

AMERICAN CONTRACT BRIDGE LEAGUE, INC.

FINANCIAL STATEMENTS



December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
American Contract Bridge League, Inc.

We have audited the accompanying financial statements of American Contract Bridge League, Inc. (a not-for-profit organization) which comprise the statements of financial position as of December 31, 2017 and 2016, 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 statement.

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 Contract Bridge League, Inc. as of December 31, 2017 and 2016, 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.

Watkins Uiberall, PLLC

Memphis, Tennessee
March 1, 2018

AMERICAN CONTRACT BRIDGE LEAGUE, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

	<u>Assets</u>	
	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and cash equivalents	\$ 1,731,542	\$ 2,697,952
Investments	7,118,194	4,196,181
Accounts receivable, net of allowance of \$10,000	532,764	354,646
Due from affiliates	-	1,343
Prepaid expenses	474,435	561,699
Other current assets	-	23,569
Total current assets	<u>9,856,935</u>	<u>7,835,390</u>
Property and equipment, net	<u>4,794,127</u>	<u>4,894,332</u>
Total assets	<u>\$ 14,651,062</u>	<u>\$ 12,729,722</u>
	<u>Liabilities and Net Assets</u>	
Current Liabilities		
Accounts payable and accrued expenses	\$ 760,300	\$ 792,499
Accrued payroll liabilities	671,050	632,666
Accrued postretirement healthcare benefits	108,989	115,745
Unredeemed Bridge Bucks and gift certificates	109,578	106,626
Capital lease liability	-	38,464
Deferred revenue	4,335,018	3,905,894
Due to units and districts	543,762	462,067
Due to affiliates	219,159	181,200
Total current liabilities	<u>6,747,856</u>	<u>6,235,161</u>
Long-Term Liabilities		
Deferred revenue	2,002,061	1,454,469
Accrued postretirement healthcare benefits	1,485,316	1,318,447
Unit dues refunds payable	192,612	106,843
Total long-term liabilities	<u>3,679,989</u>	<u>2,879,759</u>
Total liabilities	10,427,845	9,114,920
Net Assets		
Unrestricted	4,044,143	3,435,728
Temporarily restricted	179,074	179,074
Total net assets	<u>4,223,217</u>	<u>3,614,802</u>
Total liabilities and net assets	<u>\$ 14,651,062</u>	<u>\$ 12,729,722</u>

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

AMERICAN CONTRACT BRIDGE LEAGUE, INC.

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Operating Revenues and Gains (Losses)			
Membership dues	\$ 5,591,019	\$ -	\$ 5,591,019
Club sanction fees	2,947,910	-	2,947,910
North American Championships	2,367,081	-	2,367,081
Tournament sanction fees	2,243,501	-	2,243,501
Tournament director fees	3,262,345	-	3,262,345
Bulletin sales and advertising	269,853	-	269,853
Educational programs and services	25,039	218,823	243,862
Royalties	645,799	-	645,799
Administrative fees	39,756	-	39,756
Other revenues	415,968	-	415,968
Other gains	23,112	-	23,112
Net assets released from restrictions	<u>218,823</u>	<u>(218,823)</u>	<u>-</u>
Total operating revenues and gains (losses)	<u>18,050,206</u>	<u>-</u>	<u>18,050,206</u>
Operating Expenses			
Program Services			
North American Championships	2,914,905	-	2,914,905
Bulletin publication	1,513,514	-	1,513,514
Tournaments	4,811,746	-	4,811,746
Educational programs and services	356,024	-	356,024
Club and member services	<u>922,959</u>	<u>-</u>	<u>922,959</u>
Total program services	<u>10,519,148</u>	<u>-</u>	<u>10,519,148</u>
Supporting Services			
Membership development	336,305	-	336,305
Board expenses	397,269	-	397,269
Management and general	<u>6,213,933</u>	<u>-</u>	<u>6,213,933</u>
Total supporting services	<u>6,947,507</u>	<u>-</u>	<u>6,947,507</u>
Total operating expenses	<u>17,466,655</u>	<u>-</u>	<u>17,466,655</u>
Change in net assets from operations	583,551	-	583,551
Nonoperating Activities			
Investment income	132,213	-	132,213
Change in market value of investments	52,764	-	52,764
Change in retirement liability other than net periodic benefit costs	<u>(160,113)</u>	<u>-</u>	<u>(160,113)</u>
Total nonoperating activities	<u>24,864</u>	<u>-</u>	<u>24,864</u>
Change in net assets	608,415	-	608,415
Net assets, beginning of year	<u>3,435,728</u>	<u>179,074</u>	<u>3,614,802</u>
Net assets, end of year	<u>\$ 4,044,143</u>	<u>\$ 179,074</u>	<u>\$ 4,223,217</u>

