

AMERICAN LIBRARY ASSOCIATION
REPORT OF INDEPENDENT CERTIFIED
PUBLIC ACCOUNTANTS
CONSOLIDATED FINANCIAL STATEMENTS
AND REPORTS AND SCHEDULES REQUIRED
BY THE UNIFORM GUIDANCE
YEARS ENDED AUGUST 31, 2018 AND 2017

DRAFT

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INDEPENDENT AUDITOR'S REPORT

Executive Board
American Library Association
Chicago, Illinois

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of American Library Association which comprise the consolidated statements of financial position as of August 31, 2018 and 2017, and the related consolidated statements of operations and changes in net assets and cash flows or the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Auditor's Responsibility, Continued

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Library Association as of August 31, 2018 and 2017, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated T/B/D on our consideration of American Library Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering American Library Association's internal control over financial reporting and compliance.

Chicago, Illinois
T/B/D

CONSOLIDATED FINANCIAL STATEMENTS

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American Library Association
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
August 31,

ASSETS	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 993,841	\$ 1,182,336
Short-term investments	9,344,249	8,177,379
Accounts receivable, less allowance for doubtful accounts and returns of \$614,367 and \$361,730 in 2018 and 2017, respectively	3,567,215	3,683,835
Inventories, less reserves of \$341,440 and \$233,051 in 2018 and 2017, respectively	1,551,367	1,718,186
Grants receivable	455,353	237,809
Prepaid expenses and other assets	<u>533,926</u>	<u>1,069,519</u>
Total current assets	16,445,951	16,069,064
INTEREST RECEIVABLE	42,064	-
PROPERTY AND EQUIPMENT, LESS ACCUMULATED DEPRECIATION AND AMORTIZATION	11,355,559	10,855,967
GOODWILL	1,000,000	1,000,000
INTANGIBLE ASSETS, LESS AMORTIZATION	685,284	1,045,450
LONG-TERM INVESTMENTS	<u>53,360,618</u>	<u>43,542,959</u>
TOTAL ASSETS	<u>\$ 82,889,476</u>	<u>\$ 72,513,440</u>

The accompanying notes are an integral part of the consolidated financial statements.

American Library Association
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - CONTINUED
 August 31,

LIABILITIES AND NET ASSETS	<u>2018</u>	<u>2017</u>
CURRENT LIABILITIES		
Accounts payable	\$ 2,857,174	\$ 3,191,359
Accrued liabilities	949,093	919,802
Deferred revenue		
Publication subscriptions	2,266,651	2,236,491
Membership dues	3,944,041	3,947,673
Conference fees	3,092,882	3,438,861
Grants and awards	3,419,998	3,791,312
Current portion of long-term debt	<u>1,100,000</u>	<u>1,200,000</u>
Total current liabilities	17,629,839	18,725,498
DEFERRED GRANTS AND AWARDS	10,283,127	-
LONG-TERM DEBT, NET OF CURRENT PORTION	900,000	2,000,000
NON-CURRENT PORTION OF ACCRUED POST-RETIREMENT BENEFITS	<u>6,950,373</u>	<u>11,896,615</u>
Total liabilities	35,763,339	32,622,113
NET ASSETS		
Unrestricted	42,297,159	34,994,051
Temporarily restricted	4,314,278	4,382,576
Permanently restricted	<u>514,700</u>	<u>514,700</u>
Total net assets	<u>47,126,137</u>	<u>39,891,327</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 82,889,476</u></u>	<u><u>\$ 72,513,440</u></u>

The accompanying notes are an integral part of the consolidated financial statements.

American Library Association
CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
Year ended August 31, 2018

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues and other support				
Operating revenues				
Membership dues	\$ 8,293,466	\$ -	\$ -	\$ 8,293,466
Sales of books and materials	7,911,642	-	-	7,911,642
Subscriptions	4,402,061	-	-	4,402,061
Advertising	5,594,847	-	-	5,594,847
Meetings and conferences	13,146,986	-	-	13,146,986
Grants and awards	6,433,293	537,216	-	6,970,509
Contributions	1,323,119	387,582	-	1,710,701
Dividends and interest income				
Short-term investments	1,110,475	-	-	1,110,475
Long-term investments	450,966	19,529	-	470,495
Other	3,773,476	5,312	-	3,778,788
Total operating revenues	52,440,331	949,639	-	53,389,970
Net assets released from restrictions				
Satisfaction of program restrictions	1,070,916	(1,070,916)	-	-
Total revenues and other support	53,511,247	(121,277)	-	53,389,970
Expenses (recovery)				
Payroll	23,305,094	-	-	23,305,094
Outside services	8,021,781	-	-	8,021,781
Travel	2,922,438	-	-	2,922,438
Meetings and conferences	8,789,951	-	-	8,789,951
Scholarships and awards	418,431	-	-	418,431
Publications	4,090,734	-	-	4,090,734
Administration	6,751,590	-	-	6,751,590
Post-retirement benefits	(5,225,704)	-	-	(5,225,704)
Total expenses (recovery)	49,074,315	-	-	49,074,315
Other post-retirement employee benefit-related cost other than net periodic post-retirement cost	(611,523)	-	-	(611,523)
Excess (deficiency) of operating revenues and other support over operating expenses	3,825,409	(121,277)	-	3,704,132
Non-operating				
Net realized and change in unrealized gains (losses)				
Short-term investments	(100,695)	-	-	(100,695)
Long-term investments	3,583,303	52,979	-	3,636,282
Change in investment in publishing venture	(4,909)	-	-	(4,909)
Impairment loss - goodwill	-	-	-	-
CHANGE IN NET ASSETS	7,303,108	(68,298)	-	7,234,810
Net assets, beginning of year	34,994,051	4,382,576	514,700	39,891,327
Net assets, end of year	<u>\$ 42,297,159</u>	<u>\$ 4,314,278</u>	<u>\$ 514,700</u>	<u>\$ 47,126,137</u>

The accompanying notes are an integral part of the consolidated financial statements.

