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

**Combined Financial Report
with Additional Information
December 31, 2021**

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.

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, 2021 and 2020 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, 2021 and 2020 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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.

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.

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.

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

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 & Moran, PLLC

June 1, 2022

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

Combined Statement of Financial Position

		December 31, 2021 and 2020	
		<u>2021</u>	<u>2020</u>
Assets			
Cash		\$ 5,332,366	\$ 4,109,344
Investments (Note 3)		65,067,055	57,978,667
Receivables - Net of allowances:			
Trade receivables		5,266,598	476,018
Pledges receivable		3,123,996	589,238
Insurance proceeds receivable		13,503,220	16,519,076
Inventory - Net		123,447	118,067
Prepaid expenses and other assets		2,843,396	2,252,347
Property and equipment - Net (Note 5)		6,002,345	7,212,491
		<u>6,002,345</u>	<u>7,212,491</u>
Total assets		<u>\$ 101,262,423</u>	<u>\$ 89,255,248</u>
Liabilities and Net Assets			
Liabilities			
Accounts payable and other		\$ 2,163,072	\$ 1,466,012
Accrued retirement costs		1,159,808	1,028,927
Accrued salaries		1,449,217	1,593,896
Accrued vacation leave		732,419	720,720
Deferred revenue - Annual national meeting		9,499,329	2,223,731
Deferred revenue - Subscriptions and other		761,342	1,504,955
Deferred revenue - Membership dues		7,256,012	7,436,988
Deferred rent		4,867,182	4,434,990
Line of credit		-	2,000,000
Loan commitment (Note 6)		2,863,636	3,272,727
		<u>2,863,636</u>	<u>3,272,727</u>
Total liabilities		30,752,017	25,682,946
Net Assets (Note 7)			
Without donor restrictions		56,990,341	53,341,454
With donor restrictions		13,520,065	10,230,848
		<u>13,520,065</u>	<u>10,230,848</u>
Total net assets		<u>70,510,406</u>	<u>63,572,302</u>
Total liabilities and net assets		<u>\$ 101,262,423</u>	<u>\$ 89,255,248</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, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support						
Membership dues	\$ 11,267,852	\$ -	\$ 11,267,852	\$ 11,227,033	\$ -	\$ 11,227,033
Meetings	6,767,530	-	6,767,530	1,745,949	-	1,745,949
JAAD and other royalties	7,068,479	-	7,068,479	6,067,742	-	6,067,742
Educational product sales	2,402,551	-	2,402,551	2,431,091	-	2,431,091
Other	406,588	-	406,588	291,381	-	291,381
Meeting cancellation insurance proceeds	14,417,226	-	14,417,226	16,519,076	-	16,519,076
Grants and contributions	561,012	6,513,864	7,074,876	427,831	3,753,613	4,181,444
Investment income	4,400,983	366,918	4,767,901	5,701,777	492,533	6,194,310
Net assets released from restrictions	3,591,565	(3,591,565)	-	3,479,486	(3,479,486)	-
Total revenue, gains, and other support	50,883,786	3,289,217	54,173,003	47,891,366	766,660	48,658,026
Expenses						
Program services:						
Educational	13,498,875	-	13,498,875	12,874,242	-	12,874,242
Communications	4,834,417	-	4,834,417	4,824,184	-	4,824,184
Government affairs and research	9,709,143	-	9,709,143	9,524,980	-	9,524,980
Strategy Analytics & Alliances	2,153,501	-	2,153,501	1,262,900	-	1,262,900
Total program services	30,195,936	-	30,195,936	28,486,306	-	28,486,306
Member services and administration	15,678,036	-	15,678,036	15,099,135	-	15,099,135
Fundraising	1,360,927	-	1,360,927	1,402,564	-	1,402,564
Total expenses	47,234,899	-	47,234,899	44,988,005	-	44,988,005
Increase in Net Assets	3,648,887	3,289,217	6,938,104	2,903,361	766,660	3,670,021
Net Assets - Beginning of year	53,341,454	10,230,848	63,572,302	50,438,093	9,464,188	59,902,281
Net Assets - End of year	<u>\$ 56,990,341</u>	<u>\$ 13,520,065</u>	<u>\$ 70,510,406</u>	<u>\$ 53,341,454</u>	<u>\$ 10,230,848</u>	<u>\$ 63,572,302</u>

