

Financial Statements Together with
Report of Independent Certified Public Accountants

AMERICAN BIBLE SOCIETY

June 30, 2018 and 2017

AMERICAN BIBLE SOCIETY

TABLE OF CONTENTS

	Page
Report of Independent Certified Public Accountants	1 - 2
Financial Statements:	
Statements of Financial Position as of June 30, 2018 and 2017	3
Statements of Activities for the years ended June 30, 2018 and 2017	4
Statement of Functional Expenses for the year ended June 30, 2018	5
Statement of Functional Expenses for the year ended June 30, 2017	6
Statements of Cash Flows for the years ended June 30, 2018 and 2017	7
Notes to Financial Statements	8 - 27



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
American Bible Society:

We have audited the accompanying financial statements of American Bible Society (the “Society”), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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 financial statements referred to above present fairly, in all material respects, the financial position of American Bible Society as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Brent Thornton LLP

New York, New York
January 30, 2019

AMERICAN BIBLE SOCIETY
Statements of Financial Position
As of June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 1,788,846	\$ 7,143,417
Accounts, program loan and accrued interest receivables, net of allowance of \$382,414 in 2018 and \$515,503 in 2017	3,885,455	4,742,090
Contributions receivable	3,461,297	-
Pending investment purchases (Note 4)	-	511,482
Inventories, net (Note 3)	5,699,816	3,124,922
Prepaid expenses and other assets	4,353,070	4,850,253
Investments (Note 4)	723,740,880	711,236,168
Beneficial interest in investments held by third-party trustees (Note 6)	25,937,956	25,488,217
Fixed assets, net (Note 7)	<u>15,559,127</u>	<u>16,913,373</u>
Total assets	<u>\$ 784,426,447</u>	<u>\$ 774,009,922</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 8,573,067	\$ 16,159,807
Payable under securities loan agreement (Note 4)	4,243,369	6,171,014
Deferred allowance from lease activity (Note 10)	16,826,466	16,820,875
Obligations under charitable remainder trusts (Note 2)	5,465,941	5,619,208
Annuities payable (Note 2)	23,077,957	24,584,706
Deferred revenue under life income agreements (Note 2)	5,106,146	5,223,481
Accrued postretirement benefits (Note 9)	<u>34,305,840</u>	<u>35,874,930</u>
Total liabilities	<u>97,598,786</u>	<u>110,454,021</u>
Commitments and contingencies (Notes 4 and 10)		
NET ASSETS (Note 2)		
Unrestricted		
Designated for specific operating purposes and other (Note 8)	7,588,586	7,840,040
Funds functioning as endowment (Notes 8 and 12)	555,590,742	547,073,486
Land, building, and equipment	<u>15,559,127</u>	<u>16,913,373</u>
Total unrestricted	<u>578,738,455</u>	<u>571,826,899</u>
Temporarily restricted (Note 8)	66,600,448	50,804,256
Permanently restricted (Notes 8 and 12)	<u>41,488,758</u>	<u>40,924,746</u>
Total net assets	<u>686,827,661</u>	<u>663,555,901</u>
Total liabilities and net assets	<u>\$ 784,426,447</u>	<u>\$ 774,009,922</u>

The accompanying notes are an integral part of these financial statements.

AMERICAN BIBLE SOCIETY
Statements of Activities
For the years ended June 30, 2018 and 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITIES								
Operating revenues and support:								
Contributions	\$ 23,406,604	\$ 30,432,465	\$ 10,959	\$ 53,850,028	\$ 23,526,369	\$ 17,403,191	\$ 102,965	\$ 41,032,525
Legacies	5,220,357	-	-	5,220,357	6,505,242	-	-	6,505,242
Scripture Sales (Note 3)	3,836,146	-	-	3,836,146	3,997,210	-	-	3,997,210
Other	2,921,212	-	-	2,921,212	2,655,686	-	-	2,655,686
Net assets released from restrictions and reclassifications	18,981,459	(18,981,459)	-	-	16,759,775	(16,759,775)	-	-
Total operating revenues and support	<u>54,365,778</u>	<u>11,451,006</u>	<u>10,959</u>	<u>65,827,743</u>	<u>53,444,282</u>	<u>643,416</u>	<u>102,965</u>	<u>54,190,663</u>
Operating expenses (Note 11)								
Program services								
Scripture engagement and distribution:								
National ministries	39,951,208	-	-	39,951,208	40,563,111	-	-	40,563,111
International ministries (Note 5)	34,764,818	-	-	34,764,818	38,027,791	-	-	38,027,791
Total program services	<u>74,716,026</u>	<u>-</u>	<u>-</u>	<u>74,716,026</u>	<u>78,590,902</u>	<u>-</u>	<u>-</u>	<u>78,590,902</u>
Supporting services								
Administration	5,959,816	-	-	5,959,816	6,698,432	-	-	6,698,432
Development	15,663,622	-	-	15,663,622	13,646,793	-	-	13,646,793
Total supporting services	<u>21,623,438</u>	<u>-</u>	<u>-</u>	<u>21,623,438</u>	<u>20,345,225</u>	<u>-</u>	<u>-</u>	<u>20,345,225</u>
Total operating expenses	<u>96,339,464</u>	<u>-</u>	<u>-</u>	<u>96,339,464</u>	<u>98,936,127</u>	<u>-</u>	<u>-</u>	<u>98,936,127</u>
Changes in net assets from operating activities, before investment return appropriated for operations	(41,973,686)	11,451,006	10,959	(30,511,721)	(45,491,845)	643,416	102,965	(44,745,464)
Investment return appropriated for operations (Note 4)	32,791,320	-	-	32,791,320	33,389,104	-	-	33,389,104
Changes in net assets from operating activities	<u>(9,182,366)</u>	<u>11,451,006</u>	<u>10,959</u>	<u>2,279,599</u>	<u>(12,102,741)</u>	<u>643,416</u>	<u>102,965</u>	<u>(11,356,360)</u>
NONOPERATING ACTIVITIES								
Investment return appropriated for capital activities and other (Note 4)	-	-	-	-	(434,849)	-	-	(434,849)
Investment return, net of amounts appropriated for operations (Note 4)	16,510,480	3,872,332	109,251	20,492,063	36,021,413	5,248,915	50,201	41,320,529
Appreciation in fair value of third-party trusts (Notes 4 and 6)	-	-	443,802	443,802	-	-	346,537	346,537
Change in value of split-interest agreements	(1,137,166)	472,854	-	(664,312)	(1,596,817)	368,598	-	(1,228,219)
Pension related activity other than net periodic pension expense	720,608	-	-	720,608	3,438,823	-	-	3,438,823
Changes in net assets from nonoperating activities	<u>16,093,922</u>	<u>4,345,186</u>	<u>553,053</u>	<u>20,992,161</u>	<u>37,428,570</u>	<u>5,617,513</u>	<u>396,738</u>	<u>43,442,821</u>
Changes in net assets	6,911,556	15,796,192	564,012	23,271,760	25,325,829	6,260,929	499,703	32,086,461
Net assets, beginning of year	571,826,899	50,804,256	40,924,746	663,555,901	546,501,070	44,543,327	40,425,043	631,469,440
Net assets, end of year	<u>\$ 578,738,455</u>	<u>\$ 66,600,448</u>	<u>\$ 41,488,758</u>	<u>\$ 686,827,661</u>	<u>\$ 571,826,899</u>	<u>\$ 50,804,256</u>	<u>\$ 40,924,746</u>	<u>\$ 663,555,901</u>

The accompanying notes are an integral part of these financial statements.

