

**AMERICAN PRINTING HOUSE
FOR THE BLIND, INC.**
**Financial Statements, Additional Information
and Supplementary Information**
*Years Ended September 30, 2017 and 2016
with Report of Independent Auditors*

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Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of American Printing House for the Blind, Inc. (the Organization), which comprise the statements of financial position as of September 30, 2017 and 2016, the related statements of activities 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Printing House for the Blind, Inc. as of September 30, 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.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Additional Information on pages 28 through 31 and the accompanying Schedule of Expenditures of Federal Awards as presented on pages 32 and 33, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2018 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

January 22, 2018
Louisville, Kentucky

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Statements of Financial Position

September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents	\$ 7,597,004	\$ 8,203,707
Investments	122,196,256	111,931,575
Investments, the use of which is limited	4,342,628	4,061,889
Accounts receivable, trade, net of allowance for bad debts	1,270,851	1,233,409
Government programs receivable	3,488,344	5,186,909
Split-interest agreements	2,186,008	2,181,117
Inventories, net of reserve	8,062,404	7,423,274
Prepaid expenses	345,182	139,854
Other receivable	772,000	836,800
Property and equipment, net of accumulated depreciation	<u>2,937,606</u>	<u>2,988,849</u>
Total assets	<u>\$ 153,198,283</u>	<u>\$ 144,187,383</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and customer deposits	\$ 2,195,757	\$ 1,964,292
Accrued payroll	379,475	365,090
Accrued taxes and payroll withholdings	94,628	97,575
Accrued vacation	905,883	912,027
Annuities payable	1,098,170	1,200,542
Underfunded benefit plan obligation	12,153,516	13,339,441
Deferred compensation liability	879,998	708,920
Other accrued expenses	<u>257,055</u>	<u>257,028</u>
Total liabilities	17,964,482	18,844,915
Net assets:		
Unrestricted:		
Board-designated - accessible textbook program	1,704,431	1,621,864
Invested in property and equipment	2,937,606	2,988,849
Undesignated	136,216,644	127,828,190
Funded status of benefit plan	<u>(12,153,516)</u>	<u>(13,339,441)</u>
Total unrestricted net assets	128,705,165	119,099,462
Temporarily restricted	4,354,134	4,068,504
Permanently restricted	<u>2,174,502</u>	<u>2,174,502</u>
Total net assets	<u>135,233,801</u>	<u>125,342,468</u>
Total liabilities and net assets	<u>\$ 153,198,283</u>	<u>\$ 144,187,383</u>

See accompanying notes.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Statements of Activities

Year ended September 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, revenues and gains:				
Products distributed and sold	\$ 25,064,106	\$ -	\$ -	\$ 25,064,106
Contributions and bequests	990,029	4,891	-	994,920
Interest and dividends	2,403,583	141,674	-	2,545,257
Grants	649,228	-	-	649,228
Gain on investments, net	8,977,513	346,564	-	9,324,077
Miscellaneous income	1,139,805	-	-	1,139,805
Net assets released from restrictions	207,499	(207,499)	-	-
Total support, revenues and gains	39,431,763	285,630	-	39,717,393
Expenses:				
Costs of products distributed and sold	19,680,160	-	-	19,680,160
General and administrative	6,018,162	-	-	6,018,162
Program support	4,163,556	-	-	4,163,556
Fund-raising and development	711,942	-	-	711,942
Miscellaneous expense	239,345	-	-	239,345
Investment fees	198,820	-	-	198,820
Total expenses	31,011,985	-	-	31,011,985
Net gain for the retirement plan	1,185,925	-	-	1,185,925
Change in net assets	9,605,703	285,630	-	9,891,333
Net assets, beginning of year	119,099,462	4,068,504	2,174,502	125,342,468
Net assets, end of year	\$ 128,705,165	\$ 4,354,134	\$ 2,174,502	\$ 135,233,801

See accompanying notes.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Statements of Activities, continued

Year ended September 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenues:				
Products distributed and sold	\$ 29,998,695	\$ -	\$ -	\$ 29,998,695
Contributions and bequests	1,674,277	2,024	-	1,676,301
Interest and dividends	3,971,559	123,162	24,823	4,119,544
Grants	993,176	-	-	993,176
Gain on investments, net	3,533,870	244,300	-	3,778,170
Miscellaneous income	1,332,052	-	-	1,332,052
Net assets released from restrictions	200,974	(200,974)	-	-
Total support and revenues	41,704,603	168,512	24,823	41,897,938
Expenses and losses:				
Costs of products distributed and sold	23,660,717	-	-	23,660,717
General and administrative	6,103,602	-	-	6,103,602
Program support	4,705,213	-	-	4,705,213
Fund-raising and development	712,655	-	-	712,655
Miscellaneous expense	292,817	-	-	292,817
Investment fees	258,178	-	-	258,178
Total expenses and losses	35,733,182	-	-	35,733,182
Net gain for the retirement plan	423,643	-	-	423,643
Change in net assets	6,395,064	168,512	24,823	6,588,399
Net assets, beginning of year	112,704,398	3,899,992	2,149,679	118,754,069
Net assets, end of year	\$ 119,099,462	\$ 4,068,504	\$ 2,174,502	\$ 125,342,468

