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

**Combined Financial Report
with Additional Information
December 31, 2019**

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

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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, 2019 and 2018 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.

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 opinion.

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, 2019 and 2018 and the changes in their 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.

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

Emphasis of Matter

As described in Note 2 to the combined financial statements, there were subsequent events that impacted the Academy. Our opinion is not modified with respect to these matters.

Also, as described in Note 2 to the combined financial statements, the Academy adopted the provisions of Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

June 30, 2020

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

Combined Statement of Financial Position

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Cash	\$ 5,453,133	\$ 5,592,807
Investments (Note 3)	73,733,709	69,031,983
Receivables - Net of allowances:		
Trade receivables	2,921,934	3,144,414
Pledges receivable	1,693,213	2,011,715
Inventory - Net	219,031	163,212
Prepaid expenses and other assets	2,305,235	2,231,774
Property and equipment - Net (Note 5)	6,373,184	7,394,540
	<u>\$ 92,699,439</u>	<u>\$ 89,570,445</u>
Total assets		
Liabilities and Net Assets		
Liabilities		
Accounts payable and other	\$ 1,347,837	\$ 1,508,139
Accrued retirement costs	959,602	963,253
Accrued salaries	1,360,351	1,386,070
Accrued vacation leave	638,787	637,010
Deferred revenue - Annual national meeting	11,142,872	11,487,162
Deferred revenue - Subscriptions and other	2,800,589	1,871,080
Deferred revenue - Membership dues	7,675,170	7,332,321
Deferred rent	3,190,132	3,564,968
Loan commitment (Note 6)	3,681,818	4,090,909
	<u>32,797,158</u>	<u>32,840,912</u>
Total liabilities		
Net Assets (Note 7)		
Without donor restrictions	50,438,093	45,660,467
With donor restrictions	9,464,188	11,069,066
	<u>59,902,281</u>	<u>56,729,533</u>
Total net assets		
Total liabilities and net assets	<u>\$ 92,699,439</u>	<u>\$ 89,570,445</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, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support						
Membership dues	\$ 11,016,610	\$ -	\$ 11,016,610	\$ 10,678,195	\$ -	\$ 10,678,195
Meetings	20,695,352	-	20,695,352	20,518,594	-	20,518,594
JAAD and other royalties	7,674,400	-	7,674,400	7,306,841	-	7,306,841
Educational product sales	3,037,202	-	3,037,202	2,933,642	-	2,933,642
Other	285,371	-	285,371	239,837	-	239,837
Grants and contributions	582,766	4,591,418	5,174,184	665,230	6,807,312	7,472,542
Investment income (loss)	8,045,109	662,850	8,707,959	(2,082,836)	(271,976)	(2,354,812)
Net assets released from restrictions	6,859,146	(6,859,146)	-	6,307,085	(6,307,085)	-
Total revenue, gains, and other support	58,195,956	(1,604,878)	56,591,078	46,566,588	228,251	46,794,839
Expenses						
Program services:						
Educational	19,459,653	-	19,459,653	17,359,025	-	17,359,025
Communications	5,190,538	-	5,190,538	4,553,603	-	4,553,603
Government affairs and research	10,771,408	-	10,771,408	9,775,060	-	9,775,060
Constituent relations	1,966,225	-	1,966,225	2,035,610	-	2,035,610
Total program services	37,387,824	-	37,387,824	33,723,298	-	33,723,298
Member services and administration	14,510,556	-	14,510,556	14,304,773	-	14,304,773
Fundraising	1,519,950	-	1,519,950	1,395,797	-	1,395,797
Total expenses	53,418,330	-	53,418,330	49,423,868	-	49,423,868
Increase (Decrease) in Net Assets	4,777,626	(1,604,878)	3,172,748	(2,857,280)	228,251	(2,629,029)
Net Assets - Beginning of year	45,660,467	11,069,066	56,729,533	48,517,747	10,840,815	59,358,562
Net Assets - End of year	\$ 50,438,093	\$ 9,464,188	\$ 59,902,281	\$ 45,660,467	\$ 11,069,066	\$ 56,729,533

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

Combined Statement of Functional Expenses

Year Ended December 31, 2019

	Program Services					Support Services		
	Educational	Communications	Government Affairs and Research	Constituent Relations	Total	Member Services and Administration	Fundraising	Total
Grants and other assistance	\$ 1,013,030	\$ -	\$ 82,362	\$ 217,000	\$ 1,312,392	\$ 85,000	\$ -	\$ 1,397,392
Salaries and wages	6,518,475	2,229,679	4,725,119	622,225	14,095,498	6,989,644	448,473	21,533,615
Employee benefits	1,863,480	616,241	1,179,435	164,907	3,824,063	1,576,212	103,197	5,503,472
Professional services	1,278,161	1,105,761	1,356,896	47,419	3,788,237	852,536	68,477	4,709,250
Legal fees	-	1,600	35,056	-	36,656	341,111	-	377,767
Accounting fees	-	-	-	-	-	96,785	-	96,785
Advertising and promotion	-	-	-	-	-	649,387	-	649,387
Office expenses	763,039	472,705	116,386	15,299	1,367,429	634,318	85,986	2,087,733
Information technology	552,235	190,079	1,078,444	51,646	1,872,404	590,855	36,985	2,500,244
Occupancy	619,549	213,001	386,708	58,162	1,277,420	630,244	38,710	1,946,374
Travel	1,097,540	147,937	987,686	560,293	2,793,456	567,918	316,685	3,678,059
Conferences, conventions, and meetings	4,717,322	32,799	220,436	156,378	5,126,935	171,278	391,726	5,689,939
Interest	39,921	13,725	24,918	3,748	82,312	40,535	2,494	125,341
Insurance	174,323	-	26,213	-	200,536	141,503	-	342,039
Training and development	67,121	16,044	218,337	6,780	308,282	624,343	-	932,625
Depreciation and amortization	427,609	147,011	266,902	40,143	881,665	434,186	26,717	1,342,568
Bad debt expense	-	-	-	-	-	31,866	-	31,866
UBIT expense	45,000	-	-	-	45,000	-	-	45,000
Other	20,675	3,956	66,510	22,225	113,366	52,835	500	166,701
Cost of goods sold	262,173	-	-	-	262,173	-	-	262,173
Total functional expenses	\$ 19,459,653	\$ 5,190,538	\$ 10,771,408	\$ 1,966,225	\$ 37,387,824	\$ 14,510,556	\$ 1,519,950	\$ 53,418,330

