



Consolidated Financial Statements, Additional Information
and Supplementary Information

for

**AMERICAN PRINTING HOUSE FOR
THE BLIND, INC.**

Years Ended September 30, 2019 and 2018
with Report of Independent Auditors

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Report of Independent Auditors

Board of Trustees
American Printing House for the Blind, Inc.
Louisville, Kentucky

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of American Printing House for the Blind, Inc. and its wholly owned subsidiary (the Organization), which comprise the consolidated statements of financial position as of September 30, 2019 and 2018, the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, 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 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 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.

Board of Trustees,
American Printing House for the Blind, Inc.
Report of Independent Auditors, continued

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Printing House for the Blind, Inc. and its wholly owned subsidiary as of September 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, effective October 1, 2018, the Organization adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Additional Information on page 31 and the accompanying Schedule of Expenditures of Federal Awards as presented on pages 32 and 33, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits 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 financial statements or to the 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 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 January 16, 2020 on our consideration of the Organization'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 solely 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 the effectiveness of the Organization's 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 the Organization's internal control over financial reporting and compliance.

Dean Dotson Allen Ford, PLLC

Louisville, Kentucky
January 16, 2020

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Consolidated Statements of Financial Position

September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Cash and cash equivalents	\$ 4,384,473	\$ 8,158,498
Investments	130,983,887	130,295,363
Investments, the use of which is limited	4,389,801	4,439,921
Accounts receivable, trade, net of allowance for bad debts	986,471	1,140,569
Government programs receivable	4,852,004	4,044,943
Split-interest agreements	2,182,651	2,183,288
Inventories, net of reserve	11,962,972	8,903,802
Prepaid expenses and other assets	555,408	458,805
Other receivable	440,000	656,400
Prepaid amount for the defined benefit plan	357,558	-
Property and equipment, net of accumulated depreciation	2,580,035	2,643,113
Software development costs	<u>118,492</u>	<u>-</u>
Total assets	<u>\$ 163,793,752</u>	<u>\$ 162,924,702</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and customer deposits	\$ 3,587,656	\$ 3,530,671
Accrued payroll	518,379	426,572
Accrued taxes and payroll withholdings	113,723	125,022
Accrued vacation	1,073,951	970,040
Annuities payable	959,650	1,035,200
Underfunded benefit plan obligation	17,272,368	12,642,405
Deferred compensation liability	1,062,509	1,064,035
Reserve for defined benefit plan	<u>-</u>	<u>102,394</u>
Total liabilities	<u>24,588,236</u>	<u>19,896,339</u>
Net assets:		
Without donor restrictions:		
Undesignated	145,465,192	144,632,478
Invested in property and equipment	2,580,035	2,643,113
Board-designated - accessible textbook program	1,860,205	1,771,968
Funded status of benefit plan	<u>(17,272,368)</u>	<u>(12,642,405)</u>
Total without donor restrictions	<u>132,633,064</u>	<u>136,405,154</u>
With donor restrictions:		
Purpose and time restricted	4,348,304	4,423,884
Perpetual in nature	<u>2,224,148</u>	<u>2,199,325</u>
Total with donor restrictions	<u>6,572,452</u>	<u>6,623,209</u>
Total net assets	<u>139,205,516</u>	<u>143,028,363</u>
Total liabilities and net assets	<u>\$ 163,793,752</u>	<u>\$ 162,924,702</u>

See accompanying notes.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Consolidated Statements of Activities

Year ended September 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support, revenues and gains:			
Products distributed and sold	\$ 30,599,658	\$ -	\$ 30,599,658
Contributions and bequests	1,427,513	(637)	1,426,876
Interest and dividends	3,465,186	186,177	3,651,363
Grants	485,105	-	485,105
Gain on investments, net	2,039,909	3,888	2,043,797
Miscellaneous income	981,695	-	981,695
Net assets released from restrictions	<u>240,185</u>	<u>(240,185)</u>	<u>-</u>
Total support, revenues and gains	39,239,251	(50,757)	39,188,494
Expenses:			
Program expenses:			
Costs of products distributed and sold	24,283,517	-	24,283,517
Program support	<u>6,202,794</u>	<u>-</u>	<u>6,202,794</u>
Total program expenses	30,486,311	-	30,486,311
Fund-raising and development expenses	595,687	-	595,687
General and administrative expenses	6,695,332	-	6,695,332
Access Explorer expenses	<u>604,048</u>	<u>-</u>	<u>604,048</u>
Total expenses	38,381,378	-	38,381,378
Net loss for the retirement plan	<u>(4,629,963)</u>	<u>-</u>	<u>(4,629,963)</u>
Change in net assets	(3,772,090)	(50,757)	(3,822,847)
Net assets, beginning of year	<u>136,405,154</u>	<u>6,623,209</u>	<u>143,028,363</u>
Net assets, end of year	<u>\$ 132,633,064</u>	<u>\$ 6,572,452</u>	<u>\$ 139,205,516</u>

See accompanying notes.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Consolidated Statements of Activities, continued