AMERICAN BIBLE SOCIETY
Statement of Functional Expenses
For the year ended June 30, 2018

	Program Services			Supporting Services			
	National Ministries	International Ministries	Total	Administration	Development	Total	Total
Bible ministry grants	\$ 3,472,731	\$ 15,188,618	\$ 18,661,349	\$ -	\$ 212,885	\$ 212,885	\$ 18,874,234
Scripture-based conventions and meetings	199,226	85,769	284,995	29,830	62,837	92,667	377,662
Cost of Scripture and related materials sold	2,389,497	-	2,389,497	-	-	-	2,389,497
Printing, publications and promotions	3,733,429	1,530,592	5,264,021	3,985	3,998,492	4,002,477	9,266,498
Salaries and wages	8,611,820	6,570,062	15,181,882	2,602,379	4,382,321	6,984,700	22,166,582
Employee benefits	2,891,408	2,219,252	5,110,660	871,629	1,480,323	2,351,952	7,462,612
Pension expense	662,958	503,934	1,166,892	198,644	337,078	535,722	1,702,614
Postretirement benefits	1,051,391	423,030	1,474,421	128,562	140,884	269,446	1,743,867
Professional fees	6,892,244	4,951,255	11,843,499	338,746	1,178,670	1,517,416	13,360,915
Postage and mailing	1,515,375	733,401	2,248,776	7,631	1,918,509	1,926,140	4,174,916
Depreciation	899,562	119,204	1,018,766	194,725	164,059	358,784	1,377,550
Travel and related costs	706,265	1,095,244	1,801,509	130,358	355,977	486,335	2,287,844
Data processing	1,381,508	235,601	1,617,109	168,392	465,716	634,108	2,251,217
Occupancy	3,835,932	291,623	4,127,555	600,537	319,642	920,179	5,047,734
Equipment, repairs and rentals	632,142	249,643	881,785	330,221	153,167	483,388	1,365,173
Telephone	106,816	95,440	202,256	36,704	44,672	81,376	283,632
Office supplies	170,724	54,526	225,250	26,695	55,522	82,217	307,467
Storage costs	133,083	7,362	140,445	17,494	5,914	23,408	163,853
Insurance	134,132	96,208	230,340	107,806	123,333	231,139	461,479
Memberships and subscriptions	135,966	70,099	206,065	64,091	75,785	139,876	345,941
Legal, tax and audit fees	246,981	38,286	285,267	82,174	25,328	107,502	392,769
Banking and compliance	68,401	39,398	107,799	16,711	90,882	107,593	215,392
Miscellaneous	79,617	166,271	245,888	2,502	71,626	74,128	320,016
Total functional expenses	<u>\$ 39,951,208</u>	<u>\$ 34,764,818</u>	<u>\$ 74,716,026</u>	<u>\$ 5,959,816</u>	<u>\$ 15,663,622</u>	<u>\$ 21,623,438</u>	<u>\$ 96,339,464</u>

The accompanying notes are an integral part of this financial statement.

AMERICAN BIBLE SOCIETY
Statement of Functional Expenses
For the year ended June 30, 2017

	Program Services			Supporting Services			
	National Ministries	International Ministries	Total	Administration	Development	Total	Total
Bible ministry grants	\$ 2,448,385	\$ 18,982,871	\$ 21,431,256	\$ 347	\$ 61,288	\$ 61,635	\$ 21,492,891
Scripture-based conventions and meetings	300,728	145,224	445,952	34,823	60,906	95,729	541,681
Cost of Scripture and related materials sold	2,480,024	-	2,480,024	-	-	-	2,480,024
Printing, publications and promotions	3,345,680	1,890,332	5,236,012	4,566	3,446,394	3,450,960	8,686,972
Salaries and wages	7,413,923	6,398,112	13,812,035	3,089,068	4,038,510	7,127,578	20,939,613
Employee benefits	2,109,004	1,893,727	4,002,731	915,981	1,175,500	2,091,481	6,094,212
Relocation costs	41,123	52,776	93,899	-	18,608	18,608	112,507
Pension expense	565,224	498,661	1,063,885	209,111	297,664	506,775	1,570,660
Postretirement benefits	1,191,569	524,360	1,715,929	139,051	145,234	284,285	2,000,214
Professional fees	11,306,943	3,332,957	14,639,900	535,201	724,343	1,259,544	15,899,444
Postage and mailing	1,445,176	908,389	2,353,565	6,197	1,669,980	1,676,177	4,029,742
Depreciation	995,577	178,426	1,174,003	241,061	183,226	424,287	1,598,290
Travel and related costs	659,259	1,044,349	1,703,608	206,969	310,680	517,649	2,221,257
Data processing	885,099	297,973	1,183,072	113,783	431,760	545,543	1,728,615
Occupancy	3,860,646	555,847	4,416,493	462,058	346,512	808,570	5,225,063
Equipment, repairs and rentals	665,898	669,398	1,335,296	305,372	172,630	478,002	1,813,298
Telephone	117,977	95,252	213,229	38,765	45,291	84,056	297,285
Office supplies	256,912	133,676	390,588	39,188	93,507	132,695	523,283
Storage costs	64,192	8,674	72,866	12,345	6,499	18,844	91,710
Insurance	139,923	143,398	283,321	29,220	105,395	134,615	417,936
Memberships and subscriptions	81,806	90,646	172,452	37,721	61,257	98,978	271,430
Legal, tax and audit fees	107,546	38,191	145,737	147,248	43,977	191,225	336,962
Banking and compliance	54,905	50,768	105,673	46,618	85,407	132,025	237,698
Miscellaneous	25,592	93,784	119,376	83,739	122,225	205,964	325,340
Total functional expenses	<u>\$ 40,563,111</u>	<u>\$ 38,027,791</u>	<u>\$ 78,590,902</u>	<u>\$ 6,698,432</u>	<u>\$ 13,646,793</u>	<u>\$ 20,345,225</u>	<u>\$ 98,936,127</u>

The accompanying notes are an integral part of this financial statement.

