American Academy of Dermatology, Inc. and American Academy of Dermatology Association, Inc.

Combined Financial Report
with Additional Information
December 31, 2017

Contents

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Independent Auditor's Report

To the Board of Directors
American Academy of Dermatology, Inc.
and American Academy of
Dermatology Association, Inc.

We have audited the accompanying combined financial statements of American Academy of Dermatology, Inc. and American Academy of Dermatology Association, Inc. (collectively, the "Academy"), which comprise the combined statement of financial position as of December 31, 2017 and 2016 and the related combined statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

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

Opinion

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

Plante & Moran, PLLC

May 4, 2018

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Combined Statement of Financial Position

December 31, 2017 and 2016

	2017	2016
Assets		
Cash	$ 5,999,276	$ 4,613,674
Investments (Note 3)	70,452,461	59,100,896
Receivables - Net of allowances:		
Trade receivables	5,074,270	2,929,382
Pledges receivable	2,509,165	3,394,123
Inventory - Net	215,790	413,468
Prepaid expenses and other assets	1,951,852	2,072,792
Property and equipment - Net (Note 5)	4,410,161	9,551,594
Total assets	**$ 90,612,975**	**$ 82,075,929**
Liabilities and Net Assets		
Liabilities		
Accounts payable and other	$ 1,546,455	$ 1,220,892
Accrued salaries	1,294,225	1,211,680
Accrued retirement costs	875,896	726,150
Accrued vacation leave	545,608	525,510
Accrued real estate taxes	-	325,687
Deferred revenue - Annual national meeting	12,401,556	10,540,596
Deferred revenue - Subscriptions and other	2,928,232	1,301,447
Deferred revenue - Membership dues	7,162,441	6,868,237
Interest rate swap (Note 7)	-	166,998
Loan commitment (Note 6)	4,500,000	2,500,000
Total liabilities	31,254,413	25,387,197
Net Assets (Note 8)		
Unrestricted	48,517,747	45,922,453
Temporarily restricted	8,497,700	8,423,164
Permanently restricted	2,343,115	2,343,115
Total net assets	59,358,562	56,688,732
Total liabilities and net assets	**$ 90,612,975**	**$ 82,075,929**

See notes to combined financial statements.

American Academy of Dermatology, Inc. and American Academy of Dermatology Association, Inc.

Combined Statement of Activities and Changes in Net Assets

Years Ended December 31, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains, and Other Support								
Membership dues	$ 10,311,810	$ -	$ -	$ 10,311,810	$ 10,068,026	$ -	$ -	$ 10,068,026
Meetings	19,788,933	-	-	19,788,933	18,681,614	-	-	18,681,614
JAAD and other royalties	8,393,127	-	-	8,393,127	5,603,376	-	-	5,603,376
Educational product sales	3,258,913	-	-	3,258,913	3,019,523	-	-	3,019,523
Other	156,541	-	-	156,541	178,193	-	-	178,193
Grants and contributions	770,827	5,188,340	-	5,959,167	813,415	5,255,847	-	6,069,262
Investment income	4,948,499	520,204	-	5,468,703	2,099,703	264,164	-	2,363,867
Net assets released from restrictions	5,634,008	(5,634,008)	-	-	5,985,700	(5,985,700)	-	-
Total revenue, gains, and other support	53,262,658	74,536	-	53,337,194	46,449,550	(465,689)	-	45,983,861
Expenses								
Program services:								
Educational	8,700,115	-	-	8,700,115	8,633,333	-	-	8,633,333
Communications	2,449,026	-	-	2,449,026	2,134,415	-	-	2,134,415
Government affairs and research	8,105,096	-	-	8,105,096	7,879,994	-	-	7,879,994
Governance and committees	2,786,517	-	-	2,786,517	2,597,034	-	-	2,597,034
Member services and administration	24,769,877	-	-	24,769,877	24,483,414	-	-	24,483,414
Total expenses	46,810,631	-	-	46,810,631	45,728,190	-	-	45,728,190
Increase (Decrease) in Net Assets - Before loss on sale of fixed assets	6,452,027	74,536	-	6,526,563	721,360	(465,689)	-	255,671
Loss on Sale of Fixed Assets	3,856,733	-	-	3,856,733	-	-	-	-
Increase (Decrease) in Net Assets	2,595,294	74,536	-	2,669,830	721,360	(465,689)	-	255,671
Net Assets - Beginning of year	45,922,453	8,423,164	2,343,115	56,688,732	45,201,093	8,888,853	2,343,115	56,433,061
Net Assets - End of year	**$ 48,517,747**	**$ 8,497,700**	**$ 2,343,115**	**$ 59,358,562**	**$ 45,922,453**	**$ 8,423,164**	**$ 2,343,115**	**$ 56,688,732**

See notes to combined financial statements.

Combined Statement of Cash Flows

Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Increase in net assets	$ 2,669,830	$ 255,671
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	918,835	1,055,105
Net realized and unrealized gain on investments	(3,990,441)	(1,190,428)
Loss on sale of fixed assets	3,856,733	-
Gain on interest rate swap	(55,298)	(84,747)
Changes in operating assets and liabilities which (used) provided cash:		
Trade receivables	(2,144,888)	(703,852)
Inventories	197,678	(49,350)
Pledges receivable	884,958	245,527
Prepaid expenses and other assets	120,940	(418,297)
Accounts payable and other	325,563	24,977
Accrued liabilities	(223,044)	210,223
Deferred revenue	3,931,695	1,063,495
Net cash provided by operating activities	6,492,561	408,324
Cash Flows from Investing Activities		
Purchases of property and equipment	(3,842,446)	(731,070)
Proceeds from sale of property and equipment	4,208,311	-
Purchases of investments	(37,691,338)	(26,546,282)
Proceeds from sales and maturities of investments	30,330,214	27,818,921
Net cash (used in) provided by investing activities	(6,995,259)	541,569
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	4,500,000	-
Payments on long-term debt	(2,500,000)	(500,000)
Settlement of interest rate swap	(111,700)	-
Net cash provided by (used in) financing activities	1,888,300	(500,000)
Net Increase in Cash	1,385,602	449,893
Cash - Beginning of year	4,613,674	4,163,781
Cash - End of year	**$ 5,999,276**	**$ 4,613,674**
Supplemental Cash Flow Information - Cash paid for interest	$ 77,584	$ 110,726

See notes to combined financial statements.