American Library Association
CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
Year ended August 31, 2017

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues and other support				
Operating revenues				
Membership dues	\$ 8,115,536	\$ -	\$ -	\$ 8,115,536
Sales of books and materials	6,342,871	-	-	6,342,871
Subscriptions	4,516,120	-	-	4,516,120
Advertising	5,903,057	-	-	5,903,057
Meetings and conferences	11,695,804	-	-	11,695,804
Grants and awards	5,686,659	633,049	-	6,319,708
Contributions	1,193,644	199,717	-	1,393,361
Dividends and interest income				
Short-term investments	1,333,533	-	-	1,333,533
Long-term investments	308,648	17,678	-	326,326
Other	3,049,254	5,466	-	3,054,720
Total operating revenues	48,145,126	855,910	-	49,001,036
Net assets released from restrictions				
Satisfaction of program restrictions	1,342,281	(1,342,281)	-	-
Total revenues and other support	49,487,407	(486,371)	-	49,001,036
Expenses				
Payroll	23,058,262	-	-	23,058,262
Outside services	8,427,506	-	-	8,427,506
Travel	2,171,550	-	-	2,171,550
Meetings and conferences	7,409,712	-	-	7,409,712
Scholarships and awards	421,140	-	-	421,140
Publications	3,642,228	-	-	3,642,228
Administration	6,491,879	-	-	6,491,879
Post-retirement benefits	2,212,700	-	-	2,212,700
Total expenses	53,834,977	-	-	53,834,977
Other post-retirement employee benefit-related credit other than net periodic post-retirement cost	12,450,612	-	-	12,450,612
Excess (deficiency) of operating revenues and other support over operating expenses	8,103,042	(486,371)	-	7,616,671
Non-operating				
Net realized and change in unrealized gains (losses)				
Short-term investments	(248,569)	-	-	(248,569)
Long-term investments	2,937,713	48,161	-	2,985,874
Change in investment in publishing venture	(19,747)	-	-	(19,747)
Impairment loss - goodwill	(826,567)	-	-	(826,567)
CHANGE IN NET ASSETS	9,945,872	(438,210)	-	9,507,662
Net assets, beginning of year	25,048,179	4,820,786	514,700	30,383,665
Net assets, end of year	<u>\$ 34,994,051</u>	<u>\$ 4,382,576</u>	<u>\$ 514,700</u>	<u>\$ 39,891,327</u>

The accompanying notes are an integral part of the consolidated financial statements.

American Library Association
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended August 31,

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 7,234,810	\$ 9,507,662
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization - property and equipment	2,084,863	2,150,132
Amortization - intangible assets	360,166	360,166
Net realized and unrealized (gains) losses		
Short-term investments	100,695	248,569
Long-term investments	(3,636,282)	(2,985,874)
Change in investment in publishing venture	(4,909)	(19,747)
Impairment loss - goodwill	-	826,567
Increase in allowance for doubtful accounts and returns	252,637	43,639
Increase in reserve for inventories	108,389	20,915
Increase in interest receivable	(42,064)	-
Changes in operating assets and liabilities		
Accounts receivable	(136,017)	49,862
Inventories	58,430	44,640
Grants receivable	(217,544)	333,743
Prepaid expenses and other assets	535,593	(595,307)
Accounts payable	(334,185)	101,821
Accrued liabilities	29,291	(141,199)
Deferred revenue	9,592,362	(6,157)
Accrued post-retirement benefits	(4,946,242)	(10,346,585)
Net cash provided by (used in) operating activities	<u>11,039,993</u>	<u>(407,153)</u>
Cash flows from investing activities		
Purchase of property and equipment	(2,584,455)	(1,818,258)
Purchase of short-term investments	(8,183,632)	(21,336,991)
Proceeds from sale of short-term investments	6,916,067	27,065,546
Purchase of long-term investments	(15,966,356)	(10,960,418)
Proceeds from sale of long-term investments	9,789,888	10,438,364
Net cash provided by (used in) investing activities	<u>(10,028,488)</u>	<u>3,388,243</u>
Cash flows from financing activities		
Payments on line of credit	-	(1,000,000)
Payments on capital lease obligations	-	(29,604)
Principal payments of long-term debt	(1,200,000)	(1,300,000)
Net cash used in financing activities	<u>(1,200,000)</u>	<u>(2,329,604)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(188,495)	651,486
Cash and cash equivalents, beginning of year	<u>1,182,336</u>	<u>530,850</u>
Cash and cash equivalents, end of year	<u>\$ 993,841</u>	<u>\$ 1,182,336</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 98,639</u>	<u>\$ 169,242</u>

The accompanying notes are an integral part of the consolidated financial statements.

NOTE A - PURPOSE OF ORGANIZATION

The accompanying consolidated financial statements represent the accounts of the American Library Association (the "Association") and its affiliates, the ALA Allied Professional Association, Inc. (the "ALA/APA") and the Margaret Alexander Edwards Trust (the "Edwards Trust").

The Association, a not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code of 1986 (the "IRC") and the oldest and largest national library association in the world, is organized to promote libraries and librarianship. Governed by a council of 186 members (the "Council") and representing more than 58,000 personal and organizational members, the mission of the Association is to provide leadership for the development, promotion and improvement of library and information services and the profession of librarianship in order to enhance learning and ensure access to information for all.

The ALA/APA, governed by the Council, is organized to promote the mutual professional interests of librarians and other library workers. The ALA/APA was incorporated in July 2003 as a not-for-profit corporation under Section 501(c)(6) of the IRC. Significant intercompany transactions have been eliminated in consolidation.

The Edwards Trust, governed by the Council, is organized to promote reading among young adults. The Edwards Trust was established in 1989 under Section 501(c)(3) of the IRC as an exempt private foundation. Significant intercompany transactions have been eliminated in consolidation.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("US GAAP") requires the use of estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Although estimates are considered to be fairly stated at the time the estimates are made, actual results could differ from those estimates.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are assets whose use have been limited by donors to a specific time period or purpose. Assets released from restrictions are reported in the consolidated statements of operations and changes in net assets as additions to unrestricted net assets.

Permanently restricted net assets consist of amounts designated by donors to be held in perpetuity. Earnings, gains and losses on permanently restricted net assets are included in unrestricted revenue and other support unless restricted by donors.

Contributions

Contributions are considered to be available for the general programs of the Association unless specifically restricted by the donor. Contributions are recorded at fair value.

Unconditional promises of others to contribute cash or other assets are reported at fair value at the date the promise is made. The contributions are reported as temporarily or permanently restricted if they are received with donor stipulations that limit the use of the contributed assets to a specific time period or purpose or if the contribution is to be held in perpetuity. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Association reports the support as unrestricted. Restricted earnings are recorded as additions to temporarily restricted net assets until such amounts are expended in accordance with the donor's specifications.

When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and are reported in the accompanying consolidated statements of operations and changes in net assets as net assets released from restrictions.

Grant Revenue

Grant revenue is recognized when the expenses have been incurred or when conditions have been met for the purpose specified by the grantor. Payments received in advance are initially recorded as deferred revenue. Grants that make payments on a reimbursement basis are included in grants receivable on the accompanying consolidated statements of financial position until payment is received.

Revenue Recognition

Membership dues are recorded as revenue over the period for which such dues have been assessed. Revenue from publishing activities is recognized as follows: sales of books and other materials are recorded when the goods are shipped to a customer; subscriptions to publications are recorded over the respective subscription period; and advertising in publications is recorded when the publication is issued.

Registration fees for attending meetings, conferences and certain special programs are recorded as revenue at the time the related program takes place.