Year ended September 30, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support, revenues and gains:			
Products distributed and sold	\$ 27,625,327	\$ -	\$ 27,625,327
Contributions and bequests	1,958,493	(2,720)	1,955,773
Interest and dividends	2,808,944	155,947	2,964,891
Grants	602,354	-	602,354
Gain on investments, net	7,792,042	176,835	7,968,877
Miscellaneous income	1,093,097	-	1,093,097
Net assets released from restrictions	<u>235,489</u>	<u>(235,489)</u>	<u>-</u>
Total support, revenues and gains	42,115,746	94,573	42,210,319
Expenses:			
Program expenses:			
Costs of products distributed and sold	20,591,754	-	20,591,754
Program support	<u>6,217,897</u>	<u>-</u>	<u>6,217,897</u>
Total program expenses	26,809,651	-	26,809,651
Fund-raising and development expenses	674,887	-	674,887
General and administrative expenses	<u>6,442,330</u>	<u>-</u>	<u>6,442,330</u>
Total expenses	33,926,868	-	33,926,868
Net loss for the retirement plan	<u>(488,889)</u>	<u>-</u>	<u>(488,889)</u>
Change in net assets	7,699,989	94,573	7,794,562
Net assets, beginning of year	<u>128,705,165</u>	<u>6,528,636</u>	<u>135,233,801</u>
Net assets, end of year	<u>\$ 136,405,154</u>	<u>\$ 6,623,209</u>	<u>\$ 143,028,363</u>

See accompanying notes.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Consolidated Statements of Functional Expenses

Year ended September 30, 2019

	Program			Fund-Raising	Development	General and Administrative	Access Explorer	Total
	Program A	Program B	Total					
Cost of materials and production	\$ -	\$ 13,699,475	\$ 13,699,475	\$ -	\$ -	\$ -	\$ -	\$ 13,699,475
Labor costs	228,958	11,015,571	11,244,529	313,711	70,421	4,178,883	398,001	16,205,545
Supplies	8,501	901,590	910,091	4,310	772	67,278	10,717	993,168
Dues and subscriptions	449	21,105	21,554	4,702	287	24,452	1,655	52,650
Travel	3,101	323,844	326,945	4,930	134	78,678	24,421	435,108
Professional service fees	3,074	2,327,644	2,330,718	158,162	883	507,001	116,233	3,112,997
Legal fees	-	23,970	23,970	-	-	142,387	1,341	167,698
Public relations	2,121	18,443	20,564	2,317	239	55,327	42,298	120,745
Public education	300	997	1,297	675	102	39,556	-	41,630
Utilities and telephone	-	350,671	350,671	803	159	49,044	-	400,677
Postage	1,221	180,657	181,878	21,044	1,677	26,823	-	231,422
Equipment rental and maintenance	12,156	939,205	951,361	8,207	1,624	677,141	3,643	1,641,976
Insurance	2,500	25,020	27,520	-	-	47,532	-	75,052
Depreciation	4,287	330,567	334,854	-	-	489,603	295	824,752
Rent	16,800	-	16,800	-	-	(16,800)	-	-
Other	-	44,084	44,084	442	86	328,427	5,444	378,483
Total expenses by function	\$ 283,468	\$ 30,202,843	\$ 30,486,311	\$ 519,303	\$ 76,384	\$ 6,695,332	\$ 604,048	\$ 38,381,378

Program A: APH Museum

Program B: Production and support expenses related to producing products for the blind and visually impaired.

See accompanying notes.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Consolidated Statements of Functional Expenses, continued

Year ended September 30, 2018

	Program			Fund-Raising	Development	General and Administrative	Total
	Program A	Program B	Total				
Cost of materials and production	\$ -	\$ 10,795,188	\$ 10,795,188	\$ 44,000	\$ -	\$ -	\$ 10,839,188
Labor costs	209,730	10,219,402	10,429,132	258,189	58,208	4,144,045	14,889,574
Supplies	5,792	1,070,184	1,075,976	1,662	302	83,218	1,161,158
Dues and subscriptions	827	12,163	12,990	4,425	360	26,811	44,586
Travel	138	215,472	215,610	8,422	426	76,476	300,934
Professional service fees	10,126	2,357,881	2,368,007	258,086	1,849	407,822	3,035,764
Legal fees	-	68,958	68,958	-	-	24,244	93,202
Public relations	2,537	28,415	30,952	1,223	263	180,024	212,462
Public education	1,917	2,078	3,995	573	123	20,122	24,813
Utilities and telephone	8	337,043	337,051	876	188	52,252	390,367
Postage	681	154,272	154,953	23,142	1,748	36,327	216,170
Equipment rental and maintenance	18,562	895,200	913,762	8,514	1,828	619,229	1,543,333
Insurance	2,500	24,955	27,455	-	-	48,224	75,679
Depreciation	4,360	291,494	295,854	-	-	437,076	732,930
Rent	16,800	-	16,800	-	-	(16,800)	-
Other	50	62,918	62,968	395	85	303,260	366,708
Total expenses by function	\$ 274,028	\$ 26,535,623	\$ 26,809,651	\$ 609,507	\$ 65,380	\$ 6,442,330	\$ 33,926,868

Program A: APH Museum

Program B: Production and support expenses related to producing products for the blind and visually impaired.

See accompanying notes.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Consolidated Statements of Cash Flows

Years ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Cash received from customers	\$ 29,951,293	\$ 27,251,651
Cash paid to suppliers, employees, and others	(40,947,586)	(32,767,567)
Cash received from gifts and bequests	1,412,129	1,959,332
Interest and dividends	3,646,765	2,912,250
Other income and support	<u>1,466,800</u>	<u>1,695,451</u>
Net cash (used in) provided by operating activities	(4,470,599)	1,051,117
Cash flows from investing activities:		
Proceeds from sales of marketable securities	24,167,225	20,303,088
Purchase of marketable securities	(22,532,453)	(20,290,465)
Purchase of property and equipment	(759,540)	(438,437)
Software development costs	<u>(118,492)</u>	<u>-</u>
Net cash provided by (used in) investing activities	756,740	(425,814)
Cash flows from financing activities:		
Payments of annuity obligations	<u>(60,166)</u>	<u>(63,809)</u>
(Decrease) increase in cash and cash equivalents	(3,774,025)	561,494
Cash and cash equivalents, beginning of year	<u>8,158,498</u>	<u>7,597,004</u>
Cash and cash equivalents, end of year	<u>\$ 4,384,473</u>	<u>\$ 8,158,498</u>

See accompanying notes.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Consolidated Financial Statements

1. Nature of Organization

The American Printing House for the Blind, Inc. (APH) is a non-for-profit manufacturer and distributor of products and services for people who are blind or visually impaired. APH's primary products include Braille and large type printed materials, recorded books in digital formats, specialized electronic equipment, and educational aids. These products are distributed to schools and agencies to educate blind or visually impaired students, individuals, and the National Library Service.