Note 1 - Nature of Business

The American Academy of Dermatology, Inc. (AAD) was incorporated in 1938 as a nonprofit corporation under the laws of the State of Minnesota to promote the highest possible standards of clinical practice, education, and research in dermatology.

The American Academy of Dermatology Association, Inc. (AADA) was incorporated in 2000 as a nonprofit corporation under the laws of the State of Minnesota to promote educational and professional association interests, including, but not limited to, the promotion of the field of dermatology. AADA is not a subsidiary of the Academy; rather, it maintains accounts that are under common management. Interorganizational transactions have been eliminated for combined presentation purposes.

For combined financial statement purposes, the combined entity of AAD and AADA is collectively referred to as the "Academy."

Note 2 - Significant Accounting Policies

Cash

Cash balances are maintained at a financial institution, which at times may exceed federally insured limits. The Academy has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Investments

Investments are recorded at fair value in the combined statement of financial position and are composed of money market funds, corporate stock, corporate bonds, international bonds, mutual funds, governmental and agency bonds, mortgage and asset-backed bonds, municipal bonds, and education bonds. Gains and losses are reported as increases or decreases in net assets and are reflected as changes in unrestricted and temporarily restricted net assets, as appropriate.

The Academy's marketable securities are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to these risk factors, it is reasonably possible that changes in the value of marketable securities will occur in the near term and could materially affect the amounts reported in the combined financial statements. The Academy places its cash and marketable securities with high quality institutions and, accordingly, limits its credit exposure.

Trade Receivables

Trade receivables are derived primarily from registration and exhibits for the annual meeting, royalties due from the DermSource affinity programs, and advertising from the Academy's periodical, *Dermatology World*. An allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal customer payment periods. The allowance for doubtful accounts was $12,000 and $10,000 at December 31, 2017 and 2016, respectively. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made.

Pledges Receivable

Pledges receivable are comprised primarily of corporate grants, which support academy activities. Contributions expected to be received over more than one year are recorded by the Academy as pledges receivable at fair value as measured by the present value of future cash flows. Pledges receivable at December 31, 2017 and 2016 are expected to be collected within one year. The Academy has not recorded a provision for doubtful pledges since it is the opinion of management that those receivables are collectible in full.

Note 2 - Significant Accounting Policies (Continued)

Inventory

Inventory is valued at average cost. The inventory consists primarily of educational finished good items, such as pamphlets and CD-ROMs. Inventory is stated net of an allowance for obsolete inventory of $104,982 and $111,051 as of December 31, 2017 and 2016, respectively.

Property and Equipment

Property and equipment are recorded at cost. Assets are depreciated over their estimated useful lives using the straight-line method. Leasehold improvements are amortized over the shorter of their estimated useful lives or terms of the leases. Costs of maintenance and repairs are charged to expense when incurred.

Classification of Net Assets

Net assets of the Academy are classified as unrestricted, temporarily restricted, or permanently restricted depending on the presence and characteristics of donor-imposed restrictions limiting the Academy's ability to use or dispose of contributed assets or the economic benefits embodied in those assets. Unrestricted net assets also include board-designated funds.

Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as temporarily restricted unless specifically restricted by the donor or by applicable state law.

Revenue

The Academy derives its revenue primarily from membership dues, meetings, *Journal of the American Academy of Dermatology* (JAAD) and other royalties, grants and contributions, and educational product sales. Meetings represent amounts earned for exhibit booth space sales and registration fees for admission and educational seminars. JAAD and other royalties represent amounts earned from the publisher for rights to reproduce, sell, and distribute publications and materials.

Revenue is recognized in the year in which it is earned. Membership dues revenue is recognized over the respective membership periods. Meetings revenue is recognized when the events take place. Educational product sales revenue is recognized when products are shipped. Grant and contribution revenue is recognized when pledged. Deferred revenue represents cash received for registration fees and deposits for meetings and expositions to be held in future periods, membership dues relating to future periods, and advances on royalties.

Functional Allocation of Expenses

Costs of providing the program and support services have been reported on a functional basis in the combined statement of activities and changes in net assets. Indirect costs have been allocated between the various programs and support services on several bases and estimates. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts. The Academy had fundraising expenses of $1,528,911 and $1,414,566 for the years ended December 31, 2017 and 2016, respectively, that are included in member services and administration expenses on the combined statement of activities and changes in net assets.

Note 2 - Significant Accounting Policies (Continued)

Income Taxes

AAD is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3). AADA is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(6). Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Academy and recognize a tax liability if the Academy has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities.

Use of Estimates

The preparation of combined financial statements in conformity with generally accepted accounting principles 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 combined financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The combined financial statements and related disclosures include evaluation of events up through and including May 4, 2018, which is the date the combined financial statements were available to be issued.

Upcoming 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)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Academy's year ending December 31, 2019. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods: retrospectively to each period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the recognized at the date of initial application (the cumulative catch-up transition method). The Academy will most likely adopt the cumulative catch-up method if the implementation of the standard does not result in a significant adjustment. The Academy's primary revenue streams are not expected to be significantly impacted by the ASU.

Note 2 - Significant Accounting Policies (Continued)

The Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Academy's year ending December 31, 2019 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have a significant effect on the Academy's financial statements as a result of the Academy's operating leases, as disclosed in Note 9, that will be reported on the combined statement of financial position at adoption. Upon adoption, the Academy will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments. The effects on the results of operations are not expected to be significant as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Academy, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Academy's year ending December 31, 2018 and thereafter and must be applied on a retrospective basis. The Academy expects there to be a change in net asset descriptions, enhanced disclosures related to liquidity and availability of resources, and changes to functional allocation of expenses.