AMERICAN BIBLE SOCIETY
Statements of Cash Flows
For the years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 23,271,760	\$ 32,086,461
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	1,377,550	1,598,290
Change in provision for obsolete and slow-moving inventory	(193,707)	(49,120)
Net unrealized and realized appreciation in fair value of investments	(45,534,190)	(67,560,729)
Net unrealized and realized appreciation in fair value of third-party trusts	(443,802)	(346,537)
Changes in assets and liabilities:		
(Increase) decrease in accounts, contributions and accrued interest receivables	(3,116,144)	15,317,491
Increase in inventories	(2,381,687)	(758,485)
Decrease (increase) in prepaid expenses and other assets	497,183	(431,927)
Increase in contributions receivable and beneficial interest in investments held by third-party trustees, excluding split-interest agreements	(282,623)	(827,352)
(Decrease) increase in accounts payable and accrued expenses	(9,514,385)	312,165
Increase in deferred allowances from leasing activity, net	5,591	359,243
Decrease in accrued postretirement benefits	<u>(1,569,090)</u>	<u>(4,039,328)</u>
Net cash used in operating activities	<u>(37,883,544)</u>	<u>(24,339,828)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investment securities	274,420,709	653,181,751
Purchases of investment securities	(240,428,760)	(625,433,386)
Acquisition of fixed assets	<u>(23,304)</u>	<u>(226,915)</u>
Net cash provided by investing activities	<u>33,968,645</u>	<u>27,521,450</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of new split-interest agreements, in excess of contributions recognized	310,188	380,307
Permanently restricted contributions	10,959	-
Change in value of split-interest agreements	1,057,054	1,773,245
Change in value of split-interest agreements held by third-parties	326,720	275,726
Payments to third-party beneficiaries under split-interest agreements	(3,927,610)	(4,031,781)
Investment income on split-interest agreements held for others	<u>783,017</u>	<u>783,389</u>
Net cash used in financing activities	<u>(1,439,672)</u>	<u>(819,114)</u>
Net (decrease) increase in cash and cash equivalents	(5,354,571)	2,362,508
Cash and cash equivalents, beginning of year	<u>7,143,417</u>	<u>4,780,909</u>
Cash and cash equivalents, end of year	<u>\$ 1,788,846</u>	<u>\$ 7,143,417</u>

The accompanying notes are an integral part of these financial statements.

AMERICAN BIBLE SOCIETY

Notes to Financial Statements

June 30, 2018 and 2017

1. DESCRIPTION OF ORGANIZATION AND NATURE OF ACTIVITIES

The Organization

In 1816, American Bible Society (the “Society”) was founded in New York City as a Christian organization committed to distributing and engaging people with God’s Word in the United States and throughout the world. Serving alongside the global Christian Church, the Society remains dedicated to this original purpose, with a mission “to make the Bible available to every person in a language and format each can understand and afford, so all people may experience its life-changing message.”

Today, the Society invites millions across the globe to experience the profound, life-changing message of the Bible, focusing on:

- **TRANSLATION.** We make the Word of God available and alive for millions of people still waiting for a Bible in their own language. We work with ministries and Bible Societies across the globe to accelerate Bible translation through innovative technology, collaborative partnerships, and a shared sense of urgency. By 2026, we will see 100% of languages open to Scripture engagement.
- **TRAUMA HEALING.** Trauma is a barrier to the hope of the gospel. Bible-based trauma healing uses the power of Scripture, combined with mental health best practices, to bring joy to wounded hearts. We bring God’s message of love, hope, and redemption to some of the world’s darkest places such as refugee camps, orphanages, prisons, and war-torn villages.
- **TRANSFORMING AMERICA.** American virtues like liberty and justice are drawn from the pages of Scripture. Throughout our history, from the Founding Fathers to the Civil Rights movement, the Bible has guided American heroes in their pursuit of justice. Today, we invite millions of Americans to engage with the Word of God to transform our neighborhoods, our cities, and our country one heart at a time.

The Society carries out its mission by:

- Affirming the power of God to speak to every generation through the Holy Scriptures;
- Providing translations of the Holy Scriptures that are faithful to the original biblical texts;
- Working in partnership with all Christian churches and Christian communities; and,
- Engaging culture and empowering the Church with God’s Word through technology, new media, and digital channels.

The ongoing work of the Society, incorporated in the State of New York in 1841, is dependent on strong contributions from thousands of donors and supporters. The Society has been classified by the Internal Revenue Service as a not-for-profit organization exempt from federal taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation.

While remaining incorporated in the state of New York, the Society relocated its headquarters to Philadelphia in August 2015, after the sale of its New York City headquarters building in January 2015.

AMERICAN BIBLE SOCIETY
Notes to Financial Statements
June 30, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements of the Society have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). The Society has elected to present a statement of functional expenses in its financial statements. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Society and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. The Society classifies its unrestricted net assets as follows:

Designated for specific operating purposes and other - Net assets that are designated by the Society for specific operating purposes and net assets which are available for the general use and operating activities of the Society.

Funds functioning as endowment - Net assets functioning as endowment, the income from which will be used to provide for future operations. The Society’s Board of Directors annually approves the level of investment return to be appropriated for operations (see Notes 4 and 12).

Land, building, and equipment - Net assets relating to fixed assets that are used in the operations of the Society.

Temporarily restricted - Net assets subject to donor-imposed stipulations that will be met either by actions of the Society and/or the passage of time. In addition, earnings on donor-restricted endowment funds are classified as temporarily restricted, pursuant to the New York Prudent Management of Institutional Funds Act (“NYPMIFA”), until appropriated for spending by the Board of Directors.

Permanently restricted - Net assets subject to donor-imposed stipulations that must be maintained permanently by the Society. Generally, the donors of these assets permit the Society to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless their use is limited by express donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

The accompanying statements of activities report the changes in net assets by operating and non-operating activities. Non-operating activities principally include investment return (loss), net of amounts appropriated for operations, changes in the fair value of third-party trusts, change in value of split-interest agreements, pension related activity, other than net periodic pension expense, and other nonrecurring activities.

AMERICAN BIBLE SOCIETY
Notes to Financial Statements
June 30, 2018 and 2017

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates and assumptions embodied in the accompanying financial statements relate to actuarial assumptions used to calculate postretirement benefit obligations, the determination of allowances for doubtful accounts, loans and contribution receivables, provision for obsolete and slow-moving inventory, the useful lives assigned to fixed assets, obligations under split-interest agreements, and the fair value of certain financial instruments, particularly non-exchange traded alternative investments. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Society classifies deposits in banks, money market accounts, and debt instruments with original maturities of three months or less from the date of purchase as cash equivalents, excluding cash and cash equivalents available for long-term investment, which are included within investments on the accompanying statements of financial position.

Bible Ministry Grants Payable

The awarding of grants is reflected on the financial statements at the time they are approved by the Society and the grantee is notified. Grants represent unconditional promises to give and are expected to be paid within one year of approval. Grants payable are included within accounts payable and accrued expenses on the accompanying statements of financial position. As of June 30, 2018 and 2017, the Society had grants payable of \$6,100 and \$4,642,672, respectively.

Split-Interest Agreements

Assets held under charitable gift annuities, life income funds, and charitable remainder trusts with the Society acting as trustee are included in investments. The Society's remainder interests under charitable remainder trusts administered by third-parties are reflected as beneficial interest in investments held by third-party trustees. Contribution revenue is recognized at the date these split-interest agreements are established.

