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

**Combined Financial Report
with Additional Information
December 31, 2022**

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

Contents

Independent Auditor's Report	1-2
Combined Financial Statements	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Functional Expenses	5-6
Statement of Cash Flows	7
Notes to Combined Financial Statements	8-25
Additional Information	26
Independent Auditor's Report on Additional Information	27
Combining Statement of Financial Position	28-31
Combining Statement of Activities	32-33

Independent Auditor's Report

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

Opinion

We have audited the combined financial statements of American Academy of Dermatology, Inc. and American Academy of Dermatology Association, Inc. (the "Academy"), which comprise the combined statement of financial position as of December 31, 2022 and 2021 and the related combined statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the combined financial statements.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the financial position of the Academy as of December 31, 2022 and 2021 and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audits of the Combined Financial Statements* section of our report. We are required to be independent of the Academy and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As described in Note 3 to the combined financial statements, the Academy adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases*, as of January 1, 2022. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Academy's ability to continue as a going concern within one year after the date that the combined financial statements are issued or available to be issued.

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

Auditor's Responsibilities for the Audits of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that audits conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

In performing audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audits 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 Academy's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Academy's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Plante & Moreau, PLLC

June 8, 2023

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

Combined Statement of Financial Position

December 31, 2022 and 2021

	2022	2021
Assets		
Cash	\$ 5,643,493	\$ 5,332,366
Investments (Note 4)	68,680,623	65,067,055
Receivables - Net of allowances:		
Trade receivables	6,150,091	5,266,598
Pledges receivable (Note 6)	2,687,052	3,123,996
Insurance proceeds receivable	-	13,503,220
Inventory - Net	226,709	123,447
Prepaid expenses and other assets	2,822,484	2,843,396
Right-of-use operating lease assets	9,000,892	-
Property and equipment - Net (Note 7)	4,943,941	6,002,345
	<u>\$ 100,155,285</u>	<u>\$ 101,262,423</u>
Total assets		
Liabilities and Net Assets		
Liabilities		
Accounts payable and other	\$ 2,128,341	\$ 2,163,072
Accrued retirement costs	1,150,366	1,159,808
Accrued salaries	1,485,204	1,449,217
Accrued vacation leave	799,230	732,419
Deferred revenue - Annual national meeting	12,407,938	9,499,329
Deferred revenue - Subscriptions and other	2,278,586	761,342
Deferred revenue - Membership dues	8,132,855	7,256,012
Deferred rent	-	4,867,182
Lease liabilities - Operating	13,553,342	-
Loan commitment (Note 8)	2,454,546	2,863,636
	<u>44,390,408</u>	<u>30,752,017</u>
Total liabilities		
Net Assets (Note 9)		
Without donor restrictions	41,991,164	56,990,341
With donor restrictions	13,773,713	13,520,065
	<u>55,764,877</u>	<u>70,510,406</u>
Total net assets		
Total liabilities and net assets	<u>\$ 100,155,285</u>	<u>\$ 101,262,423</u>

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, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, (Losses) Gains, and Other Support						
Membership dues	\$ 11,496,589	\$ -	\$ 11,496,589	\$ 11,267,852	\$ -	\$ 11,267,852
Meetings	20,832,357	-	20,832,357	6,767,530	-	6,767,530
JAAD and other royalties	8,317,107	-	8,317,107	7,068,479	-	7,068,479
Educational product sales	2,702,519	-	2,702,519	2,402,551	-	2,402,551
Other	332,865	-	332,865	406,588	-	406,588
Meeting cancellation insurance proceeds	100,000	-	100,000	14,417,226	-	14,417,226
Grants and contributions	708,189	8,392,691	9,100,880	561,012	6,513,864	7,074,876
Contributed nonfinancial assets	243,782	-	243,782	-	-	-
Investment (loss) income	(8,201,869)	(785,482)	(8,987,351)	4,400,983	366,918	4,767,901
Net assets released from restrictions	7,353,561	(7,353,561)	-	3,591,565	(3,591,565)	-
Total revenue, gains, and other support	43,885,100	253,648	44,138,748	50,883,786	3,289,217	54,173,003
Expenses						
Program services:						
Educational	20,696,379	-	20,696,379	13,498,875	-	13,498,875
Communications	5,253,262	-	5,253,262	4,834,417	-	4,834,417
Government affairs and research	10,897,036	-	10,897,036	9,709,143	-	9,709,143
Strategy Analytics & Alliances	2,469,667	-	2,469,667	2,153,501	-	2,153,501
Total program services	39,316,344	-	39,316,344	30,195,936	-	30,195,936
Member services and administration	17,160,013	-	17,160,013	15,678,036	-	15,678,036
Fundraising	2,407,920	-	2,407,920	1,360,927	-	1,360,927
Total expenses	58,884,277	-	58,884,277	47,234,899	-	47,234,899
(Decrease) Increase in Net Assets	(14,999,177)	253,648	(14,745,529)	3,648,887	3,289,217	6,938,104
Net Assets - Beginning of year	56,990,341	13,520,065	70,510,406	53,341,454	10,230,848	63,572,302
Net Assets - End of year	\$ 41,991,164	\$ 13,773,713	\$ 55,764,877	\$ 56,990,341	\$ 13,520,065	\$ 70,510,406

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

Combined Statement of Functional Expenses

Year Ended December 31, 2022

	Program Services					Support Services			
	Educational	Communications	Government Affairs and Research	Strategy Analytics & Alliances	Total	Member Services and Administration	Membership Services	Fundraising	Total
Grants and other assistance	\$ 213,062	\$ -	\$ 559,878	\$ 178,550	\$ 951,490	\$ 55,000	\$ 654,000	\$ 173,392	\$ 1,833,882
Salaries and wages	7,061,471	2,572,325	4,745,944	1,042,421	15,422,161	6,631,379	1,411,670	636,698	24,101,908
Employee benefits	1,924,594	714,648	1,275,190	256,965	4,171,397	1,438,651	441,130	143,920	6,195,098
Professional services	1,460,824	880,726	674,781	285,615	3,301,946	251,361	436,056	305,748	4,295,111
Legal fees	18,262	-	17,126	-	35,388	332,262	700	894	369,244
Accounting fees	-	-	-	-	-	110,690	-	-	110,690
Advertising and promotion	-	-	-	-	-	1,073,500	-	-	1,073,500
Office expenses	616,823	350,734	66,061	37,369	1,070,987	461,052	57,890	68,544	1,658,473
Information technology	636,121	216,769	1,361,683	75,320	2,289,893	480,487	141,449	61,335	2,973,164
Occupancy	295,375	100,654	179,415	34,974	610,418	223,109	65,680	28,480	927,687
Travel	537,349	60,844	458,514	167,215	1,223,922	286,828	139,782	88,202	1,738,734
Conferences, conventions, and meetings	6,331,386	65,491	736,065	266,556	7,399,498	240,033	310,479	821,912	8,771,922
Interest	27,676	9,431	16,811	3,277	57,195	52,182	6,154	2,668	118,199
Insurance	205,679	-	2,711	-	208,390	297,644	-	-	506,034
Training and development	38,231	8,411	187,359	7,558	241,559	75,262	493,280	-	810,101
Depreciation and amortization	397,523	135,462	241,460	47,068	821,513	300,264	88,394	38,329	1,248,500
Bad debt expense	-	-	-	-	-	2,505	-	-	2,505
UBIT expense	289,829	-	-	-	289,829	-	76,530	-	366,359
Other	18,489	4,180	135,920	20,362	178,951	60,950	751	-	240,652
Cost of goods sold	231,664	-	-	-	231,664	-	-	-	231,664
Lease expense	392,021	133,587	238,118	46,417	810,143	296,109	87,170	37,798	1,231,220
Lease amortization expense	-	-	-	-	-	79,630	-	-	79,630
Total functional expenses	\$ 20,696,379	\$ 5,253,262	\$ 10,897,036	\$ 2,469,667	\$ 39,316,344	\$ 12,748,898	\$ 4,411,115	\$ 2,407,920	\$ 58,884,277