See accompanying notes.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Statements of Cash Flows

Years ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received from customers	\$ 26,760,802	\$ 29,172,818
Cash paid to suppliers, employees, and others	(30,680,609)	(35,110,172)
Cash received from gifts and bequests	958,148	1,652,405
Interest and dividends	2,509,684	4,118,702
Other income and support	<u>1,789,033</u>	<u>2,325,228</u>
Net cash provided by operating activities	1,337,058	2,158,981
Cash flows from investing activities:		
Proceeds from sales of marketable securities	19,398,672	56,615,215
Purchase of marketable securities	(20,620,015)	(55,429,634)
Purchase of property and equipment	<u>(651,927)</u>	<u>(720,874)</u>
Net cash (used in) provided by investing activities	(1,873,270)	464,707
Cash flows from financing activities:		
Proceeds from contributions restricted for investment subject to annuity agreements	-	17,536
Payments of annuity obligations	<u>(70,491)</u>	<u>(93,480)</u>
Net cash used in financing activities	<u>(70,491)</u>	<u>(75,944)</u>
(Decrease) increase in cash and cash equivalents	(606,703)	2,547,744
Cash and cash equivalents, beginning of year	<u>8,203,707</u>	<u>5,655,963</u>
Cash and cash equivalents, end of year	<u>\$ 7,597,004</u>	<u>\$ 8,203,707</u>

See accompanying notes.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Statements of Cash Flows, continued

Years ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 9,891,333	\$ 6,588,399
Adjustments:		
Depreciation	703,170	641,978
Unrealized gain on investments held	(8,488,317)	(2,790,320)
Realized gain on investments	(835,760)	(987,850)
Increase (decrease) in cash due to changes in:		
Accounts receivable, trade	(37,442)	(137,021)
Other receivable	64,800	129,600
Government programs receivable	1,698,565	(689,698)
Split-interest agreements	(4,891)	(2,024)
Inventories	(639,130)	(14,451)
Prepaid expenses	(205,328)	30,691
Accounts payable and customer deposits	231,465	(69,566)
Accrued expenses	176,372	(127,637)
Annuities payable	(31,881)	(21,872)
Underfunded benefit plan obligation	(1,185,925)	(423,643)
Other accrued expenses	<u>27</u>	<u>32,395</u>
Net cash provided by operating activities	<u>\$ 1,337,058</u>	<u>\$ 2,158,981</u>

See accompanying notes.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Financial Statements

1. Nature of Organization

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

2. Summary of Significant Accounting Policies

Management's Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

General Accounting Principles

The accounts are maintained on the accrual basis.

Accounting standards for external financial reporting by not-for-profit organizations require that resources be classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions. A description of the three net asset categories follows:

Unrestricted Net Assets include the portion of expendable funds that are not subject to donor-imposed stipulations and include the following:

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

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

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

Funded Status of Benefit Plan: This represents the underfunded status of the Organization's defined benefit pension plan (see Note 11).

Temporarily Restricted Net Assets include gifts for which donor-imposed restrictions have not been met.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

General Accounting Principles, continued

Permanently Restricted Net Assets include amounts for which the donor has stipulated that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

The Organization 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 statements of activities as net assets released from restrictions. The Organization treats donor-restricted contributions whose restrictions are met in the same reporting period as unrestricted support.

Cash and Cash Equivalents

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

Accounts Receivable and Other Receivable

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

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

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

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Inventories

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

Investment Valuation and Income Recognition

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 5 for further discussion of fair value measurements. Receipts of donated investments are recorded at the quoted market value of the investments at the time of receipt.

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

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

Property and Equipment

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

Revenue Recognition

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

Functional Allocation of Expenses

Certain costs have been allocated between program support, general and administrative, and fund-raising and development expenses.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Donated Goods and Services

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

Research and Development

Research and development costs are expensed when incurred.

Advertising Costs

Advertising costs are expensed when incurred. Advertising costs totaled \$34,479 and \$25,405 for the years ended September 30, 2017 and 2016, respectively.