Under the Society's charitable gift annuities program and for charitable remainder trusts where the Society is the trustee, liabilities are recorded for the present value of the estimated future payments expected to be made to the donors and/or other stipulated beneficiaries. Under life income funds, deferred revenue is recorded representing the amount of the discount for future interests.

Upon termination of a life interest, the share of the corpus attributable to the life tenant becomes available to the Society. Changes in the life expectancy of the donor or beneficiary, amortization of the discount, and other changes in the estimates of future payments are reported as change in value of split-interest agreements on the statement of activities.

The discount rate utilized to value split-interest agreements remained constant at 6% at June 30, 2018 and June 30, 2017. The mortality table utilized to calculate the life expectancy of annuitants at June 30, 2018 and 2017 was the IAR 2012 Mortality Table, which is a dynamic table that updates life expectancy from year-to-year.

AMERICAN BIBLE SOCIETY
Notes to Financial Statements
June 30, 2018 and 2017

The Society is required to segregate assets to serve as reserves related to its gift annuity program based on the laws of the State of New York and other states in which it solicits and administers these gifts. Such reserves totaled \$32,994,021 and \$35,259,412 at June 30, 2018 and 2017, respectively, which are in excess of all reserve requirements in all states that require such reserves.

The following tables summarize the changes in the Society's obligations under split-interest agreements for the years ended June 30, 2018 and 2017:

	2018			
	Charitable Remainder Trusts	Annuity Agreements	Life Income Fund	Total
Balance at June 30, 2017	\$ 5,619,208	\$ 24,584,706	\$ 5,223,481	\$ 35,427,395
Proceeds of new split-interest agreements	-	310,188	-	310,188
Change in value of split-interest agreements	61,274	1,123,210	(127,430)	1,057,054
Payments to third-party beneficiaries under split-interest agreements	(711,772)	(2,940,251)	(275,587)	(3,927,610)
Investment income on split-interest agreements held for others	497,231	104	285,682	783,017
Balance at June 30, 2018	<u>\$ 5,465,941</u>	<u>\$ 23,077,957</u>	<u>\$ 5,106,146</u>	<u>\$ 33,650,044</u>
	2017			
	Charitable Remainder Trusts	Annuity Agreements	Life Income Fund	Total
Balance at June 30, 2016	\$ 5,606,446	\$ 25,676,863	\$ 5,238,927	\$ 36,522,236
Proceeds of new split-interest agreements	-	380,307	-	380,307
Change in value of split-interest agreements	202,016	1,595,868	(24,640)	1,773,244
Payments to third-party beneficiaries under split-interest agreements	(685,689)	(3,069,607)	(276,485)	(4,031,781)
Investment income on split-interest agreements held for others	496,435	1,275	285,679	783,389
Balance at June 30, 2017	<u>\$ 5,619,208</u>	<u>\$ 24,584,706</u>	<u>\$ 5,223,481</u>	<u>\$ 35,427,395</u>

Fixed Assets and Depreciation

Furniture and equipment acquired for greater than \$5,000 and with useful lives greater than one year are capitalized and depreciated over their estimated useful lives, ranging from three to ten years. Depreciation is calculated using the straight-line method. Leasehold improvements installed for greater than \$5,000 are recorded at cost and amortized on a straight-line basis over the lesser of the economic useful life of the respective betterment or the lease period to which they pertain.

AMERICAN BIBLE SOCIETY

Notes to Financial Statements

June 30, 2018 and 2017

Library Collection

The Society maintains a rare Scripture collection held for exhibition, education and research which has been acquired through purchases and contributions since the Society's inception. The Society maintains policies and procedures addressing the collection's upkeep and management. The Society has adopted the policy of not capitalizing its collection, which is insured at a value of approximately \$14 million. Purchases of collections are recorded as decreases in unrestricted net assets in the year in which the items are acquired.

Contributions

Contributions, which include unconditional promises to give, are recognized as revenues in the period received. Unconditional promises to give to the Society after one year are discounted using an appropriate discount rate commensurate with the risks involved (credit adjusted). Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

The Society has been notified of certain intentions to give under various wills and trust agreements as well as conditional gifts, the realizable amounts of which are not presently determinable. The Society's share of such bequests is recorded when the Society has an irrevocable right to the bequest and the proceeds are measurable.

Scripture Sales, Royalties and Accounts Receivable

Scripture sales, net of discounts, are recorded when shipped, that is when title passes to customers. Royalty income is recognized when earned. Accounts receivable, which principally relate to Scripture sales, are reflected net of an appropriate allowance for doubtful accounts. The allowance for doubtful accounts is determined based-upon an annual review of account balances, including age of the balance and historical collection experience. Such receivables are written-off when determined to be uncollectible.

Fair Value of Financial Instruments

The carrying amounts of financial instruments approximate fair value. The fair value of investments is based on quoted market prices, except for certain investments, principally private equities and similar interests, for which quoted market prices are not readily available. The estimated fair value of these investments is based on valuations provided by external investment managers or by the respective general partner or manager as of the reporting date. Because the fair value of the Society's investment in these assets is not readily available, their estimated value is subject to uncertainty and, therefore, may differ markedly from the value that would have been reported on the accompanying financial statements had a ready market for such investments existed. Such difference could be material. Liabilities under split-interest agreements are reflected based-upon the present value of the estimated future payments expected to be made to donors and other stipulated beneficiaries (see Note 4).

Concentrations of Credit Risk

Financial instruments that potentially subject the Society to concentrations of credit risk consist principally of cash and cash equivalents and investments in fixed income funds, equity funds, and alternative investments. The Society maintains its cash and cash equivalents in various bank deposit accounts that, at times, may exceed federally insured limits. The Society's cash accounts were placed with high credit quality financial institutions and the Society's investment portfolio is diversified with several investment

AMERICAN BIBLE SOCIETY
Notes to Financial Statements
June 30, 2018 and 2017

managers in a variety of asset classes. The Society has not experienced, nor does it anticipate, any losses with respect to such accounts.

Income Taxes

Certain of the Society’s investments (Note 4) give rise to unrelated business income tax (“UBIT”) liabilities. The Society had a UBIT liability of \$39,452 and \$11,189 for the fiscal years ended June 30, 2018 and 2017, respectively.

In July 2006, guidance was issued in the area of “Accounting for Uncertainty in Income Taxes.” The standard clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This standard provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if the position is “more-likely-than-not” to be sustained if the position were to be challenged by a taxing authority. The standard also provides guidance on measurement, classification, interest and penalties, and disclosure. It was effective for the Society on July 1, 2009, and had no material impact on the accompanying financial statements. The tax years ended 2016, 2017 and 2018 are still open to audit for both federal and state purposes. The Society has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and, to identify and evaluate other matters that may be considered tax positions.

Subsequent Events

The Society evaluated its June 30, 2018 financial statements for subsequent events through January 30, 2019, the date the financial statements were available to be issued.