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

Combined Statement of Functional Expenses

Year Ended December 31, 2021

	Program Services					Support Services		
	Educational	Communications	Government Affairs and Research	Strategy Analytics & Alliances	Total	Member Services and Administration	Fundraising	Total
Grants and other assistance	\$ 95,776	\$ -	\$ 109,050	\$ 50,000	\$ 254,826	\$ 351,481	\$ 62,000	\$ 668,307
Salaries and wages	6,223,499	2,406,595	4,893,635	980,862	14,504,591	7,874,717	585,569	22,964,877
Employee benefits	1,769,473	677,405	1,273,266	279,179	3,999,323	2,098,931	147,608	6,245,862
Professional services	880,850	822,471	680,925	355,062	2,739,308	331,390	14,345	3,085,043
Legal fees	4,980	-	18,788	-	23,768	338,157	-	361,925
Accounting fees	-	-	-	-	-	118,171	-	118,171
Advertising and promotion	-	-	-	-	-	750,751	-	750,751
Office expenses	322,777	298,950	97,649	29,365	748,741	509,505	59,677	1,317,923
Information technology	598,631	220,328	1,464,090	76,696	2,359,745	733,539	62,353	3,155,637
Occupancy	623,401	229,445	398,728	79,870	1,331,444	674,930	64,933	2,071,307
Travel	237,381	4,949	107,412	143,863	493,605	197,638	77,148	768,391
Conferences, conventions, and meetings	1,831,233	667	88,670	74,970	1,995,540	158,017	236,939	2,390,496
Interest	29,832	10,980	19,081	3,822	63,715	74,960	3,107	141,782
Insurance	87,984	-	35,888	-	123,872	294,201	4,696	422,769
Training and development	27,687	9,502	182,687	4,531	224,407	649,555	-	873,962
Depreciation and amortization	408,531	150,361	261,296	52,341	872,529	444,422	42,552	1,359,503
Bad debt expense	-	-	-	-	-	830	-	830
UBIT expense	137,200	-	-	-	137,200	11,247	-	148,447
Other	20,981	2,764	77,978	22,940	124,663	58,962	-	183,625
Cost of goods sold	198,659	-	-	-	198,659	6,632	-	205,291
Total functional expenses	<u>\$ 13,498,875</u>	<u>\$ 4,834,417</u>	<u>\$ 9,709,143</u>	<u>\$ 2,153,501</u>	<u>\$ 30,195,936</u>	<u>\$ 15,678,036</u>	<u>\$ 1,360,927</u>	<u>\$ 47,234,899</u>

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

Combined Statement of Cash Flows

Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
(Decrease) increase in net assets	\$ (14,745,529)	\$ 6,938,104
Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities:		
Depreciation and amortization	1,248,500	1,359,503
Gain on disposal of property and equipment	(4,822)	(69)
Net realized and unrealized loss (gain) on investments	10,335,934	(3,686,023)
Amortization of operating right-of-use asset	888,199	-
Changes in operating assets and liabilities that (used) provided cash:		
Trade receivables	(883,493)	(4,790,580)
Insurance proceeds receivable	13,503,220	3,015,856
Inventories	(103,262)	(5,380)
Pledges receivable	436,944	(2,534,758)
Prepaid expenses and other assets	20,912	(591,049)
Accounts payable and other	(34,731)	697,060
Accrued liabilities	93,356	430,093
Deferred revenue	5,302,696	6,351,009
Operating lease liability	(1,202,931)	-
Net cash provided by operating activities	14,854,993	7,183,766
Cash Flows from Investing Activities		
Purchases of property and equipment	(340,652)	(149,598)
Proceeds from disposition of property and equipment	155,378	310
Purchases of investments	(41,852,234)	(23,725,034)
Proceeds from sales and maturities of investments	27,902,732	20,322,669
Net cash used in investing activities	(14,134,776)	(3,551,653)
Cash Flows from Financing Activities		
Payments on loan commitment	(409,090)	(409,091)
Payments on line of credit	-	(2,000,000)
Net cash used in financing activities	(409,090)	(2,409,091)
Net Increase in Cash	311,127	1,223,022
Cash - Beginning of year	5,332,366	4,109,344
Cash - End of year	\$ 5,643,493	\$ 5,332,366
Supplemental Cash Flow Information - Cash paid for interest	\$ 87,358	\$ 100,383

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

Notes to Combined Financial Statements

December 31, 2022 and 2021

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 that at times may exceed federally insured limits. The Academy has not experienced any losses in such accounts.

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, and mortgage- and asset-backed bonds. Gains and losses are reported as increases or decreases in net assets and are reflected as changes in net assets with donor restrictions and net assets without donor restrictions, 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.

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 for the years ended December 31, 2022 and 2021. 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 composed 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. The Academy has not recorded a provision for doubtful pledges since it is the opinion of management that those receivables are collectible in full.

Inventory

Inventory is valued at average cost. The inventory consists primarily of educational finished good items, such as pamphlets and practice management materials. Inventory is stated net of an allowance for obsolete inventory of \$41,264 and \$57,193 as of December 31, 2022 and 2021, respectively.

Notes to Combined Financial Statements

December 31, 2022 and 2021

Note 2 - Significant Accounting Policies (Continued)

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 net assets with donor restrictions and net assets without donor restrictions 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.

Net Assets without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Academy.

Net Assets with Donor Restrictions

Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Academy or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law.

Contributed Nonfinancial Assets

Certain contributed nonfinancial assets are recognized as revenue in the combined statement of activities and changes in net assets. The estimated fair value of contributed nonfinancial assets is described in Note 15.

Revenue Recognition

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.