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

AMERICAN CONTRACT BRIDGE LEAGUE, INC.

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
Operating Revenues and Gains (Losses)			
Membership dues	\$ 5,434,746	\$ -	\$ 5,434,746
Club sanction fees	2,941,927	-	2,941,927
North American Championships	2,394,906	-	2,394,906
Tournament sanction fees	2,140,164	-	2,140,164
Tournament director fees	3,183,830	-	3,183,830
Bulletin sales and advertising	270,091	-	270,091
Educational programs and services	42,195	215,120	257,315
Royalties	397,610	-	397,610
Administrative fees	35,455	-	35,455
Other revenues	107,365	-	107,365
Other losses	(13,554)	-	(13,554)
Net assets released from restrictions	220,140	(220,140)	-
Total operating revenues and gains (losses)	<u>17,154,875</u>	<u>(5,020)</u>	<u>17,149,855</u>
Operating Expenses			
Program Services			
North American Championships	2,137,639	-	2,137,639
Bulletin publication	1,490,744	-	1,490,744
Tournaments	4,462,256	-	4,462,256
Educational programs and services	349,070	-	349,070
Club and member services	950,310	-	950,310
Total program services	<u>9,390,019</u>	<u>-</u>	<u>9,390,019</u>
Supporting Services			
Membership development	398,495	-	398,495
Board expenses	397,642	-	397,642
Management and general	6,543,267	-	6,543,267
Total supporting services	<u>7,339,404</u>	<u>-</u>	<u>7,339,404</u>
Total operating expenses	<u>16,729,423</u>	<u>-</u>	<u>16,729,423</u>
Change in net assets from operations	425,452	(5,020)	420,432
Nonoperating Activities			
Investment income	94,219	-	94,219
Change in market value of investments	6,670	-	6,670
Loss on disposal of property and equipment	(455)	-	(455)
Change in retirement liability other than net periodic benefit costs	64,718	-	64,718
Total nonoperating activities	<u>165,152</u>	<u>-</u>	<u>165,152</u>
Change in net assets	590,604	(5,020)	585,584
Net assets, beginning of year	<u>2,845,124</u>	<u>184,094</u>	<u>3,029,218</u>
Net assets, end of year	<u>\$ 3,435,728</u>	<u>\$ 179,074</u>	<u>\$ 3,614,802</u>

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

AMERICAN CONTRACT BRIDGE LEAGUE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2017

