

# Leading the Way Through Troubled Times

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Each year, the Treasurer of ASHP has the distinct pleasure of reporting to the membership the financial condition of the Society. Although I am happy to tell you we have a strong and vibrant organization, like many organizations in our country and around the world, the Society has been affected by the severe economic conditions of the past months. The Society's financial year is June 1 through May 31, coinciding with the Society's policy development year. Because the fiscal year ends May 31, the Treasurer has three financial periods to cover in the annual report: (1) final audited prior-year numbers (for the fiscal year 2008), (2) current year (2009) projected performance, and (3) the budget for the fiscal year ending May 31, 2010.

The audit of the May 31, 2008, financial statements of the Society and the Society's subsidiary, the 7272 Wisconsin Building Corp., resulted in an unqualified opinion. Copies of the audited statements are available by contacting the ASHP Executive Office.

## **Fiscal Year Ended May 31, 2008—Actual**

Last year, I reported to you that the Society was expecting a loss for the year due to the sagging performance in the stock market and from planned spending on programs funded from accumulated net worth. We did in fact end the year with a deficit; however, the loss was larger than expected due to the market falling faster than anticipated and a \$7.649 million entry to record a pension liability in accordance with new accounting standards. In total, the Society's year-end statements reflected a loss of \$11.948 million (Figure 1). On a positive note, the core operations produced a \$1.150 million surplus on revenues totaling \$45.537 million. Net worth ended the year at \$35.403 million, 67% of total ASHP and 7272 Building Corp. expense, and 81% before the pension adjustment. Our policy is to maintain net worth at 75% of total ASHP and 7272 Building Corp. expense, with a range of 60–90%.

The Society's May 31, 2008 year-end balance sheet (Figure 2) reflects the impact of the 2008 fiscal year

results. Assets decreased by \$5.304 million (8%), while liabilities increased \$6.645 million (36%). The asset-to-liability ratio, which had been \$4.18:\$1.00 at May 31, 2006 and \$3.53:\$1.00 at May 31, 2007, fell to a still-respectable \$2.40:\$1.00 at May 31, 2008.

## **Fiscal Year Ended May 31, 2009—Projected**

This year, falling market values in the Society's reserve portfolio and falling core revenue will combine to produce a projected deficit (Figure 1). A projected \$2.953 million deficit in the core, coupled with a \$19.403 million deficit in the program development budget (funded by investment income, which is projected to lose \$17.125 million this year) and \$718,827 spending from net worth will produce a loss of approximately \$23.398 million for the fiscal year ending May 31, 2009. The loss also includes a projected pension adjustment of \$322,744. Net worth is projected to decrease to \$12.005 million, 22% of total annual expense, and 37% of annual expense before the accumulated pension adjustments.

## **Fiscal Year Ending May 31, 2010—Budget**

Like many for-profit, non-profit, and governmental entities, the Society is struggling to maintain its core strategic operations in the face of declining revenues and falling asset values. Preparing the fiscal year 2010 budget was a challenge unlike anything we have ever faced before. Nevertheless, the 2010 budget is balanced and does not include any investment income or spending from net worth (Figure 1). Over \$3 million in expenses had to be removed from the 2010 budget. Expense reductions were implemented at all levels of the organization, including staff benefits, salaries, and programs. Unfortunately, the expense reduction also required a reduction in staff. In total, the 2010 budget reflects a 15% workforce reduction, implemented across all offices and divisions of the organization. Although the budget represents a smaller ASHP with less revenue and less spending, we believe it provides the resources necessary to maintain the services critically important to our members.

**7272 Wisconsin Building Corporation**

The Society's subsidiary, the 7272 Wisconsin Building Corp., finished the 2008 fiscal year on a positive note, producing a \$994,066 net income before owner's distribution (Figure 3). The subsidiary owns the headquarters building and derives income from leased commercial and office space.

**Conclusion**

No one is immune from the economic crisis facing our world. To ensure that the Society has the resources to continue serving the membership and the profession, changes had to be made. However, even with the changes, ASHP remains a strong and vibrant organization with a growing membership that we will continue to support and represent. The Society may be smaller this year than before, but the energy and the drive of the Board and staff to serve the membership has not wavered.

Figure 1. ASHP condensed statement of activities (in thousands).

