# PUBLISHERS INTERNATIONAL LINKING ASSOCIATION, INC.

**Financial Statements**

**Years Ended December 31, 2017 and 2016**

**(With Independent Auditors' Report Thereon)**

Kahn, Litwin, Renza & Co., Ltd.
Boston • Newport • Providence • Waltham

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KLR

*Certified Public Accountants and Business Consultants*

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## FINANCIAL STATEMENTS

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# INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Publishers International Linking Association, Inc.:

We have audited the accompanying financial statements of Publishers International Linking Association, Inc. (the Association), which comprise the statements of financial position as of December 31, 2017 and 2016, and 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.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Association'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 Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

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

Kahn, Litwin, Renza & Co., Ltd.

June 29, 2018

**PUBLISHERS INTERNATIONAL LINKING ASSOCIATION, INC.**
**STATEMENTS OF FINANCIAL POSITION**
**December 31, 2017 and 2016**

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| | 2017 | 2016 |
|---|---|---|
| **Assets** | | |
| Current Assets: | | |
| Cash | $ 3,914,533 | $ 3,147,032 |
| Accounts receivable | 1,746,744 | 1,840,817 |
| Prepaid expenses | 203,794 | 201,358 |
| Prepaid registration fees - related party | 135,188 | 131,250 |
| Prepaid membership fees - related party | 7,600 | 15,200 |
| **Total current assets** | **6,007,859** | **5,335,657** |
| Property and Equipment: | | |
| Computer software and equipment | 3,061,786 | 2,832,027 |
| Leasehold improvements | 285,104 | 285,104 |
| Furniture and fixtures | 89,402 | 68,736 |
| Development in progress | 7,844 | 133,090 |
| | 3,444,136 | 3,318,957 |
| Less accumulated depreciation | 3,080,557 | 2,885,658 |
| **Property and equipment, net** | **363,579** | **433,299** |
| Other Assets: | | |
| Investments, at fair value | 1,692,708 | 1,871,293 |
| Security deposits | 15,952 | 14,505 |
| Accrued interest receivable - related party | 37,125 | 28,875 |
| Note receivable - related party | 300,000 | 300,000 |
| **Total other assets** | **2,045,785** | **2,214,673** |
| **Total Assets** | **$ 8,417,223** | **$ 7,983,629** |
| **Liabilities and Net Assets** | | |
| Current Liabilities: | | |
| Accounts payable and accrued expenses | $ 458,019 | $ 387,873 |
| Deferred revenue | 306,348 | 407,607 |
| **Total current liabilities** | **764,367** | **795,480** |
| Net Assets: | | |
| Unrestricted: | | |
| Undesignated | 5,960,208 | 5,636,606 |
| Designated, long-term needs | 1,692,648 | 1,551,543 |
| **Total net assets** | **7,652,856** | **7,188,149** |
| **Total Liabilities and Net Assets** | **$ 8,417,223** | **$ 7,983,629** |

**PUBLISHERS INTERNATIONAL LINKING ASSOCIATION, INC.**
**STATEMENTS OF ACTIVITIES**
**Years Ended December 31, 2017 and 2016**

| | 2017 | 2016 |
|---|---|---|
| Unrestricted Net Assets | | |
| Revenue and support: | | |
| Deposit fees | $ 4,921,489 | $ 4,426,246 |
| Member fees | 2,936,809 | 2,684,468 |
| Interest income | 12,430 | 22,818 |
| Investment return | 41,105 | 36,220 |
| **Total revenue and support** | **7,911,833** | **7,169,752** |
| Expenses: | | |
| Salaries, taxes and benefits | 4,281,785 | 3,835,082 |
| Travel and entertainment | 655,410 | 625,968 |
| Data center | 484,423 | 376,679 |
| Advertising and marketing | 419,441 | 343,221 |
| Professional fees | 323,959 | 179,875 |
| Other general and administrative expenses | 273,426 | 298,523 |
| Registration fees, related party (Note 3) | 263,286 | 263,117 |
| Consulting | 246,990 | 71,052 |
| Depreciation | 186,479 | 160,056 |
| Rent | 186,391 | 184,254 |
| Dues and subscriptions | 46,871 | 54,499 |
| Product development | 37,795 | 33,019 |
| Insurance | 27,308 | 25,642 |
| Bad debt expense | 22,666 | 24,353 |
| Program initiatives | 8,637 | 7,393 |
| **Total expenses** | **7,464,867** | **6,482,733** |
| **Change in net assets from operations** | **446,966** | **687,019** |
| Other (income) expenses: | | |
| Foreign currency exchange (gain) loss, net | (19,886) | 117,453 |
| Loss on disposal of property and equipment | 2,145 | 15,725 |
| **Total other (income) expenses** | **(17,741)** | **133,178** |
| **Change in total net assets** | **464,707** | **553,841** |
| **Net Assets, beginning of year** | **7,188,149** | **6,634,308** |
| **Net Assets, end of year** | **$ 7,652,856** | **$ 7,188,149** |

