

**TO:** ALA Executive Board

**DATE:** October 18, 2017

**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 403(b) audit as issued by Mueller & Co., LLP

**BACKGROUND:**

This report highlights the following:

- Form 5500 filings
- 403(b) audit for calendar year 2016
  - Δ **Action Item**
- Audit for the fiscal year ended August 31, 2017
  - Δ Impairment testing
  - Δ Actuarial analysis
- Form 990, Form 990-T and other filings

# Report of the Director of Financial Reporting and Compliance

Form 5500 filings for the calendar year ended December 31, 2016

- ▲ Form 5500 for ALA's Employee Benefit Plans was electronically filed with the Department of Labor on July 21, 2017.
- ▲ 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 August 29, 2017.

403(b) audit for the calendar year ended December 31, 2016

The management representation letter for the audit for the calendar year ended December 31, 2016 has been signed and fieldwork has been completed. Final audit reports were delivered to ALA on August 24, 2017.

Audit for the fiscal year ended August 31, 2017

▲ Impairment testing

Internal transitional and strategic meetings and discussions were held in July, September and October 2017 between the Executive Director and the Publishing and Finance Departments. These collaborative discussions resulted in an updated business plan, which was sent to Plante Moran on October 14, 2017.

Key points from the updated business plan are:

- For the first time, ALA's valuation experts are calculating the fair value of the future cash flows based on the combined business units of ALA Editions and ALA Neal Schuman.
- Planned activity for FY 2018:
  - Release of AASL Standards
  - Two of the three major Neal Schuman textbooks are planned for release as follows:
    - 2<sup>nd</sup> best-selling textbook – Cassell
    - 3<sup>rd</sup> best-selling textbook – Evans

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 7, 2017, to discuss the plan and timeline for the valuation work.

The current timeline for the valuation work is as follows:

- Week of October 9, 2017 – delivery of updated business plan, balance sheet, statement of operations and cash flow statement to Plante Moran
- Week of October 30, 2017 – delivery of draft valuation report to ALA
- Week of November 6, 2017 – delivery of final valuation report to ALA

Plante Moran will begin testing the underlying assumptions and consideration will be given to goodwill impairment. After recognition of the \$500,000 goodwill impairment loss for fiscal year ended August 31, 2013, the current fair market value of goodwill under consideration is \$1,826,567.

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 2017 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 August 10, 2017, with ALA's actuary and financial statement auditors. Assumptions to be used in the calculation of the post-retirement benefit obligation were discussed.

Discount Rate:           The yield curve analysis as of August 31, 2017, produced a discount rate of 3.77%.

After internal discussions and consultation with ALA's actuary and independent auditors, management determined that a 4.25% discount rate would be used for fiscal year-end calculations. This is a decrease of .5% from the FY 2016 calculation.

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.

Form 990, Form 990-T and other filings for the fiscal year ended August 31, 2016

Δ ALA's filings

- ALA's federal Form 990 was filed electronically with the Internal Revenue Service on July 6, 2017. 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, 2017 with no tax due.
- ALA's state Form IL-990-T was filed with the Illinois Department of Revenue on July 24, 2017 with no tax due.
- ALA's state Form AG990-IL was filed with the Illinois Attorney General's Office on July 10, 2017.
- ALA's state Form PC was filed with the Massachusetts Attorney General's Office on July 11, 2017.

Δ ALA-APA's federal Form 990-EZ was filed with the Internal Revenue Service on June 2, 2017.

Δ Margaret Alexander Edwards Trust filings

- Federal Form 990-PF was filed electronically with the Internal Revenue Service on August 15, 2017.
- State Form AG990-IL was filed with the Illinois Attorney General's Office on August 30, 2017.