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

Combined Statement of Functional Expenses

Year Ended December 31, 2018

	Program Services					Support Services		
	Educational	Communications	Government Affairs and Research	Constituent Relations	Total	Member Services and Administration	Fundraising	Total
Grants and other assistance	\$ 1,156,817	\$ -	\$ 104,315	\$ 157,500	\$ 1,418,632	\$ 82,000	\$ -	\$ 1,500,632
Salaries and wages	5,513,139	2,066,554	5,002,490	591,182	13,173,365	6,955,232	432,269	20,560,866
Employee benefits	1,570,785	561,446	1,281,113	154,545	3,567,889	1,684,968	109,755	5,362,612
Professional services	1,075,667	842,939	526,122	209,122	2,653,850	271,744	44,498	2,970,092
Legal fees	-	1,700	22,968	-	24,668	316,766	-	341,434
Accounting fees	-	-	-	-	-	100,335	-	100,335
Advertising and promotion	-	-	-	-	-	816,514	-	816,514
Office expenses	877,497	450,613	168,339	21,917	1,518,366	460,787	84,209	2,063,362
Information technology	399,063	159,392	619,730	42,731	1,220,916	503,792	32,086	1,756,794
Occupancy	386,064	151,615	317,094	41,350	896,123	1,005,286	27,566	1,928,975
Travel	994,684	113,916	901,287	623,143	2,633,030	593,661	298,203	3,524,894
Conferences, conventions, and meetings	4,403,875	41,230	205,794	121,807	4,772,706	165,333	339,839	5,277,878
Interest	38,929	15,288	31,925	4,169	90,311	44,516	2,780	137,607
Insurance	170,640	-	23,530	-	194,170	136,733	-	330,903
Training and development	44,692	14,189	211,940	13,932	284,753	652,414	515	937,682
Depreciation and amortization	330,232	129,688	270,816	35,370	766,106	377,625	23,580	1,167,311
Bad debt expense	-	-	-	-	-	7,741	-	7,741
UBIT expense	102,625	-	-	-	102,625	(60,375)	-	42,250
Other	17,544	5,033	87,597	18,842	129,016	189,701	497	319,214
Cost of goods sold	276,772	-	-	-	276,772	-	-	276,772
Total functional expenses	\$ 17,359,025	\$ 4,553,603	\$ 9,775,060	\$ 2,035,610	\$ 33,723,298	\$ 14,304,773	\$ 1,395,797	\$ 49,423,868

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

Combined Statement of Cash Flows

Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 3,172,748	\$ (2,629,029)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Depreciation and amortization	1,342,568	1,167,311
Loss on disposal of property and equipment	2,398	2,402
Net realized and unrealized (gain) loss on investments	(6,908,433)	4,036,353
Changes in operating assets and liabilities that provided (used) cash:		
Trade receivables	222,480	1,929,856
Inventories	(55,819)	52,578
Pledges receivable	318,502	497,450
Prepaid expenses and other assets	(73,461)	(279,922)
Accounts payable and other	(160,302)	(38,316)
Accrued liabilities	(27,593)	183,247
Deferred revenue	553,232	1,850,659
	(1,613,680)	6,772,589
Net cash (used in) provided by operating activities		
Cash Flows from Investing Activities		
Purchases of property and equipment	(324,283)	(4,154,690)
Proceeds from disposition of property and equipment	673	598
Purchases of investments	(26,301,628)	(34,025,397)
Proceeds from sales and maturities of investments	28,508,335	31,409,522
	1,883,097	(6,769,967)
Net cash provided by (used in) in investing activities		
Cash Flows Used in Financing Activities - Payments on long-term debt	(409,091)	(409,091)
Net Decrease in Cash	(139,674)	(406,469)
Cash - Beginning of year	5,592,807	5,999,276
Cash - End of year	\$ 5,453,133	\$ 5,592,807
Supplemental Cash Flow Information - Cash paid for interest	\$ 127,108	\$ 133,334

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

Notes to Combined Financial Statements

December 31, 2019 and 2018

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, 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. 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 for the years ended December 31, 2019 and 2018, 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 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. All pledges receivable are expected to be collected within one year as of December 31, 2019 and 2018. The Academy has not recorded a provision for doubtful pledges since it is the opinion of management that those receivables are collectible in full.

