

**TO:** ALA Executive Board

**DATE:** October 14, 2019

**RE:** Director of Financial Reporting and Compliance Report

**ACTION REQUESTED/INFORMATION/REPORT:**

Action requested/Information

**CONTACT PERSON:**

Denise Moritz, Director of Financial Reporting and Compliance, 312-280-5834

**DRAFT OF MOTION:**

The Finance & Audit Committee recommends to the Executive Board acceptance of the Retirement Plan audit as issued by Mueller & Co., LLP

**BACKGROUND:**

This report highlights the following:

- Form 5500 filings
- Retirement Plan audit for calendar year 2018
  - Δ **Action Item**
- Audit for the fiscal year ended August 31, 2019
  - Δ Impairment testing
  - Δ Actuarial analysis
- Form 990, Form 990-T and other filings
- IRS audit
- New audit reporting requirements

## Report of the Director of Financial Reporting and Compliance

Form 5500 filings for the calendar year ended December 31, 2018

- ▲ Form 5500 for ALA's Employee Benefit Plans was electronically filed with the Department of Labor on July 9, 2019.
- ▲ Form 5500 and Form 8955-SSA for ALA's Retirement Plan were electronically filed with the Department of Labor and the Internal Revenue Service on September 22, 2019.

Retirement Plan audit for the calendar year ended December 31, 2018

The management representation letter for the audit for the calendar year ended December 31, 2018 has been signed and fieldwork has been completed. Final audit reports were delivered to ALA in September 2019.

During calendar years 2017 and 2018, ALA had two late remittances (one each year) of retirement funds. We worked with TIAA to calculate the employee's lost earnings due to the late remittance. Employees were made whole on September 28, 2018.

Audit for the fiscal year ended August 31, 2019

▲ Impairment testing

Internal strategic meetings and discussions were held in July and October 2019 between the Publishing and Finance Departments. A planning meeting between ALA's valuation experts (Plante Moran), ALA's independent financial statement auditors (Mueller & Co., LLP) and ALA management was held on September 5, 2019, to discuss the plan and timeline for the valuation work. These collaborative discussions resulted in an updated business plan, which was sent to Plante Moran on October 10, 2019.

Historical recap:

Goodwill impairment losses have been reported on the audited financial statements of the Publishing Department as follows:

	Amount
FY 2017	\$ 826,567
FY 2013	500,000
	<u>\$ 1,326,567</u>

In addition, a \$380,000 impairment loss on intangible assets was recognized in FY 2013.

Key points from the updated business plan are:

- FY 2019 is the 3<sup>rd</sup> year that ALA's valuation experts are calculating the fair value of the future cash flows based on the combined business unit of ALA Editions | ALA Neal Schuman.
- Planned activity for FY 2020:
  - Revenue growth in core book-publishing business
  - 3<sup>rd</sup> year for AASL Standards with revenue projected at \$195k
  - New initiatives revenue of \$180k
  - Two of the three major ALA Editions | ALA Neal Schuman textbooks are planned for release as follows:
    - Best-selling textbook – Rubin – to be published in June
    - One of the top ten best-selling textbooks – Evans – to be released in December/January
  - Crews copyright book - publication date planned for February/March; currently has ~\$30k in backorders
  - 7 books to be released in FY 2020 in conjunction with AASL – these will have a shelf-life for 7-8 years, until the next AASL Standards book is released
- RDA books coming in FY 2021

The current timeline for the valuation work is as follows:

- Week of November 4, 2019 – delivery of draft valuation report to ALA
- Week of November 11, 2019 – delivery of final valuation report to ALA

Plante Moran will begin testing the underlying assumptions and consideration will be given to goodwill impairment. The current fair market value of goodwill under consideration is \$1,000,000.

The valuation work will be tightly coordinated between our valuation experts at Plante Moran and ALA's financial statement auditors at Mueller & Co., LLP.

Preliminary results of the valuation work will be shared with BARC, the Finance and Audit Committee and the Executive Board in October 2019 and, if needed, a follow-up teleconference will be scheduled to share final results of the valuation work.

#### Δ Actuarial analysis

ALA's Finance Department held a planning meeting on July 9, 2019, with ALA's actuary and financial statement auditors. Assumptions to be used in the calculation of the post-retirement benefit obligation were discussed.

**Historical recap**

Change to Medicare Advantage Plan – In FY 2017, ALA created two pools of insureds: (1) retirees → Blue Cross Blue Shield (BCBS) Medicare Advantage Plan and (2) current employees → regular BCBS plan. This change resulted in a decrease in the projected expense of approximately \$12.5 million.

**Amendment to Post-retirement Benefit Plan in FY 2018**

Effective August 23, 2018, the Post-retirement Benefit Plan was amended to change the definition of eligibility to 5 years of service rendered after age 57. Prior to this amendment, benefits were provided to employees who attain age 62 with 5 years of service.

The most significant impact of this amendment is the employee’s age that the benefits start accruing. There are no changes to employee’s benefits. The dollar impact of the change is a decrease in the projected expense of approximately \$5 million.

The above two changes resulted in decreases in the post-retirement benefit obligation as follows:

- FY 2018 - from \$12.3 million to \$7.3 million
- FY 2017 – from \$22.8 million to \$12.3 million

**Discount Rate**

The yield curve analysis as of August 31, 2019, produced a Citigroup Pension Discount Curve of 2.79%.

After internal discussions and consultation with ALA’s actuary and independent auditors, management determined that a 3.25% discount rate would be used for fiscal year-end calculations.

<u>Recap</u>	<u>Rate</u>	<u>Liability</u>
FY 2019	3.25%	\$ 9,615,300
FY 2018	4.25%	\$ 7,305,786
FY 2017	4.25%	\$ 12,266,478
FY 2016	4.50%	\$ 22,829,193
FY 2015	5.00%	\$ 21,816,282

Form 990, Form 990-T and other filings for the fiscal year ended August 31, 2018

△ ALA's filings

- ALA's federal Form 990 was filed electronically with the Internal Revenue Service on July 2, 2019. Prior to filing, the form was distributed to the Executive Board.
- ALA's federal Form 990-T was filed with the Internal Revenue Service on July 15, 2019 with no tax due.
- ALA's state Form IL-990-T was filed with the Illinois Department of Revenue on August 13, 2019 with no tax due.
- ALA's state Form AG990-IL was filed with the Illinois Attorney General's Office on July 11, 2019.
- ALA's state Form PC was filed with the Massachusetts Attorney General's Office on July 11, 2019.

△ ALA-APA's federal Form 990-EZ was filed with the Internal Revenue Service on July 8, 2019.

△ Margaret Alexander Edwards Trust filings

- Federal Form 990-PF was filed electronically with the Internal Revenue Service on May 14, 2019.
- State Form AG990-IL was filed with the Illinois Attorney General's Office on July 10, 2019.

IRS audit update

New audit reporting requirements for fiscal year 2019

- △ Statement of Functional Expenses
- △ Liquidity footnote disclosure