

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

**Combined Financial Report
with Additional Information
December 31, 2015**

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, 2015 and 2014 and the related combined statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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

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

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, 2015 and 2014 and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

May 25, 2016

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

Combined Statement of Financial Position

	December 31, 2015	December 31, 2014
Assets		
Cash	\$ 4,163,781	\$ 3,534,617
Investments (Note 2)	59,183,107	61,075,997
Receivables - Net	2,225,530	2,662,040
Pledges receivable	3,639,650	2,512,107
Inventory - Net	364,118	408,717
Prepaid expenses and other assets	1,654,495	1,728,049
Property and equipment - Net (Note 4)	9,875,629	9,962,491
Total assets	\$ 81,106,310	\$ 81,884,018
Liabilities and Net Assets		
Liabilities		
Accounts payable and other	\$ 1,195,915	\$ 1,193,762
Accrued salaries	1,090,816	789,861
Accrued retirement costs	656,378	606,907
Accrued vacation leave	509,491	466,023
Accrued real estate taxes	322,119	320,080
Deferred revenue - Annual national meeting	9,795,554	9,909,747
Deferred revenue - Subscriptions and other	1,517,610	1,893,037
Deferred revenue - Membership dues	6,333,621	6,247,313
Loan commitment (Note 5)	3,000,000	3,500,000
Interest rate swap (Note 6)	251,745	335,624
Total liabilities	24,673,249	25,262,354
Net Assets (Note 7)		
Unrestricted	45,201,093	47,040,023
Temporarily restricted	8,888,853	7,238,526
Permanently restricted	2,343,115	2,343,115
Total net assets	56,433,061	56,621,664
Total liabilities and net assets	\$ 81,106,310	\$ 81,884,018

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

Combined Statement of Activities and Changes in Net Assets

	Year Ended							
	December 31, 2015				December 31, 2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains, and Other Support								
Membership dues	\$ 9,391,406	\$ -	\$ -	\$ 9,391,406	\$ 9,226,731	\$ -	\$ -	\$ 9,226,731
Meetings	18,674,118	-	-	18,674,118	16,356,994	-	-	16,356,994
JAAD and other royalties	5,496,963	-	-	5,496,963	5,585,698	-	-	5,585,698
Educational product sales	3,219,913	-	-	3,219,913	3,597,479	-	-	3,597,479
Other	217,667	-	-	217,667	238,300	-	-	238,300
Grants and contributions	480,859	6,935,564	-	7,416,423	485,368	6,134,500	-	6,619,868
Investment (loss) income	(197,425)	(69,511)	-	(266,936)	2,121,763	216,737	-	2,338,500
Net assets released from restrictions	5,215,726	(5,215,726)	-	-	4,582,281	(4,582,281)	-	-
Total revenue, gains, and other support	42,499,227	1,650,327	-	44,149,554	42,194,614	1,768,956	-	43,963,570
Expenses								
Program services:								
Educational	8,404,584	-	-	8,404,584	6,874,625	-	-	6,874,625
Communications	2,261,417	-	-	2,261,417	1,723,926	-	-	1,723,926
Government affairs and research	7,095,383	-	-	7,095,383	6,348,992	-	-	6,348,992
Governance and committees	2,731,146	-	-	2,731,146	2,572,063	-	-	2,572,063
Member services and administration	23,845,627	-	-	23,845,627	22,753,574	-	-	22,753,574
Total expenses	44,338,157	-	-	44,338,157	40,273,180	-	-	40,273,180
(Decrease) Increase in Net Assets	(1,838,930)	1,650,327	-	(188,603)	1,921,434	1,768,956	-	3,690,390
Net Assets - Beginning of year	47,040,023	7,238,526	2,343,115	56,621,664	45,118,589	5,469,570	2,343,115	52,931,274
Net Assets - End of year	\$ 45,201,093	\$ 8,888,853	\$ 2,343,115	\$ 56,433,061	\$ 47,040,023	\$ 7,238,526	\$ 2,343,115	\$ 56,621,664