**PUBLISHERS INTERNATIONAL LINKING ASSOCIATION, INC.**
**STATEMENTS OF CASH FLOWS**
**Years Ended December 31, 2017 and 2016**

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| | 2017 | 2016 |
|---|---|---|
| Cash Flows from Operating Activities: | | |
| Change in total net assets | $ 464,707 | $ 553,841 |
| Adjustments to reconcile change in total net assets to net cash provided by operating activities: | | |
| Depreciation | 186,479 | 160,056 |
| Bad debt expense | 22,666 | 24,353 |
| Loss on disposal of property and equipment | 2,145 | 15,725 |
| Net realized and unrealized gain on investments | (14,115) | (16,898) |
| Change in operating assets and liabilities: | | |
| Accounts receivable | 71,407 | (411,431) |
| Prepaid expenses | (2,436) | (15,089) |
| Prepaid registration fees - related party | (3,938) | (5) |
| Prepaid membership fees - related party | 7,600 | 7,600 |
| Security deposits | (1,447) | 814 |
| Accrued interest receivable - related party | (8,250) | (8,250) |
| Accounts payable and accrued expenses | 70,146 | 65,743 |
| Deferred revenue | (101,259) | 86,203 |
| **Net cash provided by operating activities** | **693,705** | **462,662** |
| Cash Flows from Investing Activities: | | |
| Purchase of property and equipment | (118,904) | (183,445) |
| Purchases of investments | (787,250) | (649,493) |
| Proceeds from sale and redemption of investments | 979,950 | 282,643 |
| **Net cash provided (used) by investing activities** | **73,796** | **(550,295)** |
| **Net Increase (Decrease) in Cash** | **767,501** | **(87,633)** |
| **Cash, beginning of year** | **3,147,032** | **3,234,665** |
| **Cash, end of year** | **$ 3,914,533** | **$ 3,147,032** |

## 1. Nature of Operations

Publishers International Linking Association, Inc. (the Association), a non-profit corporation, promotes the development and cooperative use of new and innovative technologies to speed and facilitate scientific and other scholarly research. The Association runs various programs under the Crossref family of services which enables the creation of persistent links to full-text scholarly content located on different publisher sites and a cross-publisher reference linking service. The Association receives service fee revenues from its members.

The Association's principal place of operation is in Lynnfield, Massachusetts and also operates an office in Oxford, England.

## 2. Summary of Significant Accounting Policies

This summary of significant accounting policies of the Association is presented to assist the reader in understanding the Association's financial statements. The financial statements and notes are representations of the Association's management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

***Basis of Presentation***
The financial statements have been prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables and other liabilities. In accordance with authoritative guidance, the Association reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Association had no temporarily or permanently restricted net assets at December 31, 2017 and 2016.

***Performance Indicator***
In the accompanying statements of activities, the primary indicator of the Association’s results is change in net assets from operations. As such, it includes all operating revenues and operating expenses. Transactions such as foreign currency exchange (gain) loss, net and loss on disposal of property and equipment, are not included as a component of change in net assets from operations in the statements of activities.

***Accounts Receivable***

Accounts receivable are carried at anticipated net realizable value. On a periodic basis, the Association evaluates its accounts receivable and establishes an allowance for doubtful accounts, when deemed necessary, based on its history of past write-offs and collection experience. A receivable is considered past due if payment has not been received within stated terms. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. No allowance was deemed necessary as of and for the years ended December 31, 2017 and 2016.

***Property and Equipment***

Property and equipment are recorded at cost or, if donated, at the estimated fair market value at the date of donation. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets, which range from 18 months to 10 years.

Generally, additions and improvements in excess of $2,500 and expenditures that materially prolong the useful lives of assets are capitalized to property and equipment.

***Investments***

The Association's investments consist of marketable securities, certificates of deposit, and cash and cash equivalents designated for investment, which are stated in the accompanying statements of financial position at fair value. Realized and unrealized gains and losses are included as a component of investment return, along with interest and dividends, net of advisory fees in the statements of activities. Purchases and sales of securities are recorded on the trade date.