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	\$ 13,498,875	\$ 4,834,417	\$ 9,709,143	\$ 2,153,501	\$ 30,195,936	\$ 15,678,036	\$ 1,360,927	\$ 47,234,899

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

Combined Statement of Functional Expenses

Year Ended December 31, 2020

	Program Services					Support Services		
	Educational	Communications	Government Affairs and Research	Strategy Analytics & Alliances	Total	Member Services and Administration	Fundraising	Total
Grants and other assistance	\$ 20,070	\$ -	\$ 97,448	\$ 61,884	\$ 179,402	\$ 406,421	\$ -	\$ 585,823
Salaries and wages	6,304,279	2,425,848	4,745,226	633,888	14,109,241	7,924,179	665,163	22,698,583
Employee benefits	1,788,456	666,077	1,213,654	170,707	3,838,894	2,063,795	165,480	6,068,169
Professional services	973,499	810,087	713,562	158,705	2,655,853	229,554	33,892	2,919,299
Legal fees	35,355	1,075	16,921	-	53,351	348,572	-	401,923
Accounting fees	-	-	-	-	-	102,550	-	102,550
Advertising and promotion	-	-	-	-	-	726,576	-	726,576
Office expenses	329,039	308,720	91,723	21,787	751,269	419,360	52,559	1,223,188
Information technology	557,956	203,639	1,519,331	53,207	2,334,133	647,544	63,514	3,045,191
Occupancy	643,188	224,618	407,794	61,335	1,336,935	663,762	71,488	2,072,185
Travel	124,872	15,530	97,170	29,874	267,446	67,490	7,685	342,621
Conferences, conventions, and meetings	1,235,012	-	63,747	6,548	1,305,307	52,103	144,477	1,501,887
Interest	34,957	12,208	22,164	3,334	72,663	67,952	3,886	144,501
Insurance	64,742	-	40,935	-	105,677	249,812	3,446	358,935
Training and development	46,473	8,805	172,955	59	228,292	626,012	-	854,304
Depreciation and amortization	409,136	142,882	259,401	39,016	850,435	422,185	45,474	1,318,094
Bad debt expense	-	-	-	-	-	15,929	-	15,929
UBIT expense	76,060	-	-	-	76,060	(2,367)	-	73,693
Other	17,834	4,695	62,949	22,556	108,034	62,005	145,500	315,539
Cost of goods sold	213,314	-	-	-	213,314	5,701	-	219,015
Total functional expenses	\$ 12,874,242	\$ 4,824,184	\$ 9,524,980	\$ 1,262,900	\$ 28,486,306	\$ 15,099,135	\$ 1,402,564	\$ 44,988,005

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

Combined Statement of Cash Flows

Years Ended December 31, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Increase in net assets	\$ 6,938,104	\$ 3,670,021
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation and amortization	1,359,503	1,318,094
Gain on disposal of property and equipment	(69)	(55)
Net realized and unrealized gain on investments	(3,686,023)	(4,995,895)
Changes in operating assets and liabilities that (used) provided cash:		
Trade receivables	(4,790,580)	2,445,916
Insurance proceeds receivable	3,015,856	(16,519,076)
Inventories	(5,380)	100,964
Pledges receivable	(2,534,758)	1,103,975
Prepaid expenses and other assets	(591,049)	52,888
Accounts payable and other	697,060	118,175
Accrued liabilities	430,093	1,629,661
Deferred revenue	6,351,009	(10,452,957)
Net cash provided by (used in) operating activities	7,183,766	(21,528,289)
Cash Flows from Investing Activities		
Purchases of property and equipment	(149,598)	(2,157,997)
Proceeds from disposition of property and equipment	310	651
Purchases of investments	(23,725,034)	(5,941,771)
Proceeds from sales and maturities of investments	20,322,669	26,692,708
Net cash (used in) provided by investing activities	(3,551,653)	18,593,591
Cash Flows from Financing Activities		
Payments on loan commitment	(409,091)	(409,091)
(Payments on) proceeds from line of credit	(2,000,000)	2,000,000
Net cash (used in) provided by financing activities	(2,409,091)	1,590,909
Net Increase (Decrease) in Cash	1,223,022	(1,343,789)
Cash - Beginning of year	4,109,344	5,453,133
Cash - End of year	\$ 5,332,366	\$ 4,109,344
Supplemental Cash Flow Information - Cash paid for interest	\$ 100,383	\$ 113,067