Income Taxes

The Organization is a not-for-profit entity exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). Although the Organization is exempt from income taxes, any income generated from activities unrelated to the Organization's exempt purpose is subject to tax under IRC Section 511. The Organization generated no material unrelated business income for the years ended September 30, 2017 and 2016.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The core principle of ASU 2014-09 is to recognize revenues when a customer obtains control of a good or service, in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. The standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of ASU 2014-09 by one year. The updated standard will be effective for the Organization for the year ending September 30, 2020. Early application is permitted. The Organization has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements, continued

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, requiring all leases to be recognized on the Organization's balance sheet as a right-of-use asset and a lease liability, unless the lease is a short term lease (generally a lease with a term of twelve months or less). At the commencement date of the lease, the Organization will recognize: 1) a lease liability for the Organization's obligation to make payments under the lease agreement, measured on a discounted basis; and 2) a right-of-use asset that represents the Organization's right to use, or control the use of, the specified asset for the lease term. Upon adopting the ASU, the Organization will be required to recognize and measure its leases at the beginning of the earliest period presented using a modified retrospective approach. ASU 2016-02 will be effective for the Organization for the year ending September 30, 2021, with early adoption permitted. The Organization is currently evaluating the effect that the new standard will have on the financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, that changes how a not-for-profit organization classifies its net assets, as well as the information it presents in the financial statements and notes about its liquidity, financial performance, and cash flows. The ASU includes a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. The ASU will be effective for the Organization for the year ending September 30, 2019, with early adoption permitted. The Organization is currently evaluating the effect that the new standard will have on the financial statements.

Subsequent Events

Management has evaluated subsequent events for recognition or disclosure in the financial statements through January 22, 2018, which was the date at which the financial statements were available to be issued.

3. Split-Interest Agreements

The Organization has a lead interest in various split-interest agreements which provide periodic payments in perpetuity. The fair value of the contribution has been estimated based on the present value of estimated future distributions expected to be received, discounted at a rate of 4%. The present value of these agreements amounted to \$2,077,500 as of September 30, 2017 and 2016.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Financial Statements, continued

3. Split-Interest Agreements, continued

The Organization also has a remainder interest in a split-interest agreement from an irrevocable trust created by a donor. The fair value of the contribution from this agreement has been estimated and recorded based on the fair value of the assets contributed by the donor, adjusted for the present value of the payments expected to be made first to other beneficiaries. The adjusted payout rate to the beneficiaries is 5%. Actuarial assumptions are based on a single life expectancy. The beneficial interest under this agreement amounted to \$108,508 and \$103,617 at September 30, 2017 and 2016, respectively. These amounts are adjusted annually to reflect the amortization of discount and changes in actuarial assumptions.

4. Investments

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

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

	<u>Pool A</u>	<u>Pool B</u>	<u>Pool C</u>	<u>Total</u>
<u>September 30, 2017</u>				
Permanently restricted net assets	\$ 102,744	\$ 2,071,758	\$ -	\$ 2,174,502
Temporarily restricted net assets	-	2,168,126	-	2,168,126
Unrestricted net assets	<u>95,659,281</u>	<u>-</u>	<u>26,536,975</u>	<u>122,196,256</u>
Total	<u>\$ 95,762,025</u>	<u>\$ 4,239,884</u>	<u>\$ 26,536,975</u>	<u>\$ 126,538,884</u>
<u>September 30, 2016</u>				
Permanently restricted net assets	\$ 102,744	\$ 2,071,758	\$ -	\$ 2,174,502
Temporarily restricted net assets	-	1,887,387	-	1,887,387
Unrestricted net assets	<u>90,360,949</u>	<u>-</u>	<u>21,570,626</u>	<u>111,931,575</u>
Total	<u>\$ 90,463,693</u>	<u>\$ 3,959,145</u>	<u>\$ 21,570,626</u>	<u>\$ 115,993,464</u>

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Financial Statements, continued

5. Fair Value Measurements

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

Following is a description of the valuation methodologies used for assets and liabilities at fair value. There have been no changes in the methodologies used to determine fair value at September 30, 2017 and 2016.

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

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

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

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

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

Split interest agreements: Valued based on the present value of the estimated future benefits expected to be received by the Organization (see Note 3).

Annuities payable: Valued based on the present value of the estimated future payments expected to be made by the Organization to the annuitants (see Note 12).

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

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Financial Statements, continued