	Program Services					Supporting Services			Total
	North American Championships	Bulletin Publication	Tournaments	Educational Programs and Services	Club and Member Services	Membership Development	Board Expenses	Management and General	
Salaries and wages	\$ 712,446	\$ 289,832	\$ 3,454,470	\$ 108,263	\$ 403,072	\$ 7,785	\$ -	\$ 3,059,923	\$ 8,035,791
Payroll taxes and benefits	128,133	46,189	681,709	-	120,964	-	-	786,939	1,763,934
Employee development	-	295	-	-	1,768	-	-	66,063	68,126
Travel and entertainment	1,024,461	392	257,684	57,520	25,262	-	267,689	196,506	1,829,514
Postage and shipping	57,191	453,340	11,557	12,118	4,232	105,444	2,496	22,383	668,761
Supplies	44,558	547	5,948	51,745	3,259	17,376	1,566	16,257	141,256
Printing	145,781	642,318	10,130	24,590	-	8,554	305	19,735	851,413
Membership billing	-	-	-	-	-	36,516	-	-	36,516
Small equipment	2,207	-	1,320	1,763	-	-	-	13,173	18,463
Repairs and maintenance	424	-	-	-	-	-	-	94,899	95,323
Equipment rental	61,464	-	19,802	1,517	539	-	31,260	11,659	126,241
Computer maintenance	-	-	1,212	23,268	-	-	-	270,465	294,945
Telephone	21,310	-	33,653	-	985	-	12,562	80,439	148,949
Utilities	4,807	7,691	13,460	-	16,344	-	-	65,377	107,679
Professional fees	100,267	7,408	42,153	-	-	-	3,141	767,856	920,825
Insurance	14,615	23,383	40,921	-	49,690	-	-	198,759	327,368
Advertising and promotion	12,666	1,049	-	-	2,145	61,975	-	761	78,596
Other	83,511	500	2,000	-	-	9,220	78,250	13,341	186,822
Banking fees	42,181	-	-	-	93,175	89,435	-	109,505	334,296
Dues and subscriptions	918	323	7,895	240	116,000	-	-	8,374	133,750
Depreciation	25,154	40,247	70,432	-	85,524	-	-	342,097	563,454
Taxes and licenses	-	-	-	-	-	-	-	69,422	69,422
Contributions to affiliates	-	-	-	75,000	-	-	-	-	75,000
Local reimbursements	406,270	-	-	-	-	-	-	-	406,270
Tournament prizes	26,541	-	157,400	-	-	-	-	-	183,941
	<u>\$ 2,914,905</u>	<u>\$ 1,513,514</u>	<u>\$ 4,811,746</u>	<u>\$ 356,024</u>	<u>\$ 922,959</u>	<u>\$ 336,305</u>	<u>\$ 397,269</u>	<u>\$ 6,213,933</u>	<u>\$ 17,466,655</u>

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

AMERICAN CONTRACT BRIDGE LEAGUE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2016

	Program Services					Supporting Services			Total
	North American Championships	Bulletin Publication	Tournaments	Educational Programs and Services	Club and Member Services	Membership Development	Board Expenses	Management and General	
Salaries and wages	\$ 566,999	\$ 281,090	\$ 3,218,693	\$ 119,218	\$ 367,899	\$ 10,000	\$ -	\$ 3,217,730	\$ 7,781,629
Payroll taxes and benefits	123,946	47,995	666,476	-	127,624	-	-	867,770	1,833,811
Employee development	5,295	-	-	-	253	-	-	87,548	93,096
Travel and entertainment	551,126	-	173,720	36,771	18,514	-	285,594	291,913	1,357,638
Postage and shipping	55,380	462,727	9,462	13,001	10,330	121,036	3,895	24,953	700,784
Supplies	33,797	822	36	53,247	3,837	16,012	1,772	20,000	129,523
Printing	146,940	632,472	11,242	22,621	2,550	11,488	691	38,014	866,018
Membership billing	-	-	-	-	-	44,781	-	-	44,781
Small equipment	667	-	-	202	-	-	-	42,353	43,222
Repairs and maintenance	3,027	343	-	343	-	-	-	117,779	121,492
Equipment rental	56,645	-	19,112	778	270	-	27,592	6,877	111,274
Computer maintenance	-	-	-	27,464	-	-	-	317,043	344,507
Telephone	9,140	-	23,819	-	1,081	-	98	98,254	132,392
Utilities	3,068	6,137	17,643	-	13,040	-	-	55,230	95,118
Professional fees	27,043	1,350	-	-	-	-	-	611,758	640,151
Insurance	10,882	21,763	62,569	-	46,247	-	-	195,868	337,329
Advertising and promotion	10,700	850	-	-	1,650	111,622	-	4,550	129,372
Other	57,599	-	2,000	-	-	7,727	78,000	11,920	157,246
Banking fees	37,503	-	-	-	116,362	75,829	-	141,170	370,864
Dues and subscriptions	704	125	58	425	166,130	-	-	5,980	173,422
Depreciation	17,418	34,837	100,156	-	74,028	-	-	313,531	539,970
Taxes and licenses	-	-	-	-	-	-	-	70,928	70,928
Contributions to affiliates	-	-	-	75,000	-	-	-	-	75,000
Interest expense	117	233	670	-	495	-	-	2,098	3,613
Local reimbursements	395,891	-	-	-	-	-	-	-	395,891
Tournament prizes	23,752	-	156,600	-	-	-	-	-	180,352
	<u>\$ 2,137,639</u>	<u>\$ 1,490,744</u>	<u>\$ 4,462,256</u>	<u>\$ 349,070</u>	<u>\$ 950,310</u>	<u>\$ 398,495</u>	<u>\$ 397,642</u>	<u>\$ 6,543,267</u>	<u>\$ 16,729,423</u>