Notes to Combined Financial Statements

December 31, 2021 and 2020

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 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, 2021 and 2020, 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. 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, 2021 and 2020

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 practice management materials. Inventory is stated net of an allowance for obsolete inventory of \$57,193 and \$89,651 as of December 31, 2021 and 2020, 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, 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.

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, 2021 and 2020

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 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 \$17,516,683 and \$11,165,674 as of December 31, 2021 and 2020, respectively. Total contract liabilities as of January 1, 2020 were \$21,618,631.

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, 2021 and 2020, the Academy is eligible to receive and recognize approximately \$1,966,500 and \$165,000, respectively, of these conditional contributions upon the occurrence of meeting future barriers.

Total receivables related to exchange revenue were \$5,266,598 and \$476,018 as of December 31, 2021 and 2020, respectively. Total receivables related to exchange revenue were \$2,921,934 as of January 1, 2020.

Notes to Combined Financial Statements

December 31, 2021 and 2020

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.

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 2020 amounts have been reclassified to conform to the 2021 presentation relating to the constituent relations, member services and administration, and fundraising expenses in the statement of functional expenses.

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 financial position. The reporting of lease-related expenses in the statements of activities 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, 2022 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.

Notes to Combined Financial Statements

December 31, 2021 and 2020

Note 2 - Significant Accounting Policies (Continued)

Subsequent Events

The combined financial statements and related disclosures include evaluation of events up through and including June 1, 2022, which is the date the combined financial statements were available to be issued.

Note 3 - Investments

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

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
AAD:				
Without donor restrictions:				
Money market funds	\$ 3,490,251	\$ 3,490,251	\$ 1,263,495	\$ 1,263,495
Corporate stock	761,562	1,059,020	711,115	876,998
Corporate bonds	1,461,557	1,461,730	1,528,756	1,583,000
International bonds	-	-	41,465	41,348
Mutual funds	32,134,640	39,688,118	31,668,902	38,149,491
Government and agency bonds	603,018	628,205	473,880	522,176
Mortgage- and asset-backed bonds	471,898	477,961	475,925	497,081
Total	38,922,926	46,805,285	36,163,538	42,933,589
With donor restrictions:				
Money market funds	745,513	745,513	222,858	222,858
Corporate bonds	138,787	136,646	138,352	138,744
Mutual funds	4,552,442	4,997,448	4,209,591	4,820,529
Government and agency bonds	19,827	19,840	31,318	31,936
Mortgage- and asset-backed bonds	20,847	20,937	31,341	32,150
Total	5,477,416	5,920,384	4,633,460	5,246,217
Total - AAD	44,400,342	52,725,669	40,796,998	48,179,806
AADA - Without donor restrictions:				
Money market funds	1,239,553	1,239,553	957,196	957,196
Corporate stock	754,369	1,044,748	703,236	864,927
Corporate bonds	4,733,506	4,654,660	2,503,020	2,564,939
International bonds	-	-	36,282	36,179
Mutual funds	2,477,130	2,925,087	3,236,899	3,982,476
Government and agency bonds	1,250,474	1,273,069	454,137	499,386
Mortgage- and asset-backed bonds	1,201,279	1,204,269	862,169	893,758
Total - AADA	11,656,311	12,341,386	8,752,939	9,798,861
Total - Academy	\$ 56,056,653	\$ 65,067,055	\$ 49,549,937	\$ 57,978,667

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

Notes to Combined Financial Statements

December 31, 2021 and 2020

Note 3 - Investments (Continued)