***Fair Value Measurement***

Authoritative guidance on fair value establishes a framework for measuring fair value and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. 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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

> Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Association has the ability to access.
>
> Level 2 inputs (other than quoted prices included within level 1) are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are inputs that are unobservable for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. The unobservable inputs are developed based on the best information available in the circumstances and may include the Association's own data.

The Association reports its investments, measured at fair value on a recurring basis. The investments are classified as level 1 and level 2 within the fair value hierarchy.

Level 1 investments owned by the Association include marketable securities listed on a National Securities Exchange valued at the last recorded sales price as of the financial statement reporting date, or in the absence of recorded sales, at the last quoted bid price reported as of the financial statement reporting date. Level 1 investments also include cash and cash equivalents designated for investment.

Level 2 investments in certificates of deposit are reported at fair value, which is determined by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuers.

***Revenue and Support Recognition***

Deposit Fees
Deposit fees are fees paid for registering content in the Crossref system. The Association recognizes deposit fees in the period in which the related services are provided.

Member Fees
Member fees represent annual member and affiliate fees paid for the use of the online database. The Association recognizes member fees in the period in which the related services are provided.

Deferred revenue consists of deposit and member fees received in advance for services to be provided during periods subsequent to year end.

***Advertising***
Advertising costs are expensed as incurred.

***Foreign Currency Transactions***

The Association has operations in the UK. In the normal course of business, the Association is exposed to fluctuations in currency values. In accordance with authoritative guidance on foreign currency remeasurement, nonmonetary assets, capital accounts, liabilities, revenues and expenses are remeasured from the applicable local currency (British Pound) into the functional currency (U.S. Dollars) using historical exchange rates in effect at the transaction date, and monetary assets and liabilities are remeasured using the balance sheet date exchange rate. Revenues and expenses related to monetary items are remeasured using the weighted-average exchange rate prevailing during the year. Exchange gains and losses resulting from remeasurements into the functional currency are recorded as a component of operations. Gains and losses resulting from transactions in foreign currencies are recognized in other income and expenses as foreign currency exchange (gain) loss, net on the accompanying statements of activities.

***Income Taxes***

The Association is exempt from federal and state income taxes under Section 501(c)(6) of the Internal Revenue Code (IRC). Fees or other payments made to the Association are not deductible as charitable contributions for income tax purposes. However, the payments may be deductible as ordinary and necessary business expenses to the extent allowed by the IRC.

The Association annually files IRS Form 990 - *Return of Organization Exempt from Income Tax* reporting various information that the IRS uses to monitor the activities of tax-exempt entities. These tax returns are subject to review by taxing authorities generally for a period of three years after they were filed. The Association currently has no tax examinations in progress.

***Allocation of Expenses***

Costs associated with the Association's programs and administrative expenses are summarized on a functional basis in Note 10. Accordingly, certain costs have been allocated in a systematic and rational manner among the program and supporting services benefited based on management’s estimate.

***Recent Accounting Pronouncements***

The following is a summary of recent authoritative pronouncements that could impact the accounting, reporting, and/or disclosure of financial information by the Association.

In February 2016, the FASB issued ASU 2016-02, Leases, which is effective for annual periods beginning after December 15, 2019. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statements of financial position at the date of lease commencement. Leases will be classified as either financing or operating. This distinction will be relevant for the pattern of expense recognition in the statements of activities. This standard will be effective for the Association’s year ending December 31, 2020, with early adoption permitted. The Association is currently in the process of evaluating the impact of adoption on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The standard is intended to simplify and improve how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Upon adoption, net assets will be reduced to two classes (with and without donor restriction). The standard is effective for annual periods beginning after December 15, 2017, with early adoption permitted and will be applied retrospectively to all periods presented upon adoption. The Association is currently in the process of evaluating the impact of adoption on the financial statements.

***Use of Estimates***
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

***Subsequent Events***
Management of the Association has evaluated subsequent events through June 29, 2018, which is the date these financial statements were available to be issued.

## 3. Related Party Transactions

***ORCID, Inc.***
The Association's Executive Director and a member of the Association's board of directors serves on the board of directors of ORCID, a related party through mutual membership.

The Association has a $300,000 note receivable agreement (the Agreement) with ORCID. In accordance with the terms of the Agreement, interest is charged daily on the unpaid principal balance at a rate of 2.75% per annum. The final payment of the outstanding principal and accrued interest is due ten years from the execution of the Agreement or June 2023. Pursuant to the Agreement, disbursements under the note will be used to fulfill ORCID's mission, which is to promote accuracy and integrity and further collaboration in scientific research and scholarships. The outstanding principal balance was $300,000 at December 31, 2017 and 2016. At December 31, 2017 and 2016, accrued interest receivable was $37,125 and $28,875, respectively.