The Association receives significant amounts of membership dues, publication subscriptions and fees for meetings, conferences and special projects in advance of earning this revenue. The advance payments are recorded as deferred revenue in the accompanying consolidated statements of financial position.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") 605, Revenue Recognition. ASU No. 2014-09 provides for a single five-step model to be applied to all revenue contracts with customers. ASU No. 2014-09 also requires additional financial statement disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. ASU No. 2014-09 is effective for annual reporting periods beginning after December 15, 2018. Early adoption is permitted for annual reporting periods beginning after December 15, 2016. The Association is currently evaluating the methods of adoption allowed by ASU No. 2014-09 and the effect that ASU No. 2014-09 is expected to have on its financial position, results of operations, and cash flows and related disclosures.

Advertising

Advertising costs are expensed as incurred.

Cash Equivalents

Cash equivalents consist of money market account deposits that are highly liquid and have a maturity of three months or less at the date of acquisition. Cash includes cash held in bank accounts with balances that exceed the Federal Deposit Insurance Corporation insured limits of \$250,000. The Association has not experienced any losses in such accounts and management believes it is not exposed to significant financial risk.

Accounts Receivable

The Association evaluates the collectability of its accounts receivable based on the length of time the receivables are outstanding and the anticipated future collectible amounts based on historical experience. Accounts receivable are charged to the allowance for doubtful accounts when they are deemed uncollectible and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. The Association does not require collateral.

Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the FASB "ASC" establishes a fair value hierarchy that is based on the valuation inputs used in the fair value measurements. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. These include investments for which quoted prices are available but which are traded less frequently and investments that are fairly valued using other securities, the parameters of which can be directly observed. Also included in Level 2 are investments measured using a Net Asset Value ("NAV") per share, or its equivalent, that may be redeemed at that NAV at the dates of the consolidated statements of financial position or in the near term, which is generally considered to be within 90 days.

Level 3 - Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation. Also included in Level 3 are investments measured using a NAV per share, or its equivalent, that can never be redeemed at the NAV or for which redemption at NAV is uncertain due to lock-up periods or other investment restrictions.

Transfers between levels are recognized as of the end of the reporting period.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes observable input requires significant judgment by the Association. The Association considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the fair value hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Association's perceived risk of that instrument.

Inventories

In July 2015, the FASB issued ASU No. 2015-11 - Inventory. ASU No. 2015-11 simplifies the measurement of inventory by requiring inventory to be measured at the lower of cost or net realizable value. ASU No. 2015-11 is effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. ASU No. 2015-11 was adopted by the Association for the year beginning September 1, 2017 and did not have a material impact on the Association's financial statements or financial statement disclosures.

Inventories primarily include books, pamphlets, posters and paper. Inventories are carried at the lower of cost (first-in, first-out basis) or net realizable value, and are recorded at an amount that includes direct expenses incurred in production. Indirect and copy editing costs are expensed as incurred.

Inventories are stated net of a reserve for excess and obsolete items. Reserves for obsolete inventories are based on estimated future sales as related to quantities of stock on hand. Consignment inventories are sold by the Association based upon sales agreements with two publishing companies.

Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation and amortization. Capitalization occurs when the aggregate cost of property or equipment exceeds \$1,000 and that property has an estimated useful life of 3 years or more. Buildings are depreciated over useful lives of 37 to 50 years, furniture and equipment are depreciated over useful lives of 3 to 10 years, and technology and related equipment are depreciated or amortized over useful lives of 3 to 5 years. Depreciation and amortization is provided using the straight-line method. Upon retirement or sale of assets, the cost and related accumulated depreciation and amortization are removed from the accounts, and any resulting gain or loss is credited or charged in determining the change in net assets.

Goodwill

The Association applies the acquisition method of accounting for business combinations. Under this method, all assets and liabilities acquired in a business combination, including goodwill, are recorded at fair value. The purchase price allocation requires subjective judgments concerning estimates of the fair value of the acquired assets and liabilities. Goodwill consists principally of the excess of cost over the fair value of net assets acquired in business combinations, as further described in Notes I and J, and is not amortized.

In January 2017, the FASB issued ASU No. 2017-04, *Goodwill And Other (Topic 350) – Simplifying the Test for Goodwill Impairment*. ASU No. 2017-04 simplifies the subsequent measurement of goodwill by eliminating Step 2 of the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Under ASU No. 2017-04, an entity should perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and then recognize an impairment charge, as necessary, for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to that reporting unit.

ASU No. 2017-04 is effective for fiscal years and interim periods within those years beginning after December 15, 2021, and early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Association adopted ASU No. 2017-04 for its goodwill impairment test in 2017.

Going Concern Evaluation

In accordance with ASU No. 2014-15 management performed an evaluation to determine if adverse conditions or events, considered in the aggregate, raise substantial doubt about the Association's ability to continue as a going concern. Management's assessment did not identify any conditions or events raising substantial doubt about the Association's ability to continue as a going concern for the period from T/B/D, 2018 to T/B/D, 2019.

Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases, which is intended to improve financial reporting about leasing transactions. ASU No. 2016-02 requires that leased assets be recognized as assets on the statements of financial position and the liabilities for the obligations under the lease also be recognized on the statements of financial position. ASU No. 2016-02 requires disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The required disclosures include qualitative and quantitative requirements. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years beginning after December 15, 2020. Early adoption is permitted. ASU No. 2016-02 must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. The Association is currently evaluating the methods of adoption allowed by ASU No. 2016-02 and the effect that ASU No. 2016-02 is expected to have on its financial position, results of operations, and cash flows and related disclosures.

Presentation of Financial Statements

In August 2016, the FASB issued ASU No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958). ASU No. 2016-14 is intended to simplify how the Association classifies its net assets, and also improve the information it presents in the consolidated financial statements and notes about liquidity, financial performance and cash flows. ASU No. 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods with fiscal years beginning after December 15, 2018. The Association is currently evaluating the methods of adoption allowed by ASU No. 2016-14 and the effect that ASU No. 2016-14 is expected to have on its financial position, results of operations and cash flows and related disclosures.

Presentation of Post Retirement Costs

In March 2017, the FASB issued ASU 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. ASU 2017-07 requires that an entity report the service cost component of net periodic pension and postretirement cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The remaining components of net benefit costs are required to be presented in the statement of operations and changes in net assets separately from the service component and outside a subtotal of revenue from operations, if one is presented.

The amendment further allows only the service cost component of net periodic pension and postretirement costs to be eligible for capitalization. ASU 2017-07 is effective beginning after December 15, 2017. ASU 2017-07 will be effective for the Association beginning on September 1, 2018. ASU 2017-07 must be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the statement of operations and changes in net assets, and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. The Association is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

NOTE C - RESTRICTED INVESTMENTS

The Association has included in investments restricted cash and investment balances of \$9,134,366 at August 31, 2018, which represents grant funds received in advance to be expended in accordance with specifically-defined purposes, as described in the grant agreement. There was no restricted cash and investments for the year ended August 31, 2017.