The components of investment income relating to investments and cash for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
AAD:		
Without donor restrictions:		
Interest and dividends	\$ 877,592	\$ 990,246
Net realized and unrealized gains	3,211,363	3,881,438
Investment expense	(192,558)	(132,801)
Total	3,896,397	4,738,883
With donor restrictions:		
Interest and dividends	151,526	103,176
Net realized and unrealized gains	239,288	408,840
Investment expense	(23,896)	(19,483)
Total	366,918	492,533
Total - AAD	4,263,315	5,231,416
AADA - Without donor restrictions:		
Interest and dividends	327,719	305,492
Net realized and unrealized gains	235,372	705,617
Investment expense	(58,505)	(48,215)
Total - AADA	504,586	962,894
Total - Academy	\$ 4,767,901	\$ 6,194,310

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, 2021 and 2020 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. 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, 2021 and 2020

Note 4 - Fair Value Measurements (Continued)

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.

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)	Total
AAD				
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

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

Notes to Combined Financial Statements

December 31, 2021 and 2020

Note 4 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at December 31, 2020				
	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	\$ 2,712,063	\$ -	\$ -	\$ 2,712,063
Intermediate term	14,647,479	-	-	14,647,479
International	413,669	-	-	413,669
Equity - Mutual funds:				
Small cap	2,674,514	-	-	2,674,514
Mid cap	2,429,035	-	-	2,429,035
Large cap	12,193,916	-	-	12,193,916
International	8,776,342	-	-	8,776,342
International bonds -				
Short-term bond funds	41,348	-	-	41,348
Corporate bonds:				
Short term	-	215,854	-	215,854
Intermediate term	-	1,307,383	-	1,307,383
Long term	-	198,507	-	198,507
Government and agency bonds:				
Short term	-	152,072	-	152,072
Intermediate term	-	176,078	-	176,078
Long term	-	225,962	-	225,962
Mortgage- and asset-backed bonds:				
Intermediate term	-	280,194	-	280,194
Long term	-	249,037	-	249,037
Total AAD	43,888,366	2,805,087	-	46,693,453
AADA				
Assets - Investments:				
Fixed income - Mutual funds:				
Intermediate term	222,058	-	-	222,058
International	312,886	-	-	312,886
Equity - Mutual funds:				
Small cap	388,774	-	-	388,774
Mid cap	372,889	-	-	372,889
Large cap	1,469,407	-	-	1,469,407
International	2,081,389	-	-	2,081,389
International bonds -				
Short term	36,179	-	-	36,179
Corporate bonds:				
Short term	-	630,738	-	630,738
Intermediate term	-	1,670,433	-	1,670,433
Long term	-	263,768	-	263,768
Government and agency bonds:				
Short term	-	149,018	-	149,018
Intermediate term	-	145,551	-	145,551
Long term	-	204,817	-	204,817
Mortgage- and asset-backed bonds:				
Intermediate term	-	587,193	-	587,193
Long term	-	306,565	-	306,565
Total AADA	4,883,582	3,958,083	-	8,841,665
Total assets	\$ 48,771,948	\$ 6,763,170	\$ -	\$ 55,535,118

Not included in the above tables is \$4,235,764 and \$1,486,353 in money market accounts as of December 31, 2021 and 2020, respectively, for AAD and \$1,239,553 and \$957,196 in money market accounts as of December 31, 2021 and 2020, respectively, for AADA.

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.

Notes to Combined Financial Statements

December 31, 2021 and 2020

Note 4 - Fair Value Measurements (Continued)

Level 2 Inputs

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

Note 5 - Property and Equipment

Property and equipment are summarized as follows at December 31, 2021 and 2020:

	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>	

	AAD	AADA	Combined Total	Depreciable Life - Years
Leasehold improvements	\$ 5,444,319	\$ 1,553,343	\$ 6,997,662	10
Data processing equipment and system development costs	2,545,995	271,358	2,817,353	3-8
Furniture and equipment	1,750,941	154,247	1,905,188	5-10
Total cost	9,741,255	1,978,948	11,720,703	
Less accumulated depreciation	(4,429,737)	(77,975)	(4,507,712)	
Net property and equipment	<u>\$ 5,311,518</u>	<u>\$ 1,900,973</u>	<u>\$ 7,212,491</u>	

Depreciation and amortization expense for 2021 and 2020 was \$1,359,503 and \$1,318,094, respectively.