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

AMERICAN CONTRACT BRIDGE LEAGUE, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows Provided By (Used For) Operating Activities:		
Change in net assets	\$ 608,415	\$ 585,584
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operating Activities:		
Depreciation	563,454	539,970
Loss on disposal of property and equipment	-	455
Pension-related changes other than net periodic benefit costs	160,113	(64,718)
Change in market value of investments	(52,764)	(6,670)
Amortization of bond premiums	5,390	31,725
Increase (Decrease) in Cash and Cash Equivalents:		
Accounts receivable	(178,118)	117,242
Due from affiliates	1,343	(1,343)
Prepaid expenses	87,264	(109,860)
Other current assets	23,569	1,068
Accounts payable and accrued expenses	(32,199)	114,417
Accrued payroll liabilities	38,384	123,673
Unredeemed Bridge Bucks and gift certificates	2,952	(1,851)
Deferred revenue	976,716	192,821
Unit dues refunds payable	167,464	(134,561)
Due to affiliates	<u>37,959</u>	<u>14,668</u>
Total adjustments	<u>1,801,527</u>	<u>817,036</u>
Net cash provided by operating activities	2,409,942	1,402,620
Cash Flows From (Used For) Investing Activities:		
Proceeds from sale of investments	6,032,002	3,193,806
Purchase of investments	(8,906,641)	(3,233,238)
Purchase of property and equipment	<u>(463,249)</u>	<u>(311,341)</u>
Net cash used for investing activities	<u>(3,337,888)</u>	<u>(350,773)</u>
Cash Flows From (Used For) Financing Activities:		
Principal payments on capital lease obligation	<u>(38,464)</u>	<u>(35,519)</u>
Net increase (decrease) in cash and cash equivalents	(966,410)	1,016,328
Cash and cash equivalents at beginning of year	<u>2,697,952</u>	<u>1,681,624</u>
Cash and cash equivalents at end of year	<u>\$ 1,731,542</u>	<u>\$ 2,697,952</u>
Non-Cash Investing Activities:		
Property and equipment acquired by capital lease	<u>\$ -</u>	<u>\$ 73,983</u>

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

AMERICAN CONTRACT BRIDGE LEAGUE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

American Contract Bridge League, Inc. (“ACBL”) is a not-for-profit organization whose purpose is to promote, grow, and sustain the game of bridge and serve the bridge-related interests of its members. ACBL sanctions duplicate bridge play throughout the United States, Canada, Mexico, and Bermuda. Most of ACBL’s membership resides in North America and Bermuda. ACBL is headquartered in Horn Lake, Mississippi.

ACBL supports over 3.5 million tables of bridge play annually in clubs and tournaments of which over 1,000,000 tables are online. There are three North American Bridge Championships (“NABC”) held annually, each attracting up to 5,000 players. Player achievement is encouraged by ACBL through the tracking and awarding of Master Points to more than 168,000 members. ACBL sponsors the School Bridge Lesson Series Program for more than 5,000 children annually and also publishes The Bridge Bulletin magazine on a monthly basis.