Membership fees charged by ORCID, included in dues and subscriptions on the accompanying statements of activities totaled $7,600 for each of the years ended December 31, 2017 and 2016.

In addition, prepaid membership fees - related party on the accompanying statements of financial position as of December 31, 2017, represents the Association's 2018 annual membership dues. As of December 31, 2016, prepaid membership fees – related party represented the Association's 2017 and 2018 annual membership dues.

***International DOI Foundation***
The Association is a Registration Agency of the International DOI Foundation (IDF), a management body for the Federation of Registration Agencies providing Digital Object Identifier (DOI) services and registration. The Executive Director of the Association serves as the Treasurer on IDF's Board. Registration fees charged by the IDF on the accompanying statements of activities were $263,286 and $263,117 for the years ended December 31, 2017 and 2016, respectively.

In addition, prepaid registration fees - related party on the accompanying statements of financial position, represents the Association's annual registration dues for the following fiscal year.

## 4. Property and Equipment

During 2017, the Association disposed of equipment with an original cost of £2,399 (or approximately $3,217 as of December 31, 2017) and a net book value of £1,599 (or approximately $2,145 as of December 31, 2017), resulting in a loss on disposal. During 2016, the Association disposed of equipment and leasehold improvements with an original cost of approximately $75,000 and a net book value of $15,725, resulting in a loss on disposal.

During 2015, the Association commenced development of a new website which was placed in service during 2017. The costs incurred of $133,090 were reflected in development in progress as of December 31, 2016.

Development in progress at December 31, 2017 included a deposit for furniture and fixtures of £5,813 (or approximately $7,844 as of December 31, 2017), which will be placed in service during 2018. The total contract value for the furniture and fixtures is £23,251 (or approximately $31,375 as of December 31, 2017).

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## 5. Investments

Investments are reported in the statements of financial position at fair market value and are comprised of the following at year end:

| | 2017 | 2016 |
|---|---|---|
| Level 1 | | |
| Cash and cash equivalents | $ 15,027 | $ 325,435 |
| Marketable securities: | | |
| Common stock: | | |
| Consumer discretionary | 15,599 | 13,405 |
| Consumer staples | 26,910 | 24,387 |
| Energy | 7,952 | 4,206 |
| Financials | 26,925 | 23,407 |
| Health care | 24,132 | 19,157 |
| Industrials | 22,745 | 20,667 |
| Information technology | 34,132 | 26,104 |
| Materials | 6,401 | 5,264 |
| Telecommunication services | 2,700 | 2,455 |
| Utilities | 11,051 | 7,164 |
| REITs | 8,762 | 5,426 |
| MLPs/Energy infrastructure | 3,059 | 4,329 |
| Total level 1 | 205,395 | 481,406 |
| Level 2 | | |
| Certificates of deposit | 1,487,313 | 1,389,887 |
| Total | $ 1,692,708 | $ 1,871,293 |

At December 31, 2017, the Association's investment in certificates of deposit mature at various dates through October 2023 and earn interest at rates ranging from 1.35% to 2.45%. At December 31, 2016, the Association's investment in certificates of deposit mature at various dates through December 2021 and earn interest at rates ranging from 1.10% to 2.25%. Certificates of deposit are considered held to maturity.

Investment return is summarized as follows:

| | 2017 | 2016 |
|---|---|---|
| Dividend and interest income | $ 29,642 | $ 21,128 |
| Net realized and unrealized gains | 14,115 | 16,898 |
| Investment expenses | (2,652) | (1,806) |
| Total | $ 41,105 | $ 36,220 |

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## 6. Line of Credit

The Association had a revolving line of credit that provided a maximum availability of \$250,000. Interest, payable monthly, was charged at the Wall Street Journal prime rate plus 2.25% (6.00% at December 31, 2016). The line was terminated in January 2017. There were no amounts drawn in 2016.

## 7. Retirement Plan Expense

The Association sponsors a defined contribution retirement plan in accordance with section 401(k) of the IRC, available to employees meeting certain eligibility requirements.

Employee contributions are limited to the lessor of 15% of their eligible compensation or IRS limitations. The Association may provide a discretionary matching contribution of 25%, up to 4% of the participant's eligible compensation during the year. In addition, the Association has made a 6% discretionary profit sharing contribution to eligible employees for 2017 and 2016. For the years ended December 31, 2017 and 2016, the Association contributed 401(k) matching and profit sharing contributions of approximately \$195,600 and \$176,700, respectively.