In October 2018, APH obtained control of a newly formed entity called Access Explorer, Inc. (AE). AE will be taxed as a "C" corporation. The new entity was formed for the purpose of developing mapping technology for various venues.

The consolidated financial statements include the accounts of American Printing House for the Blind, Inc. and its wholly owned subsidiary, Access Explorer, Inc. (collectively, the Organization). Significant intercompany transactions and accounts have been eliminated.

2. Summary of Significant Accounting Policies

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The following is a summary of the significant accounting policies consistently followed by the Organization in the preparation of its consolidated financial statements.

For the year ended September 30, 2019, Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, became effective and was adopted by the Organization. This standard changed the presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) including qualitative and quantitative requirements in the following areas: 1) net asset classes; 2) investment return; 3) expenses; 4) liquidity and availability of resources; and 5) presentation of operating cash flows. The 2018 consolidated financial statements have been reformatted and various amounts have been reclassified to conform to the 2019 presentation with no impact on total assets, liabilities, net assets or changes in net assets.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Consolidated Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Basis of Presentation

Net assets and support, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions - include the portion of expendable funds that are not subject to donor-imposed stipulations and include the following:

Board-Designated - Accessible Textbook Program: These net assets represent funds designated by the Board of Trustees for the accessible textbook program. Although the Board could release or revise the designation in the future, to the extent not externally restricted, there is no intent to do so.

Invested in Property and Equipment: These net assets represent cumulative resources expended for property and equipment, less accumulated depreciation recorded.

Undesignated: These net assets represent the portion of expendable funds available in operation of the Organization.

Funded Status of Benefit Plan: This represents the underfunded status of the Organization's defined benefit pension plan (see Note 12).

Net assets with donor restrictions - net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in time, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The investment return on net assets with donor restriction may be restricted or unrestricted according to the donor's wishes.

When a donor restriction expires, net assets with donor restrictions are classified to net assets without donor restrictions and reported on the consolidated statements of activities as net assets released from restrictions. The Organization treats donor-restricted contributions whose restrictions are met in the same reporting period as unrestricted support.

Cash and Cash Equivalents

Cash equivalents include all highly liquid investments with an original maturity of three months or less. Cash balances may exceed insured limits for federal deposit insurance. Management considers it very unlikely that any loss will result from the cash balance in excess of federal insurance limits.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Consolidated Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Accounts Receivable and Other Receivable

Accounts receivable consist of amounts due from customers for sales of the Organization's products.

The other receivable is an advance made to a vendor of the Organization for development of a new product. The receivable is being repaid to the Organization based upon sales of the new product.

The Organization provides an allowance for bad debts based upon the anticipated collectibility of each specific account. An allowance for bad debts is recorded to the extent it is probable that a portion or all of a particular account will not be collected. In evaluating the collectibility of accounts receivable, the Organization considers a number of factors, including historical loss rates, the age of the accounts, changes in collection patterns, the status of ongoing disputes with third-party payers, and general industry conditions. Actual collections of accounts receivable in subsequent periods may require changes in the estimated provision. Changes in the estimate are charged or credited to expenses in the period of change. Receivables are considered past due based upon invoice terms, and are written off when deemed uncollectible. The Organization does not charge interest on past due accounts.

Inventories

Inventories are stated at the lower of cost or market on the first-in, first-out identification method. Labor and overhead included in work-in-process and finished goods inventories are valued at standard hourly cost rates which approximate actual costs incurred. The Organization's reserve for obsolete inventory is based on the historical demand for product sales relative to inventory levels on hand at period end, adjusted for known changes in forecasted demand, if necessary.

Investment Valuation and Income Recognition

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 6 for further discussion of fair value measurements. Receipts of donated investments are recorded at the quoted market value of the investments at the time of receipt.

The Organization invests in fixed income securities, including government and corporate bonds, in publicly-traded stocks and mutual funds, and in other investment vehicles such as hedge funds. These investments are subject to the risks common to financial markets, including interest rate risks, credit risks, and overall market risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Consolidated Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Investment Valuation and Income Recognition, continued

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Gain (loss) on investments includes the Organization's gains and losses on investments bought and sold as well as held during the year.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed on the straight-line basis over reasonably estimated useful lives of the various classes of assets.

Revenue Recognition

The Organization recognizes revenue upon transfer of title of products as goods are shipped. Shipping and handling costs incurred by the Organization are included in costs of products distributed and sold.

Functional Allocation of Expenses

The costs of providing the various programs and other activities of the Organization are summarized on a functional basis in the accompanying consolidated statements of activities and functional expenses.

Directly identifiable expenses are charged to the applicable program or supporting services. Certain expenses are not directly identifiable with any other specific function, but provide for the overall support and direction of the Organization, and require allocation between functions on a reasonable basis that is consistently applied. The expenses that are allocated include labor costs and facility expenses (such as utilities and telephone, equipment rental and maintenance, and depreciation). Labor costs are allocated based upon the time the respective individual dedicates to program activities, fund-raising, development and administrative duties. Facility expenses are allocated on a square footage basis.

Donated Goods and Services

Property, materials, and other in-kind assets received as donations are recorded and reflected in the accompanying financial statements at their estimated fair values at the date of receipt.

