**AMERICAN LIBRARY ASSOCIATION**

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

**CONSOLIDATED FINANCIAL STATEMENTS AND REPORTS AND SCHEDULES IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

**AUGUST 31, 2017**

# C O N T E N T S

## INDEPENDENT AUDITORS' REPORT

Executive Board
American Library Association
Chicago, Illinois

**Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of American Library Association which comprise the consolidated statements of financial position as of August 31, 2017 and 2016, and the related consolidated statements of operations and changes in net assets and cash flows or the years then ended, and the related notes to the consolidated financial statements.

**Management's Responsibility for the Consolidated Financial Statements**

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



**Auditors' Responsibility**

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

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

**Auditors' Responsibility, Continued**

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

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Library Association as of August 31, 2017 and 2016, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Reporting Required by *Government Auditing Standards***

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



Chicago, Illinois
T/B/D

# CONSOLIDATED FINANCIAL STATEMENTS

**American Library Association**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**August 31,**

| ASSETS | 2017 | 2016 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ 1,182,336 | $ 530,850 |
| Short-term investments | 8,177,379 | 14,154,503 |
| Accounts receivable, less allowance for doubtful accounts and returns of $361,730 and $318,091 in 2017 and 2016, respectively | 3,683,835 | 3,777,336 |
| Inventories, less reserves of $233,051 and $212,136 in 2017 and 2016, respectively | 1,718,186 | 1,783,741 |
| Grants receivable | 237,809 | 571,552 |
| Prepaid expenses and other assets | 1,069,519 | 474,212 |
| Total current assets | 16,069,064 | 21,292,194 |
| **PROPERTY AND EQUIPMENT, LESS ACCUMULATED DEPRECIATION AND AMORTIZATION** | 10,855,967 | 11,187,841 |
| **GOODWILL** | 1,000,000 | 1,826,567 |
| **INTANGIBLE ASSETS, LESS AMORTIZATION** | 1,045,450 | 1,405,616 |
| **LONG-TERM INVESTMENTS** | 43,542,959 | 40,015,284 |
| **TOTAL ASSETS** | $ 72,513,440 | $ 75,727,502 |



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

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

| **LIABILITIES AND NET ASSETS** | 2017 | 2016 |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Accounts payable | $ 3,191,359 | $ 3,089,538 |
| Accrued liabilities | 919,802 | 1,061,001 |
| Deferred revenue | | |
| Publication subscriptions | 2,236,491 | 2,211,902 |
| Membership dues | 3,947,673 | 3,890,351 |
| Conference fees | 3,438,861 | 2,603,236 |
| Grants and awards | 3,791,312 | 4,715,005 |
| Line of credit | - | 1,000,000 |
| Current portion of capital lease obligation | - | 29,604 |
| Current portion of long-term debt | 1,200,000 | 1,300,000 |
| Total current liabilities | 18,725,498 | 19,900,637 |
| **LONG-TERM DEBT, NET OF CURRENT PORTION** | 2,000,000 | 3,200,000 |
| **NON-CURRENT PORTION OF ACCRUED POST-RETIREMENT BENEFITS** | 11,896,615 | 22,243,200 |
| Total liabilities | 32,622,113 | 45,343,837 |
| **NET ASSETS** | | |
| Unrestricted | 34,994,051 | 25,048,179 |
| Temporarily restricted | 4,382,576 | 4,820,786 |
| Permanently restricted | 514,700 | 514,700 |
| Total net assets | 39,891,327 | 30,383,665 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 72,513,440 | $ 75,727,502 |



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

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

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

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

**American Library Association**
**CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS**
**Year ended August 31, 2016**

| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|
| Revenues and other support | | | | |
| Operating revenues | | | | |
| Membership dues | $ 8,432,373 | $ - | $ - | $ 8,432,373 |
| Sales of books and materials | 7,144,582 | - | - | 7,144,582 |
| Subscriptions | 4,663,865 | - | - | 4,663,865 |
| Advertising | 5,781,529 | - | - | 5,781,529 |
| Meetings and conferences | 12,760,179 | - | - | 12,760,179 |
| Grants and awards | 5,689,618 | 639,845 | - | 6,329,463 |
| Contributions | 929,009 | 250,720 | - | 1,179,729 |
| Dividends and interest income | | | | |
| Short-term investments | 1,168,625 | - | - | 1,168,625 |
| Long-term investments | 683,261 | 20,473 | - | 703,734 |
| Other | 2,885,157 | - | - | 2,885,157 |
| Total operating revenues | 50,138,198 | 911,038 | - | 51,049,236 |
| Net assets released from restrictions | | | | |
| Satisfaction of program restrictions | 1,524,787 | (1,524,787) | - | - |
| Total revenues and other support | 51,662,985 | (613,749) | - | 51,049,236 |
| Expenses | | | | |
| Payroll | 21,616,123 | - | - | 21,616,123 |
| Outside services | 8,483,080 | - | - | 8,483,080 |
| Travel | 2,074,204 | - | - | 2,074,204 |
| Meetings and conferences | 7,554,394 | - | - | 7,554,394 |
| Scholarships and awards | 456,462 | - | - | 456,462 |
| Publications | 4,274,830 | - | - | 4,274,830 |
| Administration | 7,333,814 | - | - | 7,333,814 |
| Post-retirement benefits | 2,095,876 | - | - | 2,095,876 |
| Total expenses | 53,888,783 | - | - | 53,888,783 |
| Other post-retirement employee benefit-related credit other than net periodic post-retirement cost | 571,604 | - | - | 571,604 |
| Deficiency of operating revenues and other support over operating expenses | (1,654,194) | (613,749) | - | (2,267,943) |
| Non-operating | | | | |
| Net realized and change in unrealized gains | | | | |
| Short-term investments | 195,760 | - | - | 195,760 |
| Long-term investments | 908,041 | 15,640 | - | 923,681 |
| Change in investment in publishing venture | (5,854) | - | - | (5,854) |
| **CHANGE IN NET ASSETS** | (556,247) | (598,109) | - | (1,154,356) |
| Net assets, beginning of year | 25,604,426 | 5,418,895 | 514,700 | 31,538,021 |
| Net assets, end of year | $ 25,048,179 | $ 4,820,786 | $ 514,700 | $ 30,383,665 |

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

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

| | 2017 | 2016 |
|---|---|---|
| Cash flows from operating activities | | |
| Change in net assets | $ 9,507,662 | $ (1,154,356) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities | | |
| Depreciation and amortization - property and equipment | 2,150,132 | 2,419,723 |
| Amortization - intangible assets | 360,166 | 369,416 |
| Net realized and change in unrealized (gains) losses | | |
| Short-term investments | 248,569 | (195,760) |
| Long-term investments | (2,985,874) | (923,681) |
| Change in investment in publishing venture | (19,747) | (5,854) |
| Impairment loss - goodwill | 826,567 | - |
| Increase in allowance for doubtful accounts and returns | 43,639 | 74,521 |
| Increase in reserve for inventories | 20,915 | 55,549 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 49,862 | 126,073 |
| Inventories | 44,640 | (253,625) |
| Grants receivable | 333,743 | 645,702 |
| Prepaid expenses and other assets | (595,307) | 616,448 |
| Accounts payable | 101,821 | (1,878,202) |
| Accrued liabilities | (141,199) | 85,523 |
| Deferred revenue | (6,157) | 649,014 |
| Accrued post-retirement benefits | (10,346,585) | 1,047,584 |
| Net cash provided by (used in) operating activities | (407,153) | 1,678,075 |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (1,818,258) | (1,893,309) |
| Purchase of short-term investments | (21,336,991) | (11,555,042) |
| Proceeds from sale of short-term investments | 27,065,546 | 12,083,227 |
| Purchase of long-term investments | (10,960,418) | (19,989,908) |
| Proceeds from sale of long-term investments | 10,438,364 | 19,583,004 |
| Net cash provided by (used in) investing activities | 3,388,243 | (1,772,028) |
| Cash flows from financing activities | | |
| Proceeds from line of credit | - | 1,000,000 |
| Payments on line of credit | (1,000,000) | - |
| Payments on capital lease obligations | (29,604) | (94,400) |
| Principal payments of long-term debt | (1,300,000) | (1,500,000) |
| Net cash used in financing activities | (2,329,604) | (594,400) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 651,486 | (688,353) |
| Cash and cash equivalents, beginning of year | 530,850 | 1,219,203 |
| Cash and cash equivalents, end of year | $ 1,182,336 | $ 530,850 |
| Supplemental disclosure of cash flow information | | |
| Cash paid for interest expense | $ 169,242 | $ 199,116 |

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

## NOTE A - PURPOSE OF ORGANIZATION

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

The Association, a not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code of 1986 (the "IRC") and the oldest and largest national library association in the world, is organized to promote libraries and librarianship. Governed by a council of 186 members (the "Council") and representing more than 56,000 personal and organizational members, the mission of the Association is to provide leadership for the development, promotion and improvement of library and information services and the profession of librarianship in order to enhance learning and ensure access to information for all.

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

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



## NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Use of Estimates*

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

***Temporarily and Permanently Restricted Net Assets***

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

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

***Contributions***

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

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



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

***Grant Revenue***

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

***Revenue Recognition***

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

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

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

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

***Advertising***

Advertising costs are expensed as incurred.