3. INVENTORIES, NET

Inventories are valued at the lower of cost or market under the standard cost method, less an appropriate reserve for slow-moving or obsolete items. Inventories at June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Finished Scripture products held for sale	\$ 2,966,231	\$ 2,191,280
Scripture resources for ministry use	2,867,837	1,296,010
Work in process and raw materials	<u>89,717</u>	<u>55,308</u>
	5,923,785	3,542,598
Less: Inventory reserve	<u>(223,969)</u>	<u>(417,676)</u>
	<u>\$ 5,699,816</u>	<u>\$ 3,124,922</u>
Components of gross margin:		
Scripture sales	\$ 3,836,146	\$ 3,997,210
Less: Cost of Scripture and related materials sold	<u>(2,389,497)</u>	<u>(2,480,024)</u>
Gross margin on Scripture sales	<u>\$ 1,446,649</u>	<u>\$ 1,517,186</u>

AMERICAN BIBLE SOCIETY
Notes to Financial Statements
June 30, 2018 and 2017

Included in national ministries expenses is the cost of Scripture resources for ministry use which totaled \$3,055,541 and \$1,766,520 for the years ended June 30, 2018 and 2017, respectively.

4. INVESTMENTS

Investments, at fair value, at June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 65,145,970	\$ 62,258,162
Equities	383,755,082	373,679,213
Fixed income	115,935,163	126,084,579
Private equities	29,192,757	26,129,027
Real assets	39,564,632	32,699,958
Absolute return	<u>90,147,276</u>	<u>90,385,229</u>
	<u>\$ 723,740,880</u>	<u>\$ 711,236,168</u>

The cost of investments totaled \$588,102,940 and \$601,480,569 at June 30, 2018 and 2017, respectively.

Included in investments at June 30, 2018 and 2017 are \$10,703,914 and \$10,666,662, respectively, held under trusts where the Society acts as trustee in connection with its split-interest agreements with donors. Life income agreements of \$9,865,059 and \$9,994,762 at June 30, 2018 and 2017, respectively, are also included in investments.

The Society lends certain equities and bonds included in its investment portfolio to brokerage firms. In return for the securities loaned, the Society receives cash and/or U.S. treasury securities as collateral in amounts at least equal to the fair value of the securities loaned. At June 30, 2018 and 2017, the fair value of the collateral received totaled \$4,243,369 and \$6,171,014, respectively, and is reflected as part of liabilities. The Society retains all rights of ownership to the securities loaned and continues to receive all interest and dividend income. The related collateral at June 30, 2018 and 2017 is presented as part of investments and payable under securities loan agreement on the accompanying statements of financial position.

The Society has committed to investing an additional \$40,981,205 in certain private equity partnerships, which are to be funded primarily over the next 3-5 years, with a maximum commitment period of 12 years.

Fair Value Measurements

The Society adopted guidance that established a framework for measuring fair value and expanding its disclosures about fair value measurements. The standard provides a consistent definition for fair value which focuses on an exit price between market participants in an orderly transaction. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of the respective financial instrument. The standard defines three levels of inputs which may be used to measure fair value.

AMERICAN BIBLE SOCIETY
Notes to Financial Statements
June 30, 2018 and 2017

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

- Level 1 - Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments in Level 1 include listed equities held in the name of the Society, and exclude listed equities and other securities held indirectly through commingled funds.
- Level 2 - Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the measurement date, and fair value is determined through the use of models or other valuation methodologies.
- Level 3 - Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include privately held investments and limited partnership and similar interests.

The Society submitted both redemption and purchase requests relative to certain of its investment funds which remained outstanding as of June 30, 2017. Such amounts have been reflected as an investment redemption receivable and pending investment purchases on the accompanying 2017 statement of financial position and were settled in full subsequent to the respective year-end.

The following table prioritizes the inputs used to report the fair value of the Society's investments within the hierarchy levels as of June 30, 2018:

	Cash /Equivalents	Equities	Fixed Income	Alternative Assets			Total
				Private Equities	Real Assets	Absolute Return	
Level 1	\$ 65,145,970	\$ 160,526,607	\$ 51,683,937	\$ -	\$ -	\$ -	\$ 277,356,514
Level 2	-	42,729,429	41,339,059	-	-	-	84,068,488
Level 3	-	1,708,211	-	-	19,349,904	-	21,058,115
Net Asset Value (NAV)	<u>-</u>	<u>178,790,835</u>	<u>22,912,167</u>	<u>29,192,757</u>	<u>20,214,728</u>	<u>90,147,276</u>	<u>341,257,763</u>
Total	<u>\$ 65,145,970</u>	<u>\$ 383,755,082</u>	<u>\$ 115,935,163</u>	<u>\$ 29,192,757</u>	<u>\$ 39,564,632</u>	<u>\$ 90,147,276</u>	<u>\$ 723,740,880</u>

AMERICAN BIBLE SOCIETY
Notes to Financial Statements
June 30, 2018 and 2017

The following table summarizes the changes in the Society's Level 3 investments for the year ended June 30, 2018:

	<u>Equities</u>	<u>Real Assets</u>	<u>Total</u>
Balance at June 30, 2017	\$ 1,708,281	\$ 16,336,967	\$ 18,045,248
Unrealized appreciation	230	2,332,937	2,333,167
Purchases of investments	-	680,000	680,000
Proceeds from sales, redemptions, and distributions	(300)	-	(300)
Balance at June 30, 2018	<u>\$ 1,708,211</u>	<u>\$ 19,349,904</u>	<u>\$ 21,058,115</u>

The following table prioritizes the inputs used to report the fair value of the Society's investments within the hierarchy levels as of June 30, 2017:

	<u>Cash/Equivalents</u>	<u>Equities</u>	<u>Fixed Income</u>	<u>Private Equities</u>	<u>Real Assets</u>	<u>Absolute Return</u>	<u>Total</u>
Level 1	\$ 62,258,162	\$ 165,259,750	\$ 57,611,117	\$ -	\$ -	\$ -	\$ 285,129,029
Level 2	-	40,800,368	45,756,985	-	-	-	86,557,353
Level 3	-	1,708,281	-	-	16,336,967	-	18,045,248
Net Asset Value (NAV)	<u>-</u>	<u>165,910,814</u>	<u>22,716,477</u>	<u>26,129,027</u>	<u>16,362,991</u>	<u>90,385,229</u>	<u>321,504,538</u>
Total	<u>\$ 62,258,162</u>	<u>\$ 373,679,213</u>	<u>\$ 126,084,579</u>	<u>\$ 26,129,027</u>	<u>\$ 32,699,958</u>	<u>\$ 90,385,229</u>	<u>\$ 711,236,168</u>

The following table summarizes the changes in the Society's Level 3 investments for the year ended June 30, 2017:

	<u>Equities</u>	<u>Real Assets</u>	<u>Total</u>
Balance at June 30, 2016	\$ 1,708,556	\$ 14,591,477	\$ 16,300,033
Unrealized depreciation	(275)	1,115,490	1,115,215
Purchases of investments	-	630,000	630,000
Balance at June 30, 2017	<u>\$ 1,708,281</u>	<u>\$ 16,336,967</u>	<u>\$ 18,045,248</u>

The Society's investments are managed in accordance with investment guidelines established by the Society's Board of Directors. The Society's Board of Directors annually approves the level of investment return to be appropriated for operations. The annual spending rate, subject to Board approval, is calculated as follows: 70% of the previous year's spending amount adjusted for the annual rate of inflation, plus 30% of the most recent four-quarter average fair value of the investment pool multiplied by 5%. Amounts approved totaled \$26,932,567 and \$29,890,879 in 2018 and 2017, respectively. In addition, the Society's Board of Directors also approved the use of an additional \$5,858,753 and \$3,498,225 in 2018 and 2017, respectively, of investment return to fund additional ministry expense, pension expense, and post-retiree

AMERICAN BIBLE SOCIETY
Notes to Financial Statements
June 30, 2018 and 2017

health care benefits. Amounts approved for capital activities and other purposes, which are reflected as part of nonoperating activities in the accompanying 2017 statement of activities, totaled \$434,849.