5. Fair Value Measurements, continued

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>September 30, 2017</u>				
Money market funds and similar:				
Fixed income	\$ 19,145,785	\$ -	\$ -	\$ 19,145,785
Mutual funds:				
Fixed income	27,159,114	-	-	27,159,114
Equity	54,065,397	-	-	54,065,397
Other	879,998	-	-	879,998
Corporate stocks:				
Healthcare	1,597,462	-	-	1,597,462
Financial	4,063,673	-	-	4,063,673
Technology	3,969,270	-	-	3,969,270
Utilities	47,737	-	-	47,737
Consumer discretionary	3,780,791	-	-	3,780,791
Consumer staples	709,855	-	-	709,855
Real estate	23,581	-	-	23,581
Industrials	1,719,962	-	-	1,719,962
Materials	105,524	-	-	105,524
Energy	439,228	-	-	439,228
Telecommunications	32,713	-	-	32,713
Corporate bonds:				
AAA	-	127,683	-	127,683
AA	-	310,365	-	310,365
A	-	553,711	-	553,711
Government securities:				
AAA	-	25,886	-	25,886
AA	-	100,692	-	100,692
A	-	130,036	-	130,036
Hedge funds:				
Rising and falling markets	-	-	5,100,245	5,100,245
Equity long/short hedge fund	-	-	2,450,176	2,450,176
Total investments	117,740,090	1,248,373	7,550,421	126,538,884
Split interest agreements	-	-	2,186,008	2,186,008
Annuities payable	-	-	(1,098,170)	(1,098,170)
Total assets and liabilities at fair value	<u>\$ 117,740,090</u>	<u>\$ 1,248,373</u>	<u>\$ 8,638,259</u>	<u>\$ 127,626,722</u>

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Financial Statements, continued

5. Fair Value Measurements, continued

	Level 1	Level 2	Level 3	Total
<u>September 30, 2016</u>				
Money market funds and similar:				
Fixed income	\$ 16,425,680	\$ -	\$ -	\$ 16,425,680
Mutual funds:				
Fixed income	26,694,667	-	-	26,694,667
Equity	47,715,263	-	-	47,715,263
Other	708,920	-	-	708,920
Corporate stocks:				
Healthcare	1,777,665	-	-	1,777,665
Financial	3,104,740	-	-	3,104,740
Technology	3,401,242	-	-	3,401,242
Utilities	33,496	-	-	33,496
Consumer discretionary	3,474,350	-	-	3,474,350
Consumer staples	845,937	-	-	845,937
Real estate	12,868	-	-	12,868
Industrials	1,500,993	-	-	1,500,993
Materials	36,353	-	-	36,353
Energy	466,461	-	-	466,461
Telecommunications	215,233	-	-	215,233
Corporate bonds:				
AAA	-	90,405	-	90,405
AA	-	328,830	-	328,830
A	-	306,208	-	306,208
BBB	-	25,044	-	25,044
BB	-	24,604	-	24,604
Government securities:				
AAA	-	42,260	-	42,260
AA	-	166,125	-	166,125
A	-	155,924	-	155,924
Hedge funds:				
Rising and falling markets	-	-	6,063,319	6,063,319
Equity long/short hedge fund	-	-	<u>2,376,877</u>	<u>2,376,877</u>
Total investments	106,413,868	1,139,400	8,440,196	115,993,464
Split interest agreements	-	-	2,181,117	2,181,117
Annuities payable	-	-	<u>(1,200,542)</u>	<u>(1,200,542)</u>
Total assets and liabilities at fair value	<u>\$ 106,413,868</u>	<u>\$ 1,139,400</u>	<u>\$ 9,420,771</u>	<u>\$ 116,974,039</u>

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Financial Statements, continued

5. Fair Value Measurements, continued

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

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 9,420,771	\$ 7,618,625
Sales	(1,308,586)	-
Purchases	-	1,500,000
Actuarial change	36,772	23,896
New annuitants	-	(17,536)
Payments to annuitants	70,491	93,480
Realized gains	339,718	-
Unrealized gains	<u>79,093</u>	<u>202,306</u>
Balance, end of year	<u>\$ 8,638,259</u>	<u>\$ 9,420,771</u>

To assess the appropriate classification of assets and liabilities within the fair value hierarchy, the availability of market data is monitored. Changes in economic conditions or valuation techniques may require the transfer of assets and liabilities from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. The Organization's management evaluates the significance of transfers between levels based upon the nature of the assets and liabilities and size of the transfer relative to total net assets. For both the years ended September 30, 2017 and 2016, there were no significant transfers in or out of Level 3.

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

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

<u>Investment</u>	<u>Fair Value at September 30</u>		<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
	<u>2017</u>	<u>2016</u>			
Multi-strategy hedge funds (a)	\$ 7,550,421	\$ 8,440,196	\$ -	Semi- annual	95 days

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

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Financial Statements, continued

6. Government Programs Receivable

The Organization receives Federal government subsidies each year designated for providing materials, research and development, and other services to schools and institutions for the blind or visually impaired. The subsidies granted amounted to \$25,431,000 for the years 2017 and 2016. The balance of this account at September 30, 2017 and 2016 includes, in part, amounts drawn in excess of the available subsidies provided for the year to the schools and agencies but collectible from them from subsequent subsidies.