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

Notes to Combined Financial Statements

December 31, 2021 and 2020

Note 6 - Loan Commitment

Long-term debt at December 31, 2021 is \$2,863,636 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 Academy has the option to select the prime rate or the London Interbank Offered Rate (LIBOR) plus 1.25 percent. There were borrowings of \$0 and \$2,000,000 on this line of credit at December 31, 2021 or 2020, respectively.

The balance of the term loan matures as follows:

Years Ending	Amount
2022	\$ 409,091
2023	409,091
2024	409,091
2025	409,091
2026	409,091
Thereafter	818,181
Total	<u>\$ 2,863,636</u>

Interest expense for 2021 and 2020 was \$99,276 and \$112,621, respectively.

Note 7 - Net Assets

Net assets without donor restrictions consist of the following as of December 31, 2021 and 2020:

	2021			2020		
	AAD	AADA	Total	AAD	AADA	Total
General Operating Fund	\$ 1,963,969	\$ 1,764,804	\$ 3,728,773	\$ 1,405,556	\$ 2,190,991	\$ 3,596,547
Area of Greatest Need	794,574	-	794,574	388,622	-	388,622
Sulzberger Endowment Fund	482,925	-	482,925	450,020	-	450,020
Reserve Income Fund (includes PPE/Tech Fund)	10,753,190	8,433,632	19,186,822	11,242,006	8,022,132	19,264,138
Strategic Reserve Fund	6,676,511	-	6,676,511	5,825,484	-	5,825,484
Excellence in Dermatology Endowment Fund	17,042,877	-	17,042,877	15,399,380	-	15,399,380
Camp Discovery Endowment Fund	9,042,909	-	9,042,909	8,382,309	-	8,382,309
Disaster Fund	34,950	-	34,950	34,954	-	34,954
Total	<u>\$ 46,791,905</u>	<u>\$ 10,198,436</u>	<u>\$ 56,990,341</u>	<u>\$ 43,128,331</u>	<u>\$ 10,213,123</u>	<u>\$ 53,341,454</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, 2021 and 2020

Note 7 - Net Assets (Continued)

Net assets with donor restrictions as of December 31, 2021 and 2020 are available for the following purposes:

	2021			2020		
	AAD	AADA	Total	AAD	AADA	Total
Subject to expenditures for a specified purpose:						
SKINnovations	\$ 185,971	\$ -	\$ 185,971	\$ 186,351	\$ -	\$ 186,351
Everett C. Fox Fund	1,121,517	-	1,121,517	1,086,333	-	1,086,333
Lila Gruber Endowment Fund - Unappropriated earnings	116,058	-	116,058	102,938	-	102,938
Awards for Young Investigators Endowment Fund - Unappropriated earnings*	53,425	-	53,425	43,857	-	43,857
World Congress of Dermatology Endowment Fund - Unappropriated earnings	573,774	-	573,774	467,984	-	467,984
Awards for Young Investigators - MTR	1,000	-	1,000	-	-	-
Program for Innovative Continuing Medical Education in Dermatology Endowment Fund - Unappropriated earnings	595,454	-	595,454	596,652	-	596,652
World Congress of Dermatology MTR	-	-	-	1,000	-	1,000
Camp Discovery Fund	73,529	-	73,529	49,663	-	49,663
Lebwohl Camp Scholarship Fund	752,499	-	752,499	697,017	-	697,017
Phillip Frost Award	-	-	-	90,000	-	90,000
Annual meeting*	125,177	-	125,177	124,176	-	124,176
Innovation Academy*	-	-	-	20,000	-	20,000
Access Derm*	173,056	-	173,056	243,400	-	243,400
Web Support/AAD.org	317,504	-	317,504	204,375	-	204,375
Children's programs	191,226	-	191,226	117,577	-	117,577
Clarence Livingood Award	15,000	-	15,000	15,000	-	15,000
Derm pamphlets*	60,000	-	60,000	65,000	-	65,000
Derm World	3,750	-	3,750	-	-	-
Diversity programs*	2,060,532	1,705,007	3,765,539	-	748,500	748,500
2021 International Foundation of Dermatology	500	-	500	-	-	-
Phillip Frost Award	45,000	-	45,000	-	-	-
Practice Management Center	-	180,000	180,000	-	150,000	150,000
Scalp- and hair-related research/issues	1,459,000	-	1,459,000	1,459,000	-	1,459,000
Skin Cancer Disease Outreach*	12,360	-	12,360	12,534	-	12,534
Good Skin Program	17,803	-	17,803	21,250	-	21,250
Skin Develop and Native Health programs	14,000	-	14,000	27,500	-	27,500
SPOT ME (Melanoma Exposed)	231,253	-	231,253	255,742	-	255,742
Spot Initiative contributions	211,923	-	211,923	183,857	-	183,857
Resident Access to Educ contributions*	-	-	-	60,865	-	60,865
Take a Hike*	-	-	-	31,000	-	31,000
Education/Research AYI contributions	425	-	425	8,400	-	8,400
Shade Structure contributions*	112,934	-	112,934	309,686	-	309,686
Shade Structure Adopt A Shade grants/contributions	96,221	-	96,221	78,075	-	78,075
Resident Access to Educ Contributions	62,418	-	62,418	-	-	-
Area of Greatest Need contributions*	608,633	-	608,633	430,000	-	430,000
Total	9,291,942	1,885,007	11,176,949	6,989,232	898,500	7,887,732