***Cash Equivalents***

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

***Accounts Receivable***

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

***Fair Value Measurements***

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

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

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



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

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

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

***Inventories***

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

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

***Property and Equipment***

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



***Goodwill***

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

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

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

***Going Concern Evaluation***

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40). ASU No. 2014-15 is effective for the Association for annual periods ending after December 15, 2016. In the 2017 consolidated financial statements, the Association adopted ASU No. 2014-15, which requires management to assess, for each interim and annual reporting period, whether adverse conditions or events, considered in the aggregate, raise substantial doubt about the Association's ability to continue as a going concern for the one-year period from the date the consolidated financial statements are available to be issued. In addition, management is required to consider whether it is probable that their plans intended to mitigate any adverse conditions or events that they identify will be effectively implemented and whether it is probable that, if implemented, their plans will mitigate the identified conditions or events that raised substantial doubt. ASU No. 2014-15 also prescribes the disclosures required to be made in periods when substantial doubt is raised and certain disclosures are required in such periods irrespective of whether it is probable that substantial doubt is alleviated by the effective implementation of management's plans. Management's assessment did not identify any conditions or events raising substantial doubt about the Association's ability to continue as a going concern for the period from T/B/D, 2017 to T/B/D, 2018.



***Revenue from Contracts***

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in Accounting Standards Codification 605, Revenue Recognition. ASU No. 2014-09 provides for a single five-step model to be applied to all revenue contracts with customers.

ASU No. 2014-09 also requires additional financial statement disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. ASU No. 2014-09 is effective for annual reporting periods beginning after December 15, 2018. Early adoption is permitted for annual reporting periods beginning after December 15, 2016. The Organization is currently evaluating the methods of adoption allowed by ASU No. 2014-09 and the effect that ASU No. 2014-09 is expected to have on its financial position, results of operations and cash flows and related disclosures.

***Leases***

In February 2016, the FASB issued ASU No. 2016-02, Leases, which is intended to improve financial reporting about leasing transactions. ASU No. 2016-02 requires that leased assets be recognized as assets on the statements of financial position and the liabilities for the obligations under the lease also be recognized on the statements of financial position. ASU

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

***Presentation of Financial Statements***

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



## NOTE C - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets at August 31, 2017 and 2016 are available for the following purposes:

| | 2017 | 2016 |
|---|---|---|
| Preparation and publication of reading lists | $ 734,943 | $ 762,802 |
| Scholarships, awards and fellowships | 3,553,748 | 3,960,351 |
| Promotion of public libraries | 68,655 | 71,722 |
| Other | 25,230 | 25,911 |
| | $ 4,382,576 | $ 4,820,786 |

| | 2017 | 2016 |
|---|---|---|
| Purpose or time restrictions accomplished | | |
| Preparation and publication of reading lists | $ 44,168 | $ 60,817 |
| Scholarships, awards and fellowships | 1,293,800 | 1,459,965 |
| Promotion of public libraries | 3,067 | 2,848 |
| Other | 1,246 | 1,157 |
| | $ 1,342,281 | $ 1,524,787 |

As of August 31, 2017 and 2016, the Association's permanently restricted net assets are restricted to investments in perpetuity, the income from which is expendable to support the following purposes:

| | 2017 | 2016 |
|---|---|---|
| Preparation and publication of reading lists | $ 100,000 | $ 100,000 |
| Scholarships, awards and fellowships | 411,700 | 411,700 |
| Other | 3,000 | 3,000 |
| | $ 514,700 | $ 514,700 |

## NOTE D - INVESTMENT IN PUBLISHING VENTURE

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



At August 31, 2017 and 2016, the Association has a $665,000 net receivable (net of $117,000 in allowance reserves) and a $615,000 receivable (net of $108,000 in allowance reserves), respectively, from the Fund for expenditures paid. Total amounts paid by the Association to the Fund for royalties during the years ended August 31, 2017 and 2016, were $118,037 and $123,765, respectively. For 2017 and 2016, the Association's portion of the Fund's net loss was $19,747 and $5,854, respectively, which is reflected in the accompanying consolidated statements of operations and changes in net assets.

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

| | 2017 | 2016 |
|---|---|---|
| Total assets | $ 182,263 | $ 181,880 |
| Total liabilities | 768,025 | 708,402 |
| Revenues | 119,556 | 129,398 |
| Expenses | 178,796 | 146,960 |

## NOTE E - MARGARET ALEXANDER EDWARDS TRUST

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

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

## NOTE F - ALLOWANCE FOR DOUBTFUL ACCOUNTS AND RETURNS

Changes in the Association's allowance for doubtful accounts and returns for the years ended August 31, 2017 and 2016, are as follows:

| | 2017 | 2016 |
|---|---|---|
| Beginning balance | $ 318,091 | $ 243,570 |
| Provision for bad debts | 73,797 | 65,146 |
| Accounts written off | ( 35,184) | ( 4,085) |
| Amount recovered | 5,026 | 13,460 |
| Ending balance | $ 361,730 | $ 318,091 |