The following revenue streams are included in the revenue standard, Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606):

- Membership dues
- Meetings - Exhibits and registration
- JAAD and other royalties
- Educational product sales

Notes to Combined Financial Statements

December 31, 2022 and 2021

Note 2 - Significant Accounting Policies (Continued)

Performance Obligations

The following explains the performance obligations related to each revenue stream and how those are recognized:

Membership Dues

The Academy generates revenue from written agreements allowing members access to JAAD, dermatologic education, an advocate in the house of medicine, and resources to support their practice and career. The Academy satisfies its performance obligation over time, as services are rendered, because members typically obtain the benefits of such services as the services are performed. Membership dues are billed annually, and revenue is recognized over the term of the membership. As the Academy bills customers and collects cash prior to the satisfaction of the performance obligation, the Academy recognizes deferred revenue.

Meetings - Exhibits and Registration

The Academy generates revenue from written agreements providing a space for the exhibitor, primarily corporate entities, to display their product/service in the technical exhibits area of the annual and summer meetings. The Academy also generates revenue from meeting registration, allowing members and individuals to attend various educational sessions, to attend the plenary sessions, to visit the Exhibit Hall, and multiple opportunities for networking. The Academy's obligation is to hold the event; therefore, the Academy recognizes exhibit and registration revenue at the time the events are held. Funds received ahead of the meeting are recorded as deferred revenue until the time of the meeting. In the event of cancellation, registrations will be refunded.

JAAD and Other Royalties

The Academy generates revenue by charging for access to its logo, membership lists (Affinity Programs), meeting content, and educational content for both members and the general public. The Academy also generates royalty revenue from its publication of JAAD. Revenue is recognized once its performance obligation is met and the items are sold by the partner entities.

Educational Product Sales

The Academy generates revenue from written or implied agreements for a specific exchange of products that are geared towards both medical professionals and the public. This revenue is recognized upon delivery of the products, and refunds are not provided.

In some situations, the Academy collects cash prior to the satisfaction of the performance obligation, which results in the Academy recognizing contract liabilities. Total contract liabilities were \$22,819,379 and \$17,516,683 as of December 31, 2022 and 2021, respectively. Total contract liabilities as of January 1, 2021 were \$11,165,674.

Grant and contribution revenue is recognized when pledged. Conditional promises to give (those with a measurable performance or other barrier and a right of return) are not recognized until the conditions on which they depend have been met. Contributions and other assets, including unconditional promises to give in the future, are reported at fair value. As of December 31, 2022 and 2021, the Academy is eligible to receive and recognize approximately \$1,035,000 and \$1,966,500, respectively, of these conditional contributions upon the occurrence of meeting future barriers, including holding various meeting and events.

Total receivables related to exchange revenue were \$6,150,091 and \$5,266,598 as of December 31, 2022 and 2021, respectively. Total receivables related to exchange revenue were \$476,018 as of January 1, 2021.

Notes to Combined Financial Statements

December 31, 2022 and 2021

Note 2 - Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The 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. Costs are charged to program services and support services on an actual basis when available. In addition, certain costs have been allocated among the program and support services functions based on various allocation methods and estimates. Allocations for depreciation, technology, and occupancy expenses are based on each function's personnel headcount as a percentage of the total personnel headcount. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Leases

The Academy has operating leases for office space and finance leases for office equipment. The Academy recognizes expense for operating and finance leases on a straight-line basis over the lease term. Therefore, all payments are included in the calculation of the right-of-use asset and lease liability.

The Academy elected to use the risk-free rate as the discount rate for calculating the right-of-use asset and lease liability in place of the incremental borrowing rate for operating leases for office space.

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 Internal Revenue Service (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.

Reclassification

Certain 2021 amounts have been reclassified to conform to the 2022 presentation relating to the constituent relations, member services and administration, and fundraising expenses in the combined statement of functional expenses.

Upcoming Accounting Pronouncement

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU includes changes to the accounting and measurement of financial assets, including the Academy's accounts receivable, by requiring the Academy to recognize an allowance for all expected losses over the life of the financial asset at origination. This is different from the current practice where an allowance is not recognized until the losses are considered probable. The ASU also changes the way credit losses are recognized for available-for-sale debt securities. Credit losses are recognized through the recording of an allowance rather than as a write-down of the carrying value. The new guidance will be effective for the Academy's year ending December 31, 2023. Upon adoption, the ASU will be applied using a modified retrospective transition method to the beginning of the earliest period presented. Early adoption for all institutions is permitted for fiscal years beginning after December 15, 2018.

Notes to Combined Financial Statements

December 31, 2022 and 2021

Note 2 - Significant Accounting Policies (Continued)

Subsequent Events

The combined financial statements and related disclosures include evaluation of events up through and including June 8, 2023, which is the date the combined financial statements were available to be issued.

Note 3 - Adoption of New Accounting Pronouncements

As of January 1, 2022, the Academy adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-02, *Leases*. 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. The Academy elected to adopt the ASU using the modified retrospective method as of January 1, 2022 and applied the following practical expedients:

- The Academy did not reassess if expired or existing contracts are or contain a lease.
- The Academy did not reassess the lease classification for expired or existing leases.
- The Academy did not reassess initial direct costs for any existing leases.
- The Academy used hindsight to determine the lease term and to assess impairment of the right-of-use assets for existing leases.
- The Academy did not reassess whether any existing or expired land easements that were not previously classified as leases are or contain a lease.

As a result of the adoption of the ASU, the Academy recorded a right-of-use asset of \$9,970,873, a lease liability of \$14,838,055, and decreased the deferred rent balance by \$4,867,182 as of January 1, 2022 for existing operating leases and recorded a right-of-use asset of \$234,702 and a lease liability of \$234,702 as of January 1, 2022 for finance leases. There was no impact on net assets as a result of adopting the new ASU.

As of January 1, 2022, the Academy adopted ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU provides for additional disclosures to support clearer financial information about important noncash contributions that charities and other not-for-profit organizations receive, known as gifts in kind (GIKs). Contributed nonfinancial assets will be reported by category within the combined financial statements, and there will be additional disclosures included for each category, including whether the nonfinancial assets were monetized or used during the reporting period, the policy for monetizing nonfinancial contributions, and a description of the fair value techniques used to arrive at a fair value measurement. This standard was adopted retrospectively and had no impact on net assets.