Method of Accounting and Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

ACBL reports its financial position and activities in three net asset categories according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Permanently Restricted Net Assets – Permanently restricted net assets represent contributions subject to donor-imposed stipulations to be invested in perpetuity, for which only the income may be available for program operations. At December 31, 2017 and 2016, there were no permanently restricted net assets.

Temporarily Restricted Net Assets – Temporarily restricted net assets represent gifts or other revenues wherein donors have specified the purpose for which the net assets are to be spent or time restrictions imposed or implied by the nature of the gift. When a restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Unrestricted Net Assets – Unrestricted net assets are all the remaining net assets of ACBL.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Fair Value Measurements

ACBL applies U.S. GAAP for fair value measurements of financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. U.S. GAAP defines fair value as 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. U.S. GAAP also establishes a framework for measuring fair value and requires certain disclosures about fair value measurements. See Note 2 for additional disclosures.

Concentrations of Credit Risk

ACBL's credit risks relate primarily to cash and cash equivalents and investments. ACBL maintains cash deposits at various domestic and foreign financial institutions. Accounts at each domestic institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to an aggregate of \$250,000. Accounts at the foreign institution are insured by the Canadian Deposit Insurance Corporation ("CDIC") up to an aggregate of \$100,000. At times, deposits exceeded FDIC and CDIC limits throughout the year. These risks are managed by maintaining such deposits in high-quality financial institutions.

Certain investments are insured by the Securities Investor Protection Corporation ("SIPC") up to an aggregate of \$500,000.

Investments are exposed to various risks such as interest rate risk, market risk, and credit risk. Due to the level of risk associated with these certain investments, it is at least possible that changes in the values of investments will occur in the near term and such changes could materially affect ACBL's financial position and changes in its net assets.

Revenue Recognition

ACBL derives its revenues primarily through membership dues, club sanction fees, and various tournament fees. Membership dues are considered exchange transactions and are recognized ratably over the membership period of each member as the earnings process is completed. Club sanction fees and other tournament fees are also recognized when earned. Any unearned portions of revenues are reported as deferred revenue in the statements of financial position.

Contributions are recognized as revenues when they are received or unconditionally pledged. ACBL reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. When a donor restriction expires in the same year received, revenue is recognized as unrestricted net assets.

Allocation of Functional Expenses

Expenses that are identified with a specific program or supporting service are charged directly according to their natural expense classification. Other shared costs have been allocated among the program and supporting services benefitted based on usage or other estimates made by management. The costs of providing the various programs and supporting services have been summarized on a functional basis in the statements of functional expenses.

Cash and Cash Equivalents

For purposes of the statements of cash flows, ACBL considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

Investments

ACBL carries investments at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in market value of investments in the accompanying statements of activities.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through an allowance for doubtful accounts based on its assessment of the individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Property and Equipment

ACBL's policy is to capitalize purchases of long-lived assets with a cost in excess of \$1,000. Property and equipment items are recorded at acquisition cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years. Maintenance and repairs are charged to expense when incurred; major renewals and betterments are capitalized.

Postretirement Benefit Plan

ACBL recognizes the funded status of its defined benefit postretirement healthcare plan as a net asset or liability and recognizes changes in that funded status in the year in which the change occurs through a change in unrestricted net assets, apart from expenses, to the extent those changes are not included in the net periodic costs.

Unredeemed Bridge Bucks and Gift Certificates

ACBL issues Bridge Bucks in \$20 denominations which are and purchased by individuals for entry fees at the NABCs and other ACBL sanctioned tournaments. Gift certificates may be given as recruiting incentives and as a Patron Member benefit. Bridge Bucks expire after three years and gift certificates expire after two years. The obligation for unredeemed Bridge Bucks and gift certificates is reflected as a current liability in the accompanying statements of financial position.

Due to Units and Districts

Due to units and districts is comprised of unit dues refunds payable and Grass Roots Funds payable.

The unit dues refunds payable represents the portion of membership dues collected for the benefit of the bridge units. Unit dues collected for three-year membership periods become due to the units annually in the month following the member's anniversary date. Such amounts to be paid in future years are reflected as a long-term liability in the accompanying statements of financial position.

