**EBD #3.12**

**BARC #3.12**

**2020 - 2021**

**TO:** ALA Executive Board

**DATE:**  October 8, 2020

**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 2019
* ***Action Item***
* Audit for the fiscal year ended August 31, 2020
* Impairment testing
* Actuarial analysis
* Form 990, Form 990-T and other filings
* New audit reporting requirements

**Report of the Director of Financial Reporting and Compliance**

Form 5500 filings for the calendar year ended December 31, 2019

* Form 5500 for ALA’s Employee Benefit Plans was electronically filed with the Department of Labor on October 9, 2020.
* Form 5500 and Form 8955-SSA for ALA’s Retirement Plan was electronically filed with the Department of Labor and the Internal Revenue Service on October 8, 2020.

Retirement Plan audit for the calendar year ended December 31, 2019

The management representation letter for the audit for the calendar year ended December 31, 2019 has been signed and fieldwork has been completed. Final audit reports were delivered to ALA in October 2020.

Audit for the fiscal year ended August 31, 2020

* Impairment testing

Historical recap:

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



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

In May 2019, the Financial Accounting Standards Board issued a new accounting standard which extended the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities. The Public Company Council (PCC) alternative gives not-for-profits the option to amortize goodwill over 10 years, negating the need for impairment testing (unless there is a triggering event).

Internal strategic meetings and discussions were held between March and October 2020 between the Publishing Department and the Finance and Executive Offices. Working with ALA’s valuation experts (Plante Moran) and independent financial statement auditors (Mueller & Co., LLP), ALA will adopt the PCC alternative in FY 2020.

The current fair market value of goodwill under consideration is $1,000,000. As of August 31, 2019, there was one remaining intangible asset with 2 ½ years left to amortize. To be consistent, goodwill should be amortized over this same period so that all intangibles and goodwill will then be zero after those 2 ½ years.

Write-off of goodwill is planned as follows:

FY 2020 - $400,000

FY 2021 - $400,000

FY 2022 - $200,000

Benefits:

* + - * No cash flow impact between FY 2020 and FY 2022
      * Savings of staff time
      * Savings of professional fees
* Actuarial analysis

ALA’s Finance Department conducted planning activities in September and October 2020 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, 2020, produced a Citigroup Pension Discount Curve of 2.38%.

Following ALA’s practice and upon consultation with ALA’s actuary and independent auditors, management is proposing a 3.00% discount rate for fiscal year-end calculations. The selection of this rate will minimize the impact of discount rate swings on ALA’s financial statements.

Recap Rate Liability

FY 2020 3.00% TBD

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, 2019

* ALA’s filings
* ALA’s federal Form 990 was filed electronically with the Internal Revenue Service on July 10, 2020. 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 13, 2020 with no tax due.
* ALA’s state Form IL-990-T was filed with the Illinois Department of Revenue on August 5, 2020 with no tax due.
* ALA’s state Form AG990-IL was filed with the Illinois Attorney General’s Office on July 10, 2020.
* ALA’s state Form PC was filed with the Massachusetts Attorney General’s Office on July 10, 2020.
* ALA-APA’s federal Form 990-EZ was filed with the Internal Revenue Service on

July 13, 2020.

* Margaret Alexander Edwards Trust filings
  + - Federal Form 990-PF was filed electronically with the Internal Revenue Service on September 29, 2020.
    - State Form AG990-IL will be filed with the Illinois Attorney General’s Office on or before November 16, 2020.

New audit reporting requirements for fiscal year 2020

* Revenue Recognition
  + Grants