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

Combined Statement of Cash Flows

	Year Ended	
	December 31, 2015	December 31, 2014
Cash Flows from Operating Activities		
(Decrease) increase in net assets	\$ (188,603)	\$ 3,690,390
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation	1,054,437	1,120,869
Net realized and unrealized loss (gain) on investments	1,447,572	(984,556)
Gain on interest rate swap	(83,879)	(79,454)
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	436,510	456,723
Inventories	44,599	169,859
Pledges receivable	(1,127,543)	(1,635,782)
Prepaid expenses and other assets	73,554	(354,686)
Accounts payable	2,153	(628,892)
Accrued liabilities and other	395,933	117,568
Deferred revenue	(403,312)	912,312
Net cash provided by operating activities	1,651,421	2,784,351
Cash Flows from Investing Activities		
Purchases of property and equipment	(967,575)	(579,492)
Purchases of investments	(18,980,093)	(41,487,410)
Proceeds from sales and maturities of investments	19,425,411	39,024,772
Net cash used in investing activities	(522,257)	(3,042,130)
Cash Flows from Financing Activities - Payments on debt	(500,000)	(500,000)
Net Increase (Decrease) in Cash	629,164	(757,779)
Cash - Beginning of year	3,534,617	4,292,396
Cash - End of year	\$ 4,163,781	\$ 3,534,617
Supplemental Disclosure of Cash Flow Information -		
Cash paid for interest	\$ 126,305	\$ 146,877

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

Notes to Combined Financial Statements December 31, 2015 and 2014

Note 1 - Nature of Business and Significant Accounting Policies

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."

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 comprised of money market funds, corporate stock, corporate bonds, international bonds, mutual funds, governmental and agency bonds, mortgage and asset backed bonds, municipal bonds, and education bonds. Gains and losses are reported as increases or decreases in net assets and are reflected as changes in unrestricted and temporarily restricted net assets, as appropriate.

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

Receivables - 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 \$10,898 and \$16,174 at December 31, 2015 and 2014, respectively. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made.

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

Notes to Combined Financial Statements December 31, 2015 and 2014

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Pledges Receivable - Pledges receivable are comprised primarily of corporate grants which support Academy activities. Contributions expected to be received over more than one year are recorded by the Academy as pledges receivable at fair value as measured by the present value of future cash flows. Pledges receivable at December 31, 2015 and 2014 are expected to be collected within one year. The Academy has not recorded a provision for doubtful pledges since it is the opinion of management that those receivables are collectible in full.

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 \$126,938 and \$85,788 as of December 31, 2015 and 2014, respectively.

Property and Equipment - Property and equipment are recorded at cost and 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 repairs and maintenance are charged to expense as incurred.

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

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

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

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

Notes to Combined Financial Statements December 31, 2015 and 2014

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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

Functional Allocation of Expenses - 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. Indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount. The Academy had fundraising expenses of \$1,299,151 and \$1,063,511 for the years ended December 31, 2015 and 2014, respectively, that are included in member services and administration expenses on the combined statement of activities and changes in net assets.

Tax Status - AAD is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3). AADA is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(6). Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Academy and recognize a tax liability if the Academy has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Academy and has concluded that as of December 31, 2015 and 2014, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the combined financial statements. The Academy is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2012.

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

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

Notes to Combined Financial Statements December 31, 2015 and 2014

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Subsequent Events - The combined financial statements and related disclosures include evaluation of events up through and including May 25, 2016, which is the date the combined financial statements were issued.

Upcoming Accounting Change - In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Academy's year ending December 31, 2019. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Academy has not yet determined which application method it will use or the potential effects of the new standard on the combined financial statements, if any.

Upcoming Accounting Change - In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease footnote guidance will be effective for the Academy's year ending December 31, 2019 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The effect of applying the new lease guidance on the combined financial statements has not yet been determined.