## NOTE G - PROPERTY AND EQUIPMENT

The components of property and equipment balances at August 31, 2017 and 2016, are as follows:

| | 2017 | 2016 |
|---|---|---|
| Land | $ 2,443,394 | $ 2,443,394 |
| Buildings and improvements | 14,393,006 | 14,326,422 |
| Furniture and other equipment | 2,893,950 | 2,867,607 |
| Technology and related equipment | 24,601,824 | 23,446,400 |
| Total property and equipment | 44,332,174 | 43,083,823 |
| Less accumulated depreciation and amortization | 33,476,207 | 31,895,982 |
| Property and equipment, net | $ 10,855,967 | $ 11,187,841 |

Unamortized software development costs included in property and equipment at August 31, 2017 and 2016, were $1,350,043 and $1,170,759, respectively. Related amortization expense was $597,060 and $872,473 in 2017 and 2016, respectively. Property and equipment depreciation and amortization expense was $2,150,132 and $2,419,723 for the years ended August 31, 2017 and 2016, respectively.

## NOTE H - INTANGIBLE ASSETS

The Association recognizes an acquired intangible asset apart from goodwill whenever the intangible asset arises from contractual or other legal rights, or when it can be separated or divided from the acquired entity and sold, transferred, licensed, rented, or exchanged, either individually or in combination with a related contract, asset, or liability. Intangible assets are stated at cost less accumulated amortization and consist of trademarks and brand extension, co-publishing relationship, distribution relationship, backlist, customer relationships, online and catalog and a non-compete agreement. The Association reviews intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. Impairment losses are recognized if the carrying amount of an intangible subject to amortization is not recoverable from expected future cash flows and its carrying amount exceeds its fair value. There was no impairment of intangible assets at August 31, 2017 and 2016.

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

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

| | August 31, 2016 | | | |
|---|---|---|---|---|
| Intangible Asset | Carrying Amount | Accumulated Amortization | Net | Estimated Useful Life (Years) |
| Trademarks & brand extension | $ 1,684,000 | $ (757,800) | $ 926,200 | 10 |
| Co-publishing relationship | 998,000 | (641,571) | 356,429 | 7 |
| Distribution relationship | 356,000 | (255,643) | 100,357 | 7 |
| Backlist | 516,000 | (516,000) | - | 3 |
| Customer relationships | 92,000 | (69,370) | 22,630 | 7 |
| Online & catalog | 150,000 | (150,000) | - | 3 |
| Non-compete agreement | 74,000 | (74,000) | - | 4 |
| | $ 3,870,000 | $ (2,464,384) | $ 1,405,616 | |

Amortization expense charged to the operations of the Association was $360,166 and $369,416 for the years ended August 31, 2017 and 2016, respectively. Amortization has been computed based on the estimated useful lives described above.



The estimated intangible assets amortization expense for each of the next five years is as follows:

| | |
|---|---|
| 2018 | $ 360,166 |
| 2019 | 264,283 |
| 2020 | 168,400 |
| 2021 | 168,400 |
| 2022 | 84,201 |
| Total | $ 1,045,450 |

The above information was the result of an acquisition of the net assets of Neal Schuman Publishers, Inc. for a total purchase price of $7,058,918, funded through operating cash and a term loan on December 23, 2011. The purchase was accounted for under the acquisition method of accounting, whereby the underlying assets acquired were recorded at their fair value. The excess of the purchase price over the fair value of the net assets acquired was initially recorded as goodwill of $2,326,567. A $500,000 goodwill impairment loss was recognized during the year ended August 31, 2013. An additional goodwill impairment loss of $826,567 was recognized during the year ended August 31, 2017. As of August 31, 2017 and 2016, goodwill was $1,000,000 and $1,826,567, respectively.

## NOTE I - GOODWILL

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

The result of this analysis concluded the carrying amount exceeded fair value and an impairment loss of $826,567 was recorded in the consolidated statement of operations for the year ended August 31, 2017. There was no impairment of goodwill at August 31, 2016.

## NOTE J - INVESTMENTS



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

| | 2017 | | 2016 | |
|---|---|---|---|---|
| Type | Cost or amortized cost | Carrying value | Cost or amortized cost | Carrying value |
| Short-term investments | | | | |
| Cash | $ 99,251 | $ 99,251 | $ 276,336 | $ 276,336 |
| Corporate securities | 6,465,551 | 6,756,996 | 7,970,349 | 8,262,888 |
| U.S. Government securities | 1,311,588 | 1,321,132 | 5,502,057 | 5,615,279 |
| Total short-term investments | $ 7,876,390 | $ 8,177,379 | $ 13,748,742 | $ 14,154,503 |

| Type | 2017 Cost or amortized cost | 2017 Carrying value | 2016 Cost or amortized cost | 2016 Carrying value |
|---|---|---|---|---|
| Long-term investments | | | | |
| Cash | $ 777,793 | $ 777,793 | $ 924,330 | $ 924,330 |
| Common stock | 15,990,415 | 22,071,882 | 15,387,048 | 18,060,455 |
| Corporate securities | 18,823,945 | 17,789,413 | 18,192,883 | 17,569,267 |
| U.S. Government securities | - | - | 1,006,000 | 1,065,775 |
| Fund of funds hedge fund | 824,799 | 840,405 | 984,467 | 940,706 |
| Hedge fund | 1,000,000 | 1,026,596 | 1,000,000 | 1,005,319 |
| Private equity fund | 1,042,500 | 1,036,870 | 462,500 | 449,432 |
| Total long-term investments | $ 38,459,452 | $ 43,542,959 | $ 37,957,228 | $ 40,015,284 |