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

Notes to Combined Financial Statements

December 31, 2022 and 2021

Note 4 - Investments

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

	2022		2021	
	Cost	Fair Value	Cost	Fair Value
AAD:				
Without donor restrictions:				
Money market funds	\$ 1,543,916	\$ 1,543,913	\$ 3,490,251	\$ 3,490,251
Corporate stock	861,816	1,041,445	761,562	1,059,020
Corporate bonds	1,475,782	1,289,247	1,461,557	1,461,730
Mutual funds	44,303,291	46,064,795	32,134,640	39,688,118
Government and agency bonds	834,410	702,427	603,018	628,205
Mortgage- and asset-backed bonds	331,770	289,985	471,898	477,961
Total	49,350,985	50,931,812	38,922,926	46,805,285
With donor restrictions:				
Money market funds	242,796	242,796	745,513	745,513
Corporate bonds	109,035	98,297	138,787	136,646
Mutual funds	4,400,002	3,955,813	4,552,442	4,997,448
Government and agency bonds	31,743	29,542	19,827	19,840
Mortgage- and asset-backed bonds	11,574	10,813	20,847	20,937
Municipal bonds	10,212	9,970	-	-
Total	4,805,362	4,347,231	5,477,416	5,920,384
Total - AAD	54,156,347	55,279,043	44,400,342	52,725,669
AADA - Without donor restrictions:				
Money market funds	1,039,633	1,039,633	1,239,553	1,239,553
Corporate stock	852,963	1,027,172	754,369	1,044,748
Corporate bonds	5,546,881	4,975,784	4,733,506	4,654,660
International bonds	152,691	147,337	-	-
Mutual funds	2,731,260	2,530,362	2,477,130	2,925,087
Government and agency bonds	3,130,613	2,902,698	1,250,474	1,273,069
Mortgage- and asset-backed bonds	871,303	768,518	1,201,279	1,204,269
Education bond	11,388	10,074	-	-
Total - AADA	14,336,732	13,401,578	11,656,311	12,341,386
Total - Academy	\$ 68,493,079	\$ 68,680,621	\$ 56,056,653	\$ 65,067,055

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

Notes to Combined Financial Statements

December 31, 2022 and 2021

Note 4 - Investments (Continued)

The components of investment income relating to investments and cash for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
AAD:		
Without donor restrictions:		
Interest and dividends	\$ 1,106,236	\$ 877,592
Net realized and unrealized gains	(7,818,124)	3,211,363
Investment expense	(174,256)	(192,558)
Total	(6,886,144)	3,896,397
With donor restrictions:		
Interest and dividends	118,465	151,526
Net realized and unrealized gains	(883,619)	239,288
Investment expense	(20,328)	(23,896)
Total	(785,482)	366,918
Total - AAD	(7,671,626)	4,263,315
AADA - Without donor restrictions:		
Interest and dividends	385,509	327,719
Net realized and unrealized gains	(1,634,191)	235,372
Investment expense	(67,043)	(58,505)
Total - AADA	(1,315,725)	504,586
Total - Academy	\$ (8,987,351)	\$ 4,767,901

Note 5 - 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.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets 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 in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

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. 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. The Academy currently does not utilize any Level 3 inputs.

In instances where 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.

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

Notes to Combined Financial Statements

December 31, 2022 and 2021

Note 5 - Fair Value Measurements (Continued)

The following tables present information about the Academy's assets measured at fair value on a recurring basis at December 31, 2022 and 2021 and the valuation techniques used by the Academy to determine those fair values:

Assets Measured at Fair Value on a Recurring Basis at December 31, 2022				
	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, 2022
AAD				
Assets - Investments:				
Fixed income - Mutual funds:				
Short term	\$ 11,473,215	\$ -	\$ -	\$ 11,473,215
Intermediate term	18,370,333	-	-	18,370,333
International	371,613	-	-	371,613
Equity - Mutual funds:				
Small cap	1,787,713	-	-	1,787,713
Mid cap	1,907,493	-	-	1,907,493
Large cap	9,036,221	-	-	9,036,221
International	7,074,020	-	-	7,074,020
Equity - Corporate stock				
Large cap	1,041,445	-	-	1,041,445
Municipal Bond - Short term	-	9,970	-	9,970
Corporate bond:				
Short term	-	356,202	-	356,202
Intermediate term	-	939,863	-	939,863
Long term	-	91,479	-	91,479
Government and agency bonds:				
Short term	-	147,925	-	147,925
Intermediate term	-	188,898	-	188,898
Long term	-	395,146	-	395,146
Mortgage- and asset-backed bonds:				
Short term	-	304	-	304
Intermediate term	-	108,101	-	108,101
Long term	-	192,393	-	192,393
Total AAD	51,062,053	2,430,281	-	53,492,334
AADA				
Assets - Investments:				
Fixed income - Mutual funds:				
Short term	73,660	-	-	73,660
Intermediate term	355,003	-	-	355,003
International	141,654	-	-	141,654
Equity - Mutual funds:				
Small cap	191,622	-	-	191,622
Mid cap	169,151	-	-	169,151
Large cap	281,598	-	-	281,598
International	1,317,674	-	-	1,317,674
Equity - Corporate stock				
Large cap	1,027,172	-	-	1,027,172
International bond -				
Short term	-	147,337	-	147,337
Municipal bond - Short term	-	10,074	-	10,074
Corporate bond:				
Short term	-	2,196,311	-	2,196,311
Intermediate term	-	2,645,444	-	2,645,444
Long term	-	134,029	-	134,029
Government and agency bonds:				
Short term	-	1,058,626	-	1,058,626
Intermediate term	-	1,501,548	-	1,501,548
Long term	-	342,524	-	342,524
Mortgage- and asset-backed bonds:				
Short term	-	730	-	730
Intermediate term	-	426,596	-	426,596
Long term	-	341,192	-	341,192
Total AADA	3,557,534	8,804,411	-	12,361,945
Total assets	\$ 54,619,587	\$ 11,234,692	\$ -	\$ 65,854,279

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

Notes to Combined Financial Statements

December 31, 2022 and 2021

Note 5 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at December 31, 2021				
	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, 2021
AAD				
Assets - Investments:				
Fixed income - Mutual funds:				
Short term	\$ 2,831,111	\$ -	\$ -	\$ 2,831,111
Intermediate term	16,111,554	-	-	16,111,554
International	472,576	-	-	472,576
Equity - Mutual funds:				
Small cap	2,224,722	-	-	2,224,722
Mid cap	2,444,569	-	-	2,444,569
Large cap	13,205,269	-	-	13,205,269
International	8,454,785	-	-	8,454,785
Corporate bonds:				
Short term	-	185,882	-	185,882
Intermediate term	-	1,258,736	-	1,258,736
Long term	-	153,758	-	153,758
Government and agency bonds:				
Short term	-	108,354	-	108,354
Intermediate term	-	115,088	-	115,088
Long term	-	424,604	-	424,604
Mortgage- and asset-backed bonds:				
Short term	-	43,968	-	43,968
Intermediate term	-	182,187	-	182,187
Long term	-	272,743	-	272,743
Total AAD	45,744,586	2,745,320	-	48,489,906
AADA				
Assets - investments:				
Fixed income - Mutual funds:				
Intermediate term	385,362	-	-	385,362
International	162,203	-	-	162,203
Equity - Mutual funds:				
Small cap	232,015	-	-	232,015
Mid cap	203,996	-	-	203,996
Large cap	1,464,415	-	-	1,464,415
International	1,521,843	-	-	1,521,843
Corporate bonds:				
Short term	-	943,164	-	943,164
Intermediate term	-	3,461,840	-	3,461,840
Long term	-	249,656	-	249,656
Government and agency bonds:				
Short term	-	273,825	-	273,825
Intermediate term	-	638,050	-	638,050
Long term	-	361,194	-	361,194
Mortgage- and asset-backed bonds:				
Short term	-	111,960	-	111,960
Intermediate term	-	613,030	-	613,030
Long term	-	479,279	-	479,279
Total AADA	3,969,834	7,131,998	-	11,101,832
Total assets	\$ 49,714,420	\$ 9,877,318	\$ -	\$ 59,591,738

Not included in the above tables is \$1,786,709 and \$4,235,764 in money market accounts as of December 31, 2022 and 2021, respectively, for AAD and \$1,039,633 and \$1,239,553 in money market accounts as of December 31, 2022 and 2021, respectively, for AADA.