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

Notes to Combined Financial Statements December 31, 2015 and 2014

Note 2 - Investments

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

	2015		2014	
	Cost	Market Value	Cost	Market Value
AAD				
Unrestricted:				
Money market funds	\$ 6,219,568	\$ 6,219,568	\$ 6,209,474	\$ 6,209,474
Corporate stock	954,101	910,571	1,012,856	1,071,393
Corporate bonds	397,239	392,964	632,036	626,689
International bonds	137,352	124,782	257,603	247,574
Mutual funds	31,561,922	33,003,068	31,716,530	34,311,049
Government and agency bonds	387,964	401,291	236,669	258,647
Mortgage and asset-backed bonds	313,548	314,032	353,537	358,360
Total	39,971,694	41,366,276	40,418,705	43,083,186
Temporarily restricted and permanently restricted:				
Money market funds	75,037	75,037	60,686	60,686
Corporate bonds	132,332	130,698	273,733	270,945
International bonds	90,310	88,845	176,419	171,246
Mutual funds	3,946,067	3,776,441	3,910,064	3,926,956
Government and agency bonds	30,259	29,984	-	-
Certificates of deposit	-	-	14,980	15,001
Mortgage and asset-backed bonds	89,388	88,965	102,782	103,066
Total	4,363,393	4,189,970	4,538,664	4,547,900
Total - AAD	44,335,087	45,556,246	44,957,369	47,631,086
AADA				
Unrestricted:				
Money market funds	1,778,057	1,778,057	827,694	827,694
Corporate stock	1,031,244	989,092	951,795	1,010,307
Corporate bonds	2,412,851	2,371,037	2,719,194	2,700,220
Municipal bonds	99,611	99,796	160,712	160,928
International bonds	301,964	274,843	630,827	602,644
Mutual funds	5,310,460	5,068,921	5,790,256	5,784,856
Certificates of deposit	-	-	264,587	264,981
Government and agency bonds	1,707,238	1,716,576	862,205	879,924
Mortgage and asset-backed bonds	1,261,345	1,255,649	1,206,907	1,213,357
Education bond	73,671	72,890	-	-
Total - AADA	13,976,441	13,626,861	13,414,177	13,444,911
Total - Academy	\$ 58,311,528	\$ 59,183,107	\$ 58,371,546	\$ 61,075,997

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

Notes to Combined Financial Statements December 31, 2015 and 2014

Note 2 - Investments (Continued)

The components of investment income (loss) relating to investments and cash for the years ended December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
AAD		
Unrestricted:		
Interest and dividends	\$ 892,266	\$ 1,028,624
Net realized and unrealized gains	(888,737)	717,234
Investment expense	<u>(133,800)</u>	<u>(141,169)</u>
Total	(130,271)	1,604,689
Temporarily restricted:		
Interest and dividends	105,252	132,067
Net realized and unrealized gains	(165,085)	95,705
Investment expense	<u>(9,678)</u>	<u>(11,035)</u>
Total	<u>(69,511)</u>	<u>216,737</u>
Total - AAD	(199,782)	1,821,426
AADA		
Unrestricted:		
Interest and dividends	387,337	392,583
Net realized and unrealized gains	(393,750)	171,617
Investment expense	<u>(60,741)</u>	<u>(47,126)</u>
Total - AADA	<u>(67,154)</u>	<u>517,074</u>
Total - Academy	<u>\$ (266,936)</u>	<u>\$ 2,338,500</u>

Note 3 - Fair Value Measurements

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

The following tables present information about the Academy's assets and liabilities measured at fair value on a recurring basis at December 31, 2015 and 2014 and the valuation techniques used by the Academy to determine those fair values.

In general, fair values determined by Level I inputs use quoted prices in active markets for identical assets or liabilities that the Academy has the ability to access.

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

Notes to Combined Financial Statements December 31, 2015 and 2014

Note 3 - Fair Value Measurements (Continued)

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

The Academy's derivative instrument consists solely of an interest rate swap that is not traded on an exchange and is recorded at fair value based on a variety of observable inputs, including contractual terms, interest rate curves, yield curves, credit curves, measure of volatility, and correlations of such inputs. Valuation adjustments may be made in the determination of fair value.