7. Inventories

Inventories consist of the following as of September 30:

	<u>2017</u>	<u>2016</u>
Finished goods	\$ 5,190,794	\$ 4,815,452
Work-in-process	474,369	423,926
Raw materials	3,218,057	2,912,906
Less reserve for obsolete or excess inventory	<u>(820,816)</u>	<u>(729,010)</u>
Total inventories	<u>\$ 8,062,404</u>	<u>\$ 7,423,274</u>

8. Property and Equipment

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

	<u>2017</u>	<u>2016</u>
Land	\$ 92,433	\$ 92,433
Buildings and improvements	8,130,426	8,129,762
Machinery and equipment	3,835,621	3,748,977
Office equipment	<u>3,179,235</u>	<u>2,821,720</u>
	15,237,715	14,792,892
Less accumulated depreciation	<u>(12,300,109)</u>	<u>(11,804,043)</u>
Total	<u>\$ 2,937,606</u>	<u>\$ 2,988,849</u>

Total depreciation expense was \$703,170 and \$641,978 for the years ended September 30, 2017 and 2016, respectively.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Financial Statements, continued

9. Net Asset Classifications

The Organization's temporarily restricted net assets were allocated as follows as of September 30:

	<u>2017</u>	<u>2016</u>
Split- interest agreements	\$ 2,186,008	\$ 2,181,117
Earnings on restricted endowment	<u>2,168,126</u>	<u>1,887,387</u>
Total	<u>\$ 4,354,134</u>	<u>\$ 4,068,504</u>

The Organization's permanently restricted net assets relate to amounts invested in perpetuity, the income from which is expendable to fund the research and development department.

10. Net Asset Endowment

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

Interpretation of Relevant Law

The Board of Trustees of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the spending power of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies, as permanently restricted net assets, the original value of gifts donated to the permanent endowment, original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument or to maintain spending power. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the Organization and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the Organization; and (7) the investment and spending policies of the Organization.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Financial Statements, continued

10. Net Asset Endowment, continued

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>September 30, 2017</u>				
Donor-restricted endowment funds	\$ -	\$ 2,168,126	\$ 2,174,502	\$ 4,342,628
Board-designated endowment funds	<u>1,704,431</u>	<u>-</u>	<u>-</u>	<u>1,704,431</u>
Total	<u>\$ 1,704,431</u>	<u>\$ 2,168,126</u>	<u>\$ 2,174,502</u>	<u>\$ 6,047,059</u>
<u>September 30, 2016</u>				
Donor-restricted endowment funds	\$ -	\$ 1,887,387	\$ 2,174,502	\$ 4,061,889
Board-designated endowment funds	<u>1,621,864</u>	<u>-</u>	<u>-</u>	<u>1,621,864</u>
Total	<u>\$ 1,621,864</u>	<u>\$ 1,887,387</u>	<u>\$ 2,174,502</u>	<u>\$ 5,683,753</u>

The changes in endowment net assets were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, October 1, 2015	\$ 1,573,834	\$ 1,720,899	\$ 2,149,679	\$ 5,444,412
Withdrawals	-	(182,300)	-	(182,300)
Investment return:				
Investment income	30,796	123,162	24,823	178,781
Net depreciation - realized and unrealized	29,380	244,300	-	273,680
Amounts appropriated for expenditure	<u>(12,146)</u>	<u>(18,674)</u>	<u>-</u>	<u>(30,820)</u>
Endowment net assets, September 30, 2016	<u>1,621,864</u>	<u>1,887,387</u>	<u>2,174,502</u>	<u>5,683,753</u>
Withdrawals	-	(187,487)	-	(187,487)
Investment return:				
Investment income	34,105	141,674	-	175,779
Net appreciation - realized and unrealized	60,923	346,564	-	407,487
Amounts appropriated for expenditure	<u>(12,461)</u>	<u>(20,012)</u>	<u>-</u>	<u>(32,473)</u>
Endowment net assets, September 30, 2017	<u>\$ 1,704,431</u>	<u>\$ 2,168,126</u>	<u>\$ 2,174,502</u>	<u>\$ 6,047,059</u>

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Financial Statements, continued

10. Net Asset Endowment, continued

Funds with Deficiencies

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 Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of September 30, 2017 and 2016.

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Financial Statements, continued

11. Retirement Plan

The Organization maintains a qualified, non-contributory defined benefit pension plan for eligible employees who have attained the age of 21. To remain eligible, an employee must work at least 1,000 hours each year after completion of one year of service. The plan was amended effective January 1, 2009 such that any employee hired or rehired after January 1, 2009 will not be eligible to participate in the plan. Employees rehired after January 1, 2009 may count additional years of service after rehire for purposes of vesting in any benefit earned prior to January 1, 2009 and for the purposes of determining eligibility for early retirement. Benefits paid to retirees are based on age at retirement, years of service credit, and average compensation. The Organization's funding policy is to contribute the larger of the amount required to fully fund the plan's current liability or the amount necessary to meet the funding requirements, as defined by the IRC. Employer contributions totaling \$1,421,801 and \$3,527,941 were made during the years ended September 30, 2017 and 2016, respectively, for the plan. Benefits of \$2,353,159 and \$1,146,869 were paid during the years ended September 30, 2017 and 2016, respectively, for the plan.