NOTE D - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets at August 31, 2018 and 2017 are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Preparation and publication of reading lists	\$ 694,148	\$ 734,943
Scholarships, awards and fellowships	3,530,289	3,553,748
Promotion of public libraries	65,268	68,655
Other	<u>24,573</u>	<u>25,230</u>
	<u>\$ 4,314,278</u>	<u>\$ 4,382,576</u>
Purpose or time restrictions accomplished:		
Preparation and publication of reading lists	\$ 58,701	\$ 44,168
Scholarships, awards and fellowships	1,007,446	1,293,800
Promotion of public libraries	3,387	3,067
Other	<u>1,382</u>	<u>1,246</u>
	<u>\$ 1,070,916</u>	<u>\$ 1,342,281</u>

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 August 31, 2018 and 2017

As of August 31, 2018 and 2017, the Association's permanently restricted net assets are restricted to investments in perpetuity, the income from which is expendable to support the following purposes:

	<u>2018</u>	<u>2017</u>
Preparation and publication of reading lists	\$ 100,000	\$ 100,000
Scholarships, awards and fellowships	411,700	411,700
Other	<u>3,000</u>	<u>3,000</u>
	<u>\$ 514,700</u>	<u>\$ 514,700</u>

NOTE E - INVESTMENT IN PUBLISHING VENTURE

The Association is a participant, with two other organizations, in a publishing venture. The three participating organizations (the "Participant(s)") each own, as tenants in common, one-third shares of the copyright created by the efforts of this publishing venture. Under a separate agreement, a committee was established to administer a fund (the "Fund") and to apply the assets of the Fund toward making amendments and revisions to the copyrighted materials, and to fund future product development, travel and administrative support. Each Participant is obligated to remit to the Fund a royalty of 10% of the Participant's sales of the copyrighted material. The Association serves as custodian for the Fund on behalf of the Participants.

At August 31, 2018 and 2017, the Association has a \$678,000 net receivable (net of \$120,000 in allowance reserves) and a \$665,000 receivable (net of \$117,000 in allowance reserves), respectively, from the Fund for expenditures paid. Total amounts owed by the Association to the Fund for royalties during the years ended August 31, 2018 and 2017, were \$110,769 and \$118,037, respectively. For 2018 and 2017, the Association's portion of the Fund's net loss was \$4,909 and \$19,747, respectively, which is reflected in the accompanying consolidated statements of operations and changes in net assets.

The following summarizes the condensed financial information of the Fund as of and for the years ended August 31:

	<u>2018</u>	<u>2017</u>
Total assets	\$ 293,634	\$ 182,263
Total liabilities	894,122	768,025
Revenues	112,088	119,556
Expenses	126,815	178,796

NOTE F - MARGARET ALEXANDER EDWARDS TRUST

On December 20, 2013, the Association assumed control of the Edwards Trust (the "Trust") with an approximate fair value of \$970,000. The purpose of the trust is to distribute funds to further the personal reading of young adults.

The Trust is a separate legal entity and is consolidated with the activities of the Association. The Trust is managed in accordance with the same investment, disbursement and spending policies as the Association's other investment funds.

NOTE G - ALLOWANCE FOR DOUBTFUL ACCOUNTS AND RETURNS

Changes in the Association's allowance for doubtful accounts and returns for the years ended August 31, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 361,730	\$ 318,091
Provision for bad debts	296,660	73,797
Accounts written off	(44,136)	(35,184)
Amounts recovered	<u>113</u>	<u>5,026</u>
Ending balance	\$ <u><u>614,367</u></u>	\$ <u><u>361,730</u></u>

NOTE H - PROPERTY AND EQUIPMENT

The components of property and equipment at August 31, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Land	\$ 2,443,394	\$ 2,443,394
Buildings and improvements	14,452,279	14,393,006
Furniture and other equipment	2,905,936	2,893,950
Technology and related equipment	<u>27,115,020</u>	<u>24,601,824</u>
Total property and equipment	46,916,629	44,332,174
Less accumulated depreciation and amortization	<u>(35,561,070)</u>	<u>(33,476,207)</u>
Property and equipment, net	\$ <u><u>11,355,559</u></u>	\$ <u><u>10,855,967</u></u>

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Unamortized software development costs included in property and equipment at August 31, 2018 and 2017, were \$1,639,785 and \$1,350,043, respectively. Related amortization expense was \$507,389 and \$597,060 in 2018 and 2017, respectively. Property and equipment depreciation and amortization expense was \$2,084,863 and \$2,150,132 for the years ended August 31, 2018 and 2017, respectively.

NOTE I - INTANGIBLE ASSETS

The Association recognizes an acquired intangible asset apart from goodwill whenever the intangible asset arises from contractual or other legal rights, or when it can be separated or divided from the acquired entity and sold, transferred, licensed, rented, or exchanged, either individually or in combination with a related contract, asset, or liability. Intangible assets are stated at cost less accumulated amortization and consist of trademarks and brand extension, co-publishing relationship, distribution relationship, backlist, customer relationships, online and catalog and a non-compete agreement. The Association reviews intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. Impairment losses are recognized if the carrying amount of an intangible subject to amortization is not recoverable from expected future cash flows and its carrying amount exceeds its fair value. There was no impairment of intangible assets at August 31, 2018 and 2017.

The Association initially allocated \$4,250,000 of the purchase price in the Neal Schuman Publishers, Inc. acquisition on December 23, 2011, to the intangible assets in the following table. During the year ended August 31, 2013, a \$380,000 impairment loss was recognized on intangible assets, resulting in the allocation of \$3,870,000 to the following groupings and estimation of useful lives as determined by independent expert appraisal:

<u>Intangible Asset</u>	<u>August 31, 2018</u>			<u>Estimated Useful Life (Years)</u>
	<u>Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net</u>	
Trademarks and brand extension	\$ 1,684,000	\$ (1,094,600)	\$ 589,400	10
Co-publishing relationship	998,000	(926,713)	71,287	7
Distribution relationship	356,000	(335,930)	20,070	7
Backlist	516,000	(516,000)	-	3
Customer relationships	92,000	(87,473)	4,527	7
Online and catalog	150,000	(150,000)	-	3
Non-compete agreement	<u>74,000</u>	<u>(74,000)</u>	<u>-</u>	4
	\$ <u>3,870,000</u>	\$ <u>(3,184,716)</u>	\$ <u>685,284</u>	

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
 August 31, 2018 and 2017

<u>Intangible Asset</u>	August 31, 2017			Estimated Useful Life (Years)
	<u>Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net</u>	
Trademarks and brand extension	\$ 1,684,000	\$ (926,200)	\$ 757,800	10
Co-publishing relationship	998,000	(784,143)	213,857	7
Distribution relationship	356,000	(295,786)	60,214	7
Backlist	516,000	(516,000)	-	3
Customer relationships	92,000	(78,421)	13,579	7
Online and catalog	150,000	(150,000)	-	3
Non-compete agreement	<u>74,000</u>	<u>(74,000)</u>	<u>-</u>	4
	<u>\$ 3,870,000</u>	<u>\$ (2,824,550)</u>	<u>\$ 1,045,450</u>	

Amortization expense charged to the operations of the Association was \$360,166 for the years ended August 31, 2018 and 2017. Amortization has been computed based on the estimated useful lives described above.