Research and Development

Research and development costs of APH are expensed when incurred.

Research and development costs related to the development of AE's software are capitalized. Capitalization of costs commenced when technological feasibility was established and will cease when the product is available for general release to customers.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Consolidated Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Advertising Costs

Advertising costs are expensed when incurred. Advertising costs totaled \$54,294 and \$29,745 for the years ended September 30, 2019 and 2018, respectively.

Income Taxes

APH is a not-for-profit entity exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). Although APH is exempt from income taxes, any income generated from activities unrelated to the Organization's exempt purpose is subject to tax under IRC Section 511. APH generated no material unrelated business income for the years ended September 30, 2019 and 2018.

AE will file Federal, state and local income tax returns as a C-corporation. Deferred taxes for AE are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Reclassifications

Certain amounts in the 2018 consolidated financial statements have been reclassified, with no effect on changes in net assets, to be consistent with the classifications adopted for the year ended September 30, 2019.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The core principle of ASU 2014-09 is to recognize revenues when a customer obtains control of a good or service, in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. Additionally, the ASU will require enhanced qualitative and quantitative disclosures regarding customer contracts. The standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or modified retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of ASU 2014-09 by one year. The updated standard will be effective for the Organization for the year ending September 30, 2020. The Organization has not yet selected a transition method and is currently evaluating the effect that the new standard will have on its consolidated financial statements.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Consolidated Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements, continued

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, requiring all leases to be recognized on the Organization's balance sheet as a right-of-use asset and a lease liability, unless the lease is a short term lease (generally a lease with a term of twelve months or less). At the commencement date of the lease, the Organization will recognize: 1) a lease liability for the Organization's obligation to make payments under the lease agreement, measured on a discounted basis; and 2) a right-of-use asset that represents the Organization's right to use, or control the use of, the specified asset for the lease term. The ASU originally required recognition and measurement of leases at the beginning of the earliest period presented using a modified retrospective transition method. In July 2018, the FASB issued ASU 2018-11, which provided an additional (and optional) transition method that permits application of the updated standard at the adoption date with recognition of a cumulative-effect adjustment to the opening balance of net assets in the period of adoption. In November 2019, the FASB issued ASU 2019-10, which deferred the effective date of ASU 2016-02 for the Organization by one year. The updated standard will be effective for the Organization for the year ending September 30, 2022, with early adoption permitted. The Organization has not yet selected a transition method and is currently evaluating the effect that the new standard will have on its consolidated financial statements.

Subsequent Events

Management has evaluated subsequent events for recognition or disclosure in the consolidated financial statements through January 16, 2020, which was the date at which the consolidated financial statements were available to be issued.

3. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the consolidated statement of financial position, comprise the following.

	<u>2019</u>
Cash and cash equivalents	\$ 4,384,473
Investments	130,983,887
Accounts receivable trade, net	986,471
Government programs receivable	4,852,004
Other receivable	<u>440,000</u>
Total financial assets without donor restrictions	141,646,835
Board-designated net assets	<u>(1,860,205)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 139,786,630</u>

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Consolidated Financial Statements, continued

3. Liquidity and Availability, continued

Donor-restricted endowment funds are not available for general expenditure, however, income from donor-restricted endowments is available for general use. (see Note 11).

The Board-designated net assets are restricted to expenditures related to the accessible textbook program. Although the Organization does not intend to spend from this Board-designated endowment (other than amounts appropriated for expenditures on the accessible textbook program as part of our Board's annual budget approval and appropriation), these amounts could be made available if necessary.

In addition to financial assets available to meet general expenditures over the next year, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

4. Split-Interest Agreements

The Organization has a lead interest in various split-interest agreements which provide periodic payments in perpetuity. The fair value of the contribution has been estimated based on the present value of estimated future distributions expected to be received, discounted at a rate of 4%. The present value of these agreements amounted to \$2,077,500 as of September 30, 2019 and 2018.

The Organization also has a remainder interest in a split-interest agreement from an irrevocable trust created by a donor. The fair value of the contribution from this agreement has been estimated and recorded based on the fair value of the assets contributed by the donor, adjusted for the present value of the payments expected to be made first to other beneficiaries. The adjusted payout rate to the beneficiaries is 5%. Actuarial assumptions are based on a single life expectancy. The beneficial interest under this agreement amounted to \$105,151 and \$105,788 at September 30, 2019 and 2018 respectively. These amounts are adjusted annually to reflect the amortization of discount and changes in actuarial assumptions.

5. Investments

Most long-term investments are held in three investment pools. Pool A is for amounts designated by the Board of Trustees for long-term investment, gifts creating annuity trusts, and also for permanent endowments and the net appreciation on those endowments. Pool B is for permanent endowments and the net appreciation of those endowments and for funding research and development. Pool C is for other investments.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Consolidated Financial Statements, continued

5. Investments, continued

The participation in the pools and ownership of the investments included in each type of net assets as reflected on the consolidated statements of financial position are as follows:

	Pool A	Pool B	Pool C	Total
<u>September 30, 2019</u>				
With donor restrictions	\$ 102,743	\$ 4,287,058	\$ -	\$ 4,389,801
Without donor restrictions	<u>102,306,773</u>	<u>-</u>	<u>28,677,114</u>	<u>130,983,887</u>
Total	<u>\$102,409,516</u>	<u>\$ 4,287,058</u>	<u>\$ 28,677,114</u>	<u>\$135,373,688</u>
 <u>September 30, 2018</u>				
With donor restrictions	\$ 102,744	\$ 4,337,177	\$ -	\$ 4,439,921
Without donor restrictions	<u>102,662,976</u>	<u>-</u>	<u>27,632,387</u>	<u>130,295,363</u>
Total	<u>\$102,765,720</u>	<u>\$ 4,337,177</u>	<u>\$ 27,632,387</u>	<u>\$134,735,284</u>

6. Fair Value Measurements

The Organization classifies its assets and liabilities measured at fair value based on a hierarchy consisting of: Level 1 (valued using quoted prices from active markets for identical assets), Level 2 (not traded on an active market but for which observable market inputs are readily available), and Level 3 (valued based on significant unobservable inputs). The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities at fair value. There have been no changes in the methodologies used to determine fair value at September 30, 2019 and 2018.