Level 1 Inputs

Fair values of fixed-income mutual funds and equity mutual funds were based on quoted market prices.

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

Notes to Combined Financial Statements

December 31, 2022 and 2021

Note 5 - Fair Value Measurements (Continued)

Level 2 Inputs

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

Note 6 - Pledges Receivable

Pledges receivable as expected to be collected as follows:

	2022	2021
Amounts due in:		
Less than one year	\$ 813,927	\$ 1,458,996
One to five years	1,873,125	1,665,000
Total	<u>\$ 2,687,052</u>	<u>\$ 3,123,996</u>

Note 7 - Property and Equipment

Property and equipment are summarized as follows at December 31, 2022:

	AAD	AADA	Combined Total	Depreciable Life - Years
Leasehold improvements	\$ 5,469,894	\$ 1,175,390	\$ 6,645,284	10
Computer equipment and software	2,900,195	280,676	3,180,871	3-8
Machinery and equipment	93,281	-	93,281	5-10
Furniture and fixtures	1,684,242	308,315	1,992,557	5-10
Total cost	10,147,612	1,764,381	11,911,993	
Less accumulated depreciation	6,366,678	601,374	6,968,052	
Net property and equipment	<u>\$ 3,780,934</u>	<u>\$ 1,163,007</u>	<u>\$ 4,943,941</u>	

Property and equipment are summarized as follows at December 31, 2021:

	AAD	AADA	Combined Total	Depreciable Life - Years
Leasehold improvements	\$ 5,524,233	\$ 1,173,948	\$ 6,698,181	10
Data processing equipment and system development costs	2,814,607	285,247	3,099,854	3-8
Furniture and equipment	1,758,776	308,315	2,067,091	5-10
Total cost	10,097,616	1,767,510	11,865,126	
Less accumulated depreciation	5,519,625	343,156	5,862,781	
Net property and equipment	<u>\$ 4,577,991</u>	<u>\$ 1,424,354</u>	<u>\$ 6,002,345</u>	

Depreciation and amortization expense for 2022 and 2021 was \$1,248,500 and \$1,359,503, respectively.

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

Notes to Combined Financial Statements

December 31, 2022 and 2021

Note 8 - Loan Commitment

Long-term debt at December 31, 2022 is \$2,454,546 and consists of a term loan with quarterly installments of \$102,273, including interest at 3.14 percent through December 31, 2028. The term note requires the Academy to comply with certain financial covenants. The note is collateralized by certain investments of the Academy.

The Academy also has a \$10,000,000 line of credit available. The line of credit bears interest at the Secured Overnight Financing Rate (SOFR) plus a margin of 1.25 percent. The line of credit expires on October 31, 2023. There were no borrowings at December 31, 2022 or 2021.

The balance of the term loan matures as follows:

Years Ending	Amount
2023	\$ 409,091
2024	409,091
2025	409,091
2026	409,091
2027	409,091
Thereafter	409,091
Total	<u>\$ 2,454,546</u>

Interest expense for 2022 and 2021 was \$86,921 and \$99,276, respectively.

Note 9 - Net Assets

Net assets without donor restrictions consist of the following as of December 31, 2022 and 2021:

	2022			2021		
	AAD	AADA	Total	AAD	AADA	Total
General Operating Fund	\$ 983,286	\$ 406,586	\$ 1,389,877	\$ 1,963,969	\$ 1,764,804	\$ 3,728,773
Area of Greatest Need	644,156	-	644,156	794,574	-	794,574
Sulzberger Endowment Fund	396,835	-	396,835	482,925	-	482,925
Reserve Income Fund (includes PPE/Tech Fund)	6,872,638	7,317,000	14,189,638	10,753,190	8,433,632	19,186,822
Strategic Reserve Fund	3,143,169	-	3,143,169	6,676,511	-	6,676,511
Excellence in Dermatology Endowment Fund	14,570,453	-	14,570,453	17,042,877	-	17,042,877
Camp Discovery Endowment Fund	7,622,081	-	7,622,081	9,042,909	-	9,042,909
Disaster Fund	34,960	-	34,955	34,950	-	34,950
Total	<u>\$ 34,267,578</u>	<u>\$ 7,723,586</u>	<u>\$ 41,991,164</u>	<u>\$ 46,791,905</u>	<u>\$ 10,198,436</u>	<u>\$ 56,990,341</u>

Aside from the general operating fund, the above net assets are board-designated net assets, and the designations can be removed or changed at any time by the board.

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

Notes to Combined Financial Statements

December 31, 2022 and 2021

Note 9 - Net Assets (Continued)

Net assets with donor restrictions as of December 31, 2022 and 2021 are available for the following purposes:

	2022			2021		
	AAD	AADA	Total	AAD	AADA	Total
Subject to expenditures for a specified purpose:						
SKINnovations	\$ 96,784	\$ -	\$ 96,784	\$ 185,971	\$ -	\$ 185,971
Everett C. Fox Fund	856,210	-	856,210	1,121,517	-	1,121,517
Lila Gruber Endowment Fund - Unappropriated earnings	29,913	-	29,913	116,058	-	116,058
Awards for Young Investigators Endowment Fund - Unappropriated earnings*	12,046	-	12,046	53,425	-	53,425
World Congress of Dermatology Endowment Fund - Unappropriated earnings	223,362	-	223,362	573,774	-	573,774
Awards for Young Investigators - MTR	1,000	-	1,000	1,000	-	1,000
Program for Innovative Continuing Medical Education in Dermatology Endowment Fund - Unappropriated earnings	425,594	-	425,594	595,454	-	595,454
Access Care	125,000	-	125,000	-	-	-
Camp Discovery Fund	-	-	-	73,529	-	73,529
Lebwohl Camp Scholarship Fund	639,767	-	639,767	752,499	-	752,499
Dialogues	35,000	-	35,000	-	-	-
Annual meeting*	125,176	-	125,176	125,177	-	125,177
2023 AAD Clinical Community Sponsorship	175,000	-	175,000	-	-	-
Access Derm*	-	-	-	173,056	-	173,056
Access Community Outreach	156,874	-	156,874	-	-	-
Web Support/AAD.org	100,000	-	100,000	317,504	-	317,504
Children's programs	199,132	-	199,132	191,226	-	191,226
Clarence Livingood Award	15,000	-	15,000	15,000	-	15,000
Future of the Specialty	50,796	-	50,796	-	-	-
Resident International Grant Programs	250	-	250	-	-	-
Derm pamphlets*	270,000	-	270,000	60,000	-	60,000
Derm World	125,000	-	125,000	3,750	-	3,750
Diversity programs*	5,404,476	-	5,404,476	2,060,532	1,705,007	3,765,539
2021 International Foundation of Dermatology	1,000	-	1,000	500	-	500
JAAD	271,145	-	271,145	-	-	-
Phillip Frost Award	-	-	-	45,000	-	45,000
Practice Management Center	-	330,000	330,000	-	180,000	180,000
Scalp- and hair-related research/issues	1,003,092	-	1,003,092	1,459,000	-	1,459,000
Skin Cancer Disease Outreach*	12,322	-	12,322	12,360	-	12,360
Good Skin Program	-	-	-	17,803	-	17,803
Skin Develop and Native Health programs	9,150	-	9,150	14,000	-	14,000
SPOT ME (Melanoma Exposed)	136,431	-	136,431	231,253	-	231,253
Spot Initiative contributions	212,860	-	212,860	211,923	-	211,923
Take a Hike*	43,000	-	43,000	-	-	-
Education/Research AYI contributions	425	-	425	425	-	425
Shade Structure contributions*	35,807	-	35,807	112,934	-	112,934
Shade Structure Adopt A Shade grants/contributions	52,575	-	52,575	96,221	-	96,221
Resident Access to Education contributions	27,358	-	27,358	62,418	-	62,418
Area of Greatest Need contributions*	229,052	-	229,052	608,633	-	608,633
Total	11,100,597	330,000	11,430,597	9,291,942	1,885,007	11,176,949

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

Notes to Combined Financial Statements

December 31, 2022 and 2021

Note 9 - Net Assets (Continued)

	2022			2021		
	AAD	AADA	Total	AAD	AADA	Total
To be held in perpetuity:						
World Congress of Dermatology Endowment Fund	\$ 1,300,000	\$ -	\$ 1,300,000	\$ 1,300,000	\$ -	\$ 1,300,000
Lila Gruber Endowment Fund	318,116	-	318,116	318,116	-	318,116
Awards for Young Investigators Endowment Fund	125,000	-	125,000	125,000	-	125,000
Program for Innovative Continuing Medical Education in Dermatology Endowment Fund	600,000	-	600,000	600,000	-	600,000
Total to be held in perpetuity	2,343,116	-	2,343,116	2,343,116	-	2,343,116
Total	\$ 13,443,713	\$ 330,000	\$ 13,773,713	\$ 11,635,058	\$ 1,885,007	\$ 13,520,065

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

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 \$947,460 and \$927,530 for the years ended December 31, 2022 and 2021, 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 \$1,133,720 and \$1,112,034 for the years ended December 31, 2022 and 2021, respectively.

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. With respect to the 457(b) plan, the Academy recorded contributions of \$8,500 and \$7,500 for the years ended December 31, 2022 and 2021, respectively.

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, 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, 2022, (2) dies, (3) is involuntarily terminated due to disability, or (4) is terminated from employment for reasons other than cause. Pursuant to the employment agreement dated January 1, 2020, the executive director received a lump-sum distribution from her 457(f) plan account in an amount equal to her accrued balance through December 31, 2022. With respect to the 457(f) plan, the Academy recorded contributions of \$23,733 and \$20,931 for the years ended December 31, 2022 and 2021, respectively. The balance was paid out to the executive director in 2022 and was included in accrued retirement costs on the combined statement of financial position as of December 31, 2021.

On an annual basis, the Academy will make a contribution equal to 5 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.

Notes to Combined Financial Statements

December 31, 2022 and 2021

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 Academy is subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the board of directors appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The board of directors of the Academy had interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Academy considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Academy has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with SPMIFA, 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
- The investment policies of the Academy

Endowment Net Asset Composition by Type of Fund as of December 31, 2022			
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 22,589,369	\$ -	\$ 22,589,369
Donor-restricted endowment funds Investments:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	-	2,343,116	2,343,116
Accumulated investment gains	-	690,915	690,915
Total	<u>\$ 22,589,369</u>	<u>\$ 3,034,031</u>	<u>\$ 25,623,400</u>

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

Notes to Combined Financial Statements

December 31, 2022 and 2021

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

	Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	\$ 26,568,711	\$ 3,681,826	\$ 30,250,537
Investment return:			
Investment income - Net	541,970	76,068	618,038
Net appreciation (realized and unrealized)	(4,211,052)	(592,162)	(4,803,214)
Total investment return	(3,669,082)	(516,094)	(4,185,176)
Appropriation of endowment assets for expenditure	(310,510)	(131,701)	(442,211)
Other changes - Transfers to board-designated endowment funds	250	-	250
Endowment net assets - End of year	<u>\$ 22,589,369</u>	<u>\$ 3,034,031</u>	<u>\$ 25,623,400</u>
Endowment Net Asset Composition by Type of Fund as of December 31, 2021			
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 26,568,711	\$ -	\$ 26,568,711
Donor-restricted endowment funds - Investments:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	-	2,343,116	2,343,116
Accumulated investment gains	-	1,338,710	1,338,710
Total donor-restricted endowment funds	-	3,681,826	3,681,826
Total	<u>\$ 26,568,711</u>	<u>\$ 3,681,826</u>	<u>\$ 30,250,537</u>
Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2021			
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	\$ 24,231,709	\$ 3,554,547	\$ 27,786,256
Investment return:			
Investment income - Net	561,792	98,493	660,285
Net appreciation (realized and unrealized)	1,790,236	143,137	1,933,373
Total investment return	2,352,028	241,630	2,593,658
Appropriation of endowment assets for expenditure	(15,776)	(114,351)	(130,127)
Other changes - Transfers to create board- designated endowment funds	750	-	750
Endowment net assets - End of year	<u>\$ 26,568,711</u>	<u>\$ 3,681,826</u>	<u>\$ 30,250,537</u>

Underwater Endowment Funds

As of December 31, 2022 and 2021, there were no funds with deficiencies.

Notes to Combined Financial Statements

December 31, 2022 and 2021

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

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 or for a donor-specified period, 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 benchmarks 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 benchmarks 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.

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 rate of 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*. On December 20, 2016, the Academy entered into a new agreement that began on January 1, 2018 and expired on December 31, 2022. On January 1, 2023, the agreement was renewed under similar terms with an effective date of January 1, 2023 through December 31, 2029.