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

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

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

Notes to Combined Financial Statements December 31, 2015 and 2014

Note 3 - Fair Value Measurements (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2015

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2015
AAD				
Assets - Investments				
Fixed income - Mutual funds:				
Short term	\$ 8,558,900	\$ -	\$ -	\$ 8,558,900
Intermediate term	12,074,121	-	-	12,074,121
International	569,356	-	-	569,356
Equity - Mutual funds:				
Small cap	1,263,287	-	-	1,263,287
Mid cap	1,950,430	-	-	1,950,430
Large cap	7,464,660	-	-	7,464,660
International	5,809,327	-	-	5,809,327
International bonds:				
Short-term bond funds	68,109	-	-	68,109
Intermediate term	-	145,518	-	145,518
Corporate bonds:				
Short term	-	93,137	-	93,137
Intermediate term	-	430,526	-	430,526
Government and agency bonds:				
Short term	-	119,623	-	119,623
Intermediate term	-	311,653	-	311,653
Mortgage and asset-backed bonds:				
Short term	-	7,376	-	7,376
Intermediate terms	-	30,506	-	30,506
Long term	-	365,115	-	365,115
Total AAD	37,758,190	1,503,454	-	39,261,644

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

Notes to Combined Financial Statements December 31, 2015 and 2014

Note 3 - Fair Value Measurements (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2015

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2015
AADA				
Assets - Investments				
Fixed income - Mutual funds:				
Short term	\$ 148,736	\$ -	\$ -	\$ 148,736
Intermediate term	1,067,670	-	-	1,067,670
International	661,574	-	-	661,574
Equity - Mutual funds:				
Small cap	231,503	-	-	231,503
Mid cap	666,908	-	-	666,908
Large cap	2,059,090	-	-	2,059,090
International	1,222,531	-	-	1,222,531
International bonds -				
Short-term bond funds	274,843	-	-	274,843
Corporate bonds:				
Short term	-	751,664	-	751,664
Intermediate term	-	1,619,373	-	1,619,373
Government and agency bonds:				
Short term	-	947,879	-	947,879
Intermediate term	-	677,509	-	677,509
Long term	-	91,189	-	91,189
Mortgage and asset-backed bonds:				
Short term	-	25,253	-	25,253
Intermediate term	-	655,466	-	655,466
Long term	-	574,931	-	574,931
Municipal bonds - Short term	-	99,796	-	99,796
Education bond - Short term	-	72,890	-	72,890
Total AADA	6,332,855	5,515,950	-	11,848,805
Total assets	\$ 44,091,045	\$ 7,019,404	\$ -	\$ 51,110,449
Liabilities - Interest rate swap				
	\$ -	\$ 251,745	\$ -	\$ 251,745

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

Notes to Combined Financial Statements December 31, 2015 and 2014

Note 3 - Fair Value Measurements (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2014

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2014
AAD				
Assets - Investments				
Fixed income - Mutual funds:				
Short term	\$ 7,269,735	\$ -	\$ -	\$ 7,269,735
Intermediate term	13,460,254	-	-	13,460,254
International	328,049	-	-	328,049
Equity - Mutual funds:				
International	5,574,319	-	-	5,574,319
Small cap	1,961,588	-	-	1,961,588
Mid cap	2,318,161	-	-	2,318,161
Large cap	8,397,293	-	-	8,397,293
International bonds:				
Short-term bond funds	407,703	-	-	407,703
Intermediate term	-	11,117	-	11,117
Corporate bonds:				
Short term	-	530,996	-	530,996
Intermediate term	-	366,638	-	366,638
Government and agency bonds -				
Intermediate term	-	258,647	-	258,647
Mortgage and asset-backed bonds:				
Short term	-	17,480	-	17,480
Intermediate term	-	59,009	-	59,009
Long term	-	384,938	-	384,938
Certificate of deposit	-	15,001	-	15,001
Total AAD	39,717,102	1,643,826	-	41,360,928