In August 2012, ACBL began collecting funds through Grass Roots Fund games played and will remit these funds to the districts to fund the Grand National Teams at the Summer NABC and the North American Pairs at the Spring NABC. ACBL acts as a pass-through and does not collect a fee from the funds collected. The funds payable to the districts for the years ended December 31, 2017 and 2016 was \$22,046 and \$14,911, respectively.

Advertising

ACBL expenses advertising costs as incurred. Advertising expense totaled \$78,596 and \$129,372 for the years ended December 31, 2017 and 2016, respectively.

Income Taxes

The Internal Revenue Service has determined that ACBL is exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code. ACBL files an exempt organization return in the U.S. federal jurisdiction. However, income from advertising in the Bridge Bulletin, which is not directly related to ACBL's exempt purpose, is subject to taxation as unrelated business income. There was no unrelated business income tax expense for the years ended December 31, 2017 and 2016.

Recent Accounting Pronouncements

The Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The most significant changes within the ASU impact the following areas:

1. Net Asset Classes – Net asset classification has been reduced from three classes of net assets (unrestricted, temporarily restricted and permanently restricted) to net assets with donor restrictions and net assets without donor restrictions.
2. Investment Return – Investment return will be reported net of external and direct internal investment expenses and those netted expenses are no longer required to be disclosed.
3. Expenses – Expenses by both their natural classification and their functional classification will be presented either on the face of the statement of activities, as a separate statement or in the notes to the financial statements.
4. Liquidity and Availability of Resources – The ASU requires disclosures that communicate qualitative information of how a not-for-profit entity manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position date, as well as quantitative information that communicates the availability of a not-for-profit entity's financial assets at the statement of financial position date to meet cash needs for general expenditures within one year of the statement of financial position date.
5. Presentation of Operating Cash Flows – Not-for-profit entities can continue to present the statement of cash flows using either the direct method or indirect method. The ASU removes the requirement to present or disclose the indirect method when using the direct method of reporting cash flows.

The above changes only impact the presentation and disclosures within the financial statements. However, within the ASU, there is one change in the accounting requirements for not-for-profit entities. The placed-in-service approach will now be required for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset. The ASU eliminates the current option that, in the absence of explicit donor stipulations, had allowed a not-for-profit to delay reporting of an expiration of a donor imposed restriction for the acquisition or construction of a long-lived asset by electing to report the expiration over time (as the asset is used or consumed, i.e. to match the depreciation expense on the asset) rather than when placed in service.

ACBL intends to adopt the new ASU guidance using the retrospective method for the year ended December 31, 2018.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform with the presentation in the current year financial statements. These changes had no effect on previously reported total net assets.

Date of Management's Review

ACBL evaluated its December 31, 2017 financial statements for subsequent events through March 1, 2018, the date the financial statements were available to be issued. ACBL is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

NOTE 2 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

U.S. GAAP establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, as described below:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities ACBL has the ability to access.
- Level 2 – Inputs (other than quoted prices within Level 1) that are observable for the asset or liability, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Inputs which are unobservable for the asset or liability that rely on management's own assumptions about the assumptions that market participants would use in pricing the assets or liability.

In determining fair values, ACBL utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

The following is a description of the valuation methodologies used for Level 2 assets measured at fair value on a recurring basis. There have been no changes in methodologies used at December 31, 2017.

Certificates of Deposit: Valued using a market value pricing model.

U. S. Government securities: Certain U.S. government securities are valued at the closing price reported in the active market in which similar securities are traded. Other U.S. government securities for which market quotations are not readily available may be valued based on information supplied by independent pricing services using matrix pricing formulas and/or independent broker bid quotations.

Municipal bonds: Valued at the present value by discounting the expected cash flows to the present using an established discount rate.

Corporate bonds: Certain corporate bonds are valued at the closing price reported in the active market in which similar bonds are traded. Other corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings.