	<b>Actual Fiscal Year Ended May 31, 2007</b>	<b>Actual Fiscal Year Ended May 31, 2008</b>	<b>Budget Fiscal Year Ended May 31, 2009</b>	<b>Projected Fiscal Year Ended May 31, 2009</b>	<b>Budget Fiscal Year Ended May 31, 2010</b>
<b>CORE OPERATIONS</b>					
Gross revenue	\$ 41,452	\$ 45,537	\$ 43,311	\$ 42,071	\$ 41,998
Operating expense	(42,116)	(44,605)	(45,602)	(45,554)	(40,664)
<b>Operating Income</b>	<b>\$ (664)</b>	<b>\$ 932</b>	<b>\$ (2,291)</b>	<b>\$ (3,483)</b>	<b>\$ 1,334</b>
Provision for income taxes	\$ (271)	\$ (428)	\$ (300)	\$ (275)	\$ (250)
Other expense	(437)	(348)	(291)	(356)	(291)
Earnings from subsidiary	1,401	994	1,161	1,161	750
Investment income subsidy	132	—	123	—	—
<b>Core Net Income</b>	<b>\$ 161</b>	<b>\$ 1,150</b>	<b>\$ (1,598)</b>	<b>\$ (2,953)</b>	<b>\$ 1,543</b>
<b>PROGRAM DEVELOPMENT</b>					
Investment income	\$ 7,688	\$ (1,866)	\$ 4,141	\$ (17,125)	\$ —
Program expenses	(2,124)	(2,634)	(2,543)	(2,278)	(1,543)
<b>PD Net Income</b>	<b>\$ 5,564</b>	<b>\$ (4,500)</b>	<b>\$ 1,598</b>	<b>\$ (19,403)</b>	<b>\$ (1,543)</b>
<b>SPENDING FROM NET WORTH</b>					
Net program spending	\$ (80)	\$ (949)	\$ —	\$ (719)	\$ —
<b>ASHP Net Income</b>	<b>\$ 5,645</b>	<b>\$ (4,299)</b>	<b>\$ —</b>	<b>\$ (23,075)</b>	<b>\$ —</b>
Pension plan adjustment	—	(7,649)	\$ —	(323)	—
<b>ASHP Net Income</b>	<b>\$ 5,645</b>	<b>\$ (11,948)</b>	<b>\$ —</b>	<b>\$ (23,398)</b>	<b>\$ —</b>
<b>Net Worth Beginning of Year</b>	<b>\$ 41,706</b>	<b>\$ 47,351</b>		<b>\$ 35,403</b>	<b>\$ 12,005</b>
<b>ASHP Net Income</b>	<b>5,645</b>	<b>(11,948)</b>		<b>(23,398)</b>	<b>—</b>
<b>Net Worth End of Year</b>	<b>\$ 47,351</b>	<b>\$ 35,403</b>		<b>\$ 12,005</b>	<b>\$ 12,005</b>
<b>% of Total Expense</b>	<b>96%</b>	<b>67%</b>		<b>25%</b>	<b>25%</b>

Figure 2. ASHP statement of financial position (in thousands).

	<b>Actual as of May 31, 2007</b>	<b>Actual as of May 31, 2008</b>
<b>ASSETS</b>		
Current assets	\$ 7,060	\$ 8,040
Fixed assets	2,652	3,106
Long-term investments (at market)	49,563	46,861
Investment in subsidiary	2,853	2,460
Other assets	3,912	269
<b>Total Assets</b>	<b>\$ 66,040</b>	<b>\$ 60,736</b>
<b>LIABILITIES</b>		
Current liabilities	\$ 18,228	\$ 19,049
Long-term liabilities	460	6,284
<b>Total Liabilities</b>	<b>\$ 18,688</b>	<b>\$ 25,333</b>
<b>NET ASSETS</b>		
Net assets	\$ 47,352	\$ 35,403
<b>Total Net Assets</b>	<b>\$ 47,352</b>	<b>\$ 35,403</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 66,040</b>	<b>\$ 60,736</b>

Figure 3. 7272 Building Corp. (ASHP subsidiary) statement of financial position and statement of activities for fiscal year 2008 (in thousands).

	<b>Actual as of May 31, 2008</b>		<b>Fiscal Year Ended May 31, 2008</b>
<b>ASSETS</b>		<b>REVENUE AND EXPENSE</b>	
Current assets	\$ 1,328	Gross revenue	\$ 5,878
Property and plant (net)	18,208	Operating expense	(4,396)
Other assets	1,422	<b>Operating Income</b>	<b>\$ 1,482</b>
<b>Total Assets</b>	<b>\$ 20,958</b>	Provision for income taxes	\$ (488)
<b>LIABILITIES</b>		<b>Increase in Net Assets</b>	<b>\$ 994</b>
Current liabilities	\$ 661	Owner's distribution and capital contributions	\$ (1,387)
Mortgage payable	17,508	<b>Net increase in net assets</b>	<b>(393)</b>
Other liabilities	329		
<b>Total Liabilities</b>	<b>\$ 18,498</b>		
<b>NET ASSETS</b>			
Net assets	\$ 2,460		
<b>Total Net Assets</b>	<b>\$ 2,460</b>		
<b>Total Liabilities and Net Assets</b>	<b>\$ 20,958</b>		