Note 3 - Investments

The cost and related fair values for investments are as follows:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
AAD:				
Unrestricted:				
Money market funds	$ 2,801,980	$ 2,801,980	$ 6,437,959	$ 6,437,959
Corporate stock	1,051,604	1,256,582	970,934	1,046,563
Corporate bonds	1,260,354	1,245,974	964,344	941,201
International bonds	42,727	41,346	22,589	22,047
Mutual funds	42,157,189	45,818,683	29,953,605	31,852,253
Government and agency bonds	274,270	277,934	368,523	373,122
Mortgage and asset-backed bonds	414,912	409,910	497,646	489,834
Total	48,003,036	51,852,409	39,215,600	41,162,979
Temporarily restricted and permanently restricted:				
Money market funds	59,232	59,232	47,746	47,746
Corporate bonds	91,139	89,090	91,839	90,119
International bonds	10,068	10,013	49,627	51,467
Mutual funds	4,318,591	4,592,661	4,139,715	4,163,997
Government and agency bonds	18,875	18,784	20,190	20,077
Mortgage and asset-backed bonds	45,748	44,981	63,789	63,408
Total	4,543,653	4,814,761	4,412,906	4,436,814
Total - AAD	52,546,689	56,667,170	43,628,506	45,599,793
AADA - Unrestricted:				
Money market funds	470,739	470,739	552,058	552,058
Corporate stock	1,140,457	1,355,968	1,040,116	1,125,995
Corporate bonds	4,402,299	4,334,805	3,809,649	3,733,005
International bonds	243,965	241,605	22,589	22,047
Mutual funds	4,408,615	4,763,411	4,910,871	4,927,640
Government and agency bonds	1,214,256	1,217,011	1,320,353	1,312,865
Mortgage and asset-backed bonds	1,431,162	1,401,752	1,859,801	1,827,493
Total - AADA	13,311,493	13,785,291	13,515,437	13,501,103
Total - Academy	$ 65,858,182	$ 70,452,461	$ 57,143,943	$ 59,100,896

Note 3 - Investments (Continued)

The components of investment income (loss) relating to investments and cash for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
AAD:		
Unrestricted:		
Interest and dividends	$ 1,131,469	$ 913,772
Net realized and unrealized gains	2,889,191	864,431
Investment expense	(121,979)	(133,691)
Total	3,898,681	1,644,512
Temporarily restricted:		
Interest and dividends	137,633	94,972
Net realized and unrealized gains	395,295	179,852
Investment expense	(12,726)	(10,660)
Total	520,202	264,164
Total - AAD	4,418,883	1,908,676
AADA - Unrestricted:		
Interest and dividends	415,167	372,915
Net realized and unrealized gains	705,955	146,145
Investment expense	(71,302)	(63,869)
Total - AADA	1,049,820	455,191
Total - Academy	$ 5,468,703	$ 2,363,867

Note 4 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Academy's assets and liabilities measured at fair value on a recurring basis at December 31, 2017 and 2016 and the valuation techniques used by the Academy to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Academy has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

As of December 31, 2016, the Academy's derivative instrument consisted solely of an interest rate swap that was not traded on an exchange and was recorded at fair value based on a variety of observable inputs, including contractual terms, interest rate curves, yield curves, credit curves, measure of volatility, and correlations of such inputs. Valuation adjustments may be made in the determination of fair value. This derivative instrument was sold in 2017 in conjunction with the pay down of the bonds (see Note 6).

Note 4 - Fair Value Measurements (Continued)

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset or liability. The Academy currently does not utilize any Level 3 inputs.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Academy's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Note 4 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2017			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2017
AAD				
Assets - Investments				
Fixed income - Mutual funds:				
Short term	$ 13,186,396	$ -	$ -	$ 13,186,396
Intermediate term	18,980,633	-	-	18,980,633
International	837,865	-	-	837,865
Equity - Mutual funds:				
Small cap	1,638,371	-	-	1,638,371
Mid cap	2,221,964	-	-	2,221,964
Large cap	7,742,971	-	-	7,742,971
International	7,184,724	-	-	7,184,724
International bonds:				
Short-term bond funds	30,038	-	-	30,038
Intermediate term	-	21,321	-	21,321
Corporate bonds:				
Short term	-	127,595	-	127,595
Intermediate term	-	1,126,496	-	1,126,496
Long term	-	80,973	-	80,973
Government and agency bonds:				
Short term	-	4,976	-	4,976
Intermediate term	-	230,089	-	230,089
Long term	-	61,653	-	61,653
Mortgage and asset-backed bonds:				
Intermediate term	-	26,946	-	26,946
Long term	-	427,945	-	427,945
Total AAD	51,822,962	2,107,994	-	53,930,956
AADA				
Assets - Investments				
Fixed income - Mutual funds:				
Intermediate term	1,118,334	-	-	1,118,334
International	573,236	-	-	573,236
Equity - Mutual funds:				
Small cap	465,398	-	-	465,398
Mid cap	435,580	-	-	435,580
Large cap	1,751,515	-	-	1,751,515
International	1,775,316	-	-	1,775,316
International bonds:				
Short-term	220,284	-	-	220,284
Intermediate term	-	21,321	-	21,321
Corporate bonds:				
Short term	-	1,626,119	-	1,626,119
Intermediate term	-	2,582,168	-	2,582,168
Long term	-	126,519	-	126,519
Government and agency bonds:				
Short term	-	119,159	-	119,159
Intermediate term	-	1,030,594	-	1,030,594
Long term	-	67,258	-	67,258
Mortgage and asset-backed bonds:				
Intermediate term	-	725,580	-	725,580
Long term	-	676,172	-	676,172
Total AADA	6,339,663	6,974,890	-	13,314,553
Total assets	$ 58,162,625	$ 9,082,884	$ -	$ 67,245,509

Note 4 - Fair Value Measurements (Continued)

	Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2016			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2016
AAD				
Assets - Investments				
Fixed income - Mutual funds:				
Short term	$ 1,158,593	$ -	$ -	$ 1,158,593
Intermediate term	18,870,336	-	-	18,870,336
International	439,863	-	-	439,863
Equity - Mutual funds:				
Small cap	1,507,300	-	-	1,507,300
Mid cap	1,812,294	-	-	1,812,294
Large cap	7,158,996	-	-	7,158,996
International	6,112,173	-	-	6,112,173
International bonds:				
Short-term bond funds	54,724	-	-	54,724
Intermediate term	-	22,047	-	22,047
Corporate bonds:				
Short term	-	133,973	-	133,973
Intermediate term	-	821,157	-	821,157
Long term	-	76,191	-	76,191
Government and agency bonds:				
Short term	-	120,504	-	120,504
Intermediate term	-	198,626	-	198,626
Long term	-	74,069	-	74,069
Mortgage and asset-backed bonds:				
Short term	-	1,365	-	1,365
Intermediate term	-	36,233	-	36,233
Long term	-	515,644	-	515,644
Total AAD	37,114,279	1,999,809	-	39,114,088
AADA				
Assets - Investments				
Fixed Income - Mutual funds:				
Intermediate term	1,650,245	-	-	1,650,245
International	306,483	-	-	306,483
Equity - Mutual funds:				
Small cap	436,414	-	-	436,414
Mid cap	343,964	-	-	343,964
Large cap	1,943,832	-	-	1,943,832
International	1,372,698	-	-	1,372,698
International bonds -				
Intermediate term	-	22,047	-	22,047
Corporate bonds:				
Short term	-	2,058,159	-	2,058,159
Intermediate term	-	1,553,777	-	1,553,777
Long term	-	121,069	-	121,069
Government and agency bonds:				
Short term	-	120,513	-	120,513
Intermediate term	-	1,107,701	-	1,107,701
Long term	-	84,650	-	84,650
Mortgage and asset-backed bonds:				
Short term	-	2,278	-	2,278
Intermediate term	-	976,243	-	976,243
Long term	-	848,973	-	848,973
Total AADA	6,053,636	6,895,410	-	12,949,046
Total assets	$ 43,167,915	$ 8,895,219	$ -	$ 52,063,134
Liabilities - Interest Rate Swap	$ -	$ 166,998	$ -	$ 166,998

Not included in the above tables are $2,736,213 and $6,485,705 in money market accounts as of December 31, 2017 and 2016, respectively, for AAD and $470,739 and $552,057 in money market accounts as of December 31, 2017 and 2016, respectively, for AADA.

Note 4 - Fair Value Measurements (Continued)

Level 1 Inputs

Fair values of fixed-income mutual funds, equity mutual funds, and international short-term bond funds were based on quoted market prices.

Level 2 Inputs

Estimated fair values of international intermediate bonds, corporate bonds, government and agency bonds, mortgage and asset-backed bonds, municipal bonds, and education bonds were based on similar investments that are traded on a secondary market.

The Academy's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the actual date of the event of change in circumstances that caused the transfer. During the years ended December 31, 2017 and 2016, there were no such transfers.

Note 5 - Property and Equipment

Property and equipment are summarized as follows at December 31, 2017:

	AAD	AADA	Combined Total	Depreciable Life - Years
Leasehold improvements	$ 3,369,720	$ 717,852	$ 4,087,572	10 years
Data processing equipment and system development costs	1,745,456	-	1,745,456	3-8 years
Furniture and equipment	52,091	400,621	452,712	5-10 years
Total cost	5,167,267	1,118,473	6,285,740	
Less accumulated depreciation	1,018,720	856,859	1,875,579	
Net property and equipment	$ 4,148,547	$ 261,614	$ 4,410,161	

Property and equipment are summarized as follows at December 31, 2016:

	AAD	AADA	Combined Total	Depreciable Life - Years
Land	$ 2,729,332	$ -	$ 2,729,332	
Buildings	8,537,958	-	8,537,958	25-40 years
Leasehold improvements	-	837,101	837,101	10 years
Data processing equipment and system development costs	10,539,043	-	10,539,043	3-8 years
Furniture and equipment	1,956,785	399,499	2,356,284	5-10 years
Total cost	23,763,118	1,236,600	24,999,718	
Less accumulated depreciation	14,580,434	867,690	15,448,124	
Net property and equipment	$ 9,182,684	$ 368,910	$ 9,551,594	

Depreciation expense for 2017 and 2016 was $918,835 and $1,055,105, respectively. During 2017, the Academy sold its Schaumburg, Illinois headquarters building and land to an unrelated party for $4,435,275. The Academy recognized a loss on the sale of $3,856,733. The Academy subsequently entered into a lease for office space.

Note 6 - Loan Commitment

Long-term debt at December 31 is as follows:

	2017	2016
Illinois Development Finance Authority Variable Rate Demand Revenue Series 2001 Bonds (IRB) payable in annual installments of $500,000, plus interest at a variable rate (an average rate of 0.40 percent at December 31, 2016). The bonds are collateralized by the building and substantially all of the Academy's assets. The bonds were paid off with the sale of the building in 2017	$ -	$ 2,500,000
Mortgage loan payable in quarterly installments of $102,273, including interest at 3.14 percent through December 31, 2028. The note is collateralized by substantially all of the Academy's assets	4,500,000	-
Total	$ 4,500,000	$ 2,500,000

The balance of the above debt matures as follows:

Years Ending	Amount
2018	$ 409,091
2019	409,091
2020	409,091
2021	409,091
2022	409,091
Thereafter	2,454,545
Total	$ 4,500,000

As part of the IRB payable, it was estimated that the fair value of the IRB bonds was $2,500,000 as of December 31, 2016, which were based on rates currently in effect for bonds issued by similar issuers, with similar terms and average maturities.

Interest expense for 2017 and 2016 was $17,683 and $15,462, respectively.