Investments valued at NAV as of August 31, 2017 and 2016, consisted of the following:

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

| 2016 | Fair value | Unfunded commitments | Redemption frequency | Redemption notice period |
|---|---|---|---|---|
| Fund of funds hedge fund (a) | $ 940,706 | $ - | Quarterly | Up to 120 days |
| Hedge fund | 1,005,319 | - | | |
| Private equity fund | 449,432 | 2,287,500 | | |
| Total investments recorded at NAV | $ 2,395,457 | $ 2,287,500 | | |

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

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

| | 2017 | 2016 |
|---|---|---|
| Net change in unrealized gain on investments | $ 2,881,518 | $ 957,611 |
| Net realized gain (loss) on the sale of investments | (144,213) | 161,830 |
| | 2,737,305 | 1,119,441 |
| Dividends and interest income | 1,659,859 | 1,872,359 |
| | $ 4,397,164 | $ 2,991,800 |



## NOTE K - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

***Cash and Cash Equivalents***

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

***Accounts and Grants Receivable***

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

***Investments***

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

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

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



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

***Deferred Revenue***

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

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

| | 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Common stock | $ 22,071,882 | $ - | $ - | $ 22,071,882 |
| U.S. Government securities | 773,722 | 547,410 | - | 1,321,132 |
| Corporate securities | 23,773,207 | 773,202 | - | 24,546,409 |
| Fund of funds hedge fund | - | - | 840,405 | 840,405 |
| Hedge fund | - | - | 1,026,596 | 1,026,596 |
| Private equity fund | - | - | 1,036,870 | 1,036,870 |
| Total assets at fair value | $ 46,618,811 | $ 1,320,612 | $ 2,903,871 | $ 50,843,294 |

| | 2016 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Common stock | $ 18,060,455 | $ - | $ - | $ 18,060,455 |
| U.S. Government securities | 5,593,692 | 1,087,362 | - | 6,681,054 |
| Corporate securities | 21,507,584 | 4,324,571 | - | 25,832,155 |
| Fund of funds hedge fund | - | - | 940,706 | 940,706 |
| Hedge fund | - | - | 1,005,319 | 1,005,319 |
| Private equity fund | - | - | 449,432 | 449,432 |
| Total assets at fair value | $ 45,161,731 | $ 5,411,933 | $ 2,395,457 | $ 52,969,121 |



The changes in investments included in Level 3 assets measured at fair value are summarized as follows:

| | |
|---|---|
| Balance, August 31, 2016 | $ 1,166,463 |
| Realized gains | 3,611 |
| Unrealized gains | ( 66,948) |
| Purchases | 1,462,500 |
| Distributions | ( 170,169) |
| Balance, August 31, 2016 | $ 2,395,457 |
| Realized gains | 4,478 |
| Unrealized gains | 88,082 |
| Purchases | 580,000 |
| Distributions | ( 164,146) |
| Balance, August 31, 2017 | $ 2,903,871 |

The Association is obligated under certain investment agreements to advance additional funding periodically, up to specified levels. As of August 31, 2017 and 2016, the Association had future unfunded commitments in level 3 investments of $1,707,500 and $2,287,500, respectively.

## NOTE L - ENDOWMENT NET ASSETS

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

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

1. The duration and preservation of the fund

2. The purposes of the Association and the donor-restricted endowment fund

3. General economic conditions

4. The possible effects of inflation and deflation

5. The expected total return from income and the appreciation of investments

6. Other resources of the Association

7. The investment policies of the Association

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Association to retain as a fund of perpetual duration. In accordance with US GAAP, deficiencies of this nature would be reported in unrestricted net assets. These deficiencies could result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions or continued appropriation for certain programs that may be deemed prudent by the Executive Board. There were no such deficiencies as of August 31, 2017 or 2016.