Money market funds: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.

Corporate stocks: Valued at unadjusted quoted prices for identical assets in active markets.

Corporate bonds and government securities: Valued at unadjusted quoted prices for similar assets in active markets or valued at unadjusted quoted prices for identical assets in inactive markets.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Consolidated Financial Statements, continued

6. Fair Value Measurements, continued

Hedge funds: Valued at the NAV of the units of participation in the fund. The hedge funds are valued at fair value based on audited financial information provided by the fund of the fair value of the underlying assets.

Split interest agreements: Valued based on the present value of the estimated future benefits expected to be received by the Organization (see Note 4).

Annuities payable: Valued based on the present value of the estimated future payments expected to be made by the Organization to the annuitants (see Note 13).

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair values of the Organization's investments are based on third-party pricing information without adjustment. As permitted under the accounting guidance for fair value disclosures, the Organization has not provided quantitative information about the significant unobservable inputs used in the fair value measurements of these securities.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Consolidated Financial Statements, continued

6. Fair Value Measurements, continued

The following tables set forth by level within the fair value hierarchy the Organization's assets and liabilities at fair value:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>September 30, 2019</u>				
Money market funds:				
Fixed income	\$ 29,465,363	\$ -	\$ -	\$ 29,465,363
Mutual funds:				
Fixed income	29,152,732	-	-	29,152,732
Equity	54,522,385	-	-	54,522,385
Other	394,416	-	-	394,416
Corporate stocks	20,515,332	-	-	20,515,332
Corporate bonds	-	913,503	-	913,503
Government securities	269,333	-	-	269,333
Hedge funds:				
Rising and falling markets	-	-	140,624	140,624
Total investments	134,319,561	913,503	140,624	135,373,688
Split interest agreements	-	-	2,182,651	2,182,651
Annuities payable	-	-	(959,650)	(959,650)
Total assets and liabilities at fair value	<u>\$ 134,319,561</u>	<u>\$ 913,503</u>	<u>\$ 1,363,625</u>	<u>\$ 136,596,689</u>

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Consolidated Financial Statements, continued

6. Fair Value Measurements, continued

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>September 30, 2018</u>				
Money market funds:				
Fixed income	\$ 21,395,714	\$ -	\$ -	\$ 21,395,714
Mutual funds:				
Fixed income	26,652,093	-	-	26,652,093
Equity	60,278,174	-	-	60,278,174
Other	904,274	-	-	904,274
Corporate stocks	19,789,556	-	-	19,789,556
Corporate bonds	-	934,899	-	934,899
Government securities:	324,784	-	-	324,784
Hedge funds:				
Rising and falling markets	-	-	4,207,881	4,207,881
Equity long/short hedge fund	<u>-</u>	<u>-</u>	<u>247,909</u>	<u>247,909</u>
Total investments	129,344,595	934,899	4,455,790	134,735,284
Split interest agreements	-	-	2,183,288	2,183,288
Annuities payable	<u>-</u>	<u>-</u>	<u>(1,035,200)</u>	<u>(1,035,200)</u>
Total assets and liabilities at fair value	<u>\$ 129,344,595</u>	<u>\$ 934,899</u>	<u>\$ 5,603,878</u>	<u>\$ 135,883,372</u>

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Consolidated Financial Statements, continued

6. Fair Value Measurements, continued

To assess the appropriate classification of assets and liabilities within the fair value hierarchy, the availability of market data is monitored. Changes in economic conditions or valuation techniques may require the transfer of assets and liabilities from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. The Organization's management evaluates the significance of transfers between levels based upon the nature of the assets and liabilities and size of the transfer relative to total net assets. For both the years ended September 30, 2019 and 2018, there were no significant transfers in or out of Level 3.

The following table reconciles the beginning of year and end of year balances of the Level 3 assets and liabilities for the years ended September 30:

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 5,603,878	\$ 8,638,259
Sales	(4,308,353)	(3,200,599)
Actuarial change	14,747	(3,559)
Payments to annuitants	60,166	63,809
Realized gains	1,208	714,949
Unrealized losses	<u>(8,021)</u>	<u>(608,981)</u>
Balance, end of year	<u>\$ 1,363,625</u>	<u>\$ 5,603,878</u>

The table below sets forth the fair value of investments in certain entities that calculated net asset value per share (or its equivalent):

<u>Investment</u>	<u>Fair Value at September 30</u>		<u>Unfunded Commitment</u>	<u>Redemption Frequency</u> Semi- annual and Semi- monthly	<u>Redemption Notice Period</u>
	<u>2019</u>	<u>2018</u>			
Multi-strategy hedge funds (a)	\$ 140,624	\$ 4,455,790	\$ -		5 - 95 days

- (a) This category consists of hedge funds that invest in a variety of managers and strategies. The fair values of the investments in this category have been estimated using the net asset value of the Organization's capital balance.

