to between 60%-70% so far this year. Mike Corey is also leading a team of HQ staff in searching for a comprehensive volunteer management system. Two system providers have made presentations so far and we are looking for one more alternative before beginning the detailed analysis and selection process.

In addition to their normal activities, the ARRL Lab was involved in several noteworthy projects:

- The ARRL Lab has been monitoring the developments in the FirstNet legislation now before the House (HR-588). They are in the process of assembling a group of people who are building Amateur digital networks in various areas across the country, other digital experts and representatives from some of the organizations that FirstNet and Amateur Radio networks may serve. A reflector has been created and people are being added to this by Ed Hare, W1RFI, and Mike Corey, K1IU. One group, AREDN, has offered to contribute equipment and expertise to ARRL to help.
- The Lab has continued its work with industry-standards committees, culminating in the creation of an IEEE standards working group to develop an IEEE Recommended Practice for the resolution of power-line noise complaints. This Working Group is chaired by ARRL Laboratory Engineer Mike Gruber, W1MG.
- On January 11th of this year, the ARRL filed a complaint with the FCC about drone transmitters that operate on Amateur and FAA frequencies being marketed widely, sometimes under the guise of being Amateur transmitters. These devices operate outside the Amateur bands, so they are not legally marketed to Amateurs. The Lab obtained a few samples of these products, tested them, and provided a detailed test report to be included with the League's complaint.

The behind the scenes operations at Headquarters were busy in the first six months as well. As was well reported to the Board during the incident, we had a major failure of the disk storage array that supports the Siebel system, one of the legacy systems identified for replacement in our overall strategy. Through the work of several members of the IT Department we were able to restore the system to full operations although it took much longer than anyone liked. There was one silver lining to this dark cloud, however. This incident led to the creation of a virtualized Siebel system as a means of continuing operation of the legacy software. The virtualized Siebel now runs much faster than its previous physical incarnation; and we are now able to run the system under supported versions of MS Server and MS SQL Server. While this doesn't eliminate the risk of continuing to operate the legacy software, it did provide a more stable operating environment.

Additional work in the IT Department included:

- Completed Phase 1 of the replacement DXCC system project with the outside vendor (Surge, LLC) which included requirements review, "user story" creation and user interface (UI) design. Begun Phase 2 project with Surge which includes implementation and testing.
- Continued the development of the requirements definition for new Membership & Development module in AIS.
- Made LoTW 2nd instance -- which utilizes a (non-proprietary) Open Database Connectivity (ODBC) based interface for accessing the LoTW DB -- available for testing by an initial group of external users in preparation for general release.
- Begun in-house testing of latest version of SAP MaxDB database in preparation for upgrade of LoTW production database.
- Began the project to improve email Newsletter production tools. The objectives would be to allow for increased ad space; overall visual refresh and the capability to easily add additional newsletters.
- Upgraded operating system version under which the ARRL web site (www.arrl.org) runs. Upgrade was necessitated by the previous version of the operating system having reached its end of support life.
- Supported transition of National Parks on the Air web site from the end of operating event to the end of award sales/fulfillment and to its current historical archive status.
- Based on work initiated by the Controller, began preparations to outsource maintenance of printers and consolidate acquisition of printer supplies with a single vendor. This will save approximately \$5,000 annually through better order management and lower pricing.

- Secured (HTTPS) ARRL web site login in response to notices which began appearing in recent version of Chrome and Firefox browsers. Still waiting on PageSuite to do the same for logins for Digital QST.
- Closed out license class feedback project.

Last, but certainly not least, the work of our Controller's Department and Human Resource functions, probably the most unrecognized two areas, continue to run extremely efficiently. Just a few of the highlights of the first six months which, to some, don't appear that important but in reality, represent a consistent level of professional competence that provides support across the entire organization and, if not performed well, would have serious consequences.

- Completed work on the Employee Handbook revisions and managed the distribution to the staff.
- Delivered the work product that resulted in another unmodified audit opinion (a "clean opinion" for those of you as old as I am) from our outside auditors. And completed the annual tax return, Form 990, which was distributed to the Board for review prior to filing.
- Delivered various government filings including the newly required Affordable Care Act Form 1095 on individual insurance choices, annual filing for Flexible Spending Accounts, U.S. Capital Expenditure Survey (required upon request), monthly sales tax filings and the SA-81300E Civic & Social Organization Census among other government filings.

All in all, an active six months across the Headquarters' operation and one that promises an increased level of activity in the coming months.

Financial Reforecast for 2017

At the mid-point of each year we review the financial results in comparison to the original Plan and ask the managers to reforecast, at a high level, their individual department financials (revenues and expenses). As you would suspect, at this point in 2017 the outlook for the organization's bottom line is looking better than originally planned. Of course, there are pluses and minuses which impact the bottom line but, overall, we are now forecasting an operating gain for the year of approximately \$216,000 where we began the year projecting a gain of \$63,000. As noted earlier in this report, most of this improvement is driven by expense reductions and in some measure, large, one-time contributions. But the trend is positive and one that we hope to maintain into the future.

In Summary

We began the year, and I began this report, with the theme of "change". As I hope you will recognize, we have begun to effect change in the organization this year and you will hear about

more change at the upcoming meeting. In my opinion, change is critical to the long-term health and growth of the ARRL. It needs to be carefully controlled, planned and managed change, but change nonetheless. We need to make ourselves more attractive and consequently more valuable to a new generation of Radio Amateurs. Something I believe we can do. It will take resources, and likely involve some trial and error. But if we accept that and continue to collect, analyze and use the data necessary on which to make good decisions, we can and will succeed over time.

Before closing, I must take a moment to thank the entire Headquarters staff for their efforts in delivering the results we achieved so far in 2017. Change is not easy and some people resist it. But, by and large, most members of the staff have come to understand that we are in a new era and are trying to move the organization forward.

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