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

Notes to Combined Financial Statements December 31, 2015 and 2014

Note 3 - Fair Value Measurements (Continued)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2014
AADA				
Assets - Investments:				
Fixed income - Mutual funds:				
Intermediate term	\$ 2,897,980	\$ -	\$ -	\$ 2,897,980
International	233,487	-	-	233,487
Equity - Mutual funds:				
Small cap	570,542	-	-	570,542
Mid cap	451,107	-	-	451,107
Large cap	2,032,396	-	-	2,032,396
International	609,652	-	-	609,652
International bonds:				
Short-term bond funds	463,147	-	-	463,147
Intermediate term	-	139,497	-	139,497
Corporate bonds:				
Short term	-	1,407,127	-	1,407,127
Intermediate term	-	1,283,023	-	1,283,023
International	-	10,070	-	10,070
Government and agency bonds:				
Short term	-	699,804	-	699,804
Intermediate term	-	84,415	-	84,415
Long term	-	95,705	-	95,705
Mortgage and asset-backed bonds:				
Short term	-	62,677	-	62,677
Intermediate term	-	560,541	-	560,541
Long term	-	590,139	-	590,139
Municipal bonds - Short term	-	160,928	-	160,928
Certificate of deposit	-	264,981	-	264,981
Total AADA	7,258,311	5,358,907	-	12,617,218
Total assets	<u>\$ 46,975,413</u>	<u>\$ 7,002,733</u>	<u>\$ -</u>	<u>\$ 53,978,146</u>
Liabilities - Interest rate swap	<u>\$ -</u>	<u>\$ 335,624</u>	<u>\$ -</u>	<u>\$ 335,624</u>

Not included in the above tables is \$6,294,602 and \$6,270,158 in money market accounts as of December 31, 2015 and 2014, respectively, for AAD and \$1,778,056 and \$827,693 in money market accounts as of December 31, 2015 and 2014, 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.

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

Notes to Combined Financial Statements December 31, 2015 and 2014

Note 3 - Fair Value Measurements (Continued)

Level 2 Inputs - Estimated fair values of international intermediate term bonds, corporate bonds, government and agency bonds, mortgage and asset backed bonds, municipal bonds, education bonds, and certificates of deposit 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, 2015 and 2014, there were no such transfers.

Note 4 - Property and Equipment

The cost of property and equipment is summarized as follows:

	2015			Depreciable Life - Years
	AAD	AADA	Combined Total	
Land	\$ 2,729,332	\$ -	\$ 2,729,332	-
Buildings	8,442,243	-	8,442,243	25-40 years
Leasehold improvements	-	720,532	720,532	10 years
Data processing equipment and system development costs	10,204,877	-	10,204,877	3-8 years
Furniture and equipment	1,897,268	383,599	2,280,867	5-10 years
Total cost	23,273,720	1,104,131	24,377,851	
Less accumulated depreciation	(13,727,688)	(774,534)	(14,502,222)	
Property and equipment - Net	<u>\$ 9,546,032</u>	<u>\$ 329,597</u>	<u>\$ 9,875,629</u>	
	2014			
	AAD	AADA	Combined Total	Depreciable Life - Years
Land	\$ 2,729,332	\$ -	\$ 2,729,332	-
Buildings	8,442,243	-	8,442,243	25-40 years
Leasehold improvements	-	720,532	720,532	10 years
Data processing equipment and system development costs	9,306,364	-	9,306,364	3-8 years
Furniture and equipment	1,872,800	383,599	2,256,399	5-10 years
Total cost	22,350,739	1,104,131	23,454,870	
Less accumulated depreciation	(12,794,840)	(697,539)	(13,492,379)	
Property and equipment - Net	<u>\$ 9,555,899</u>	<u>\$ 406,592</u>	<u>\$ 9,962,491</u>	

Depreciation expense was \$1,054,437 for 2015 and \$1,120,869 for 2014.

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

Notes to Combined Financial Statements December 31, 2015 and 2014

Note 5 - Loan Commitment

Long-term debt at December 31 is as follows:

	2015	2014
Illinois Development Finance Authority Variable Rate Demand Revenue Series 2001 Bonds (IRB) payable in annual installments of \$500,000, plus interest at a variable rate (an average rate of 0.07 percent and 0.17 percent at December 31, 2015 and 2014, respectively). The bonds are collateralized by the building and substantially all of the Academy's assets and are due on April 1, 2021	\$ 3,000,000	\$ 3,500,000

The balance of the above debt matures as follows:

2016	\$ 500,000
2017	500,000
2018	500,000
2019	500,000
2020	500,000
Thereafter	500,000
Total	\$ 3,000,000

Based on rates currently in effect for bonds issued by similar issuers, with similar terms and average maturities, it is estimated that the fair value of the IRB bonds is \$3,000,000 and \$3,500,000 as of December 31, 2015 and 2014, respectively.

Interest expense for the years ended December 31, 2015 and 2014 was \$5,140 and \$6,378, respectively.