7. Government Programs Receivable

The Organization receives Federal government subsidies each year designated for providing materials, research and development, and other services to schools and institutions for the blind or visually impaired. The subsidies grant amounted to \$30,431,000 and \$27,431,000 for the years ended September 30, 2019 and 2018, respectively. The balance of this account at September 30, 2019 and 2018 includes, in part, amounts drawn in excess of the available subsidies provided for the year to the schools and agencies but collectible from them from subsequent subsidies.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Consolidated Financial Statements, continued

8. Inventories

Inventories consist of the following as of September 30:

	<u>2019</u>	<u>2018</u>
Finished goods	\$ 7,729,326	\$ 4,507,262
Work-in-process	1,086,752	1,008,516
Raw materials	5,119,283	4,246,010
Less reserve for obsolete or excess inventory	<u>(1,972,389)</u>	<u>(857,986)</u>
Total inventories	<u>\$ 11,962,972</u>	<u>\$ 8,903,802</u>

9. Property and Equipment

The following is a summary of property and equipment, at cost, less accumulated depreciation as of September 30:

	<u>2019</u>	<u>2018</u>
Land	\$ 92,433	\$ 92,433
Buildings and improvements	7,903,851	7,823,607
Machinery and equipment	3,983,302	3,915,253
Office equipment	<u>3,625,084</u>	<u>3,363,893</u>
	15,604,670	15,195,186
Less accumulated depreciation	<u>(13,024,635)</u>	<u>(12,552,073)</u>
Total	<u>\$ 2,580,035</u>	<u>\$ 2,643,113</u>

Total depreciation expense was \$824,752 and \$732,930 for the years ended September 30, 2019 and 2018, respectively.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Consolidated Financial Statements, continued

10. Net Assets With Donor Restrictions

Net assets with donor restrictions as of September 30, 2019 and 2018 are restricted for the following purpose:

	<u>2019</u>	<u>2018</u>
Subject to the passage of time:		
Assets held under split-interest agreements	\$ 2,182,651	\$ 2,183,288
Endowments:		
Earnings on perpetual endowment subject to endowment spending policy and appropriation	2,165,653	2,240,596
Funds held in perpetuity	<u>2,224,148</u>	<u>2,199,325</u>
Total endowments	<u>4,389,801</u>	<u>4,439,921</u>
Total net assets with donor restrictions	\$ <u>6,572,452</u>	\$ <u>6,623,209</u>

Net assets released from restrictions during the years ended September 30, 2019 and 2018 are due to APH's spending policy appropriating earnings on the restricted endowment for general use in the Organization.

11. Net Asset Endowment

APH's endowment fund consists of Board-designated funds for the accessible textbook program and donor-imposed restricted funds. As required by GAAP, net assets associated with the endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of APH has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the spending power 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 Organization classifies, as permanently restricted net assets, the original value of gifts donated to the permanent endowment, original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument or to maintain spending power. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Consolidated Financial Statements, continued

11. Net Asset Endowment, continued

In accordance with UPMIFA, the Organization 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 Organization and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the Organization; and (7) the investment and spending policies of the Organization.

Endowment net asset composition by type of fund was as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>September 30, 2019</u>			
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 2,224,148	\$ 2,224,148
Accumulated investment gains	-	2,165,653	2,165,653
Board-designated endowment funds	<u>1,860,205</u>	<u>-</u>	<u>1,860,205</u>
Total	<u>\$ 1,860,205</u>	<u>\$ 4,389,801</u>	<u>\$ 6,250,006</u>
<u>September 30, 2018</u>			
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 2,199,325	\$ 2,199,325
Accumulated investment gains	-	2,240,596	2,240,596
Board-designated endowment funds	<u>1,771,968</u>	<u>-</u>	<u>1,771,968</u>
Total	<u>\$ 1,771,968</u>	<u>\$ 4,439,921</u>	<u>\$ 6,211,889</u>

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Consolidated Financial Statements, continued

11. Net Asset Endowment, continued

The changes in endowment net assets were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, October 1, 2017	\$ 1,704,431	\$ 4,342,628	\$ 6,047,059
Investment return:			
Investment income	35,453	155,947	191,400
Net appreciation - realized and unrealized	45,053	176,835	221,888
Appropriation of endowment assets pursuant to spending policy	-	(235,489)	(235,489)
Distribution from Board-designated endowment	(12,969)	-	(12,969)
Endowment net assets, September 30, 2018	1,771,968	4,439,921	6,211,889
Investment return:			
Investment income	41,498	186,177	227,675
Net appreciation - realized and unrealized	60,148	3,888	64,036
Appropriation of endowment assets pursuant to spending policy	-	(240,185)	(240,185)
Distribution from Board-designated endowment	(13,409)	-	(13,409)
Endowment net assets, September 30, 2019	\$ 1,860,205	\$ 4,389,801	\$ 6,250,006

Funds with Deficiencies

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. In accordance with GAAP, deficiencies of this nature are reported in net assets with donor restrictions. There were no such deficiencies as of September 30, 2019 and 2018.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Consolidated Financial Statements, continued

11. Net Asset Endowment, continued

Return Objectives and Risk Parameters

APH 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 APH must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results to mirror those of major indexes while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, APH relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). APH targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

APH has a policy of appropriating distributions based on the endowment fund's average fair value over the prior three years through the year end preceding the fiscal year in which the distribution is planned. In establishing this policy, APH considered the long-term expected return on its endowment. Accordingly, over the long term, APH expects the current spending policy to allow its endowment to maintain the fair value of the original gift. This is consistent with APH's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