Notes to Combined Financial Statements

December 31, 2019 and 2018

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 \$81,985 and \$85,173 as of December 31, 2019 and 2018, 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 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, whereby 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.

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 new 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, 2019 and 2018

Note 2 - Significant Accounting Policies (Continued)

Performance Obligations

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

Membership Dues

The Academy generates revenue from written agreements allowing for 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, the Plenary sessions, 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 their 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 \$21,618,631 and \$20,690,563 as of December 31, 2019 and 2018, respectively. Total contract liabilities as of January 1, 2018 were \$21,855,926.

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, 2019, the Academy is eligible to receive and recognize approximately \$1,300,000 of these conditional contributions upon the occurrence of meeting future barriers, which is reflected in the deferred revenue - subscriptions and other line item on the combined statement of financial position.

Notes to Combined Financial Statements

December 31, 2019 and 2018

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 programs 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.

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.

Adoption of New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which superseded 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 Academy adopted the ASU effective January 1, 2019, using the modified retrospective method. The adoption of the ASU did not result in any restatement to net assets or changes in net assets.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance delayed revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The Academy adopted the ASU effective January 1, 2019 on a modified prospective basis. The adoption of the ASU caused the Academy to change the way certain conditional contributions are recorded.

Reclassification

Certain 2018 amounts have been reclassified to conform to the 2019 presentation relating to the member services and administration expenses and fundraising in the combined statement of activities and changes in net assets. Deferred rent has been broken out into its own line on the combined statement of financial position for both 2019 and 2018.

Notes to Combined Financial Statements

December 31, 2019 and 2018

Note 2 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncement

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, 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 statement of net position. 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, 2021 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 8, 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-of-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.

Subsequent Events

The combined financial statements and related disclosures include evaluation of events up through and including June 30, 2020, which is the date the combined financial statements were available to be issued. On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted thousands of individuals worldwide. In response, many countries have implemented measures to combat the outbreak that have impacted global business operations. Subsequent to the combined statement of financial position date, the board made the decision to cancel the Academy's annual meeting that was planned to take place in March 2020. No impairments were recorded as of the combined statement of financial position date; however, as of December 31, 2019, the following balances related to the meeting were on the combined statement of financial position: approximately \$2,000,000 of accounts receivable, \$400,000 of prepaid expenses and deposits, and \$11,000,000 of deferred revenue. As a result, these receivables will not be collected, these prepaid expenses will be expensed in 2020, and the deferred revenue will be refunded. Some conditional contributions will be transferred into general contribution revenue in 2020. The Academy also canceled the summer meeting, for which they will be refunding Exhibitor and Corporate Support paid in advance as well. Various cost-saving measures have been put in place to counteract not holding the annual and summer meetings in 2020. In addition, while the Academy's changes in net assets, cash flows, and financial condition could be negatively impacted, the extent of the impact cannot be reasonably estimated at this time.

Subsequent to year end, the Academy's investment portfolio has incurred a significant decline in fair value, consistent with the general decline in financial markets. Investments fluctuated with the market conditions, and the Academy also had to refund certain annual meeting obligations. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

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

Notes to Combined Financial Statements

December 31, 2019 and 2018

Note 3 - Investments

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

	Cost	Fair Value	Cost	Fair Value
AAD:				
Without donor restrictions:				
Money market funds	\$ 2,585,533	\$ 2,585,533	\$ 4,083,730	\$ 4,083,730
Corporate stock	680,691	833,850	1,185,857	1,087,656
Corporate bonds	1,102,545	1,121,548	1,485,278	1,413,934
International bonds	-	-	222,805	219,233
Mutual funds	46,814,082	50,825,433	44,571,559	45,028,188
Government and agency bonds	835,294	854,072	219,163	214,076
Mortgage- and asset-backed bonds	445,339	449,767	396,697	384,877
Total	52,463,484	56,670,203	52,165,089	52,431,694
With donor restrictions:				
Money market funds	194,838	194,838	69,057	69,057
Corporate bonds	103,555	104,820	113,296	110,241
International bonds	3,038	3,045	22,191	22,030
Mutual funds	4,106,416	4,369,468	4,455,917	4,211,296
Government and agency bonds	49,929	49,804	9,860	9,855
Mortgage- and asset-backed bonds	26,744	26,682	39,155	37,973
Total	4,484,520	4,748,657	4,709,476	4,460,452
Total - AAD	56,948,004	61,418,860	56,874,565	56,892,146
AADA - Without donor restrictions:				
Money market funds	1,080,083	1,080,083	482,455	482,455
Corporate stock	679,237	823,198	1,191,648	1,095,943
Corporate bonds	3,297,012	3,345,196	3,320,280	3,194,293
International bonds	182,902	181,844	911,566	897,250
Mutual funds	3,547,937	3,861,254	4,226,230	3,986,881
Government and agency bonds	1,774,728	1,801,568	1,346,524	1,338,569
Mortgage- and asset-backed bonds	1,216,635	1,221,706	1,175,759	1,144,446
Total - AADA	11,778,534	12,314,849	12,654,462	12,139,837
Total - Academy	<u>\$ 68,726,538</u>	<u>\$ 73,733,709</u>	<u>\$ 69,529,027</u>	<u>\$ 69,031,983</u>

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

Notes to Combined Financial Statements

December 31, 2019 and 2018

Note 3 - Investments (Continued)