The estimated intangible assets amortization expense for the next four years is as follows:

2019	\$ 264,284
2020	168,400
2021	168,400
2022	<u>84,201</u>
Total	<u>\$ 685,285</u>

The above information was the result of an acquisition of the net assets of Neal Schuman Publishers, Inc. for a total purchase price of \$7,058,918, funded through operating cash and a term loan on December 23, 2011. The purchase was accounted for under the acquisition method of accounting, whereby the underlying assets acquired were recorded at their fair value. The excess of the purchase price over the fair value of the net assets acquired was initially recorded as goodwill of \$2,326,567. A \$500,000 goodwill impairment loss was recognized during the year ended August 31, 2013. An additional goodwill impairment loss of \$826,567 was recognized during the year ended August 31, 2017. As of August 31, 2018 and 2017, goodwill was \$1,000,000.

NOTE J - GOODWILL

The Association performs an annual impairment analysis of goodwill. The events and circumstances considered significant are under-performance relative to projected future operating results and significant changes in the overall business and/or product strategies. Impairment of goodwill is evaluated by performing a qualitative assessment to determine if it is more likely than not that the fair value of the reporting unit is less than its carrying value. If the carrying amount of the reporting unit exceeds its fair value, an impairment loss for the excess is recorded. The implied fair value is determined by estimating the future earnings of the reporting unit using the income approach model.

The result of this analysis concluded the carrying amount exceeded fair value and an impairment loss of \$826,567 was recorded in the consolidated statement of operations and changes in net assets for the year ended August 31, 2017. There was no impairment of goodwill at August 31, 2018.

NOTE K - INVESTMENTS

The composition of the Association's investment portfolio at August 31 is as follows:

Type	2018	2017
Short-term investments		
Cash	\$ 2,203,924	\$ 99,251
Certificates of deposit	1,000,000	-
Corporate securities	4,928,830	6,756,996
U.S. Government securities	<u>1,211,495</u>	<u>1,321,132</u>
Total short-term investments	\$ <u>9,344,249</u>	\$ <u>8,177,379</u>
Long-term investments		
Cash	\$ 1,527,106	\$ 777,793
Common stock	23,013,109	22,071,882
Certificates of deposit	6,000,000	-
Corporate securities	19,007,169	17,789,413
Fund of funds		
hedge fund	684,289	840,405
Hedge fund	1,057,624	1,026,596
Private equity fund	<u>2,071,321</u>	<u>1,036,870</u>
Total long-term investments	\$ <u>53,360,618</u>	\$ <u>43,542,959</u>

Investment return (loss) consists of the following for the years ended August 31:

	<u>2018</u>	<u>2017</u>
Unrealized gain on investments	\$ 1,975,324	\$ 2,881,518
Net realized gain (loss) on the sale of investments	<u>1,560,263</u>	<u>(144,213)</u>
	3,535,587	2,737,305
Dividends and interest income	<u>1,580,970</u>	<u>1,659,859</u>
	\$ <u>5,116,557</u>	\$ <u>4,397,164</u>

NOTE L - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to measure the carrying value of each class of financial instruments appearing on the accompanying consolidated statements of financial position for which it is practical to estimate the fair value.

Cash and Cash Equivalents

Cash and cash equivalents consist principally of money market accounts and are carried at amortized cost, which approximates fair value.

Accounts and Grants Receivable

Accounts and grants receivable are shown net of allowance for uncollectible amounts and are reflected at their approximate fair value.

Investments

Investments are stated at fair value, except for investments in cash, which are at amortized cost. Investments with values that are based on quoted market prices in active markets and are, therefore, classified within Level 1, include active listed equities, certificates of deposit, certain U.S. Government and sovereign obligations, corporate bonds, precious metal commodities and certain money market securities. The Association does not adjust the quoted price for such instruments.

Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. These include certain certificates of deposit, U.S. Government and sovereign obligations, government agency securities, investment-grade corporate bonds, certain mortgage products, certain bank loans and bridge loans, less liquid listed equities, state, municipal and provincial obligations, and certain loan commitments. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

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August 31, 2018 and 2017

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 instruments include hedge funds, private equity and real estate investments, certain bank loans and bridge loans, less liquid corporate debt securities (including distressed debt instruments), collateralized debt obligations, and less liquid mortgage securities backed by either commercial or residential real estate. When observable prices are not available for these securities, the Association uses one or more valuation techniques.

Short-term investments are available for short-term operations and long-term investments are investments intended to be held more than one year. Investment purchases and sales are recorded as of the trade date.

Deferred Revenue

The carrying amount approximates the fair value and is based upon the publication subscriptions, membership dues, conference fees, and grants and awards received in advance and not yet deemed to be earned by the Association.

The following table summarizes the fair value of assets by level as of August 31:

	2018			Total
	Level 1	Level 2	Level 3	
Assets				
Common stock	\$23,341,411	-	-	\$23,341,411
Certificates of deposit	-	7,000,000	-	7,000,000
U.S. Government securities	833,942	377,553	-	1,211,495
Corporate securities	<u>22,922,925</u>	<u>684,772</u>	-	<u>23,607,697</u>
	<u>47,098,278</u>	<u>8,062,325</u>	-	55,160,603
Assets measured at NAV ^(a)				<u>3,813,234</u>
Total assets at fair value				\$ <u>58,973,837</u>

	2017			Total
	Level 1	Level 2	Level 3	
Assets				
Common stock	\$22,071,882	-	-	\$22,071,882
U.S. Government securities	773,722	547,410	-	1,321,132
Corporate securities	<u>23,773,207</u>	<u>773,202</u>	-	<u>24,546,409</u>
	<u>46,618,811</u>	<u>1,320,612</u>	-	47,939,423
Assets measured at NAV ^(a)				<u>2,903,871</u>
Total assets at fair value				\$ <u>50,843,294</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
 August 31, 2018 and 2017

^(a) In accordance with subtopic 820-10, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated statements of financial position.

For the years ended August 31, 2018 and 2017, there were no significant transfers between Levels 1 and 2 and no transfers in or out of Level 3.

The Association is obligated under certain investment agreements to advance additional funding periodically, up to specified levels. As of August 31, 2018 and 2017, the Association had future unfunded commitments in Level 3 investments of \$781,250 and \$1,707,500, respectively.