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



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

Endowment net asset composition as of August 31, 2017 and 2016 is as follows:

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

| | 2016 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
| Donor-restricted endowment funds | $ - | $ 962,506 | $ 514,700 | $ 1,477,206 |
| Board-designated endowment funds | 13,929,709 | - | - | 13,929,709 |
| Total funds | $ 13,929,709 | $ 962,506 | $ 514,700 | $15,406,915 |

Changes in endowment net assets for the years ended August 31, 2017 and 2016 were as follows:

| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|
| Endowment net assets, August 31, 2015 | $ 14,002,611 | $ 1,052,519 | $ 514,700 | $ 15,569,830 |
| Additions and transfers | 3,607 | - | - | 3,607 |
| Dividends and interest | - | 20,473 | - | 20,473 |
| Net gains (realized and unrealized) | 289,662 | 15,657 | - | 305,319 |
| Appropriation of endowment assets for expenditures | (366,171) | (126,143) | - | (492,314) |
| Endowment net assets, August 31, 2016 | $ 13,929,709 | $ 962,506 | $ 514,700 | $ 15,406,915 |
| Additions and transfers | 5,962 | - | - | 5,962 |
| Dividends and interest | - | 17,677 | - | 17,677 |
| Net gains (realized and unrealized) | 926,667 | 48,163 | - | 974,830 |
| Appropriation of endowment assets for expenditures | (603,551) | (100,876) | - | (704,427) |
| Endowment net assets, August 31, 2017 | $ 14,258,787 | $ 927,470 | $ 514,700 | $ 15,700,957 |



**NOTE M - LINE OF CREDIT**

The Association has a $2,500,000 unsecured line of credit with a bank, which is due on demand. Under the terms of the agreement, interest on amounts borrowed is payable at the bank's prime rate of interest. As of August 31, 2017 and 2016, the outstanding balances on the line of credit were $-0- and $1,000,000, respectively.

## NOTE N - EMPLOYEE RETIREMENT PLANS

The Association has a defined contribution retirement plan ("Plan") covering all regular full-time employees who have completed two years of service. Contributions to the Plan are used to purchase separate annuity contracts for each participating employee. The Association provides a contribution to all participants equal to 4% of annual base salary. Additional voluntary contributions up to 3% of annual base salary are shared equally by the Association and employees. The cost of this Plan, which is included in payroll expenses, was $928,806 and $836,787 in 2017 and 2016, respectively.

The Association offers deferred compensation plans under Internal Revenue Code 457(b) and 457(f) to a select group of management. The Association has recorded an expense related to these deferred compensation plans of $-0- and $50,000 for the years ended August 31, 2017 and 2016, respectively.

## NOTE O - COMMITMENTS AND CONTINGENCIES



The Association leases certain office facilities and equipment.

***Operating Leases***

The future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of August 31, 2017, are as follows:

| Years ending August 31, | | |
|---|---|---|
| 2018 | $ | 106,736 |
| 2019 | | 71,215 |
| 2020 | | 21,664 |
| 2021 | | 2,477 |
| 2022 | | 780 |
| Total | $ | 202,872 |

Total rental expenses under operating leases were $132,037 and $118,287 in 2017 and 2016, respectively.

**NOTE P - LONG-TERM DEBT**

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

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

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

Maturities of long-term debt are as follows:

| Years ending August 31, | |
|---|---|
| 2018 | $ 1,200,000 |
| 2019 | 1,100,000 |
| 2020 | 900,000 |
| Total | $ 3,200,000 |



Interest expense amounted to $133,517 and $179,125 in 2017 and 2016, respectively.

**NOTE Q - TAXES**

The Association is a tax-exempt organization under Section 501(c)(3) of the IRC. The ALA/APA is exempt under Section 501(c)(6) of the IRC. These Section 501(c)(3) and Section 501(c)(6) organizations are taxed only on income classified as unrelated business income. The ALA/APA did not have any unrelated business income for the years ended August 31, 2017 and 2016. The Association has income derived from certain advertising activities that has been determined to be unrelated business income. Unrelated business income is taxed in accordance with federal and state income tax regulations. The provision for unrelated business income taxes was $-0- in 2017 and 2016.

The Edwards Trust is an exempt private foundation under Section 501(c)(3) of the IRC and is taxed on undistributed income, as defined by the IRC. Tax returns are filed on a calendar-year basis for the Edwards Trust. The provision for income taxes was $122 and $1,000 for the calendar years 2017 and 2016, respectively.

The tax years ended 2013, 2014 and 2015 are still open to audit for both federal and state purposes.

Based on the evaluation of the Association's tax positions, management believes all positions taken would be upheld under an examination; therefore, no provision for the effects of uncertain tax positions has been recorded for the years ended August 31, 2017 and 2016.

## NOTE R - OTHER POST-RETIREMENT EMPLOYEE BENEFITS

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

In 2011, the voluntary contribution plan was amended to provide retiree health insurance benefits to employees who reach 62 years of age with 5 years of service. Prior to amendment the voluntary contribution plan allowed coverage to employees who had reached 65 years of age with 5 years of service or who reached 55 years of age with 20 years of service.