Obligations and Funded Status

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

	<u>2017</u>	<u>2016</u>
Obligations and funded status:		
Fair value of plan assets	\$ 28,102,734	\$ 26,631,269
Projected benefit obligation	<u>40,256,250</u>	<u>39,970,710</u>
Funded status at end of year	<u>\$ (12,153,516)</u>	<u>\$ (13,339,441)</u>
 Amounts recognized on the statement of financial position:		
Underfunded benefit plan obligation	<u>\$ 12,153,516</u>	<u>\$ 13,339,441</u>

The accumulated benefit obligation for the plan was \$36,756,405 and \$36,142,509 at September 30, 2017 and 2016, respectively. In comparing the fair value of the plan's assets as of September 30, 2017 and 2016 to the accumulated benefit obligation, the plan is underfunded by \$8,653,671 and \$9,511,240, respectively.

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

	<u>2017</u>	<u>2016</u>
Service cost	\$ 886,115	\$ 872,921
Interest cost	1,637,231	1,688,246
Amortization of net loss	1,258,773	1,171,314
Expected return on plan assets	<u>(1,952,246)</u>	<u>(1,687,241)</u>
Net periodic benefit costs	<u>\$ 1,829,873</u>	<u>\$ 2,045,240</u>

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Financial Statements, continued

11. Retirement Plan, continued

Assumptions

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

	<u>2017</u>	<u>2016</u>
In computing ending obligations:		
Discount rate	4.25%	4.25%
Rate of compensation increase	3.00	3.00
In computing expected return on assets	7.50	7.50

Plan Assets

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

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

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

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

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Financial Statements, continued

11. Retirement Plan, continued

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>September 30, 2017</u>				
Money market funds:				
Fixed income	\$ 1,515,320	\$ -	\$ -	\$ 1,515,320
Government securities:				
AAA	-	418,523	-	418,523
A1	-	100,412	-	100,412
AA1	-	51,404	-	51,404
N/A	-	93,453	-	93,453
Corporate bonds:				
A1	-	726,467	-	726,467
A2	-	377,547	-	377,547
A3	-	214,962	-	214,962
AA1	-	79,686	-	79,686
AA2	-	285,693	-	285,693
BAA1	-	263,858	-	263,858
BAA2	-	64,028	-	64,028
N/A	-	3,125	-	3,125
Mutual funds:				
Large cap	8,599,487	-	-	8,599,487
Fixed income	-	6,490,985	-	6,490,985
Corporate stocks:				
Healthcare	718,554	-	-	718,554
Financial	2,292,894	-	-	2,292,894
Technology	2,124,307	-	-	2,124,307
Consumer discretionary	2,232,126	-	-	2,232,126
Consumer staples	411,073	-	-	411,073
Industrials	846,177	-	-	846,177
Energy	192,653	-	-	192,653
Total assets at fair value	<u>\$ 18,932,591</u>	<u>\$ 9,170,143</u>	<u>\$ -</u>	<u>\$ 28,102,734</u>

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Financial Statements, continued

11. Retirement Plan, continued

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>September 30, 2016</u>				
Money market funds:				
Fixed income	\$ 2,828,394	\$ -	\$ -	\$ 2,828,394
Government securities:				
AAA	-	591,647	-	591,647
AA1	-	52,788	-	52,788
N/A	-	93,684	-	93,684
Corporate bonds:				
A1	-	506,451	-	506,451
A2	-	163,558	-	163,558
A3	-	414,523	-	414,523
AA1	-	76,804	-	76,804
AA2	-	216,781	-	216,781
AA3	-	76,776	-	76,776
AAA	-	211,361	-	211,361
BAA1	-	190,090	-	190,090
BAA2	-	66,983	-	66,983
N/A	-	3,775	-	3,775
Mutual funds:				
Large cap	7,252,446	-	-	7,252,446
Fixed income	-	6,316,140	-	6,316,140
Corporate stocks:				
Healthcare	663,778	-	-	663,778
Financial	1,703,735	-	-	1,703,735
Technology	1,792,015	-	-	1,792,015
Consumer discretionary	1,968,818	-	-	1,968,818
Consumer staples	449,844	-	-	449,844
Industrials	785,770	-	-	785,770
Energy	<u>205,108</u>	<u>-</u>	<u>-</u>	<u>205,108</u>
Total assets at fair value	<u>\$ 17,649,908</u>	<u>\$ 8,981,361</u>	<u>\$ -</u>	<u>\$ 26,631,269</u>