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, while ACBL believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables present assets that are measured at fair value on a recurring basis at December 31:

	2017		
	Level 1	Level 2	Total
Fixed Income			
Exchange traded funds	\$ 5,347,619	\$ -	\$ 5,347,619
Equities			
Exchange traded funds	1,770,575	-	1,770,575
	<u>\$ 7,118,194</u>	<u>\$ -</u>	<u>\$ 7,118,194</u>
	2016		
	Level 1	Level 2	Total
Fixed Income			
Certificates of deposit	\$ -	\$ 95,770	\$ 95,770
U.S. government securities	-	908,802	908,802
Municipal bonds	-	548,224	548,224
Corporate bonds	-	2,549,810	2,549,810
Equities			
Preferred stock	34,583	-	34,583
Exchange traded funds	58,992	-	58,992
	<u>\$ 93,575</u>	<u>\$ 4,102,606</u>	<u>\$ 4,196,181</u>

NOTE 3 – PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31 is as follows:

	2017	2016
Land	\$ 876,922	\$ 876,922
Building and improvements	3,684,441	3,679,476
Furniture and equipment	1,243,176	1,224,854
Computer software and equipment	2,940,743	2,878,305
Tournament equipment	243,982	204,017
Automobiles	19,948	19,948
Internal-use software in progress	339,597	2,038
	<u>9,348,809</u>	<u>8,885,560</u>
Less accumulated depreciation	<u>(4,554,682)</u>	<u>(3,991,228)</u>
	<u>\$ 4,794,127</u>	<u>\$ 4,894,332</u>

NOTE 4 – CAPITAL LEASE

During 2016, ACBL entered into a capital lease for certain computer equipment requiring monthly payments of \$2,996. The lease was fully paid off as of December 31, 2017. The following is an analysis of the leased asset included in property and equipment at December 31, 2017:

Computer equipment	\$ 73,983
less accumulated depreciation	(47,267)
Net leased assets	<u>\$ 26,716</u>

Depreciation expense for the leased asset was \$24,661 for the year ended December 31, 2017.

NOTE 5 – RETIREMENT AND POSTRETIREMENT BENEFIT PLANS

401(k) Plan

ACBL has a qualified voluntary defined contribution plan covering substantially all full-time United States employees. Employer contributions to the plan are made each year at the discretion of management up to a maximum of 50% of the first 6% of each participating employee's salary. For the years ended December 31, 2017 and 2016, management chose to contribute an additional 3% of each participating salary. Employer contributions to the plan were \$280,871 and \$293,919 for the years ended December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, ACBL had plan contributions payable of \$190,349 and \$184,468, respectively. These amounts are included in accrued payroll liabilities on the statements of financial position.

Canadian Plan

ACBL has a Canadian Group RRSP (Registered Retirement Savings Plan) for the benefit of full-time employees residing in Canada. Employer contributions to the plan are made at the discretion of management up to a maximum of 50% of the first 8% of each participating employee's salary. Contributions to the plan were \$8,915 and \$6,070 for the years ended December 31, 2017 and 2016, respectively.

Postretirement Healthcare Plan

ACBL pays part of the premium cost of Medicare Supplement insurance for qualified retirees. Employees hired prior to January 1, 2014, who are at least 65 years old and have at least 20 years of service are qualified for this benefit.

Postretirement Healthcare Plan Disclosures

The following table presents the changes in benefit obligations, changes in Plan assets, and the composition of accrued benefit costs in the statements of financial position for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Changes in Benefit Obligations:		
Benefit obligations, beginning of year	\$ 1,434,192	\$ 1,498,910
Service cost	55,723	53,704
Interest cost	60,022	73,208
Actuarial (gain) loss	112,590	(128,089)
Benefits paid	<u>(68,222)</u>	<u>(63,541)</u>
Accumulated postretirement benefit obligation, end of year	1,594,305	1,434,192
Changes in Plan Assets:		
Employer contributions	39,595	36,422
Plan participants' contributions	28,627	27,119
Benefits paid	<u>(68,222)</u>	<u>(63,541)</u>
Fair value of plan assets, end of year	<u>-</u>	<u>-</u>
Funded status	<u>\$ (1,594,305)</u>	<u>\$ (1,434,192)</u>