Note 7 - Interest Rate Swap

The Academy entered into an interest rate swap agreement maturing on April 1, 2021 in order to convert a certain variable rate bond to a fixed rate. The Academy was exposed to certain risks in the normal course of its business operations. The main risks were those relating to the variability of future earnings and cash flows, which were managed through the use of derivatives. All derivative financial instruments are reported in the combined statement of financial position at fair value. Changes in fair value of the interest rate swap were recognized in member services and administration expense.

In particular, interest rate swaps (which are designated as cash fair value hedges) are used to manage the risk associated with interest rates on fixed-rate borrowings.

For fair value hedges, the gain or loss on the derivative instrument is offset against the loss or gain on the related hedged item recognized in current earnings. Generally, the Academy enters into hedging relationships such that changes in the fair value or cash flows of items and transactions being hedged are expected to be offset by corresponding changes in the values of the derivatives.

Note 7 - Interest Rate Swap (Continued)

Market risk is the adverse effect on the value of financial instruments that results from a change in interest rates. The market risk associated with the interest rate swap was managed by establishing parameters that limit the types and degree of market risk that may be undertaken. The Academy paid the counterparty interest at a fixed rate of 3.95 percent and the counterparty paid the Academy interest at a variable rate equal to the one-month Chase Capital Markets, Inc. Non-alternative Minimum Tax Lower Floater Rate (CCM rate) (.40 percent as of December 31, 2016).

The CCM rate approximates the IRB rate. The interest rate swap exposes the Academy to basis risk should the relationship between the CCM rate and the IRB rate change significantly.

As of December 31, 2017, the Academy terminated the swap agreement when it sold the building and paid off the bonds. Gains recognized on the interest rate swap of $55,298 and interest expense of $57,410 have been recognized in member services and administration expense for the year ended December 31, 2017.

At December 31, 2016, the Academy held a variable fixed interest rate swap with a total notional amount of $2,500,000. Gains recognized on the interest rate swap of $84,747 and interest expense of $94,251 have been recognized in member services and administration expense for the year ended December 31, 2016.

As of December 31, the fair value of derivatives held was as follows:

	Liability Derivatives	
	2017	2016
Interest rate swap	$ -	$ 166,998

Amount of gain or loss recognized on fair value hedging contracts:

	Amount of Loss Recognized in Earnings - Net		Reported in Combined Statement of Activities and Changes in Net Assets
	2017	2016	
Interest rate swap	$ (2,112)	$ (9,504)	Member Services and Administration

Note 8 - Net Assets

Unrestricted board-designated net assets consist of the following as of December 31:

	AAD	AADA	Total
2017			
Board-designated net assets:			
General Operating Fund	$ 5,278,584	$ 174,436	$ 5,453,020
Area of Greatest Need	169,992	-	169,992
Sulzberger Endowment Fund	391,456	-	391,456
Reserve Income Fund (includes PPE/Tech Fund)	9,432,516	8,491,362	17,923,878
Strategic Reserve Fund	5,085,913	-	5,085,913
Excellence in Dermatology Endowment Fund	12,363,038	-	12,363,038
Camp Discovery Endowment Fund	7,111,853	-	7,111,853
Disaster Fund	18,597	-	18,597
Total	$ 39,851,949	$ 8,665,798	$ 48,517,747
2016			
Board-designated net assets:			
General Operating Fund	2,590,971	721,979	3,312,950
Sulzberger Endowment Fund	359,112	-	359,112
Reserve Income Fund (includes PPE/Tech Fund)	12,675,021	7,981,949	20,656,970
Strategic Reserve Fund	4,315,251	-	4,315,251
Excellence in Dermatology Endowment Fund	10,917,796	-	10,917,796
Camp Discovery Endowment Fund	6,341,997	-	6,341,997
Disaster Fund	18,377	-	18,377
Total	$ 37,218,525	$ 8,703,928	$ 45,922,453

Note 8 - Net Assets (Continued)

Temporarily restricted net assets as of December 31 are available for the following purposes:

	AAD	AADA	Total
2017			
SKINnovations	$ 189,911	$ -	$ 189,911
Everett C. Fox Fund	1,064,719	-	1,064,719
Lila Gruber Endowment Fund - Unappropriated earnings	77,861	-	77,861
Awards for Young Investigators	37,124	-	37,124
World Congress of Dermatology Endowment Fund - Unappropriated earnings	320,447	-	320,447
Camp Discovery Fund	182,380	-	182,380
Lebwohl Camp Scholarship Fund	576,647	-	576,647
Phillip Frost Award	90,000	-	90,000
Annual Meeting - 2018*	2,754,500	-	2,754,500
Summer Academy Meeting - 2018*	57,500	-	57,500
Access Derm	250,000	-	250,000
Clarence Livingood Award	10,000	-	10,000
Derm A-Z	35,000	-	35,000
Derm Pamphlets*	70,000	-	70,000
Dermatological Patient Care	189,554	-	189,554
Essentials of Pediatric Dermatology	39,752	-	39,752
Future is Finally Here	79,969	-	79,969
Improving Quality of Life for Patients	249,600	-	249,600
India Grant	1,000	-	1,000
Leadership Programs*	103,761	-	103,761
Program for Innovative Continuing Medical Education in Dermatology Endowment Fund-Unappropriated Earnings	410,121	-	410,121
Practice Management	-	250,000	250,000
Skin Care Disease Outreach*	130,209	-	130,209
SPOT ME (Melanoma Exposed)	191,547	-	191,547
Take a Hike*	121,166	-	121,166
Education/Research AYI Contributions	6,266	-	6,266
Shade Structure Contributions	509,547	-	509,547
SPOT Contributions	141,555	-	141,555
Area of Greatest Need Contributions*	357,564	-	357,564
Total	$ 8,247,700	$ 250,000	$ 8,497,700

Note 8 - Net Assets (Continued)