12. Retirement Plan

APH maintains a qualified, non-contributory defined benefit pension plan for eligible employees who have attained the age of 21. To remain eligible, an employee must work at least 1,000 hours each year after completion of one year of service. The plan was amended effective January 1, 2009 such that any employee hired or rehired after January 1, 2009 will not be eligible to participate in the plan. Employees rehired after January 1, 2009 may count additional years of service after rehire for purposes of vesting in any benefit earned prior to January 1, 2009 and for the purposes of determining eligibility for early retirement. Benefits paid to retirees are based on age at retirement, years of service credit, and average compensation. The Organization's funding policy is to contribute the larger of the amount required to fully fund the plan's current liability or the amount necessary to meet the funding requirements, as defined by the IRC. Employer contributions totaling \$2,063,013 and \$2,122,972 were made during the years ended September 30, 2019 and 2018, respectively, for the plan. Benefits of \$1,738,602 and \$1,664,501 were paid during the years ended September 30, 2019 and 2018, respectively, for the plan.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Consolidated Financial Statements, continued

12. Retirement Plan, continued

Obligations and Funded Status

The benefit obligations, plan assets and funded status of APH's pension plan were as follows as of September 30:

	<u>2019</u>	<u>2018</u>
Obligations and funded status:		
Fair value of plan assets	\$ 34,393,808	\$ 31,478,281
Projected benefit obligation	<u>51,666,176</u>	<u>44,120,686</u>
Funded status at end of year	<u>\$ (17,272,368)</u>	<u>\$ (12,642,405)</u>
Amounts recognized on the consolidated statement of financial position:		
Underfunded benefit plan obligation	<u>\$ 17,272,368</u>	<u>\$ 12,642,405</u>

The accumulated benefit obligation for the plan was \$47,608,484 and \$40,595,502 at September 30, 2019 and 2018, respectively. In comparing the fair value of the plan's assets as of September 30, 2019 and 2018 to the accumulated benefit obligation, the plan is underfunded by \$13,214,676 and \$9,117,221, respectively.

Components of the annual net periodic benefit costs for the defined benefit plan were as follows as of September 30:

	<u>2019</u>	<u>2018</u>
Service cost	\$ 917,859	\$ 817,303
Interest cost	1,833,840	1,670,758
Amortization of net loss	1,232,478	1,081,442
Expected return on plan assets	<u>(2,381,117)</u>	<u>(2,138,157)</u>
Net periodic benefit costs	<u>\$ 1,603,060</u>	<u>\$ 1,431,346</u>

Assumptions

The following are the weighted-average assumptions used to determine benefit obligations and net periodic cost as of September 30:

	<u>2019</u>	<u>2018</u>
In computing ending obligations:		
Discount rate	3.25%	4.25%
Rate of compensation increase	3.00	3.00
In computing expected return on assets	7.50	7.50

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Consolidated Financial Statements, continued

12. Retirement Plan, continued

Plan Assets

APH's Board of Trustees has established an investment policy for the plan. The general investment principles of the policy require that investments be made solely in the interest of the beneficiaries, that the plan be invested with care, skill, prudence, and diligence, that the plan be reasonably diversified to reduce the risk of large losses, that the Board may employ one or more investment managers to attain plan objectives, and that cash is to be employed productively at all times.

The investment management policy of the plan requires the investment managers to preserve capital, ensure that the risk is commensurate with the given investment style and objectives, and to adhere to the investment management styles for which the investment manager is hired. The goals of each investment manager are to meet or exceed the market index or benchmark selected by the Board and to display an overall level of risk in the portfolio that is consistent with the established benchmark.

The investment policy requires an asset mix of a minimum of 65% of equity securities and a maximum of 75% with a preferred target of 70% and for a minimum of 25% of fixed income securities and a maximum of 35% with a preferred target of 30%.

The long-term rate of return on assets is consistent with the historical performance of the plan assets as managed under the investment policy. Management anticipates that over a long period of time this will be the best estimate of future experience under the plan with regard to the explicit assumptions. Management anticipates that the current investment policy administered over a long period of time to current and future plan assets will result in plan assets accumulating at a rate consistent with the rate selected by management for the assumptions.

The following tables set forth by level within the fair value hierarchy the pension plan assets by asset category at fair value as of September 30:

	Level 1	Level 2	Level 3	Total
<u>September 30, 2019</u>				
Money market funds:				
Fixed income	\$ 1,124,163	\$ -	\$ -	\$ 1,124,163
Government securities				
Corporate bonds	-	770,902	-	770,902
Mutual funds:				
Stocks	8,556,634	-	-	8,556,634
Fixed income	10,792,293	-	-	10,792,293
Corporate stocks	10,306,697	-	-	10,306,697
Total assets at fair value	\$ 30,779,787	\$ 3,614,021	\$ -	\$ 34,393,808

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Consolidated Financial Statements, continued

12. Retirement Plan, continued

Plan Assets, continued

	Level 1	Level 2	Level 3	Total
<u>September 30, 2018</u>				
Money market funds:				
Fixed income	\$ 787,867	\$ -	\$ -	\$ 787,867
Government securities				
Corporate bonds	445,859	-	-	445,859
Corporate bonds	-	3,102,271	-	3,102,271
Mutual funds:				
Stocks	10,135,635	-	-	10,135,635
Fixed income	7,173,123	-	-	7,173,123
Corporate stocks	9,833,526	-	-	9,833,526
Total assets at fair value	\$ 28,376,010	\$ 3,102,271	\$ -	\$ 31,478,281

Cash Flows

APH expects to contribute \$2,129,711 to its pension plan in 2020.

Estimated future benefit payments from the plan, which reflect expected future service, as appropriate, are expected to be paid as follows for the year ending September 30:

2020	\$ 2,015,370
2021	2,171,144
2022	2,333,861
2023	2,514,128
2024	2,664,621
2025-2029	15,047,423

Deferred Compensation Plan

APH also has a non-qualified, executive deferred compensation plan covering certain key employees. The Organization may, at its option, make employer contributions to the key employees' deferral accounts. Employer contributions totaling \$118,039 and \$101,871 were made to the deferred compensation plan in the years ended September 30, 2019 and 2018, respectively. The Organization's liability for the deferred compensation plan totaled \$1,062,509 and \$1,064,035 at September 30, 2019 and 2018, respectively.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Consolidated Financial Statements, continued

13. Charitable Gift Annuities

APH by action of its Board of Trustees, previously adopted a plan that allows the acceptance of charitable gifts from individual contributors through either single or two-life gift annuities.