Cash Flows

The Organization expects to contribute \$1,350,336 to its pension plan in 2018.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Financial Statements, continued

11. Retirement Plan, continued

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

2018	\$	1,743,335
2019		1,833,663
2020		1,951,022
2021		2,089,635
2022		2,231,268
2023-2027		13,488,387

Deferred Compensation Plan

The Organization also has a non-qualified, executive deferred compensation plan covering certain key employees. The Organization may, at its option, make employer contributions to the key employees' deferral accounts. Employer contributions totaling \$90,068 and \$69,324 were made to the deferred compensation plan in the years ended September 30, 2017 and 2016, respectively. The Organization's liability for the deferred compensation plan totaled \$879,998 and \$708,920 at September 30, 2017 and 2016, respectively.

12. Charitable Gift Annuities

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

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

The Organization received no funds for charitable annuities during the year ended September 30, 2017. The Organization received \$17,536 for charitable annuities during the year ended September 30, 2016.

A total of \$70,491 and \$93,480 was paid out on annuity contracts during the years ended September 30, 2017 and 2016, respectively.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Notes to Financial Statements, continued

13. Employee Benefit Plan

The Organization established a 401(k) plan effective July 1, 1999 and all employees employed as of that date were eligible to participate. Employees hired after that date must complete a year of service and attain age 21 to be eligible to participate in the 401(k) plan. The plan was amended effective January 1, 2009 to allow all new employees and rehires to be automatically enrolled in the plan at a rate of 4% of eligible wages, including immediate eligibility for Organization matching funds. Participants in the plan may make voluntary deferrals by payroll deduction up to the maximum allowed under the IRC. The Organization makes matching contributions each year of up to 4% of each participant's eligible compensation. Discretionary contributions may also be made by the Organization each year for allocation to all eligible employees. The Organization's contributions to the plan were \$531,539 and \$518,849 for the years ended September 30, 2017 and 2016, respectively.

14. Equipment Lease Obligations

The Organization is obligated under leases for copiers used in the production process. The leases expire over various terms through 2021 and are accounted for as operating leases. Monthly rental payments range from \$26 to \$1,291. Rent expense on these leases totaled \$60,036 and \$58,245 for the years ended September 30, 2017 and 2016, respectively.

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

2018	\$	170,534
2019		172,154
2020		172,154
2021		<u>74,746</u>
Total	\$	<u>589,588</u>

15. Joint Costs

The Organization undertakes joint activities such as producing certain magazines for qualifying individuals that are blind or visually impaired. For the years ended September 30, 2017 and 2016, the Organization incurred joint costs of \$563,285 and \$572,221, respectively, for personnel, materials, supplies, and general expenses that included or supported fund-raising appeals. Of these costs, \$368,332 and \$398,509 were allocated to fund-raising and development expense and \$194,953 and \$173,712 were allocated to program support for the years ended September 30, 2017 and 2016, respectively.

ADDITIONAL INFORMATION

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Schedules of Cost of Products Distributed

Years ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Inventory, beginning of year	\$ 7,423,274	\$ 7,408,823
Costs of goods manufactured	<u>20,319,290</u>	<u>23,675,168</u>
Cost of goods available for distribution	27,742,564	31,083,991
Inventory, end of year	<u>8,062,404</u>	<u>7,423,274</u>
Total cost of products distributed and sold	<u>\$ 19,680,160</u>	<u>\$ 23,660,717</u>

See Report of Independent Auditors.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Schedules of General and Administrative Expenses

Years ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Public affairs	\$ 492,135	\$ 484,556
Administrative	<u>5,526,027</u>	<u>5,619,046</u>
Total general and administrative expenses	<u>6,018,162</u>	<u>6,103,602</u>
Detail of general and administrative expenses:		
Labor costs	4,064,803	4,494,646
Supplies	61,970	55,748
Dues and subscriptions	31,552	27,918
Travel	82,398	111,339
Professional service fees	835,475	612,339
Legal fees	6,435	43,112
Public relations	29,101	35,991
Public education	3,145	9,588
Utilities and telephone	43,370	51,668
Postage	31,614	33,745
Equipment rental and maintenance	316,831	172,093
Insurance	48,049	49,712
Depreciation	428,055	402,383
Rent	(16,800)	(16,800)
Other	<u>52,164</u>	<u>20,120</u>
Total general and administrative expenses by detail	<u>\$ 6,018,162</u>	<u>\$ 6,103,602</u>

See Report of Independent Auditors.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Schedules of Costs of Products Distributed, General and Administrative, Program Support, Fund-Raising, and
Development Functional Expenses