	AAD	AADA	Total
2016			
SKINnovations	$ 187,614	$ -	$ 187,614
Everett C. Fox Fund	1,048,891	-	1,048,891
Lila Gruber Endowment Fund - Unappropriated earnings	56,225	-	56,225
Awards for Young Investigators	21,750	-	21,750
World Congress of Dermatology Endowment Fund - Unappropriated earnings	186,956	-	186,956
Program for Innovative Continuing Medical Education in Dermatology Endowment Fund - Unappropriated earnings	306,071	-	306,071
Lebwohl Camp Discovery Fund	540,058	-	540,058
Phillip Frost Award	90,000	-	90,000
Annual Meeting - 2017*	2,646,031	-	2,646,031
Summer Academy Meeting - 2017*	50,000	-	50,000
Acne Education Sessions	4,040	-	4,040
Clarence Livingood Award	10,000	-	10,000
Derm A-Z*	20,000	-	20,000
Derm Disease & Treatment*	35,000	-	35,000
Derm Pamphlets	40,000	-	40,000
Dermatological Patient Care	197,264	-	197,264
Essentials in Pediatric Dermatology	50,000	-	50,000
Good Skin Knowledge	2,784	-	2,784
Improving Quality of Life for Patients	341,624	-	341,624
India Grant	1,000	-	1,000
Leadership Programs*	228,527	-	228,527
Patient Safety	16,154	-	16,154
PI-CME	6,960	-	6,960
Practice Management*	-	250,000	250,000
Skin Care Disease Outreach	101,896	-	101,896
SPOT ME (Melanoma Exposed)*	590,584	-	590,584
SubSaharan Grant*	2,700	-	2,700
Take a Hike*	169,746	-	169,746
Education/Research AYI Contributions	15,768	-	15,768
Shade Structure Contributions	95,388	-	95,388
SPOT Contributions	39,575	-	39,575
Area of Greatest Need Contributions*	1,070,558	-	1,070,558
Total	$ 8,173,164	$ 250,000	$ 8,423,164

* Amounts included in these restrictions are also included in the pledges receivable balance on the combined statement of financial position and are, therefore, restricted for time and purpose.

Permanently restricted net assets are invested in perpetuity. The income on such investments, as specified by the donor, is to be used for the purposes noted. Permanently restricted net assets as of December 31 are as follows:

	2017	2016
World Congress of Dermatology Endowment Fund	$ 1,300,000	$ 1,300,000
Lila Gruber Endowment Fund	318,115	318,115
Awards for Young Investigators Endowment Fund	125,000	125,000
Program for Innovative Continuing Medical Education in Dermatology Endowment Fund	600,000	600,000
Total	$ 2,343,115	$ 2,343,115

Note 9 - Operating Leases

The Academy has the following leases for office space:

Washington, D.C.

In 2009, the Academy entered into an 11-year lease for office space located at 1445 New York Avenue NW in Washington, D.C. with a lease term through November 2020.

Rosemont, Illinois

As disclosed in Note 5, in October 2017, the Academy sold its former headquarters building at 930 East Woodfield Road in Schaumburg, Illinois to an unrelated party. As part of the sale, the Academy entered into an agreement with the buyer to lease back the facility from October 2017 to March 2018 while the Academy built out space in its new headquarters. In October 2017, the Academy entered into an 11-year lease for its new headquarters located at 9500 West Bryn Mawr Avenue in Rosemont, Illinois with a lease term through December 2028.

As part of the Rosemont lease agreement, the landlord provided the Academy with the following:

- Rent abatement of 14 months (October 2017-January 2019). The Academy recognizes rent expense over the term of the lease using the straight-line method.
- Reimbursement for the cost of certain leasehold improvements totaling $2,280,245. The Academy has deferred the reimbursement amount as lease incentive and will recognize the reimbursements as reductions in rent expense over the life of the lease.

In addition, the Academy lease's various equipment under operating leases with various expiration dates until 2022.

The following is a schedule of future minimum rental payments under operating leases:

Years Ending December 31	Offices	Equipment	Total
2018	$ 785,033	$ 123,616	$ 908,649
2019	1,406,991	124,618	1,531,609
2020	1,444,502	121,374	1,565,876
2021	804,121	97,678	901,799
2022	826,234	15,575	841,809
Thereafter	5,869,369	-	5,869,369
Total	$ 11,136,250	$ 482,861	$ 11,619,111

Total rent expense under all operating leases was $914,526 and $775,972 for the years ended December 31, 2017 and 2016, respectively.

Note 10 - Employee Benefit Plans

Defined Contribution Plan

The Academy sponsors a defined contribution pension plan (401(a)) for all eligible employees. Employer contributions to the plan were $776,006 and $726,150 for the years ended December 31, 2017 and 2016, respectively.

The Academy also sponsors a deferred salary plan with employer matching contributions (403(b)) for all eligible employees. Employer matching contributions to the plan totaled $894,227 and $834,006 for the years ended December 31, 2017 and 2016, respectively.

Note 10 - Employee Benefit Plans (Continued)

Deferred Compensation Plans

The Academy has a 457(b) deferred compensation plan. According to the 457(b) plan, the participants are eligible to make salary reduction contributions.

Effective January 1, 2017, the Academy adopted a 457(f) deferred compensation plan. The amount is maintained on the Academy's books in a designated account and will remain the sole property of the Academy, and is available to satisfy the claims of all general creditors of the Academy. The executive director shall have a fully vested, nonforfeitable interest in her deferred compensation if she (1) continues her employment with the Academy until December 31, 2021, (2) dies, (3) is involuntarily terminated due to disability, or (4) is terminated from employment for reasons other than cause. Pursuant to the amended and restated employment agreement dated June 3, 2016, the executive director will receive a lump-sum distribution from her 457(f) plan account in an amount equal to her accrued balance through December 31, 2021. With respect to the 457(f) plan, the Academy recorded contributions of $17,000 for the year ended December 31, 2017, which are included in accrued retirement costs on the combined statement of financial position.

On an annual basis, the Academy will make a contribution equal to 7 percent of the executive director's annual base salary to her 457(b) and 457(f) plans, whereby the contribution will first go to the 457(b) plan until the IRS maximum amount is reached and the remaining balance will be contributed to the 457(f) plan.