The components of investment return for the years ended June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 10,825,562	\$ 9,269,250
Unrealized appreciation in fair value of investments	24,588,149	26,654,400
Realized gains	20,945,210	40,906,329
Investment expenses	<u>(3,075,538)</u>	<u>(2,555,195)</u>
Investment return, net	53,283,383	74,274,784
Amounts appropriated for program services	(26,932,567)	(29,890,879)
Amounts appropriated for specific operating purposes	<u>(5,858,753)</u>	<u>(3,498,225)</u>
Investment return appropriated for operations	(32,791,320)	(33,389,104)
Amounts appropriated for capital activities and other purposes	<u>-</u>	<u>(434,849)</u>
Investment return, less amounts appropriated for operations and capital activities	<u>\$ 20,492,063</u>	<u>\$ 41,320,529</u>
Unrealized appreciation in fair value of investment in third-party trusts	<u>\$ 443,802</u>	<u>\$ 346,537</u>

The Society uses the net asset value per share or its equivalent to determine the fair value of all the underlying investments which: (a) do not have a readily determinable fair value; and (b) prepare their investees financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

AMERICAN BIBLE SOCIETY
Notes to Financial Statements
June 30, 2018 and 2017

The following tables list investments reported at fair value based on NAV by major category as of June 30, 2018 and 2017:

2018								
Type	Strategy	NAV in Funds	# of Funds	Remaining Life	\$ Amount of Unfunded Commitments	Timing to Drawdown Commitments	Redemption Terms	Redemption Restrictions
Private Equities	Venture and buyout in the U.S. and international	\$ 29,192,757	29	1 to 12 years	\$ 18,754,969	1 to 10 years	N/A	N/A
Inflation Hedging/ Real Assets	Real assets and natural resources, primarily in the U.S., private equity structure and ETF	20,214,728	13	1 to 30 years	20,006,236	1 to 4 years	Private equity structures have no redemption options	N/A
Flexible Capital/ Absolute Return	Global equity and fixed income funds in market neutral strategies, fund-of-funds structure	90,147,276	7	N/A	N/A	N/A	Ranges as follows: Quarterly/Annual/ 3-Year liquidity: 45-91 days	1 fund allows annual liquidity, 2 funds quarterly liquidity, 3 funds 3-Year liquidity, 1 fund liquidating
Equity Partnership	Long/short and long only funds structured as partnerships	44,569,519	1	N/A	N/A	N/A	30 days notice and quarterly redemptions	N/A
Commingled Funds	Global funds, primarily long only, equities and bond funds, and ETF	<u>157,133,483</u>	<u>6</u>	N/A	<u>N/A</u>	N/A	Ranges from 1 business day notice to 30 days, monthly redemptions	N/A
Total		<u>\$ 341,257,763</u>	<u>56</u>		<u>\$ 38,761,205</u>			

AMERICAN BIBLE SOCIETY
Notes to Financial Statements
June 30, 2018 and 2017

2017									
Type	Strategy	NAV in Funds	# of Funds	Remaining Life	\$ Amount of Unfunded Commitments	Timing to Drawdown Commitments	Redemption Terms	Redemption Restrictions	
Private Equities	Venture and buyout in the U.S. and international	\$ 26,129,027	28	1 to 12 years	\$ 20,633,705	1 to 10 years	N/A	N/A	
Inflation Hedging/ Real Assets	Real assets and natural resources, primarily in the U.S., private equity structure and ETF	16,362,991	12	1 to 30 years	20,587,658	1 to 4 years	Private equity structures have no redemption options	N/A	
Flexible Capital/ Absolute Return	Global equity and fixed income funds in market neutral strategies, fund-of-funds structure	90,385,229	7	N/A	N/A	N/A	Ranges as follows: Quarterly/Annual/ 3-Year liquidity: 45-91 days	1 fund allows annual liquidity, 2 funds quarterly liquidity, 3 funds 3-Year liquidity, 1 fund liquidating	
Equity Partnership	Long/short and long only funds structured as partnerships	38,803,281	1	N/A	N/A	N/A	30 days notice and quarterly redemptions	N/A	
Commingled Funds	Global funds, primarily long only, equities and bond funds, and ETF	<u>149,824,010</u>	<u>6</u>	N/A	<u>N/A</u>	N/A	Ranges from 1 business day notice to 30 days, monthly redemptions	N/A	
Total		<u>\$ 321,504,538</u>	<u>54</u>		<u>\$ 41,221,363</u>				

5. TRANSACTIONS WITH FELLOWSHIP AND AFFILIATED ORGANIZATIONS

The Society provides major financial support to the United Bible Societies Association (“UBSA”) and, as one of the founding national Bible Societies of the United Bible Societies fellowship, performs much of its program efforts globally through funding programmatic efforts of its fellow national Bible Societies. During fiscal 2018 and 2017, this support amounted to \$14,083,384 and \$12,464,966, respectively.

During fiscal 2006, due to the uncertainty associated with repayment, the Society agreed to convert its then program loan receivable due from the Bible Society in Russia, in the amount of \$1,500,000, to a local fundraising challenge grant which, if successful, would lead to the eventual forgiveness of the loan balance. At June 30, 2018 and 2017, the receivable, which has been fully reserved for, totaled \$356,071 and \$479,391, respectively.

6. BENEFICIAL INTEREST IN INVESTMENTS HELD BY THIRD-PARTY TRUSTEES

The Society maintains a beneficial interest in investments held by third-party trustees. The Society’s share of such funds had a fair value totaling \$25,937,956 and \$25,488,217 at June 30, 2018 and 2017, respectively.

At June 30, 2018 and 2017, the Society’s beneficial interest in investments held by third-party trustees was classified as Level 3 within the fair value hierarchy.