The weighted average assumptions used to determine benefit obligations for 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Discount rate at end of year	3.18%	4.25%
Health care trend rate		
Initial	7.00%	7.00%
Ultimate	3.50%	3.50%
Years to ultimate	7	7
Dental trend rate		
Initial	4.00%	5.00%
Ultimate	3.00%	5.00%
Years to ultimate	4	1

The components of net periodic benefit cost for the years ended December 31 were:

	<u>2017</u>	<u>2016</u>
Service cost	\$ 55,723	\$ 53,704
Interest cost	60,022	73,208
Net periodic benefit cost (income)	<u>\$ 115,745</u>	<u>\$ 126,912</u>

ACBL expects to contribute approximately \$108,989 to its postretirement benefit plan during the year ending December 31, 2017. Because contribution requirements are very sensitive to required interest rates, possible additional funding charges and other factors, differences between the initial estimate and final contribution amounts can be significant.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the following years ending December 31:

2018	\$ 47,413
2019	49,413
2020	50,713
2021	54,181
2022	57,725
2023 - 2027	348,274
	<u>\$ 607,719</u>

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Net assets were temporarily restricted for the following purposes at December 31:

	<u>2017</u>	<u>2016</u>
Vanderbilt trophy fund	\$ 136,847	\$ 136,847
Sternberg trophy fund	41,831	41,831
Education foundation fund	396	396
	<u>\$ 179,074</u>	<u>\$ 179,074</u>

NOTE 7 – RELATED PARTY TRANSACTIONS

ACBL provides administrative services in an agency capacity for several affiliated organizations such as the American Contract Bridge League Charity Foundation (“Charity Foundation”), American Contract Bridge League Educational Foundation (“Educational Foundation”), United States Bridge Federation (“USBF”), and the Canadian Bridge Federation (“CBF”). Administrative fees charged to these organizations totaled \$39,756 and \$35,455 for the years ended December 31, 2017 and 2016, respectively.

ACBL makes contributions to the USBF and CBF out of a portion of the junior fund monies collected. Contributions to these affiliates totaled \$75,000 and \$75,000 for the years ended December 31, 2017 and 2016, respectively.

Related party balances due from and due to affiliates consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Due From:		
Charity Foundation	<u>\$ -</u>	<u>\$ 1,343</u>
Due To:		
United States Bridge Federation	\$ 172,414	\$ 159,725
Canadian Bridge Federation	6,115	12,837
Mexican Bridge Federation	111	94
Bermuda Contract Bridge League	66	71
ACBL Charity Foundation	30,163	-
ACBL Educational Foundation	10,290	8,473
	<u>\$ 219,159</u>	<u>\$ 181,200</u>

NOTE 8 – COMMITMENTS

ACBL has entered into cancelable agreements for hotel meeting space and guestroom rentals related to future NABC’s through 2025. The cancellation clauses call for payments to be made for conference space and guestrooms if cancellation occurs within a specified time frame prior to the events or if hotel usage is less than contracted. If all agreements were cancelled at December 31, 2017, the maximum cancellation fees payable would be approximately \$15,400,000. This cost would be reduced by any hotel resell of the meeting space and guestrooms.

NOTE 9 – FOREIGN CURRENCY TRANSACTIONS

Since ACBL serves the bridge-related interests of its Canadian membership, a Canadian bank account is used to process various transactions. The Canadian bank account is converted to U.S. dollars using the applicable rate of exchange. For the years ended December 31, 2017 and 2016, the total effect resulting from these conversions was a gain of \$19,242 and a loss of \$13,554 respectively, and is included in other losses in the statements of activities.

NOTE 10 – CONTINGENCIES

ACBL is involved in various legal actions incidental to the ordinary course of operations. ACBL and/or its insurance carrier are vigorously defending these legal actions. Additionally, ACBL holds a general liability insurance policy with a \$5,000 deductible per occurrence. In the opinion of management, the eventual disposition of these matters will not have a material adverse effect on financial position or results of operations.