The components of investment income (loss) relating to investments and cash for the years ended December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
AAD:		
Without donor restrictions:		
Interest and dividends	\$ 1,433,872	\$ 1,315,005
Net realized and unrealized gains (losses)	5,241,775	(2,731,640)
Investment expense	<u>(132,428)</u>	<u>(125,121)</u>
Total	6,543,219	(1,541,756)
With donor restrictions:		
Interest and dividends	134,718	130,433
Net realized and unrealized gains (losses)	539,230	(388,508)
Investment expense	<u>(11,098)</u>	<u>(13,901)</u>
Total	<u>662,850</u>	<u>(271,976)</u>
Total - AAD	7,206,069	(1,813,732)
AADA - Without donor restrictions:		
Interest and dividends	431,656	439,081
Net realized and unrealized gains (losses)	1,127,428	(916,205)
Investment expense	<u>(57,194)</u>	<u>(63,956)</u>
Total - AADA	<u>1,501,890</u>	<u>(541,080)</u>
Total - Academy	<u>\$ 8,707,959</u>	<u>\$ (2,354,812)</u>

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 measured at fair value on a recurring basis at December 31, 2019 and 2018 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 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 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. The Academy currently does not utilize any Level 3 inputs.

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

Notes to Combined Financial Statements

December 31, 2019 and 2018

Note 4 - Fair Value Measurements (Continued)

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.

Assets Measured at Fair Value on a Recurring Basis at December 31, 2019				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
AAD				
Investments:				
Fixed income - Mutual funds:				
Short term	\$ 10,677,206	\$ -	\$ -	\$ 10,677,206
Intermediate term	22,141,282	-	-	22,141,282
International	643,502	-	-	643,502
Equity - Mutual funds:				
Small cap	2,138,037	-	-	2,138,037
Mid cap	2,129,757	-	-	2,129,757
Large cap	11,551,216	-	-	11,551,216
International	6,747,750	-	-	6,747,750
International bonds -				
Short-term bond funds	3,045	-	-	3,045
Corporate bonds:				
Short term	-	326,480	-	326,480
Intermediate term	-	802,727	-	802,727
Long term	-	97,161	-	97,161
Government and agency bonds:				
Short term	-	37,763	-	37,763
Intermediate term	-	518,389	-	518,389
Long term	-	347,724	-	347,724
Mortgage- and asset-backed bonds:				
Short term	-	506	-	506
Intermediate term	-	119,698	-	119,698
Long term	-	356,245	-	356,245
Total AAD	56,031,795	2,606,693	-	58,638,488
AADA				
Assets - Investments:				
Fixed income - Mutual funds:				
Intermediate term	573,986	-	-	573,986
International	406,114	-	-	406,114
Equity - Mutual funds:				
Small cap	319,380	-	-	319,380
Mid cap	321,160	-	-	321,160
Large cap	1,705,839	-	-	1,705,839
International	1,357,973	-	-	1,357,973
International bonds -				
Short term	181,844	-	-	181,844
Corporate bonds:				
Short term	-	1,283,723	-	1,283,723
Intermediate term	-	1,889,550	-	1,889,550
Long term	-	171,923	-	171,923
Government and agency bonds:				
Short term	-	364,076	-	364,076
Intermediate term	-	1,139,266	-	1,139,266
Long term	-	298,227	-	298,227
Mortgage- and asset-backed bonds:				
Short term	-	99,393	-	99,393
Intermediate term	-	670,550	-	670,550
Long term	-	451,763	-	451,763
Total AADA	4,866,296	6,368,471	-	11,234,767
Total assets	\$ 60,898,091	\$ 8,975,164	\$ -	\$ 69,873,255

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

Notes to Combined Financial Statements

December 31, 2019 and 2018

Note 4 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at December 31, 2018				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
AAD				
Assets - Investments:				
Fixed income - Mutual funds:				
Short term	\$ 9,113,693	\$ -	\$ -	\$ 9,113,693
Intermediate term	23,831,034	-	-	23,831,034
International	605,793	-	-	605,793
Equity - Mutual funds:				
Small cap	1,519,074	-	-	1,519,074
Mid cap	1,869,591	-	-	1,869,591
Large cap	6,675,429	-	-	6,675,429
International	6,712,526	-	-	6,712,526
International bonds:				
Short-term bond funds	191,834	-	-	191,834
Intermediate term	-	49,430	-	49,430
Corporate bonds:				
Short term	-	251,451	-	251,451
Intermediate term	-	1,118,381	-	1,118,381
Long term	-	154,343	-	154,343
Government and agency bonds:				
Short term	-	9,855	-	9,855
Intermediate term	-	214,076	-	214,076
Mortgage- and asset-backed bonds:				
Short term	-	5,240	-	5,240
Intermediate term	-	69,342	-	69,342
Long term	-	348,267	-	348,267
Total AAD	50,518,974	2,220,385	-	52,739,359
AADA				
Assets - Investments:				
Fixed Income - Mutual funds:				
Short term	49,781	-	-	49,781
Intermediate term	1,259,499	-	-	1,259,499
International	446,398	-	-	446,398
Equity - Mutual funds:				
Small cap	348,230	-	-	348,230
Mid cap	338,957	-	-	338,957
Large cap	1,287,956	-	-	1,287,956
International	1,352,003	-	-	1,352,003
International bonds:				
Short term	637,287	-	-	637,287
Intermediate terms	-	259,964	-	259,964
Corporate bonds:				
Short term	-	870,542	-	870,542
Intermediate term	-	2,054,232	-	2,054,232
Long term	-	269,519	-	269,519
Government and agency bonds:				
Short term	-	922,970	-	922,970
Intermediate term	-	415,599	-	415,599
Mortgage- and asset-backed bonds:				
Short term	-	126,984	-	126,984
Intermediate term	-	476,287	-	476,287
Long term	-	541,174	-	541,174
Total AADA	5,720,111	5,937,271	-	11,657,382
Total assets	\$ 56,239,085	\$ 8,157,656	\$ -	\$ 64,396,741