AMERICAN BIBLE SOCIETY
Notes to Financial Statements
June 30, 2018 and 2017

The following tables summarize the changes in the Society's Level 3 beneficial interest in investments held by third-party trustees for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 25,488,217	\$ 24,590,055
New agreements	119,900	449,954
Terminated agreements	(405,613)	(180,227)
Change in value due to actuarial valuations	291,650	281,898
Unrealized appreciation in fair value of third-party trusts	<u>443,802</u>	<u>346,537</u>
Ending balance	<u>\$ 25,937,956</u>	<u>\$ 25,488,217</u>

7. FIXED ASSETS, NET

Fixed assets are carried at cost less accumulated depreciation and consist of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Furniture, fixtures, and equipment	\$ 7,798,004	\$ 7,774,700
Leasehold improvements	13,878,069	13,878,069
Capitalized software	<u>4,970,941</u>	<u>4,970,941</u>
	26,647,014	26,623,710
Less: Accumulated depreciation	<u>(11,087,887)</u>	<u>(9,710,337)</u>
	<u>\$ 15,559,127</u>	<u>\$ 16,913,373</u>

8. NET ASSETS

The Society's Board of Directors has designated certain unrestricted net assets for employee pension benefits which total \$12,939,785 and \$13,515,196 at June 30, 2018 and 2017, respectively.

In addition, the Society's Board of Directors has designated certain unrestricted net assets to function as an endowment (quasi-endowment). The investment return generated from these assets is used to fund operating expenses as approved by the Board of Directors. Investment return in excess of approved amounts is used to maintain the purchasing power of the investments and to help ensure resources for future needs, ministries, and opportunities (see also Note 12).

AMERICAN BIBLE SOCIETY
Notes to Financial Statements
June 30, 2018 and 2017

Temporarily restricted net assets at June 30, 2018 and 2017 are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Life income agreements	\$ 11,965,903	\$ 11,669,722
Trust agreements	30,748,347	27,257,506
Geographically focused and operations	<u>23,886,198</u>	<u>11,877,028</u>
	<u>\$ 66,600,448</u>	<u>\$ 50,804,256</u>

Permanently restricted net assets of the Society are restricted to investment in perpetuity, the income from which is expendable for the following purposes:

	<u>2018</u>	<u>2017</u>
Bible engagement and distribution	\$ 7,790,630	\$ 7,681,379
General support	<u>33,698,128</u>	<u>33,243,367</u>
	<u>\$ 41,488,758</u>	<u>\$ 40,924,746</u>

During each of the years ended June 30, 2018 and 2017, the Society released \$18,981,459 and \$16,759,775, respectively, from donor restrictions.

9. PENSION, POSTRETIREMENT HEALTH CARE, AND LIFE INSURANCE BENEFITS

The Society currently provides a defined contribution pension plan for all qualified employees. The Society contributed approximately \$1,703,000 and \$1,571,000 in 2018 and 2017, respectively, to the plan. Contributions are based on a percentage of each eligible employee's compensation which includes an employer matching contribution.

The Society also provides certain noncontributory health care and life insurance benefits to retired employees hired prior to July 1, 2005. This unfunded plan is designed to provide medical benefits to participants based upon date of hire and years of service.

The following table sets forth the plan's funded status and other information relative to the plan as of and for the years ended June 30, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Funded status:		
Accumulated Postretirement Benefit Obligation ("APBO"):		
Current retirees	\$ (30,022,456)	\$ (31,974,659)
Actives	<u>(4,283,384)</u>	<u>(3,900,271)</u>
Total unfunded status	<u>\$ (34,305,840)</u>	<u>\$ (35,874,930)</u>

AMERICAN BIBLE SOCIETY
Notes to Financial Statements
June 30, 2018 and 2017

Amounts recognized in unrestricted net assets as of June 30, 2018 and 2017 consist of:

	<u>2018</u>	<u>2017</u>
Actuarial losses	\$ 5,309,822	\$ 6,030,428

Components of net periodic benefit cost for the years ended June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Service cost	\$ 52,502	\$ 73,272
Interest cost	1,253,746	1,275,150
Amortization of:		
Prior service cost	-	-
Actuarial losses	<u>240,537</u>	<u>509,428</u>
Net periodic postretirement benefit cost	<u>\$ 1,546,785</u>	<u>\$ 1,857,850</u>

Other changes in benefit obligations recognized in unrestricted net assets for the years ended June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Net actuarial gain	\$ (480,071)	\$ (2,929,395)
Amortization of net gain	<u>(240,537)</u>	<u>(509,428)</u>
Total changes recognized in unrestricted net assets	<u>\$ (720,608)</u>	<u>\$ (3,438,823)</u>
Total changes recognized in net periodic benefit cost and unrestricted net assets	<u>\$ 826,177</u>	<u>\$ (1,580,973)</u>

AMERICAN BIBLE SOCIETY
Notes to Financial Statements
June 30, 2018 and 2017

The estimated net loss to be amortized from unrestricted net assets into net periodic benefit cost during fiscal 2019 is \$224,787.

Assumptions

	<u>2018</u>	<u>2017</u>
Assumptions used to determine benefit obligations at June 30:		
Discount rate	3.99 %	3.61 %
Assumptions used to determine net periodic benefit cost for the years ended June 30:		
Discount rate	3.61 %	3.29 %
Assumed health care cost trend rates at June 30:		
Health care cost trend rate assumed for next year	7.00 %	7.50 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.50 %	4.50 %
Year that the rate reaches the ultimate trend rate	2024	2024
Rate of increase in the per capita cost of covered dental benefits	4.50 %	4.50 %
Effect of a 1% increase in health care cost trend rate on:		
Interest and service cost	\$ 150,506	\$ 223,954
Accumulated postretirement benefit obligation	3,540,319	3,951,916
Effect of a 1% decrease in health care cost trend rate on:		
Interest and service cost	\$ (123,211)	\$ (181,318)
Accumulated postretirement benefit obligation	(2,942,698)	(3,262,121)

Contributions

The Society expects to contribute \$2,395,633 to its postretirement benefit plan during the year ending June 30, 2019.

Estimated Future Benefit Payments

The following benefit payments, which reflect anticipated future service, are expected to be paid in the years ending June 30th, as follows:

2019	\$ 2,395,633
2020	2,311,808
2021	2,273,825
2022	2,254,431
2023	2,173,993
2024-2028	10,188,546

AMERICAN BIBLE SOCIETY
Notes to Financial Statements
June 30, 2018 and 2017

10. COMMITMENTS AND CONTINGENCIES

Rental Expense

Total future minimum rental commitments due under non-cancelable operating leases for facilities and equipment are as follows:

	<u>Facilities</u>	<u>Equipment</u>	<u>Total Leases</u>
Year Ending June 30:			
2019	\$ 3,587,725	\$ 73,630	\$ 3,661,355
2020	3,649,916	74,100	3,724,016
2021	3,712,106	8,700	3,720,806
2022	3,774,297	5,800	3,780,097
2023	3,836,487	-	3,836,487
Thereafter	<u>80,082,625</u>	<u>-</u>	<u>80,082,625</u>
	<u>\$ 98,643,156</u>	<u>\$ 162,230</u>	<u>\$ 98,805,386</u>

Office rent expense for the years ended June 30, 2018 and 2017 totaled \$55,199 and \$52,488, respectively, for the Society's leased facilities in Wayne, PA. Upon relocation to Philadelphia, the Society vacated the facilities in Wayne, PA. During fiscal 2016, the Society entered into sub-lease agreements for these facilities and also recognized a related lease abandonment cost of \$548,104, net of anticipated sublease rentals.