The following table summarizes investments measured at fair value based on the NAV per share practical expedient as of August 31, 2018 and 2017.

	2018			
	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Fund of funds hedge fund (a)	\$ 684,289	\$ -	Quarterly	Up to 120 days
Hedge fund (b)	1,057,624	-	Quarterly	Up to 120 days
Private equity funds (c,d)	<u>2,071,321</u>	<u>781,250</u>	Quarterly	Up to 120 days
Total investments recorded at NAV	<u>\$3,813,234</u>	<u>\$ 781,250</u>		

	2017			
	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Fund of funds hedge fund (a)	\$ 840,405	\$ -	Quarterly	Up to 120 days
Hedge fund (b)	1,026,596	-	Quarterly	Up to 120 days
Private equity fund (c,d)	<u>1,036,870</u>	<u>1,707,500</u>	Quarterly	Up to 120 days
Total investments recorded at NAV	<u>\$2,903,871</u>	<u>\$ 1,707,500</u>		

(a) The objective of this fund is to preserve capital while generating consistent long-term appreciation across all market cycles. The fund of funds hedge fund invests all of its assets in a master fund which provides investors the ability to more easily approximate a multi-manager portfolio, thus providing exposure to a variety of investment styles and philosophies. Requested withdrawals are subject to a 5% hold-back provision until the fund's next audit cycle is completed.

- (b) The objectives of this fund is to generate an attractive level of current income for distribution to stockholders; to preserve and protect stockholders' capital investments; to achieve appreciation of NAV over time; and to enable stockholders to utilize real estate as an asset class in diversified, long-term investment portfolios.
- (c) The objective of one of these funds is to provide enhanced risk-adjusted returns to investors through exposure to a diversified mix of alternative investments. The fund's platform includes complementary asset management businesses - private equity, real assets, credit and hedge fund solutions. Except in limited circumstances, withdrawals from the fund are not permitted.
- (d) The objectives of the other fund within this classification is as follows for private equity and growth equity investments, respectively:
- to seek opportunities to invest substantial capital to acquire a controlling ownership stake in large capitalization companies with strong business franchises, attractive growth prospects, defensible market positions, and the ability to generate attractive returns; and to forge strong partnerships with highly motivated management teams who put their own capital at risk.
 - to invest in secular growth areas in securities with structured downside protection (i.e., liquidation preferences and strong governance and minority rights), and to help entrepreneurs scale their business and assist them with execution while taking on limited fundamental technology risk.

Except in limited circumstances, withdrawals from the fund are not permitted.

NOTE M - ENDOWMENT NET ASSETS

The Association's endowment consists of funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Executive Board to function as endowments. As required by US GAAP, net assets associated with endowment funds, including funds designated by the Executive Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Executive Board of the Association has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are

appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Association and the donor-restricted endowment fund
3. General economic conditions
4. The possible effects of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Association
7. The investment policies of the Association

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Association to retain as a fund of perpetual duration. In accordance with US GAAP, deficiencies of this nature would be reported in unrestricted net assets. These deficiencies could result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions or continued appropriation for certain programs that may be deemed prudent by the Executive Board. There were no such deficiencies as of August 31, 2018 or 2017.

The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Association must hold in perpetuity or for a donor-specified period(s) as well as Board-designated funds. Under these policies, as approved by the Executive Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Association expects its endowment funds, over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount.

Effective September 1, 2011, the annual spending formula is based on a range of 3% to 5% of the trailing five-year quarterly (20 quarters) rolling average of each fund's calendar quarterly net asset balance.

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Endowment net asset composition as of August 31, 2018 and 2017 is as follows:

	2018			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Donor-restricted endowment funds	\$ -	\$ 882,875	\$ 514,700	\$ 1,397,575
Board-designated endowment funds	<u>14,898,944</u>	<u>-</u>	<u>-</u>	<u>14,898,944</u>
Total funds	<u>\$ 14,898,944</u>	<u>\$ 882,875</u>	<u>\$ 514,700</u>	<u>\$ 16,296,519</u>

	2017			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Donor-restricted endowment funds	\$ -	\$ 927,470	\$ 514,700	\$ 1,442,170
Board-designated endowment funds	<u>14,258,787</u>	<u>-</u>	<u>-</u>	<u>14,258,787</u>
Total funds	<u>\$ 14,258,787</u>	<u>\$ 927,470</u>	<u>\$ 514,700</u>	<u>\$ 15,700,957</u>

Changes in endowment net assets for the years ended August 31, 2018 and 2017 were as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, August 31, 2016	\$ 13,929,709	\$ 962,506	\$ 514,700	\$ 15,406,915
Additions and transfers	5,962	-	-	5,962
Dividends and interest	-	17,677	-	17,677
Net gains (realized and unrealized)	926,667	48,163	-	974,830
Appropriation of endowment assets for expenditures	<u>(603,551)</u>	<u>(100,876)</u>	<u>-</u>	<u>(704,427)</u>
Endowment net assets, August 31, 2017	<u>\$ 14,258,787</u>	<u>\$ 927,470</u>	<u>\$ 514,700</u>	<u>\$ 15,700,957</u>

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 August 31, 2018 and 2017

Additions and transfers	5,393	-	-	5,393
Dividends and interest	-	19,529	-	19,529
Net gains (realized and unrealized)	1,116,618	52,979	-	1,169,597
Appropriation of endowment assets for expenditures	(481,854)	(117,103)	-	(598,957)
Endowment net assets, August 31, 2018	<u>\$ 14,898,944</u>	<u>\$ 882,875</u>	<u>\$ 514,700</u>	<u>\$16,296,519</u>

NOTE N - LINE OF CREDIT

The Association has a \$2,500,000 unsecured line of credit with a bank, which is due on demand. Under the terms of the agreement, interest on amounts borrowed is payable at the bank's prime rate of interest. As of August 31, 2018 and 2017, the outstanding balance on the line of credit was \$-0-.

NOTE O - EMPLOYEE RETIREMENT PLANS

The Association has a defined contribution retirement plan ("Plan") covering all regular full-time employees who have completed two years of service. Contributions to the Plan are used to purchase separate annuity contracts for each participating employee. The Association provides a contribution to all participants equal to 4% of annual base salary. Additional voluntary contributions up to 3% of annual base salary are shared equally by the Association and employees. The cost of this Plan, which is included in payroll expenses, was \$989,269 and \$928,806 in 2018 and 2017, respectively.

The Association offers deferred compensation plans under Internal Revenue Code 457(b) and 457(f) to a select group of management. The Association has recorded an expense related to these deferred compensation plans of \$-0- for the years ended August 31, 2018 and 2017.

NOTE P - COMMITMENTS AND CONTINGENCIES

The Association leases certain office facilities and equipment.