Note 11 - Donor-restricted and Board-designated Endowments

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

- The duration and preservation of the fund
- The purpose of the Academy and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Academy

Note 11 - Donor-restricted and Board-designated Endowments (Continued)

- The investment policies of the Academy

	Endowment Net Asset Composition by Type of Fund as of December 31, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 841,552	$ 2,343,115	$ 3,184,667
Board-designated endowment funds	19,866,345	-	-	19,866,345
Total	$ 19,866,345	$ 841,552	$ 2,343,115	$ 23,051,012

	Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 17,618,905	$ 569,003	$ 2,343,115	$ 20,531,023
Investment return:				
Investment income	477,693	88,281	-	565,974
Net appreciation (realized and unrealized)	1,783,942	263,607	-	2,047,549
Total investment return	2,261,635	351,888	-	2,613,523
Appropriation of endowment assets for expenditure	(15,195)	(79,339)	-	(94,534)
Other changes - Transfers to create board-designated endowment funds	1,000	-	-	1,000
Endowment net assets - End of year	$ 19,866,345	$ 841,552	$ 2,343,115	$ 23,051,012

	Endowment Net Asset Composition by Type of Fund as of December 31, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 569,003	$ 2,343,115	$ 2,912,118
Board-designated endowment funds	17,618,905	-	-	17,618,905
Total	$ 17,618,905	$ 569,003	$ 2,343,115	$ 20,531,023

Note 11 - Donor-restricted and Board-designated Endowments (Continued)

	Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 16,683,121	$ 484,596	$ 2,343,115	$ 19,510,832
Investment return:				
Investment income	408,414	59,719	-	468,133
Net appreciation (realized and unrealized)	459,220	117,548	-	576,768
Total investment return	867,634	177,267	-	1,044,901
Appropriation of endowment assets for expenditure	(524,539)	(92,860)	-	(617,399)
Other changes - Transfers to board-designated endowment funds	592,689	-	-	592,689
Endowment net assets - End of year	$ 17,618,905	$ 569,003	$ 2,343,115	$ 20,531,023

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 Academy to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2017 and 2016.

Return Objectives and Risk Parameters

The Academy 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 Academy must hold in perpetuity, as well as board-designated funds. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the respective benchmarks for the different asset classes provided for in the Academy's investment policy. The asset classes include cash, fixed income, equities, stocks, large-cap stocks and options, mid-cap stocks and options, small-cap stocks and options, and foreign stocks and options. The Academy expects its endowment funds, over time, to provide an average rate of return equal to or greater than benchmaks associated with each of its three investment policies. Actual returns in any given year may vary from this amount; the investment committee reviews actual returns versus becnhmarks for all funds.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Academy 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 Academy targets a diversified asset allocation that places a greater emphasis on prudent risk constraints, balancing equity-based investments with fixed-income investments to achieve its long-term return objectives.

Note 11 - Donor-restricted and Board-designated Endowments (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

During the budgeting process, the Academy has a policy of reviewing each endowment fund's budgeted expenditures and compares these expenditures to the endowment fund's investment returns for the current year. In establishing this policy, the Academy considered the long-term expected return on its endowment. Accordingly, over the long term, the Academy expects the current spending policy to be below the current market investment returns for its endowment. This is consistent with the Academy'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.

Note 12 - *Journal of the American Academy of Dermatology*

The Academy has a copyright license agreement with a publisher for reproduction, sale, and distribution of *Journal of the American Academy of Dermatology*. The agreement expired on December 31, 2017. On December 20, 2016, the Academy entered into a new agreement that will begin on January 1, 2018 and expire on December 31, 2022.

Additional Information

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Independent Auditor's Report on Additional Information

To the Board of Directors
American Academy of Dermatology, Inc.
and American Academy of
Dermatology Association, Inc.

We have audited the combined financial statements of American Academy of Dermatology, Inc. and American Academy of Dermatology Association, Inc. as of and for the years ended December 31, 2017 and 2016 and have issued our report thereon dated May 4, 2018, which contained an unmodified opinion on those combined financial statements. Our audits were performed for the purpose of forming an opinion on the 2017 combined financial statements as a whole. The combining information is presented for the purpose of additional analysis rather than to present the financial position, changes in net assets, and cash flows of the individual companies and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2017 combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined financial statements as a whole.

Plante & Moran, PLLC

May 4, 2018

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Combining Statement of Financial Position

December 31, 2017

	AAD	AADA	Eliminating Entries	Total
Assets				
Cash	$ 5,221,298	$ 777,978	$ -	$ 5,999,276
Investments	56,667,170	13,785,291	-	70,452,461
Receivables - Net of allowances:				
Trade receivables	4,260,714	813,556	-	5,074,270
Pledges receivable	2,509,165	-	-	2,509,165
Due from related organizations	19,948,229	3,127,764	(23,075,993)	-
Inventory - Net	215,790	-	-	215,790
Prepaid expenses and other assets	1,723,252	228,600	-	1,951,852
Property and equipment - Net	4,148,547	261,614	-	4,410,161
Total assets	**$ 94,694,165**	**$ 18,994,803**	**$ (23,075,993)**	**$ 90,612,975**
Liabilities and Net Assets				
Liabilities				
Accounts payable and other	$ 1,350,895	$ 195,560	$ -	$ 1,546,455
Accrued salaries	1,294,225	-	-	1,294,225
Accrued retirement costs	875,896	-	-	875,896
Accrued vacation leave	545,608	-	-	545,608
Deferred revenue - Annual national meeting	12,401,556	-	-	12,401,556
Deferred revenue - Subscriptions and other	2,369,122	559,110	-	2,928,232
Deferred revenue - Membership dues	-	7,162,441	-	7,162,441
Due to related organizations	20,914,098	2,161,895	(23,075,993)	-
Loan commitment	4,500,000	-	-	4,500,000
Total liabilities	44,251,400	10,079,006	(23,075,993)	31,254,413
Net Assets				
Unrestricted	39,851,950	8,665,797	-	48,517,747
Temporarily restricted	8,247,700	250,000	-	8,497,700
Permanently restricted	2,343,115	-	-	2,343,115
Total liabilities and net assets	**$ 94,694,165**	**$ 18,994,803**	**$ (23,075,993)**	**$ 90,612,975**