Effective July 2, 2015, the Society entered into a 25-year operating facilities lease for its new headquarters space located in Philadelphia, PA. Rent expense for the use of this space for the years ended June 30, 2018 and 2017 totaled \$3,531,126 and \$3,531,126, respectively. Deferred allowance from lease activity primarily relates to a period of free rent related to the Society's new headquarters operating lease and a tenant construction allowance that is being amortized over the term of the lease.

Equipment rent expense for the years ended June 30, 2018 and 2017 totaled \$73,989 and \$33,578, respectively.

Contingencies

In the normal course of its operations, the Society is a party to various legal proceedings and complaints, some of which are covered by insurance. While it is not feasible to predict the ultimate resolution of such matters, management of the Society is not aware of any claims or contingencies that would have a material adverse effect on the Society's financial position, changes in net assets or cash flows.

11. EXPENSES AND OTHER CHARGES

During the years ended June 30, 2018 and 2017, the Society incurred joint costs of \$12,229,423 and \$11,539,520, respectively, for informational materials and activities that included development appeals. Of those costs \$7,019,689 and \$5,781,300, respectively, have been allocated to development with \$5,209,734 and \$5,758,220, respectively, allocated to program services.

AMERICAN BIBLE SOCIETY
Notes to Financial Statements
June 30, 2018 and 2017

12. ENDOWMENT

The Society's endowment consists of approximately 450 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Society's Board of Directors to function as endowments. As required by US GAAP, net assets associated with endowment funds, including funds designated by the Society's Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions or relevant law.

During 2010, New York State passed the New York State Uniform Prudent Management of Institutional Funds Act ("NYPMIFA"). All not-for-profit organizations formed in New York, including the Society, must comply with this law, commencing with the Society's 2011 fiscal year.

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the fund's historic dollar value. At June 30, 2018 and 2017, there were no deficiencies of this nature.

The Society has adopted investment and spending policies for its endowment assets that support the objective of providing a sustainable and increasing level of endowment income distribution to support the Society's activities through the annual operating budget while preserving the real (inflation adjusted) purchasing power of the endowment, exclusive of gift additions. The Society's primary investment objective is to maximize total return within reasonable and prudent levels of risk while maintaining sufficient liquidity to meet disbursement needs and ensure preservation of capital.

The Society has interpreted NYPMIFA as requiring the Society, absent explicit donor stipulations to the contrary, to act in good faith and with the care that an ordinarily prudent person in a like position would exercise under similar circumstances in making determinations to appropriate or accumulate endowment funds, taking into account both its obligation to preserve the value of the endowment and its obligations to use the endowment to achieve the purposes for which it was donated. As a result of this interpretation, the Society classifies as permanently restricted net assets: (a) the original value of gifts donated to its permanent endowment; (b) the original value of subsequent gifts to its permanent endowment; and (c) accumulations to its 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 such amounts are appropriated for expenditure by the Board of Directors of the Society in a manner consistent with the standard of prudence prescribed by NYPMIFA. In accordance with NYPMIFA, the Society 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 Society and its donor-restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and appreciation of endowment investments;
- (6) Other resources of the Society;
- (7) The investment policies of the Society; and
- (8) Where appropriate, alternatives to spending from the donor-restricted endowment fund and the possible effects on the Society.

AMERICAN BIBLE SOCIETY
Notes to Financial Statements
June 30, 2018 and 2017

The following tables summarize endowment net asset composition by type of fund as of June 30, 2018 and 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 12,992,079	\$ 19,674,674	\$ 32,666,753
Board-designated endowment funds	<u>555,590,742</u>	<u>-</u>	<u>-</u>	<u>555,590,742</u>
Total endowment funds	<u>\$ 555,590,742</u>	<u>\$ 12,992,079</u>	<u>\$ 19,674,674</u>	<u>\$ 588,257,495</u>

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 10,516,055	\$ 19,554,463	\$ 30,070,518
Board-designated endowment funds	<u>547,073,486</u>	<u>-</u>	<u>-</u>	<u>547,073,486</u>
Total endowment funds	<u>\$ 547,073,486</u>	<u>\$ 10,516,055</u>	<u>\$ 19,554,463</u>	<u>\$ 577,144,004</u>

Excluded from permanently restricted net assets in the tables above at June 30, 2018 and 2017 are \$21,814,084 and \$21,370,283, respectively, of perpetual trusts held by third-parties.

The following table summarizes the changes in endowment net assets for the year ended June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 547,073,486	\$ 10,516,055	\$ 19,554,463	\$ 577,144,004
Contributions, net of amounts transferred to operations*	(6,006,087)	-	10,959	(5,995,128)
Interest and dividends	9,881,807	-	109,252	9,991,059
Unrealized appreciation in fair value of investments	21,063,434	2,476,024	-	23,539,458
Realized gains	20,177,613	-	-	20,177,613
Investment expenses	(2,961,071)	-	-	(2,961,071)
Other income, primarily royalties	290,046	-	-	290,046
Net change in value of split-interest agreements	(1,137,166)	-	-	(1,137,166)
Amounts appropriated for program services	(26,932,567)	-	-	(26,932,567)
Amounts appropriated for specific operating purposes	<u>(5,858,753)</u>	<u>-</u>	<u>-</u>	<u>(5,858,753)</u>
Endowment net assets, end of year	<u>\$ 555,590,742</u>	<u>\$ 12,992,079</u>	<u>\$ 19,674,674</u>	<u>\$ 588,257,495</u>

AMERICAN BIBLE SOCIETY
Notes to Financial Statements
June 30, 2018 and 2017

The following table summarizes the changes in endowment net assets for the year ended June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 517,883,479	\$ 7,096,123	\$ 19,401,297	\$ 544,380,899
Contributions, net of amounts transferred to operations*	(3,602,552)	-	102,965	(3,499,587)
Interest and dividends	8,576,442	-	50,201	8,626,643
Unrealized appreciation in fair value of investments	22,331,180	3,419,932	-	25,751,112
Realized gains	38,821,644	-	-	38,821,644
Investment expenses	(2,455,184)	-	-	(2,455,184)
Other income, primarily royalties	69,549	-	-	69,549
Net change in value of split-interest agreements	(1,596,817)	-	-	(1,596,817)
Amounts appropriated for capital activities and other	434,849	-	-	434,849
Amounts appropriated for program services	(29,890,879)	-	-	(29,890,879)
Amounts appropriated for specific operating purposes	(3,498,225)	-	-	(3,498,225)
Endowment net assets, end of year	<u>\$ 547,073,486</u>	<u>\$ 10,516,055</u>	<u>\$ 19,554,463</u>	<u>\$ 577,144,004</u>

* The Society reports legacies received as increases in unrestricted net assets unless use of the related assets is limited by explicit donor-imposed restrictions (i.e., temporarily or permanently restricted). Because of the variability of this support, the application of such funds to support operations is budgeted at an amount approved by the Board of Directors annually. The excess between the unrestricted legacies received and the amount budgeted is reported as an addition or deduction in funds functioning as endowment.