Operating Leases

The future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of August 31, 2018, are as follows:

<u>Years ending</u> <u>August 31,</u>		
2019	\$	101,840
2020		52,783
2021		33,596
2022		31,899
2023		<u>1,669</u>
Total	\$	<u><u>221,787</u></u>

Total rental expense under operating leases was \$127,727 and \$132,037 in 2018 and 2017, respectively.

NOTE Q - LONG-TERM DEBT

On July 2, 2012, the Association obtained an unsecured term loan from a financial institution in the amount of \$10,100,000. This loan was amended on August 3, 2015.

The original loan was to support the acquisition of Neal Schuman Publishers, Inc., to refinance series 2006 Variable Rate Revenue Bonds, refinance a term loan related to the commercial condo office in Connecticut, to fund an interest rate swap termination payment and to fund certain costs of issuance.

The terms of the amended long-term refinancing consist of annual principal payments each August, monthly interest payments calculated at 3%, provided the Association meets required covenants, limitations on additional indebtedness and the maintenance of various financial ratios.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
August 31, 2018 and 2017

Maturities of long-term debt are as follows:

<u>Years ending August 31,</u>		
2019	\$	1,100,000
2020		<u>900,000</u>
Total	\$	<u>2,000,000</u>

Interest expense amounted to \$94,233 and \$133,517 in 2018 and 2017, respectively.

NOTE R - TAXES

The Association is a tax-exempt organization under Section 501(c)(3) of the IRC. The ALA/APA is exempt under Section 501(c)(6) of the IRC. These Section 501(c)(3) and Section 501(c)(6) organizations are taxed only on income classified as unrelated business income. The ALA/APA did not have any unrelated business income for the years ended August 31, 2018 and 2017. The Association has income derived from certain advertising activities and fringe benefits that have been determined to be unrelated business income. Unrelated business income is taxed in accordance with federal and state income tax regulations. The provision for unrelated business income taxes was \$27,752 and \$-0- in 2018 and 2017, respectively.

The Edwards Trust is an exempt private foundation under Section 501(c)(3) of the IRC and is taxed on net investment income and undistributed income, as defined by the IRC. Tax returns are filed on a calendar-year basis for the Edwards Trust. The provision for income taxes was \$371 and \$122 for the calendar years 2017 and 2016, respectively.

The tax years ended 2014, 2015 and 2016 are still open to audit for both federal and state purposes.

Based on the evaluation of the Association's tax positions, management believes all positions taken would be upheld under an examination; therefore, no provision for the effects of uncertain tax positions has been recorded for the years ended August 31, 2018 and 2017.

NOTE S - OTHER POST-RETIREMENT EMPLOYEE BENEFITS

The Association maintains a voluntary contributory plan providing post-retirement healthcare and non-contributory post-retirement life insurance. The Association's employees who meet certain age and service requirements at the time of their retirement are eligible to participate. Effective January 1, 2017, two pools of insureds were created within the voluntary contributory plan: one for non-Medicare retirees and one for Medicare-eligible retirees. Non-Medicare retirees can select coverage from one of three medical plans; Medicare-eligible retirees receive coverage under one medical plan; and all participants can select coverage from one of two dental plans. The Association's post-retirement plan is unfunded.

In 2011, the voluntary contribution plan was amended to provide retiree health insurance benefits to employees who reach 62 years of age with 5 years of service. Prior to amendment the voluntary contribution plan allowed coverage to employees who had reached 65 years of age with 5 years of service.

In 2018, the voluntary contribution plan was amended to provide retiree health insurance benefits to employees rendering 5 years of service after reaching the age of 57. Prior to this amendment, benefits were provided to employees who attain age 62 with 5 years of service.

The following table presents the amounts related to the voluntary contribution plan recognized in the Association's consolidated statements of financial position as of August 31:

	<u>2018</u>	<u>2017</u>
Benefit obligation, beginning of year	\$ 12,266,478	\$ 22,829,193
Service cost	769,561	1,295,893
Interest cost	513,466	1,014,129
Curtailments	(5,609,718)	-
Actuarial gain	(287,490)	(12,547,934)
Retiree contributions	183,979	160,193
Medicare Part D subsidy	-	19,368
Benefits paid, net of Medicare Part D subsidy	(<u>530,490</u>)	(<u>504,364</u>)
Benefit obligation, end of year	\$ <u><u>7,305,786</u></u>	\$ <u><u>12,266,478</u></u>

The current portion of the benefit obligation at August 31, 2018 and 2017, is \$355,413 and \$369,863, respectively, and is included in accrued liabilities in the accompanying consolidated statements of financial position.

American Library Association
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
 August 31, 2018 and 2017

The summary of the changes in plan assets as of August 31, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Plan assets at fair value, beginning of year	\$ -	\$ -
Retiree contributions	183,979	160,193
Medicare Part D subsidy	-	19,368
Employer contributions, net of Medicare Part D subsidy	346,511	324,803
Benefits paid	(530,490)	(504,364)
Plan assets at fair value, end of year	\$ <u>-</u>	\$ <u>-</u>
Funded status at end of year	\$ (<u>7,305,786</u>)	\$ (<u>12,266,478</u>)

The Association anticipates contributions of \$355,413 to plan assets will be made during 2019. Estimated benefit payments are \$355,413 in 2019, \$379,213 in 2020, \$387,651 in 2021, \$425,786 in 2022, \$460,427 in 2023 and \$2,359,618 in 2024 through 2028.

Net periodic benefit cost is comprised of the following:

	<u>2018</u>	<u>2017</u>
Service cost	\$ 769,561	\$ 1,295,893
Interest cost	513,466	1,014,129
Amortization of unrecognized prior service cost	(97,322)	(97,322)
Amortization of unrecognized net gain	(801,691)	-
Curtailments	(5,609,718)	-
Total net periodic benefit cost (recovery)	\$ (<u>5,225,704</u>)	\$ <u>2,212,700</u>

Amounts that have not yet been recognized as a component of net periodic benefit cost consist of the following at August 31:

	<u>2018</u>	<u>2017</u>
Prior service cost	\$ (853,515)	\$ (950,837)
Net gain	(<u>10,773,671</u>)	(<u>11,287,872</u>)
Total included in unrestricted net assets	\$ (<u>11,627,186</u>)	\$ (<u>12,238,709</u>)

American Library Association
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
 August 31, 2018 and 2017

Other post-retirement employee benefit-related cost (credit) other than net periodic post-retirement cost recognized in the consolidated statements of operations and changes in net assets are as follows at August 31:

	<u>2018</u>	<u>2017</u>
Net actuarial gain	\$ (287,490)	\$(12,547,934)
Amortization of net gain	801,691	-
Amortization of previously unrecognized prior service cost	<u>97,322</u>	<u>97,322</u>
Total benefit-related cost (credit) other than net periodic benefit cost	\$ <u>611,523</u>	\$(<u>12,450,612</u>)

Assumptions as of August 31, 2018 and 2017 used to determine the benefit obligation are as follows:

	<u>2018</u>	<u>2017</u>
Weighted-average discount rate	4.25%	4.25%

The gross weighted-average annual assumed rate of increase in the per capita cost of covered benefits (healthcare cost trend rate) is 6% for 2018 and is assumed to decrease gradually to 5% for 2024 and remain at that level thereafter. The gross dental trend rate is 5% for 2018 and is assumed to remain at that level thereafter. A 1% increase in the healthcare cost trend rate would increase the benefit obligation by \$877,185 and a 1% decrease would decrease the benefit obligation by \$742,477. Additionally, a 1% increase in the healthcare cost trend rate would increase combined service and interest cost by \$338,911 and a 1% decrease would decrease combined service and interest cost by \$251,920.