Not included in the above tables is \$2,780,371 and \$4,152,787 in money market accounts as of December 31, 2019 and 2018, respectively, for AAD and \$1,080,083 and \$482,455 in money market accounts as of December 31, 2019 and 2018, respectively, for AADA.

Notes to Combined Financial Statements

December 31, 2019 and 2018

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, and mortgage- and asset-backed 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, 2019 and 2018, there were no such transfers.

Note 5 - Property and Equipment

Property and equipment are summarized as follows at December 31, 2019 and 2018:

	AAD	AADA	Combined Total	Depreciable Life - Years
Leasehold improvements	\$ 5,422,998	\$ 717,852	\$ 6,140,850	10
Data processing equipment and system development costs	2,447,696	-	2,447,696	3-8
Furniture and equipment	1,702,128	338,771	2,040,899	5-10
Total cost	9,572,822	1,056,623	10,629,445	
Less accumulated depreciation	(3,254,040)	(1,002,221)	(4,256,261)	
Net property and equipment	<u>\$ 6,318,782</u>	<u>\$ 54,402</u>	<u>\$ 6,373,184</u>	
	AAD	AADA	Combined Total	Depreciable Life - Years
Leasehold improvements	\$ 5,403,668	\$ 717,852	\$ 6,121,520	10
Data processing equipment and system development costs	2,251,077	-	2,251,077	3-8
Furniture and equipment	1,640,196	338,771	1,978,967	5-10
Total cost	9,294,941	1,056,623	10,351,564	
Less accumulated depreciation	(2,054,498)	(902,526)	(2,957,024)	
Net property and equipment	<u>\$ 7,240,443</u>	<u>\$ 154,097</u>	<u>\$ 7,394,540</u>	

Depreciation and amortization expense for 2019 and 2018 was \$1,342,568 and \$1,167,311, respectively.

Note 6 - Loan Commitment

Long-term debt at December 31, 2019 is \$3,681,818 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.

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

Notes to Combined Financial Statements

December 31, 2019 and 2018

Note 6 - Loan Commitment (Continued)

The Academy also has a \$1,000,000 line of credit available. The Academy has the option to select the prime rate or the London Interbank Offered Rate (LIBOR) plus 1.25 percent. There were no borrowings on this line of credit at December 31, 2019 or 2018. Subsequent to year end, the Academy increased this line of credit available to \$10,000,000 under the same terms.

The balance of the debt matures as follows:

Years Ending	Amount
2020	\$ 409,091
2021	409,091
2022	409,091
2023	409,091
2024	409,091
Thereafter	<u>1,636,363</u>
Total	<u>\$ 3,681,818</u>

Interest expense for 2019 and 2018 was \$125,341 and \$137,607, respectively.

Note 7 - Net Assets

Net assets without donor restrictions consist of the following as of December 31, 2019 and 2018:

	2019			2018		
	AAD	AADA	Total	AAD	AADA	Total
General Operating Fund	\$ 2,442,707	\$ 1,112,526	\$ 3,555,237	\$ 3,452,860	\$ 325,588	\$ 3,778,448
Area of Greatest Need	274,155	-	274,155	137,732	-	137,732
Sulzberger Endowment Fund	423,962	-	423,962	367,396	-	367,396
Reserve Income Fund (includes PPE/Tech Fund)	11,740,311	7,326,735	19,067,046	10,786,696	6,971,938	17,758,634
Strategic Reserve Fund	5,713,418	-	5,713,418	5,210,833	-	5,210,833
Excellence in Dermatology Endowment Fund	13,846,031	-	13,846,027	11,746,459	-	11,746,459
Camp Discovery Endowment Fund	7,523,403	-	7,523,403	6,626,410	-	6,626,410
Disaster Fund	34,845	-	34,845	34,555	-	34,555
Total	<u>\$ 41,998,832</u>	<u>\$ 8,439,261</u>	<u>\$ 50,438,093</u>	<u>\$ 38,362,941</u>	<u>\$ 7,297,526</u>	<u>\$ 45,660,467</u>

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

Notes to Combined Financial Statements

December 31, 2019 and 2018

Note 7 - Net Assets (Continued)

Net assets with donor restrictions as of December 31, 2019 and 2018 are available for the following purposes:

	2019			2018		
	AAD	AADA	Total	AAD	AADA	Total
Subject to expenditures for a specified purpose:						
SKINnovations	\$ 201,864	\$ -	\$ 201,864	\$ 190,868	\$ -	\$ 190,868
Everett C. Fox Fund	990,417	-	990,417	893,687	-	893,687
Lila Gruber Endowment Fund - Unappropriated earnings	60,751	-	60,751	31,644	-	31,644
Awards for Young Investigators Endowment Fund - Unappropriated earnings*	45,752	-	45,752	17,025	-	17,025
World Congress of Dermatology Endowment Fund - Unappropriated earnings	305,825	-	305,825	197,045	-	197,045
Program for Innovative Continuing Medical Education in Dermatology Endowment Fund - Unappropriated earnings	489,210	-	489,210	347,411	-	347,411
Camp Discovery Fund	-	-	-	55,331	-	55,331
Lebwohl Camp Scholarship Fund	626,924	-	626,924	549,616	-	549,616
Phillip Frost Award	-	-	-	90,000	-	90,000
Annual Meeting*	60,926	-	60,926	2,966,750	-	2,966,750
Innovation Academy*	102,000	-	102,000	-	-	-
Summer Academy Meeting*	-	-	-	101,250	-	101,250
Access Derm*	289,761	-	289,761	310,273	-	310,273
Career Launch*	-	55,000	55,000	-	-	-
Children's Programs	60,802	-	60,802	-	-	-
Clarence Livingood Award	10,000	-	10,000	10,000	-	10,000
D.E.R.M. Program*	-	-	-	400,000	-	400,000
DataDerm Audit	-	-	-	350,000	-	350,000
Derm Pamphlets*	57,500	-	57,500	55,000	-	55,000
Directions in Residency*	40,000	-	40,000	-	-	-
Diversity Programs*	-	55,000	55,000	-	-	-
Eczema Resource Center*	41,666	-	41,666	-	-	-
International Programs*	27,500	-	27,500	-	-	-
Dermatological Patient Care	-	-	-	188,480	-	188,480
Improving Quality of Life for Patients	-	-	-	199,716	-	199,716
Leadership Programs*	50,000	-	50,000	56,500	-	56,500
Phillip Frost Award	90,000	-	90,000	-	-	-
Practice Management Center	-	200,000	200,000	-	242,879	242,879
Quality Innovation Center	-	-	-	50,000	-	50,000
Psoriasis Resource Center	-	-	-	29,170	-	29,170
Scalp & Hair Related						
Research/Issues	1,459,000	-	1,459,000	-	-	-
Skin Care Disease Outreach*	143,251	-	143,251	79,201	-	79,201
SPOT ME (Melanoma Exposed)	334,031	-	334,031	476,586	-	476,586
Resident Access to Educ						
Contributions*	173,963	-	173,963	3,771	-	3,771
Take a Hike*	307,719	-	307,719	119,271	-	119,271
Education/Research AYI						
Contributions	1,000	-	1,000	1,000	-	1,000
Shade Structure Contributions*	419,703	-	419,703	267,440	-	267,440
SPOT Contributions*	-	-	-	67,904	-	67,904
Area of Greatest Need Contributions*	421,507	-	421,507	378,132	-	378,132
Total purpose restricted	<u>\$ 6,811,072</u>	<u>\$ 310,000</u>	<u>\$ 7,121,072</u>	<u>\$ 8,483,071</u>	<u>\$ 242,879</u>	<u>\$ 8,725,950</u>

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

Notes to Combined Financial Statements

December 31, 2019 and 2018

Note 7 - Net Assets (Continued)

	2019			2018		
	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	\$ 9,154,188	\$ 310,000	\$ 9,464,188	\$ 10,826,187	\$ 242,879	\$ 11,069,066

*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 8 - 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. The monthly rent expense under the lease is \$60,173 and \$58,850 for the years ended December 31, 2019 and 2018, respectively.

Rosemont, Illinois

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 May 2029. The first rent payment was due on February 1, 2019 in the amount of \$62,189. The monthly rent expense under the lease is \$63,899 for the year ended December 31, 2019.

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

- Rent abatement of 10 months (April 2018-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 \$2,528,999. The Academy 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 leases various equipment under operating leases with various expiration dates until 2022.

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

Notes to Combined Financial Statements

December 31, 2019 and 2018

Note 8 - Operating Leases (Continued)

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

Years Ending December 31	Offices	Equipment	Total
2020	\$ 1,444,502	\$ 130,707	\$ 1,575,209
2021	804,121	107,012	911,133
2022	826,234	19,882	846,116
2023	848,955	-	848,955
2024	872,302	-	872,302
Thereafter	4,148,112	-	4,148,112
Total	<u>\$ 8,944,226</u>	<u>\$ 257,601</u>	<u>\$ 9,201,827</u>

Total rent expense under all operating leases was \$1,540,942 and \$913,585 for the years ended December 31, 2019 and 2018, respectively.

Note 9 - 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 \$897,197 and \$826,403 for the years ended December 31, 2019 and 2018, 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 \$954,524 and \$965,500 for the years ended December 31, 2019 and 2018, 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.

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, 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 \$0 and \$22,064 for the years ended December 31, 2019 and 2018, respectively, 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.

Effective April 5, 2019, the executive director resigned from the Academy and has, under the terms of the 457(f) plan, forfeited her accrued balance of approximately \$39,000 as of that date.