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

| | 2017 | 2016 |
|---|---|---|
| Benefit obligation, beginning of year | $ 22,829,193 | $ 21,816,282 |
| Service cost | 1,295,893 | 1,117,901 |
| Interest cost | 1,014,129 | 1,075,297 |
| Actuarial (gain) loss | (12,547,934) | (668,926) |
| Retiree contributions | 160,193 | 232,041 |
| Medicare Part D subsidy | 19,368 | 11,955 |
| Benefits paid, net of Medicare Part D subsidy | (504,364) | (755,357) |
| Benefit obligation, end of year | $ 12,266,478 | $ 22,829,193 |

The current portion of the benefit obligation at August 31, 2017 and 2016, is $369,863 and $585,993, respectively, and is included in accrued liabilities in the accompanying consolidated statements of financial position.

The summary of the changes in plan assets as of August 31, 2017 and 2016 is as follows:

| | 2017 | 2016 |
|---|---|---|
| Plan assets at fair value, beginning of year | $ - | $ - |
| Retiree contributions | 160,193 | 232,041 |
| Medicare Part D subsidy | 19,368 | 11,955 |
| Employer contributions, net of Medicare Part D subsidy | 324,803 | 511,361 |
| Benefits paid | (504,364) | (755,357) |
| Plan assets at fair value, end of year | $ - | $ - |
| Funded status at end of year | $ (12,266,478) | $ (22,829,193) |

The Association anticipates contributions of $369,863 to plan assets will be made during 2018. Estimated benefit payments are $369,863 in 2018, $370,721 in 2019, $394,409 in 2020, $388,521 in 2021, $433,328 in 2022 and $2,925,983 in 2023 through 2027.

Net periodic benefit cost is comprised of the following:

| | 2017 | 2016 |
|---|---|---|
| Service cost | $ 1,295,893 | $ 1,117,901 |
| Interest cost | 1,014,129 | 1,075,297 |
| Amortization of unrecognized prior service cost | (97,322) | (97,322) |
| Total net periodic benefit cost | $ 2,212,700 | $ 2,095,876 |

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

| | 2017 | 2016 |
|---|---|---|
| Prior service cost | $ (950,837) | $ (1,048,159) |
| Net (gain) loss | (11,287,872) | 1,260,062 |
| Total included in unrestricted net assets | $ (12,238,709) | $ 211,903 |

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

| | 2017 | 2016 |
|---|---|---|
| Net actuarial gain | $ (12,547,934) | $ (668,926) |
| Amortization of previously unrecognized prior service cost | 97,322 | 97,322 |
| Total benefit-related credits other than net periodic benefit cost | $ (12,450,612) | $ (571,604) |

Assumptions as of August 31, 2017 and 2016 used to determine the benefit obligation are as follows:

| | 2017 | 2016 |
|---|---|---|
| Weighted-average discount rate | 4.25% | 4.5% |

The gross weighted-average annual assumed rate of increase in the per capita cost of covered benefits (healthcare cost trend rate) is 6.33% for 2017 and is assumed to decrease gradually to 5% for 2024 and remain at that level thereafter. The gross dental trend rate is 5% for 2017 and is assumed to remain at that level thereafter. A 1% increase in the healthcare cost trend rate would increase the benefit obligation by $2,398,478 and a 1% decrease would decrease the benefit obligation by $1,865,165. Additionally, a 1% increase in the healthcare cost trend rate would increase combined service and interest cost by $628,762 and a 1% decrease would decrease combined service and interest cost by $466,209.



## NOTE S - FUNCTIONAL EXPENSES

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

| | 2017 | 2016 |
|---|---|---|
| Program services | $ 47,259,843 | $ 48,582,829 |
| General and administrative activities | 3,994,751 | 2,886,750 |
| Fundraising activities | 367,683 | 323,328 |
| | 51,622,277 | 51,792,907 |
| Less post retirement expenses (recovery) | ( 10,237,912) | 1,524,272 |
| | $ 41,384,365 | $ 53,317,179 |

## NOTE T - SUBSEQUENT EVENTS

Subsequent to August 31, 2017, the Association received notification of additional grant funding of approximately $4,000,000. $2,900,000 of the funding will be used in support of collaborative work related to data and impact in the public library field, as well as to expand international engagement. $1,100,000 will be used to instill Truth, Racial Healing and Transformation nationwide leading narrative change and using healing practitioners in humanities-based programs.

The Association evaluated its August 31, 2017 consolidated financial statements for subsequent events through T/B/D, the date the financial statements were issued, and is not aware of any other subsequent events that would require recognition or disclosure in the consolidated financial statements.

## NOTE U - RECLASSIFICATIONS

Certain amounts in the 2016 consolidated financial statements have been reclassified to conform with the year 2017 presentation.

## UNIFORM GUIDANCE REPORTS AND SCHEDULES

**INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

Executive Board
American Library Association
Chicago, Illinois

We have audited the consolidated financial statements of American Library Association, as of and for the years ended August 31, 2017 and 2016, and have issued our report thereon dated T/B/D, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards *as required by Title 2 U.S. Code of Federal Regulations Part 200,* Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.