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

Notes to Combined Financial Statements

December 31, 2021 and 2020

Note 7 - Net Assets (Continued)

	2021			2020		
	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	\$ 11,635,058	\$ 1,885,007	\$ 13,520,065	\$ 9,332,348	\$ 898,500	\$ 10,230,848

*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 November 2020, the Washington, D.C. office relocated its offices from 1445 New York Avenue NW to 1201 Pennsylvania Avenue NW in Washington D.C. The 11-year 2-month lease agreement through January 2032 was entered into with DC One Associates LP.

- As part of the DC Associates lease agreement, there are 11 months of free rent in the amount of \$697,632. Of the 11 months of free rent, 3 months of the free rent, totaling \$190,263, were allocated to the tenant allowance in the amount of \$1,363,080, or \$1,553,343 total. The Academy will recognize the 3 months free rent, rent abatement, and tenant allowance using the straight-line method over the term of the lease. The first rent payment was due in January 2022 in the amount of \$65,007 less a rent abatement of \$29,358, or \$35,649. The first full rent payment was due in February 2022 in the amount of \$65,007.

Rosemont, Illinois

In October 2017, the Academy entered into an 11-year lease located at 9500 West Bryn Mawr Avenue in Rosemont, Illinois with a lease term through May 2029. The monthly rent expense under the lease is \$67,461 and \$65,656 for the years ended December 31, 2021 and 2020, respectively.

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 2024.

Notes to Combined Financial Statements

December 31, 2021 and 2020

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
2022	\$ 1,578,581	\$ 21,866	\$ 1,600,447
2023	1,650,202	1,984	1,652,186
2024	1,693,580	827	1,694,407
2025	1,738,100	-	1,738,100
2026	1,783,793	-	1,783,793
Thereafter	7,062,936	-	7,062,936
Total	\$ 15,507,192	\$ 24,677	\$ 15,531,869

Total rent expense under all operating leases was \$913,116 and \$1,671,994 for the years ended December 31, 2021 and 2020, 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 \$927,530 and \$944,133 for the years ended December 31, 2021 and 2020, 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 \$1,112,034 and \$1,106,174 for the years ended December 31, 2021 and 2020, 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 \$7,500 and \$19,500 for the years ended December 31, 2021 and 2020, respectively, which are included in accrued retirement costs on the combined statement of financial position.