The Association operates a defined contribution pension scheme in respect to the directors and staff in England. The scheme and its assets are held by independent managers. The pension charge represents contributions due from the Association and amounted to \$105,358 and \$114,036 for the years ended December 31, 2017 and 2016, respectively.

In 2017, The Association commenced a defined contribution pension scheme with respect to one staff member in France. The scheme and its assets are held by independent managers. The pension charge represents contributions due from the Association and amounted to \$27,489 for the year ended December 31, 2017.

## 8. Commitments

***Operating Leases***

The Association leases office space in Lynnfield, Massachusetts. The lease provides for a base rent, adjusted annually, based on the consumer price index. The monthly rental payments, which include a pro-rata share of real estate taxes and other operating costs, are approximately \$8,000, plus utilities through the end of the lease term. The lease expires on October 31, 2020.

During 2016, the Association leased office space in the United Kingdom originally expiring June 2016 and further extended to July 2017. Monthly rental payments of £5,330 (or approximately $8,200 as of December 31, 2015) were due through June 2016 and monthly payments of £5,600 (or approximately $7,600 as of December 31, 2016) were due through July 2017. In June 2017, the Association entered into a new one year lease agreement expiring July 2018, which requires monthly rental payments of £6,000 (or approximately $7,700 as of December 31, 2017).

Total rent expense under these operating leases was approximately $186,400 and $184,300 for the years ended December 31, 2017 and 2016, respectively.

At December 31, 2017, future minimum lease payments required under these agreements were as follows:

| Year Ending | |
|---|---|
| 2018 | $ 149,100 |
| 2019 | 95,400 |
| 2020 | 81,300 |
| Total | $ 325,800 |

***Service Agreements***

Verizon

The Association had a service agreement with Verizon effective January 2016, to provide resources for the operation of the CrossRef system through December 2017, which was extended on a month-to-month basis through March 2018. The Association paid a base monthly recurring charge, net of discounts, plus additional excess usage charges. In May 2017, Verizon sold a portion of the contract to Equinix and reduced the base monthly recurring charges assessed under the original agreement accordingly. In accordance with the amended agreement, the Association paid base monthly recurring charges of approximately $2,300. Fees related to this agreement were approximately $55,400 and $103,900 for the years ended December 31, 2017 and 2016, respectively.

In March 2018, the Association entered into a new service agreement with Verizon effective April 2018, to provide resources for the operation of the CrossRef system through March 2020. The Association will pay a base monthly recurring charge of approximately $2,300 plus additional excess usage charges. If the agreement is terminated prior to the expiration period, the Association will be subject to an early termination penalty equal to 75% of the remaining monthly recurring charges through the commitment period. Minimum future annual payments required under this contract are approximately $20,700, $27,600 and $6,900 for the years ended December 31, 2018, 2019 and 2020, respectively.

Equinix
In May 2017, the Association entered into a month-to-month service agreement with Equinix to provide resources for the operation of the CrossRef system. In accordance with the agreement, the Association paid base monthly recurring charges of approximately $7,300. Fees related to this agreement were approximately $58,600 for the year ended December 31, 2017.

In March 2018, the Association entered into a new service agreement with Equinix effective April 2018, to provide resources for the operation of the CrossRef system through March 2020. The Association will pay a base monthly recurring charge of approximately $5,100 which are increased by five percent annually. Minimum future annual payments required under this contract are approximately $45,900, $61,200 and $15,300 for the years ended December 31, 2018, 2019 and 2020, respectively.

## 9. Concentration of Credit Risk and Business Risk

Financial instruments that potentially subject the Association to concentrations of credit risk consist primarily of uninsured cash deposits and certificates of deposit held at five financial institutions, accounts receivable and investments. The cash balances are insured by the Federal Deposit Insurance Corporation up to specified limits. The Association had bank balances in excess of federally insured limits. Management does not believe significant credit risks exist at year end.

Two customers accounted for approximately 25% of the Association's accounts receivable as of December 31, 2017. One customer accounted for approximately 12% of the Association's accounts receivable as of December 31, 2016. Management does not believe significant credit risk exists at year end.

One customer accounted for approximately 12% of the Association's total revenue and support for each of the years ended December 31, 2017 and 2016.

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in values of investment securities could occur in the near term and that such change could materially affect investment balances and activity included in the financial statements.

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## 10. Functional Expenses

The functional classification of operating expenses for the Association was as follows for the years ended December 31:

| | 2017 | 2016 |
|---|---|---|
| Program services | $ 5,318,530 | $ 4,711,707 |
| Administrative | 2,146,337 | 1,771,026 |
| Total | $ 7,464,867 | $ 6,482,733 |