Notes to Combined Financial Statements

December 31, 2019 and 2018

Note 10 - Donor-restricted and Board-designated Endowments

The Academy's endowment includes both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The 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, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 21,793,392	\$ -	\$ 21,793,392
Donor-restricted endowment funds:			
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	-	883,537	883,537
Total	<u>\$ 21,793,392</u>	<u>\$ 3,226,653</u>	<u>\$ 25,020,045</u>

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

Notes to Combined Financial Statements

December 31, 2019 and 2018

Note 10 - Donor-restricted and Board-designated Endowments (Continued)

	Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	\$ 18,740,265	\$ 2,936,239	\$ 21,676,504
Investment return:			
Investment income	554,891	84,902	639,793
Net appreciation (realized and unrealized)	2,673,045	348,914	3,021,959
Total investment return	3,227,936	433,816	3,661,752
Contributions	-	26,255	26,255
Appropriation of endowment assets for expenditure	(176,059)	(169,657)	(345,716)
Other changes - Transfers to create board-designated endowment funds	1,250	-	1,250
Endowment net assets - End of year	<u>\$ 21,793,392</u>	<u>\$ 3,226,653</u>	<u>\$ 25,020,045</u>

	Endowment Net Asset Composition by Type of Fund as of December 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 18,740,265	\$ -	\$ 18,740,265
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	-	593,123	593,123
Total	<u>\$ 18,740,265</u>	<u>\$ 2,936,239</u>	<u>\$ 21,676,504</u>

	Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	\$ 19,866,345	\$ 3,184,667	\$ 23,051,012
Investment return:			
Investment income	512,778	85,032	597,810
Net depreciation (realized and unrealized)	(1,634,858)	(274,200)	(1,909,058)
Total investment return	(1,122,080)	(189,168)	(1,311,248)
Contributions	-	33,009	33,009
Appropriation of endowment assets for expenditure	(5,000)	(92,269)	(97,269)
Other changes - Transfers to create board-designated endowment funds	1,000	-	1,000
Endowment net assets - End of year	<u>\$ 18,740,265</u>	<u>\$ 2,936,239</u>	<u>\$ 21,676,504</u>

Underwater Endowment Funds

As of December 31, 2019 and 2018, there were no funds with deficiencies.

Notes to Combined Financial Statements

December 31, 2019 and 2018

Note 10 - 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 11 - 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 will expire on December 31, 2022.

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

Notes to Combined Financial Statements

December 31, 2019 and 2018

Note 12 - Liquidity and Availability of Resources

The following reflects the Academy's financial assets as of December 31, 2019 and 2018, 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:

	2019	2018
Cash and investments	\$ 79,186,842	\$ 74,624,790
Accounts and interest receivable	4,719,987	5,132,946
	<u>83,906,829</u>	<u>79,757,736</u>
Financial assets - At year end		
Less those unavailable for general expenditures within one year due to - Contractual or donor-imposed restrictions:		
Restricted by donor-imposed restrictions	7,121,073	8,725,950
Restricted in perpetuity	2,343,116	2,343,116
Board-designated endowment funds	21,793,392	18,740,265
Board-designated reserve funds	21,027,885	21,025,881
Rosemont facility loan	3,681,818	4,090,909
	<u>56,067,179</u>	<u>54,925,121</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 27,939,545</u>	<u>\$ 24,831,615</u>

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.

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, 2019 and 2018 and have issued our report thereon dated June 30, 2020, which contained an unmodified opinion on those combined financial statements. Our audits were performed for the purpose of forming an opinion on the 2019 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 2019 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 30, 2020

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

Combining Statement of Financial Position

December 31, 2019

	AAD	AADA	Eliminating Entries	Total
Assets				
Cash	\$ 4,447,624	\$ 1,005,509	\$ -	\$ 5,453,133
Investments	61,418,861	12,314,848	-	73,733,709
Receivables - Net of allowances:				
Trade receivables	2,668,608	253,326	-	2,921,934
Pledges receivable	1,638,213	55,000	-	1,693,213
Due from related organizations	6,072,746	4,935,624	(11,008,370)	-
Inventory - Net	219,031	-	-	219,031
Prepaid expenses and other assets	1,985,798	319,437	-	2,305,235
Property and equipment - Net	6,318,782	54,402	-	6,373,184
Total assets	\$ 84,769,663	\$ 18,938,146	\$ (11,008,370)	\$ 92,699,439
Liabilities and Net Assets				
Liabilities				
Accounts payable and other	\$ 1,253,538	\$ 94,299	\$ -	\$ 1,347,837
Accrued retirement costs	959,602	-	-	959,602
Accrued salaries	1,360,351	-	-	1,360,351
Accrued vacation leave	638,787	-	-	638,787
Deferred revenue - Annual national meeting	11,142,872	-	-	11,142,872
Deferred revenue - Subscriptions and other	2,782,835	17,754	-	2,800,589
Deferred revenue - Membership dues	-	7,675,170	-	7,675,170
Due to related organizations	8,789,311	2,219,059	(11,008,370)	-
Deferred rent	3,007,529	182,603	-	3,190,132
Loan commitment	3,681,818	-	-	3,681,818
Total liabilities	33,616,643	10,188,885	(11,008,370)	32,797,158
Net Assets				
Without donor restrictions	41,998,832	8,439,261	-	50,438,093
With donor restrictions	9,154,188	310,000	-	9,464,188
Total net assets	51,153,020	8,749,261	-	59,902,281
Total liabilities and net assets	\$ 84,769,663	\$ 18,938,146	\$ (11,008,370)	\$ 92,699,439