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 will receive 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 \$20,931 and \$5,500 for the years ended December 31, 2021 and 2020, 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 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, 2021 and 2020

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 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, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 26,568,711	\$ -	\$ 26,568,711
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	-	1,338,710	1,338,710
Total	<u>\$ 26,568,711</u>	<u>\$ 3,681,826</u>	<u>\$ 30,250,537</u>

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

Notes to Combined Financial Statements

December 31, 2021 and 2020

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

	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	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 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>
Endowment Net Asset Composition by Type of Fund as of December 31, 2020			
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 24,231,709	\$ -	\$ 24,231,709
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	-	1,211,430	1,211,430
Total	<u>\$ 24,231,709</u>	<u>\$ 3,554,546</u>	<u>\$ 27,786,255</u>
Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2020			
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	\$ 21,793,392	\$ 3,226,653	\$ 25,020,045
Investment return:			
Investment income	465,466	63,532	528,998
Net appreciation (realized and unrealized)	1,991,851	254,556	2,246,407
Total investment return	2,457,317	318,088	2,775,405
Contributions	-	10,154	10,154
Appropriation of endowment assets for expenditure	(20,000)	(349)	(20,349)
Other changes - Transfers to create board-designated endowment funds	1,000	-	1,000
Endowment net assets - End of year	<u>\$ 24,231,709</u>	<u>\$ 3,554,546</u>	<u>\$ 27,786,255</u>

Underwater Endowment Funds

As of December 31, 2021 and 2020, there were no funds with deficiencies.

Notes to Combined Financial Statements

December 31, 2021 and 2020

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.

Notes to Combined Financial Statements

December 31, 2021 and 2020

Note 12 - Liquidity and Availability of Resources

The following reflects the Academy's financial assets as of December 31, 2021 and 2020, 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:

	2021	2020
Cash and investments	\$ 70,399,421	\$ 62,088,011
Accounts receivable	21,893,814	17,947,017
Financial assets - At year end	92,293,235	80,035,028
Less those unavailable for general expenditures within one year due to - Contractual or donor-imposed restrictions:		
Restricted by donor-imposed restrictions	11,176,948	7,887,730
Restricted in perpetuity	2,343,116	2,343,116
Board-designated endowment funds	26,568,711	24,231,709
Board-designated reserve funds	20,594,240	22,192,371
Rosemont facility loan	2,863,636	3,272,727
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 28,746,584</u>	<u>\$ 20,107,375</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 6. 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 13 - Impact of COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and known as COVID-19, the outbreak has impacted millions of individuals worldwide. In response, many countries have implemented measures to combat the outbreak that have impacted global business operations. As a result of this pandemic, the Academy had to cancel its 2021 annual meeting, multiple conferences, and other smaller meetings, along with eliminating travel-related expenses. COVID-19 created many challenges for the Academy's members, requiring all resources to pivot to support member's needs. The loss of revenue from the meeting cancellations was partially offset by the submission and eventual agreement between the Academy and its insurance carriers of an insurance claim to recover lost revenue. The Academy held an in-person meeting in 2022 and will hold a virtual meeting later in 2022.

No impairments were recorded as of the combined statement of financial position date; however, due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future. In addition, while the Academy's results of operations, cash flows, and financial condition could be negatively impacted, the extent of the impact cannot be reasonably estimated at this time.

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, 2021 and 2020 and have issued our report thereon dated June 1, 2022, 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 1, 2022

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
Due from related organizations	21,267,067	18,634,328	(39,901,395)	-
Inventory - Net	123,447	-	-	123,447
Prepaid expenses and other assets	2,322,577	520,819	-	2,843,396
Property and equipment - Net	4,577,991	1,424,354	-	6,002,345
Total assets	\$ 106,665,839	\$ 34,497,979	\$ (39,901,395)	\$ 101,262,423
Liabilities and Net Assets				
Liabilities				
Accounts payable and other	\$ 1,986,671	\$ 176,401	\$ -	\$ 2,163,072
Accrued retirement costs	1,159,808	-	-	1,159,808
Accrued salaries	1,449,217	-	-	1,449,217
Accrued vacation leave	732,419	-	-	732,419
Deferred revenue - Annual national meeting	9,499,329	-	-	9,499,329
Deferred revenue - Subscriptions and other	745,541	15,801	-	761,342
Deferred revenue - Membership dues	-	7,256,012	-	7,256,012
Due to related organizations	27,262,395	12,639,000	(39,901,395)	-
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	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	\$ 106,665,839	\$ 34,497,979	\$ (39,901,395)	\$ 101,262,423