Notes to Combined Financial Statements

December 31, 2022 and 2021

Note 13 - Liquidity and Availability of Resources

The following reflects the Academy's financial assets as of December 31, 2022 and 2021, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the combined statement of financial position date:

	2022	2021
Cash and investments	\$ 74,324,116	\$ 70,399,421
Accounts and interest receivable	8,837,143	21,893,814
Financial assets - At year end	83,161,259	92,293,235
Less those unavailable for general expenditures within one year due to contractual or donor-imposed restrictions:		
Restricted by donor-imposed restrictions	11,430,597	11,176,949
Restricted in perpetuity	2,343,116	2,343,116
Board-designated endowment funds	22,589,369	26,568,711
Board-designated reserve funds	15,181,243	20,594,240
Rosemont facility loan	2,454,546	2,863,636
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 29,162,388</u>	<u>\$ 28,746,583</u>

In the event of an unanticipated liquidity need, the Academy can draw upon its \$10,000,000 line of credit, as described in Note 8. The Academy is partially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Academy must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the Academy's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Academy invests cash in excess of daily requirements in short-term investments. It is the Academy's policy to have 12 months of operating expenses, calculated using annual budget amounts exclusive of fund distributions and major expenses, available for current operations.

Note 14 - Leases

The Academy is obligated under operating leases primarily for real estate, expiring at various dates through 2032. The right-of-use asset and related lease liability have been calculated using discount rates ranging from 0.76 percent to 2.88 percent. The weighted-average discount rate was 1.63 percent over a weighted-average remaining lease term of 7.4 years. The leases require the Academy to pay taxes, insurance, utilities, and maintenance costs.

The Academy leases office equipment under long-term lease arrangement that are classified as finance leases. Under the terms of the lease agreements, payments of \$6,630 are due monthly through 2024. The right-of-use asset and related lease liability have been calculated using a discount rate of 1.09 percent.

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

Notes to Combined Financial Statements

December 31, 2022 and 2021

Note 14 - Leases (Continued)

Expenses recognized under these leases for the year ended December 31, 2022 consist of the following:

Finance lease cost:	
Amortization of right-of-use assets	\$ 78,234
Interest on lease liabilities	1,396
Operating lease cost	1,279,913
Short-term lease cost	-
Variable lease cost	-
Sublease income	-
Total lease cost	<u>\$ 1,359,543</u>

Other information - Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from finance leases	\$ 1,396
Operating cash flows from operating leases	1,595,530
Financing cash flows from finance leases	79,556

Future minimum rent on noncancelable leases as of December 31, 2022 for each of the next five years, and in the aggregate, is as follows:

Years Ending December 31	Operating Leases	Finance Leases	Total Payments
2023	\$ 1,790,524	\$ 79,560	\$ 1,870,084
2024	1,832,697	6,630	1,839,327
2025	1,832,042	-	1,832,042
2026	1,830,322	-	1,830,322
2027	1,861,672	-	1,861,672
Thereafter	5,237,539	-	5,237,539
Total	14,384,796	86,190	14,470,986
Less amount representing interest	831,454	-	831,454
Present value of net minimum lease payments	<u>\$ 13,553,342</u>	<u>\$ 86,190</u>	<u>\$ 13,639,532</u>

Note 15 - Contributed Nonfinancial Assets

In-kind donations recognized by the Academy for the year ended December 31, 2022 are for medical supplies and equipment that were used at various events and not monetized. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions. Contributed nonfinancial assets are valued and reported at their estimated fair value in the combined financial statements. Contributed medical supplies and equipment are valued based on market value for similar supplies or pieces of equipment.

Additional Information

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, 2022 and 2021 and have issued our report thereon dated June 8, 2023, which contained an unmodified opinion on those combined financial statements. Our audits were performed for the purpose of forming an opinion on the 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 audits of the 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

June 8, 2023

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

Combining Statement of Financial Position

December 31, 2022

	AAD	AADA	Eliminating Entries	Total
Assets				
Cash	\$ 5,170,682	\$ 472,811	\$ -	\$ 5,643,493
Investments	55,279,045	13,401,578	-	68,680,623
Receivables - Net of allowances:				
Trade receivables	5,839,738	310,353	-	6,150,091
Pledges receivable	2,687,052	-	-	2,687,052
Total receivables - Net of allowances	8,526,790	310,353	-	8,837,143
Due from related organizations	14,462,274	5,383,923	(19,846,197)	-
Inventory - Net	226,709	-	-	226,709
Prepaid expenses and other assets:				
Prepaid expenses	2,191,035	507,922	-	2,698,957
Accrued interest and dividend income	56,845	66,682	-	123,527
Total prepaid expenses and other assets	2,247,880	574,604	-	2,822,484
Right-of-use operating lease assets	3,830,876	5,170,016	-	9,000,892
Property and equipment - Net:				
Machinery and equipment	93,281	-	-	93,281
Furniture and fixtures	1,684,242	308,315	-	1,992,557
Computer equipment and software	2,900,195	280,676	-	3,180,871
Leasehold improvements	5,469,894	1,175,390	-	6,645,284
Total property and equipment - Cost	10,147,612	1,764,381	-	11,911,993
Accumulated depreciation	6,366,678	601,374	-	6,968,052
Total property and equipment - Net	3,780,934	1,163,007	-	4,943,941
Total assets	<u>\$ 93,525,190</u>	<u>\$ 26,476,292</u>	<u>\$ (19,846,197)</u>	<u>\$ 100,155,285</u>

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

Combining Statement of Financial Position (Continued)

December 31, 2022

	<u>AAD</u>	<u>AADA</u>	<u>Eliminating Entries</u>	<u>Total</u>
Liabilities and Net Assets				
Liabilities				
Accounts payable and other - Trade accounts payable	\$ 1,944,596	\$ 183,745	\$ -	\$ 2,128,341
Accrued retirement costs	1,150,366	-	-	1,150,366
Accrued vacation leave	799,230	-	-	799,230
Deferred revenue - Subscriptions and other	2,264,940	13,646	-	2,278,586
Due to related organizations	17,194,920	2,651,277	(19,846,197)	-
Deferred revenue - Membership dues	-	8,132,855	-	8,132,855
Deferred revenue - Annual national meeting	12,407,938	-	-	12,407,938
Accrued salaries	1,485,204	-	-	1,485,204
Lease liabilities - Operating	6,112,159	7,441,183	-	13,553,342
Loan commitment - Notes payable	2,454,546	-	-	2,454,546
Total liabilities	45,813,899	18,422,706	(19,846,197)	44,390,408
Net Assets				
Without donor restrictions - Undesignated	34,267,578	7,723,586	-	41,991,164
With donor restrictions	13,443,713	330,000	-	13,773,713
Total net assets	47,711,291	8,053,586	-	55,764,877
Total liabilities and net assets	<u><u>\$ 93,525,190</u></u>	<u><u>\$ 26,476,292</u></u>	<u><u>\$ (19,846,197)</u></u>	<u><u>\$ 100,155,285</u></u>