Chicago, Illinois
T/B/D

**American Library Association**
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**Year ended August 31, 2017**

| Federal grantor/pass-through grantor/program title | CFDA number | Pass-through Identification number | Federal Expenditures |
|---|---|---|---|
| National Library of Medicine | | | |
| Pass-through National Institute of Health - Native Voices Traveling Exhibition | 93.XXX | HHSN276201500312P | $ 56,136 |
| Institute of Museum and Library Services | | | |
| Laura Bush 21st Century Librarian Program | | | |
| Leadership Implementation Grant | 45.313 | RE-06-14-0001-14 | 109,526 |
| Adult Literacy: Libraries in Action | 45.313 | RE-06-15-0073-15 | 27,893 |
| Causality: School Libraries and Student Success(CLASS II) | 45.313 | RE-00-15-0114-15 | 147,112 |
| Future Ready with the Library | 45.313 | RE-40-16-0081-16 | 58,254 |
| Library Transform Communities II | 45.313 | RE-40-16-0137-16 | 162,469 |
| Inclusive Internship | 45.313 | RE-00-17-0129-17 | 411,410 |
| Total Laura Bush 21st Century Librarian Program | | | 916,664 |
| National Leadership Grants | | | |
| Early Literacy Research | 45.312 | LG-06-13-0203-13 | 90,016 |
| Public Libraries and Digital Services | 45.312 | LG-00-12-0494-12 | 6,900 |
| National Impact of Library Public Program Assessment Phase I | 45.312 | LG-96-17-0048-17 | 100,074 |
| Pass-through Westchester - Creative Aging | 45.312 | LG-07-13-0374-13 | 9,321 |
| Total National Leadership Grants | | | 206,311 |
| Total Institute of Museum and Library Services | | | 1,122,975 |
| Library of Congress | | | |
| National Library Services for the Blind and Physically Handicapped | 45.XXX | LCNLS15P0076 | 26,967 |
| National Science Foundation | | | |
| Pass-through Space Science Institute Star Net Phase II | 45.XXX | DRL-1421427 | 94,592 |
| NASA | | | |
| NASA @ My Library | 43.001 | NNX16AE30A | 104,804 |
| National Endowment of the Arts | | | |
| Author Tour-Great Stores Club | 45.024 | 16-5200-7164 | 19,998 |
| National Endowment for the Humanities | | | |
| Promotion of the Humanities - Public Programs | | | |
| Latino American Phase II | 45.164 | GA-230096 | 91,546 |
| Great Stories Club | 45.164 | GI-228350-15 | 160,795 |
| Pass-through Shakespeare Library - Shakespeare and His First Folio Traveling Exhibition | 45.164 | GI-50663-14 | 8,142 |
| Pass-through The Smithsonian Institution (National Museum of African American History) - Changing American Traveling Exhibition | 45.164 | F13CC10358 | 20,806 |
| Pass-through Poets House - Poetic Voices of the Muslim World Traveling Exibition | 45.164 | MW-50010-12 | 1,844 |
| Total National Endowment for the Humanities | | | 283,133 |
| Total Expenditures of Federal Awards | | | $ 1,708,605 |



See notes to schedule of expenditures of federal awards

## NOTE 1 - BASIS OF PRESENTATION

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

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

## NOTE 3 - SUB-RECIPIENTS

The Association provided no federal awards to sub-recipients during the year ended August 31, 2017.



## NOTE 4 - INSURANCE AND LOANS OR LOAN GUARANTEES

During the year ended August 31, 2017, the Association received no loans, loan guarantees or other federal assistance for the purpose of administering federal programs.

**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***

Executive Board
American Library Association
Chicago, IL

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of American Library Association, which comprise the consolidated statement of financial position as of August 31, 2017, the related consolidated statement of operations and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated T/B/D.



**Internal Control over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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



Chicago, Illinois
T/B/D

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Executive Board
American Library Association
Chicago, IL

**Report on Compliance for Each Major Federal Program**

We have audited American Library Association's (the Association) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Association's major federal programs for the year ended August 31, 2017. The Association's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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



**Auditors' Responsibility**

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

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

**Opinion on Each Major Federal Program**

In our opinion, the Association complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major program for the year ended August 31, 2017.

**Report on Internal Control over Compliance**

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

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



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

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

Chicago, Illinois
T/B/D

**AMERICAN LIBRARY ASSOCIATION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**AUGUST 31, 2017**

## Part I - Summary of Auditors' Results

### Financial Statement Section

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

### Federal Awards Section

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

Identification of major programs:

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

| | |
|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | $750,000 |
| Auditee qualified as low-risk auditee? | Yes |

**Part II - Financial Statement Finding**

None noted.

**Part III - Federal Award Findings and Questioned Costs**

None noted

**Schedule of Prior Year Findings and Questioned Costs**

None noted