A charitable gift annuity is a plan by which a gift of cash or property is made to a qualified organization in exchange for the organization's agreement to pay a life annuity to the donor. The present value portion of the annuity obligation is recorded as a payable and the difference between the present value of the obligation and the fair value of the principal contributed is recognized as a donor-restricted contribution. Income earned on this principal is unrestricted. The charitable gift annuities are discounted using the IRC's Applicable Federal Rate for the month the annuity is received by the Organization.

APH received no funds for charitable annuities during the years ended September 30, 2019 and 2018.

A total of \$60,161 and \$63,809 was paid out on annuity contracts during the years ended September 30, 2019 and 2018, respectively.

14. Employee Benefit Plan

APH established a 401(k) plan effective July 1, 1999 and all employees employed as of that date were eligible to participate. Employees hired after that date must complete a year of service and attain age 21 to be eligible to participate in the 401(k) plan. The plan was amended effective January 1, 2009 to allow all new employees and rehires to be automatically enrolled in the plan at a rate of 4% of eligible wages, including immediate eligibility for APH's matching funds. Participants in the plan may make voluntary deferrals by payroll deduction up to the maximum allowed under the IRC. APH makes matching contributions each year of up to 4% of each participant's eligible compensation. Discretionary contributions may also be made by APH each year for allocation to all eligible employees. APH's contributions to the plan were \$608,265 and \$582,891 for the years ended September 30, 2019 and 2018, respectively.

15. Equipment Lease Obligations

The Organization is obligated under leases for copiers used in the production process. The leases expire over various terms through 2021 and are accounted for as operating leases. Monthly rental payments range from \$135 to \$4,334. Rent expense on these leases totaled \$134,800 and \$171,005 for the years ended September 30, 2019 and 2018, respectively.

Minimum future lease payments under long-term equipment leases are as follows for the year ending September 30:

2020	\$	127,789
2021		74,919
2022		<u>1,068</u>
Total	\$	<u>203,776</u>

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Consolidated Financial Statements, continued

16. Joint Costs

APH undertakes joint activities such as producing certain magazines for qualifying individuals that are blind or visually impaired. For the years ended September 30, 2019 and 2018, APH incurred joint costs of \$445,458 and \$501,054, respectively, for personnel, materials, supplies, and general expenses that included or supported fund-raising appeals. Of these costs, \$358,165 and \$326,640 were allocated to fund-raising and development expense and \$87,293 and \$174,414 were allocated to program support for the years ended September 30, 2019 and 2018, respectively.

ADDITIONAL INFORMATION

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Schedules of Cost of Products Distributed

Years ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Inventory, beginning of year	\$ 8,903,802	\$ 8,062,404
Costs of goods manufactured	<u>27,342,687</u>	<u>21,433,152</u>
Cost of goods available for distribution	36,246,489	29,495,556
Inventory, end of year	<u>11,962,972</u>	<u>8,903,802</u>
Total cost of products distributed and sold	\$ <u>24,283,517</u>	\$ <u>20,591,754</u>

See Report of Independent Auditors.

SUPPLEMENTARY INFORMATION

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Schedule of Expenditures of Federal Awards

For the Year ended September 30, 2019

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Federal appropriation:		
United States Department of Education American Printing House for the Blind	84.906	\$ 29,903,069
Federal grant:		
United States Department of Education National Instructional Materials Access Center	84.327E	<u>485,105</u>
Total expenditures of federal awards		<u>\$ 30,388,174</u>

See Report of Independent Auditors and the Notes to the Schedule of Expenditures of Federal Awards.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to the Schedule of Expenditures of Federal Awards

For the Year ended September 30, 2019

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Organization under programs of the federal government for the year ended September 30, 2019. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the cash 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. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

3. Indirect Cost Rate

The Organization has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

See Report of Independent Auditors.

**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***

Report of Independent Auditors

Board of Trustees
American Printing House for the Blind, Inc.
Louisville, Kentucky

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 Printing House for the Blind, Inc. (the Organization), which comprise the consolidated statement of financial position as of September 30, 2019, the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements), and have issued our report thereon dated January 16, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 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.

Board of Trustees
American Printing House for the Blind, Inc.
Report of Independent Auditors on IC, Compliance and Other Matters in Accordance With GAS,
continued

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's 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 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.

Dean Dotson Allen Ford, PLLC

Louisville, Kentucky
January 16, 2020

Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by The Uniform Guidance

Report of Independent Auditors

Board of Trustees
American Printing House for the Blind, Inc.
Louisville, Kentucky

Report on Compliance for Each Major Federal Program

We have audited American Printing House for the Blind, Inc.'s (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended September 30, 2019. The Organization'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 Organization'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 the 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 Organization'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 Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2019.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the 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 Organization'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 weaknesses 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 of 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.

Dean Dotson Allen Ford, PLLC

Louisville, Kentucky
January 16, 2020

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Schedule of Findings and Questioned Costs

Year ended September 30, 2019

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

Type of auditors' report issued on compliance for major federal programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a) Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.906	American Printing House for the Blind

Dollar threshold used to distinguish between type A and type B programs: \$911,630

Auditee qualified as low-risk auditee? Yes No

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2019

II. FINANCIAL STATEMENT FINDINGS

No matters reported.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No matters reported.