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

Combining Statement of Financial Position

December 31, 2021

	AAD	AADA	Eliminating Entries	Total
Assets				
Cash	\$ 4,700,842	\$ 631,524	\$ -	\$ 5,332,366
Investments	52,725,669	12,341,386	-	65,067,055
Receivables - Net of allowances:				
Trade receivables	5,001,030	265,568	-	5,266,598
Pledges receivable	2,443,996	680,000	-	3,123,996
Insurance proceeds receivable	13,503,220	-	-	13,503,220
Total receivables - Net of allowances	20,948,246	945,568	-	21,893,814
Due from related organizations	21,267,067	18,634,328	(39,901,395)	-
Inventory - Net	123,447	-	-	123,447
Prepaid expenses and other assets:				
Prepaid expenses	2,291,186	471,364	-	2,762,550
Accrued interest and dividend income	31,391	49,455	-	80,846
Total prepaid expenses and other assets	2,322,577	520,819	-	2,843,396
Property and equipment - Net:				
Machinery and equipment	93,281	-	-	93,281
Furniture and fixtures	1,665,495	308,315	-	1,973,810
Computer equipment and software	2,814,607	285,247	-	3,099,854
Leasehold improvements	5,524,233	1,173,948	-	6,698,181
Total property and equipment - Cost	10,097,616	1,767,510	-	11,865,126
Accumulated depreciation	5,519,625	343,156	-	5,862,781
Total property and equipment - Net	4,577,991	1,424,354	-	6,002,345
Total assets	<u><u>\$ 106,665,839</u></u>	<u><u>\$ 34,497,979</u></u>	<u><u>\$ (39,901,395)</u></u>	<u><u>\$ 101,262,423</u></u>

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

Combining Statement of Financial Position (Continued)

December 31, 2021

	<u>AAD</u>	<u>AADA</u>	<u>Eliminating Entries</u>	<u>Total</u>
Liabilities and Net Assets				
Liabilities				
Accounts payable and other - Trade accounts payable	\$ 1,986,671	\$ 176,401	\$ -	\$ 2,163,072
Accrued retirement costs	1,159,808	-	-	1,159,808
Accrued vacation leave	732,419	-	-	732,419
Deferred revenue - Subscriptions and other	745,541	15,801	-	761,342
Due to related organizations	27,262,395	12,639,000	(39,901,395)	-
Deferred revenue - Membership dues	-	7,256,012	-	7,256,012
Deferred revenue - Annual national meeting	9,499,329	-	-	9,499,329
Accrued salaries	1,449,217	-	-	1,449,217
Deferred rent	2,539,860	2,327,322	-	4,867,182
Loan commitment	2,863,636	-	-	2,863,636
Total liabilities	48,238,876	22,414,536	(39,901,395)	30,752,017
Net Assets				
Without donor restrictions - Undesignated	46,791,905	10,198,436	-	56,990,341
With donor restrictions	11,635,058	1,885,007	-	13,520,065
Total net assets	58,426,963	12,083,443	-	70,510,406
Total liabilities and net assets	<u>\$ 106,665,839</u>	<u>\$ 34,497,979</u>	<u>\$ (39,901,395)</u>	<u>\$ 101,262,423</u>

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

Combining Statement of Activities

Year Ended December 31, 2022

	AAD	AADA	Eliminating Entries	Total
Changes in Net Assets without Donor Restrictions				
Revenue, (losses) gains, and other support:				
Membership dues	\$ -	\$ 11,496,589	\$ -	\$ 11,496,589
Meetings	20,768,634	63,723	-	20,832,357
JAAD and other royalties	7,007,030	1,310,077	-	8,317,107
Educational product sales	2,239,584	462,935	-	2,702,519
Other	209,816	123,049	-	332,865
Meeting cancellation insurance proceeds	100,000	-	-	100,000
Grants and contributions	638,958	69,231	-	708,189
Contributed nonfinancial assets	243,782	-	-	243,782
Investment loss	(6,886,144)	(1,315,725)	-	(8,201,869)
Net assets released from restrictions	7,173,561	180,000	-	7,353,561
Total revenue, gains, and other support	31,495,221	12,389,879	-	43,885,100
Expenses:				
Program services:				
Educational	17,924,061	2,772,318	-	20,696,379
Communications	4,082,290	1,170,972	-	5,253,262
Government affairs and research	6,002,085	4,894,951	-	10,897,036
Strategy Analytics & Alliances	1,910,381	559,286	-	2,469,667
Member services and administration	12,593,339	4,566,674	-	17,160,013
Fundraising	2,240,115	167,805	-	2,407,920
Total expenses	44,752,271	14,132,006	-	58,884,277
Decrease in Net Assets without Donor Restrictions	(13,257,050)	(1,742,127)	-	(14,999,177)
Changes in Net Assets with Donor Restrictions				
Grants and contributions	8,362,691	30,000	-	8,392,691
Investment loss	(785,482)	-	-	(785,482)
Net assets released from restrictions	(7,173,561)	(180,000)	-	(7,353,561)
Increase (Decrease) in Net Assets with Donor Restrictions	403,648	(150,000)	-	253,648
Decrease in Net Assets	\$ (12,853,402)	\$ (1,892,127)	\$ -	\$ (14,745,529)

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

Combining Statement of Activities

Year Ended December 31, 2021

	AAD	AADA	Eliminating Entries	Total
Changes in Net Assets without Donor Restrictions				
Revenue, gains, and other support:				
Membership dues	\$ -	\$ 11,267,852	\$ -	\$ 11,267,852
Meetings	6,707,844	59,686	-	6,767,530
JAAD and other royalties	5,997,059	1,071,420	-	7,068,479
Educational product sales	2,013,120	389,431	-	2,402,551
Other	259,828	146,760	-	406,588
Meeting cancellation insurance proceeds	14,417,226	-	-	14,417,226
Grants and contributions	460,674	100,338	-	561,012
Investment income	3,896,397	504,586	-	4,400,983
Net assets released from restrictions	3,273,146	318,419	-	3,591,565
Total revenue, gains, and other support	37,025,294	13,858,492	-	50,883,786
Expenses:				
Program services:				
Educational	11,017,143	2,481,732	-	13,498,875
Communications	3,718,596	1,115,821	-	4,834,417
Government affairs and research	5,395,545	4,313,598	-	9,709,143
Strategy Analytics & Alliances	1,629,539	523,962	-	2,153,501
Member services and administration	11,379,827	4,298,209	-	15,678,036
Fundraising	1,221,075	139,852	-	1,360,927
Total expenses	34,361,725	12,873,174	-	47,234,899
Increase in Net Assets without Donor Restrictions	2,663,569	985,318	-	3,648,887
Changes in Net Assets with Donor Restrictions				
Grants and contributions	5,398,939	1,114,925	-	6,513,864
Investment income	366,918	-	-	366,918
Net assets released from restrictions	(3,273,146)	(318,419)	-	(3,591,565)
Increase in Net Assets with Donor Restrictions	2,492,711	796,506	-	3,289,217
Increase in Net Assets	\$ 5,156,280	\$ 1,781,824	\$ -	\$ 6,938,104