NOTE T - FUNCTIONAL EXPENSES

Expenses incurred by the Association were for the following purposes for the years ended August 31:

	<u>2018</u>	<u>2017</u>
Program services	\$ 50,632,470	\$ 47,259,843
General and administrative activities	3,281,035	3,994,751
Fundraising activities	<u>386,514</u>	<u>367,683</u>
	54,300,019	51,622,277
Less post retirement expenses (recovery)	(<u>4,614,181</u>)	(<u>10,237,912</u>)
	\$ <u>49,685,838</u>	\$ <u>41,384,365</u>

NOTE U - SUBSEQUENT EVENTS

The Association evaluated its August 31, 2018 consolidated financial statements for subsequent events through T/B/D, the date the financial statements were issued, and is not aware of any subsequent events that would require recognition or disclosure in the consolidated financial statements.

NOTE V - RECLASSIFICATIONS

Certain amounts in the 2017 consolidated financial statements have been reclassified to conform with the year 2018 presentation.

DRAFT

UNIFORM GUIDANCE REPORTS AND SCHEDULES

DRAFT

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

Executive Board
American Library Association
Chicago, Illinois

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of American Library Association, which comprise the consolidated statements of financial position as of August 31, 2018, the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated T/B/D.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered American Library Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of American Library Association's internal control. Accordingly, we do not express an opinion on the effectiveness of American Library Association's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether American Library Association's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DRAFT

Chicago, Illinois
T/B/D

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Executive Board
American Library Association
Chicago, Illinois

Report on Compliance for Each Major Federal Program

We have audited American Library Association’s (the Association) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Association’s major federal programs for the year ended August 31, 2018. The Association’s major federal programs are identified in the summary of auditors’ results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the Association’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Association’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Association’s compliance.

Opinion on Each Major Federal Program

In our opinion, the Association complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major programs for the year ended August 31, 2018.

Report on Internal Control over Compliance

Management of the Association is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered the Association's internal control over compliance with the types of requirements that could have a direct and material effect on each major program to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weakness or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope for our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Chicago, Illinois
T/B/D

American Library Association
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended August 31, 2018

<u>Federal grantor/pass-through grantor/program title</u>	<u>CFDA number</u>	<u>Pass-through Identification number</u>	<u>Federal Expenditures</u>
U.S. Department of State Federal Assistance Award	19.04	SIT70018GR0011/SCS80018GR0004	\$ 2,333
National Library of Medicine Disaster Abatement	93.XXX	UG4LM012340	19,999
Pass-through National Institute of Health - Native Voices Traveling Exhibition	93.XXX	HHSN276201500312P	41,873
Pass-through National Institute of Health - National Network of Libraries of Medicine Greater Midwest / U OF IOWA-Healthy Communities	93.XXX	5 UG4 LM012346-02	<u>146,811</u>
			<u>208,683</u>
Institute of Museum and Library Services Laura Bush 21st Century Librarian Program Causality: School Libraries and Student Success (CLASS II)	45.313	RE-00-15-0114-15	139,463
Future Ready with the Library	45.313	RE-40-16-0081-16	61,124
National Forum on Continuing Education	45.313	RE-98-17-0006-17	99,784
Library Transform Communities II	45.313	RE-40-16-0137-16	76,071
Train The Trainer	45.313	RE-95-18-0048-18	7,635
Inclusive Internship	45.313	RE-00-17-0129-17	<u>457,202</u>
Total Laura Bush 21st Century Librarian Program			841,279
National Leadership Grants Early Literacy Research	45.312	LG-06-13-0203-13	30,701
National Impact of Library Public Program Assessment Phase I	45.312	LG-96-17-0048-17	<u>267,855</u>
Total National Leadership Grants			298,556
Total Institute of Museum and Library Services			<u>1,139,835</u>
Library of Congress National Library Services for the Blind and Physically Handicapped	45.XXX	LCNLS15P0076	<u>8,355</u>
National Science Foundation Pass-through Space Science Institute Star Net Phase II	43.XXX	DRL-1421427	<u>60,145</u>
NASA NASA @ My Library	43.001	NNX16AE30A	<u>31,671</u>
National Endowment of the Arts Author Tour - Great Stories Club	45.024	17-5200-7170	<u>15,000</u>
National Endowment for the Humanities Promotion of the Humanities - Public Programs Great Stories Club	45.164	GI-228350-15	1,614
Great Stories Club 2018-2020	45.164	GW-259303-18	59,707
Pass-through the Filder Lehrman - Gilder Lehrman Founding Era	45.164	GW-256118	82,267
Pass-through The Smithsonian Institution (National Museum of African American History) - Changing American Traveling Exhibition	45.164	F13CC10358	<u>25,009</u>
Total National Endowment for the Humanities			<u>168,597</u>
Total Expenditures of Federal Awards			<u>\$ 1,634,619</u>

See notes to schedule of expenditures of federal awards.

AMERICAN LIBRARY ASSOCIATION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

AUGUST 31, 2018

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of American Library Association (the Association) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented or used in the preparation of the basic consolidated financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule of expenditures of federal awards are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Association has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 3 - SUB-RECIPIENTS

The Association provided no federal awards to sub-recipients during the year ended August 31, 2018.

NOTE 4 - INSURANCE AND LOANS OR LOAN GUARANTEES

During the year ended August 31, 2018, the Association received no loans, loan guarantees or other federal assistance for the purpose of administering federal programs.

AMERICAN LIBRARY ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
AUGUST 31, 2018

Part I - Summary of Auditor's Results

Financial Statement Section

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency(ies) identified not considered to be a material weakness?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards Section

Internal control over major programs:	
Material weakness identified?	No
Significant deficiency(ies) identified not considered to be a material weakness?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
45.313	Institute of Museum and Library Services - Laura Bush 21st Century Librarian Program

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes

AMERICAN LIBRARY ASSOCIATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED

AUGUST 31, 2018

Part II - Financial Statement Finding

None noted.

Part III - Federal Award Findings and Questioned Costs

None noted

Schedule of Prior Year Findings and Questioned Costs

None noted

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