Combining Statement of Financial Position

December 31, 2016

	AAD	AADA	Eliminating Entries	Total
Assets				
Cash	$ 4,002,655	$ 611,019	$ -	$ 4,613,674
Investments	45,599,793	13,501,103	-	59,100,896
Receivables - Net of allowances:				
Trade receivables	2,367,504	561,878	-	2,929,382
Pledges receivable	3,136,623	257,500	-	3,394,123
Due from related organizations	5,353,436	2,871,080	(8,224,516)	-
Inventory - Net	413,468	-	-	413,468
Prepaid expenses and other assets	1,794,640	278,152	-	2,072,792
Property and equipment - Net	9,182,684	368,910	-	9,551,594
Total assets	**$ 71,850,803**	**$ 18,449,642**	**$ (8,224,516)**	**$ 82,075,929**
Liabilities and Net Assets				
Liabilities				
Accounts payable and other	$ 1,080,537	$ 140,355	$ -	$ 1,220,892
Accrued salaries	1,211,680	-	-	1,211,680
Accrued retirement costs	726,150	-	-	726,150
Accrued vacation leave	525,510	-	-	525,510
Accrued real estate taxes	325,687	-	-	325,687
Deferred revenue - Annual national meeting	10,540,596	-	-	10,540,596
Deferred revenue - Subscriptions and other	594,825	706,622	-	1,301,447
Deferred revenue - Membership dues	-	6,868,237	-	6,868,237
Due to related organizations	6,444,016	1,780,500	(8,224,516)	-
Interest rate swap	166,998	-	-	166,998
Loan commitment	2,500,000	-	-	2,500,000
Total liabilities	24,115,999	9,495,714	(8,224,516)	25,387,197
Net Assets				
Unrestricted	37,218,525	8,703,928	-	45,922,453
Temporarily restricted	8,173,164	250,000	-	8,423,164
Permanently restricted	2,343,115	-	-	2,343,115
Total liabilities and net assets	**$ 71,850,803**	**$ 18,449,642**	**$ (8,224,516)**	**$ 82,075,929**

Combining Statement of Activities

Year Ended December 31, 2017

	AAD	AADA	Eliminating Entries	Total
Changes in Unrestricted Net Assets				
Revenue, gains, and other support:				
Membership dues	$ -	$ 10,311,810	$ -	$ 10,311,810
Meetings	19,690,839	98,094	-	19,788,933
JAAD and other royalties	7,394,504	998,623	-	8,393,127
Educational product sales	2,059,972	1,198,941	-	3,258,913
Other	69,604	86,937	-	156,541
Grants and contributions	719,572	51,255	-	770,827
Investment income	3,898,668	1,049,831	-	4,948,499
Net assets released from restrictions	5,634,008	-	-	5,634,008
Total revenue, gains, other support, and net assets released from restrictions	39,467,167	13,795,491	-	53,262,658
Expenses:				
Program services:				
Educational	8,697,523	2,592	-	8,700,115
Communications	1,972,703	476,323	-	2,449,026
Government affairs and research	2,435,130	5,669,966	-	8,105,096
Governance and committees	1,953,228	833,289	-	2,786,517
Member services and administration	17,918,425	6,851,452	-	24,769,877
Total expenses	32,977,009	13,833,622	-	46,810,631
Increase (Decrease) in Unrestricted Net Assets - Before loss on sale of fixed assets	6,490,158	(38,131)	-	6,452,027
Loss on Sale of Fixed Assets	(3,856,733)	-	-	(3,856,733)
Increase (Decrease) in Unrestricted Net Assets	2,633,425	(38,131)	-	2,595,294
Changes in Temporarily Restricted Net Assets				
Grants and contributions	5,188,340	-	-	5,188,340
Investment income - Temporarily restricted	520,204	-	-	520,204
Net assets released from restrictions	(5,634,008)	-	-	(5,634,008)
Increase in Temporarily Restricted Net Assets	74,536	-	-	74,536
Increase in Net Assets	**$ 2,707,961**	**$ (38,131)**	**$ -**	**$ 2,669,830**

Combining Statement of Activities

Year Ended December 31, 2016

	AAD	AADA	Eliminating Entries	Total
Changes in Unrestricted Net Assets				
Revenue, gains, and other support:				
Membership dues	$ -	$ 10,068,026	$ -	$ 10,068,026
Meetings	18,573,247	108,367	-	18,681,614
JAAD and other royalties	4,640,759	962,617	-	5,603,376
Educational product sales	2,056,462	963,061	-	3,019,523
Other	32,774	145,419	-	178,193
Grants and contributions	730,224	83,191	-	813,415
Investment income	1,644,512	455,191	-	2,099,703
Net assets released from restrictions	5,940,700	45,000	-	5,985,700
Total revenue, gains, other support, and net assets released from restrictions	33,618,678	12,830,872	-	46,449,550
Expenses:				
Program services:				
Educational	8,630,770	2,563	-	8,633,333
Communications	1,696,524	437,891	-	2,134,415
Government affairs and research	2,588,477	5,291,517	-	7,879,994
Governance and committees	1,824,447	772,587	-	2,597,034
Member services and administration	17,741,113	6,742,301	-	24,483,414
Total expenses	32,481,331	13,246,859	-	45,728,190
Increase (Decrease) in Unrestricted Net Assets	1,137,347	(415,987)	-	721,360
Changes in Temporarily Restricted Net Assets				
Grants and contributions	4,960,847	295,000	-	5,255,847
Investment income - Temporarily restricted	264,164	-	-	264,164
Net assets released from restrictions	(5,940,700)	(45,000)	-	(5,985,700)
(Decrease) Increase in Temporarily Restricted Net Assets	(715,689)	250,000	-	(465,689)
Increase (Decrease) in Net Assets	**$ 421,658**	**$ (165,987)**	**$ -**	**$ 255,671**