Year ended September 30, 2017

	<u>Program A</u>	<u>Program B</u>	<u>Fund-Raising</u>	<u>Development</u>	<u>Total</u>
Costs of materials and production	\$ -	\$ 10,426,166	\$ 44,000	\$ -	\$ 10,470,166
Labor costs	211,211	12,488,566	273,197	54,518	13,027,492
Supplies	6,079	716,062	5,203	921	728,265
Dues and subscriptions	1,251	35,050	6,311	361	42,973
Travel	5,425	137,790	8,401	394	152,010
Professional service fees	2,137	3,027,560	203,178	3,819	3,236,694
Legal fees	-	15,338	2,578	-	17,916
Public relations	2,867	29,101	1,055	171	33,194
Public education	2,539	3,145	2,810	542	9,036
Utilities and telephone	25	365,261	38	7	365,331
Postage	871	163,206	93,232	2,197	259,506
Equipment rental and maintenance	12,910	1,263,224	6,625	1,279	1,284,038
Insurance	2,500	72,568	-	-	75,068
Depreciation	4,826	698,344	-	-	703,170
Rent	16,800	(16,800)	-	-	-
Other	<u>10,873</u>	<u>156,983</u>	<u>926</u>	<u>179</u>	<u>168,961</u>
Total program expenses	\$ <u>280,314</u>	\$ <u>29,581,564</u>	\$ <u>647,554</u>	\$ <u>64,388</u>	\$ <u>30,573,820</u>

Program A: APH Museum

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

See Report of Independent Auditors.

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Schedules of Costs of Products Distributed, General and Administrative, Program Support, Fund-Raising, and Development Functional Expenses, continued

Year ended September 30, 2016

	<u>Program A</u>	<u>Program B</u>	<u>Fund-Raising</u>	<u>Development</u>	<u>Total</u>
Costs of materials and production	\$ -	\$ 14,026,891	\$ 43,995	\$ -	\$ 14,070,886
Labor costs	236,677	14,008,306	349,068	55,800	14,649,851
Supplies	3,245	855,151	4,609	629	863,634
Dues and subscriptions	1,481	30,968	7,788	171	40,408
Travel	2,484	160,023	12,124	279	174,910
Professional service fees	2,241	2,759,603	97,351	789	2,859,984
Legal fees	-	48,153	-	-	48,153
Public relations	3,726	36,141	2,003	180	42,050
Public education	3,622	9,588	3,901	550	17,661
Utilities and telephone	15	387,480	52	8	387,555
Postage	940	157,555	101,887	2,178	262,560
Equipment rental and maintenance	5,674	889,476	12,118	1,828	909,096
Insurance	2,500	75,923	-	-	78,423
Depreciation	4,882	637,096	-	-	641,978
Rent	16,800	(16,800)	-	-	-
Other	<u>7,145</u>	<u>112,546</u>	<u>14,127</u>	<u>1,220</u>	<u>135,038</u>
Total program expenses	\$ <u>291,432</u>	\$ <u>34,178,100</u>	\$ <u>649,023</u>	\$ <u>63,632</u>	\$ <u>35,182,187</u>

Program A: APH Museum

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

See Report of Independent Auditors.

SUPPLEMENTARY INFORMATION

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Schedule of Expenditures of Federal Awards

For the Year ended September 30, 2017

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Federal appropriation:		
United States Department of Education American Printing House for the Blind	84.906	\$ 21,436,729
Federal grant:		
United States Department of Education National Instructional Materials Access Center	84.327E	<u>649,228</u>
Total expenditures of federal awards		<u>\$ 22,085,957</u>

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

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Note to the Schedule of Expenditures of Federal Awards

For the Year ended September 30, 2017

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Organization under programs of the federal government for the year ended September 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

3. Indirect Cost Rate

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

See Report of Independent Auditors.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Report of Independent Auditors

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of American Printing House for the Blind, Inc. (the Organization), which comprise the statement of financial position as of September 30, 2017, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 22, 2018.

Internal Control over Financial Reporting

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

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

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

Board of Trustees

American Printing House for the Blind, Inc.

Report of Independent Auditors on IC, Compliance and Other Matters in Accordance With GAS, continued

Compliance and Other Matters

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

Purpose of this Report

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

January 22, 2018

Louisville, Kentucky

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

Report of Independent Auditors

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

Report on Compliance for Each Major Federal Program

We have audited American Printing House for the Blind, Inc.'s (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended September 30, 2017. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.

Report on Internal Control Over Compliance

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

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

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

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

January 22, 2018
Louisville, Kentucky

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Schedule of Findings and Questioned Costs

Year ended September 30, 2017

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

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

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

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

Identification of Major Programs:

CFDA Numbers

Name of Federal Program or Cluster

84.906

American Printing House for the Blind

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

Auditee qualified as low-risk auditee? Yes No

AMERICAN PRINTING HOUSE FOR THE BLIND, INC.

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2017

II. FINANCIAL STATEMENT FINDINGS

No matters reported.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No matters reported.