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

Combining Statement of Financial Position

December 31, 2020

	AAD	AADA	Eliminating Entries	Total
Assets				
Cash	\$ 3,559,276	\$ 550,068	\$ -	\$ 4,109,344
Investments	48,179,806	9,798,861	-	57,978,667
Receivables - Net of allowances:				
Trade receivables	248,054	227,964	-	476,018
Pledges receivable	214,238	375,000	-	589,238
Insurance proceeds receivable	16,519,076	-	-	16,519,076
Due from related organizations	23,736,890	22,629,407	(46,366,297)	-
Inventory - Net	118,067	-	-	118,067
Prepaid expenses and other assets	1,740,109	512,238	-	2,252,347
Property and equipment - Net	5,311,518	1,900,973	-	7,212,491
Total assets	<u>\$ 99,627,034</u>	<u>\$ 35,994,511</u>	<u>\$ (46,366,297)</u>	<u>\$ 89,255,248</u>
Liabilities and Net Assets				
Liabilities				
Accounts payable and other	\$ 1,282,198	\$ 183,814	\$ -	\$ 1,466,012
Accrued retirement costs	1,028,927	-	-	1,028,927
Accrued salaries	1,593,896	-	-	1,593,896
Accrued vacation leave	720,720	-	-	720,720
Deferred revenue - Annual national meeting	2,223,731	-	-	2,223,731
Deferred revenue - Subscriptions and other	1,466,450	38,505	-	1,504,955
Deferred revenue - Membership dues	-	7,436,988	-	7,436,988
Due to related organizations	30,971,352	15,394,945	(46,366,297)	-
Deferred rent	2,796,354	1,638,636	-	4,434,990
Line of credit	2,000,000	-	-	2,000,000
Loan commitment	3,272,727	-	-	3,272,727
Total liabilities	47,356,355	24,692,888	(46,366,297)	25,682,946
Net Assets				
Without donor restrictions	42,938,331	10,403,123	-	53,341,454
With donor restrictions	9,332,348	898,500	-	10,230,848
Total net assets	52,270,679	11,301,623	-	63,572,302
Total liabilities and net assets	<u>\$ 99,627,034</u>	<u>\$ 35,994,511</u>	<u>\$ (46,366,297)</u>	<u>\$ 89,255,248</u>

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

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

Combining Statement of Activities

Year Ended December 31, 2020

	AAD	AADA	Eliminating Entries	Total
Changes in Net Assets without Donor Restrictions				
Revenue, gains, and other support:				
Membership dues	\$ -	\$ 11,227,033	\$ -	\$ 11,227,033
Meetings	1,703,012	42,937	-	1,745,949
JAAD and other royalties	5,194,006	873,736	-	6,067,742
Educational product sales	2,011,389	419,702	-	2,431,091
Other	192,074	99,307	-	291,381
Meeting cancellation insurance proceeds	16,519,076	-	-	16,519,076
Grants and contributions	368,917	58,914	-	427,831
Investment income	4,738,883	962,894	-	5,701,777
Net assets released from restrictions	3,187,986	291,500	-	3,479,486
Total revenue, gains, and other support	33,915,343	13,976,023	-	47,891,366
Expenses:				
Program services:				
Educational	10,352,840	2,521,402	-	12,874,242
Communications	3,700,397	1,123,787	-	4,824,184
Government affairs and research	5,386,546	4,138,434	-	9,524,980
Strategy Analytics & Alliances	968,573	294,327	-	1,262,900
Member services and administration	11,047,940	4,051,195	-	15,099,135
Fundraising	1,329,548	73,016	-	1,402,564
Total expenses	32,785,844	12,202,161	-	44,988,005
Increase in Net Assets without Donor Restrictions	1,129,499	1,773,862	-	2,903,361
Changes in Net Assets with Donor Restrictions				
Grants and contributions	2,683,613	1,070,000	-	3,753,613
Investment income	492,533	-	-	492,533
Net assets released from restrictions	(3,187,986)	(291,500)	-	(3,479,486)
(Decrease) Increase in Net Assets with Donor Restrictions	(11,840)	778,500	-	766,660
Increase in Net Assets	\$ 1,117,659	\$ 2,552,362	\$ -	\$ 3,670,021