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

Combining Statement of Financial Position

December 31, 2018

	AAD	AADA	Eliminating Entries	Total
Assets				
Cash	\$ 4,836,482	\$ 756,325	\$ -	\$ 5,592,807
Investments	56,892,145	12,139,838	-	69,031,983
Receivables - Net of allowances:				
Trade receivables	2,873,609	270,805	-	3,144,414
Pledges receivable	2,011,715	-	-	2,011,715
Due from related organizations	7,945,631	4,169,986	(12,115,617)	-
Inventory - Net	163,212	-	-	163,212
Prepaid expenses and other assets	1,862,820	368,954	-	2,231,774
Property and equipment - Net	7,240,443	154,097	-	7,394,540
	\$ 83,826,057	\$ 17,860,005	\$ (12,115,617)	\$ 89,570,445
Liabilities and Net Assets				
Liabilities				
Accounts payable and other	\$ 1,446,024	\$ 62,115	\$ -	\$ 1,508,139
Accrued retirement costs	963,253	-	-	963,253
Accrued salaries	1,386,070	-	-	1,386,070
Accrued vacation leave	637,010	-	-	637,010
Deferred revenue - Annual national meeting	11,487,162	-	-	11,487,162
Deferred revenue - Subscriptions and other	1,848,055	23,025	-	1,871,080
Deferred revenue - Membership dues	-	7,332,321	-	7,332,321
Due to related organizations	9,580,735	2,534,882	(12,115,617)	-
Deferred rent	3,197,711	367,257	-	3,564,968
Loan commitment	4,090,909	-	-	4,090,909
	34,636,929	10,319,600	(12,115,617)	32,840,912
Net Assets				
Without donor restrictions	38,362,941	7,297,526	-	45,660,467
With donor restrictions	10,826,187	242,879	-	11,069,066
	\$ 83,826,057	\$ 17,860,005	\$ (12,115,617)	\$ 89,570,445

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

Combining Statement of Activities

Year Ended December 31, 2019

	AAD	AADA	Eliminating Entries	Total
Changes in Net Assets without Donor Restrictions				
Revenue, gains, and other support:				
Membership dues	\$ -	\$ 11,016,610	\$ -	\$ 11,016,610
Meetings	20,615,210	80,142	-	20,695,352
JAAD and other royalties	6,688,307	986,093	-	7,674,400
Educational product sales	2,662,162	375,040	-	3,037,202
Other	155,872	129,499	-	285,371
Grants and contributions	525,123	57,643	-	582,766
Investment income	6,543,219	1,501,890	-	8,045,109
Net assets released from restrictions	6,497,765	361,381	-	6,859,146
Total revenue, gains, and other support	43,687,658	14,508,298	-	58,195,956
Expenses:				
Program services:				
Educational	16,777,120	2,682,533	-	19,459,653
Communications	4,027,792	1,162,746	-	5,190,538
Government affairs and research	5,614,551	5,156,857	-	10,771,408
Constituent relations	1,573,268	392,957	-	1,966,225
Member services and administration	10,621,635	3,888,921	-	14,510,556
Fundraising	1,437,403	82,547	-	1,519,950
Total expenses	40,051,769	13,366,561	-	53,418,330
Increase in Net Assets without Donor Restrictions	3,635,889	1,141,737	-	4,777,626
Changes in Net Assets with Donor Restrictions				
Grants and contributions	4,162,918	428,500	-	4,591,418
Investment income	662,850	-	-	662,850
Net assets released from restrictions	(6,497,765)	(361,381)	-	(6,859,146)
(Decrease) Increase in Net Assets with Donor Restrictions	(1,671,997)	67,119	-	(1,604,878)
Increase in Net Assets	\$ 1,963,892	\$ 1,208,856	\$ -	\$ 3,172,748

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

Combining Statement of Activities

Year Ended December 31, 2018

	AAD	AADA	Eliminating Entries	Total
Changes in Net Assets without Donor Restrictions				
Revenue, gains, and other support:				
Membership dues	\$ -	\$ 10,678,195	\$ -	\$ 10,678,195
Meetings	20,425,876	92,718	-	20,518,594
JAAD and other royalties	6,194,452	1,112,389	-	7,306,841
Educational product sales	2,490,896	442,746	-	2,933,642
Other	123,978	115,859	-	239,837
Grants and contributions	617,266	47,964	-	665,230
Investment loss	(1,541,756)	(541,080)	-	(2,082,836)
Net assets released from restrictions	6,149,966	157,119	-	6,307,085
Total revenue, gains, and other support	34,460,678	12,105,910	-	46,566,588
Expenses:				
Program services:				
Educational	16,196,247	1,162,778	-	17,359,025
Communications	3,489,389	1,064,214	-	4,553,603
Government affairs and research	3,719,316	6,055,744	-	9,775,060
Constituent relations	1,559,658	475,952	-	2,035,610
Member services and administration	9,664,269	4,640,504	-	14,304,773
Fundraising	1,320,806	74,991	-	1,395,797
Total expenses	35,949,685	13,474,183	-	49,423,868
Decrease in Net Assets without Donor Restrictions	(1,489,007)	(1,368,273)	-	(2,857,280)
Changes in Net Assets with Donor Restrictions				
Grants and contributions	6,657,312	150,000	-	6,807,312
Investment loss	(271,976)	-	-	(271,976)
Net assets released from restrictions	(6,149,966)	(157,119)	-	(6,307,085)
Increase (Decrease) in Net Assets with Donor Restrictions	235,370	(7,119)	-	228,251
Decrease in Net Assets	\$ (1,253,637)	\$ (1,375,392)	\$ -	\$ (2,629,029)