Under the agreements with the bank, the Academy is subject to various financial covenants, including an unrestricted cash debt ratio.

These bonds are subject to a remarketing agreement and the carrying value of the debt obligations is based on weekly remarketing of the interest rates. Under the terms of the bond agreement, the Academy must maintain an irrevocable letter of credit to secure the payment of the principal amount of the bonds plus accrued interest thereon. The existing letter of credit in the amount of \$5,581,370 expires on April 1, 2021. In the event the remarketing agent is not successful, any draws would be due within 180 days.

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

Notes to Combined Financial Statements December 31, 2015 and 2014

Note 6 - Interest Rate Swap

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

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

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

Market risk is the adverse effect on the value of financial instruments that results from a change in interest rates. The market risk associated with the interest rate swap is managed by establishing parameters that limit the types and degree of market risk that may be undertaken. The Academy will pay the counterparty interest at a fixed rate of 3.95 percent and the counterparty will pay the Academy interest at a variable rate equal to the one-month Chase Capital Markets, Inc. Non-alternative Minimum Tax Lower Floater Rate (CCM rate) (.07 percent and .17 percent as of December 31, 2015 and 2014, respectively).

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

As of December 31, 2015, the Academy held a variable fixed interest rate swap with a total notional amount of \$3,000,000. Gains recognized on the interest rate swap of \$83,879 and interest expense of \$119,669 have been recognized in member services and administration expense for the year ended December 31, 2015.

At December 31, 2014, the Academy held a variable fixed interest rate swap with a total notional amount of \$3,500,000. Gains recognized on the interest rate swap of \$79,454 and interest expense of \$140,050 have been recognized in member services and administration expense for the year ended December 31, 2014.

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

Notes to Combined Financial Statements December 31, 2015 and 2014

Note 6 - Interest Rate Swap (Continued)

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

	Liability Derivatives	
	2015	2014
Interest rate swap	\$ 251,745	\$ 335,624

Amount of loss recognized on fair value hedging contracts:

	Amount of Loss Recognized - Net		Reported in Combined Statement of Activities and Changes in Net Assets
	2015	2014	
Interest rate swap	\$ (35,790)	\$ (60,596)	Member services and administration

Note 7 - Net Assets

Unrestricted board-designated net assets are as follows:

	2015		
	AAD	AADA	Combined Total
General Operating Fund	\$ 1,203,153	\$ 1,413,453	\$ 2,616,606
Sulzberger Endowment Fund	350,042	-	350,042
Reserve Income Fund (includes PPE/ Tech Fund)	12,884,170	7,706,462	20,590,632
Strategic Reserve Fund	5,292,357	-	5,292,357
Excellence in Dermatology Endowment Fund	10,372,876	-	10,372,876
Camp Discovery Endowment Fund	5,960,203	-	5,960,203
Disaster Fund	18,377	-	18,377
Total	\$ 36,081,178	\$ 9,119,915	\$ 45,201,093

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

Notes to Combined Financial Statements December 31, 2015 and 2014

Note 7 - Net Assets (Continued)

	2014		Combined Total
	AAD	AADA	
General Operating Fund	\$ 2,161,000	\$ 2,235,825	\$ 4,396,825
Sulzberger Endowment Fund	379,421	-	379,421
Reserve Income Fund (includes PPE/ Tech Fund)	13,143,386	6,693,885	19,837,271
Strategic Reserve Fund	5,685,662	-	5,685,662
Excellence in Dermatology Endowment Fund	10,403,746	-	10,403,746
Camp Discovery Endowment Fund	6,318,721	-	6,318,721
Disaster Fund	18,377	-	18,377
Total	<u>\$ 38,110,313</u>	<u>\$ 8,929,710</u>	<u>\$ 47,040,023</u>

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

Notes to Combined Financial Statements December 31, 2015 and 2014

Note 7 - Net Assets (Continued)

Temporarily restricted net assets are as follows:

	2015		Combined Total
	AAD	AADA	
SKINnovations	\$ 273,761	\$ -	\$ 273,761
Everett C. Fox Fund	1,053,597	-	1,053,597
Lila Gruber Endowment Fund - Unappropriated earnings	55,548	-	55,548
Awards for Young Investigators	24,051	-	24,051
World Congress of Dermatology Endowment Fund - Unappropriated earnings	155,030	-	155,030
Program for Innovative Continuing Medical Education in Dermatology Endowment Fund - Unappropriated earnings	262,968	-	262,968
Lebwohl Camp Discovery Fund	525,000	-	525,000
Phillip Frost Award	90,000	-	90,000
Annual Meeting - 2016*	2,986,028	-	2,986,028
Summer Academy Meeting - 2016*	58,920	-	58,920
Acne Education Sessions	52,500	-	52,500
Clarence Livingwood Award*	10,000	-	10,000
Derm A-Z	40,000	-	40,000
Derm Pamphlets	40,000	-	40,000
Dermatological Patient Care	217,177	-	217,177
Essentials of Cosmetic Dermatology*	125,000	-	125,000
Essentials of Medical Dermatology	60,000	-	60,000
Essentials of Pediatric Dermatology*	50,000	-	50,000
FIDE Grants*	23,000	-	23,000
Good Skin Knowledge	21,153	-	21,153
Improving Quality of Life for Patients*	500,000	-	500,000
India Grant*	1,000	-	1,000
Leadership Programs*	180,000	-	180,000
MLB Play Sun Smart*	1,500	-	1,500
Patient Safety	16,154	-	16,154
PI-CME	38,920	-	38,920
Skin Cancer Disease Outreach	63,354	-	63,354
SPOT ME (Melanoma Exposed)*	1,012,979	-	1,012,979
SubSaharan Grant*	2,700	-	2,700
Take a Hike	65,262	-	65,262
Urticaria Supplemental Education	78,745	-	78,745
Young Physician Focus Newsletter*	45,000	-	45,000
Education/Research AYI Contributions	18,241	-	18,241
Shade Structure Contributions*	145,939	-	145,939
SPOT Contributions*	41,235	-	41,235
Area of Greatest Need Contributions*	554,091	-	554,091
Total	\$ 8,888,853	\$ -	\$ 8,888,853

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

Notes to Combined Financial Statements December 31, 2015 and 2014

Note 7 - Net Assets (Continued)

	2014		
	AAD	AADA	Combined Total
SKINnovations	\$ 353,251	\$ -	\$ 353,251
Everett C. Fox Fund	1,159,086	-	1,159,086
Lila Gruber Endowment Fund -			
Unappropriated earnings	80,875	-	80,875
Awards for Young Investigators*	37,290	-	37,290
World Congress of Dermatology			
Endowment Fund - Unappropriated earnings	257,197	-	257,197
Program for Innovative Continuing Medical			
Education in Dermatology Endowment Fund -			
Unappropriated earnings	328,187	-	328,187
Phillip Frost Award	90,000	-	90,000
Annual Meeting - 2015*	2,204,913	-	2,204,913
Summer Academy Meeting - 2015*	57,218	-	57,218
AAD/NFP Chief Resident Meeting*	40,000	-	40,000
Clarence Livingwood Award	10,000	-	10,000
Derm A-Z*	20,000	-	20,000
Derm Pamphlets	7,500	-	7,500
Directions in Residency Newsletter	-	45,000	45,000
Epiphanies in Dermatology*	80,000	-	80,000
Essentials in Pediatric Dermatology*	50,000	-	50,000
Fellowship	190,000	-	190,000
Good Skin Knowledge	50,838	-	50,838
India Grant	1,000	-	1,000
Leadership Forum*	50,000	-	50,000
Leadership Institute Advanced Curriculum*	-	97,500	97,500
Napa Valley Event*	50,000	-	50,000
Patient Safety	16,154	-	16,154
PI-CME*	165,437	-	165,437
Skin Cancer Disease Outreach	75,416	-	75,416
SPOT ME (Melanoma Exposed)*	1,108,055	-	1,108,055
Take a Hike	100,000	-	100,000
Urticaria Supplemental Education	110,000	-	110,000
Young Physician Focus Newsletter*	45,000	-	45,000
Education/Research AYI Contributions	17,728	-	17,728
Shade Structure Contributions	101,455	-	101,455
SPOT Contributions	6,910	-	6,910
Area of Greatest Need Contributions	232,516	-	232,516
Total	\$ 7,096,026	\$ 142,500	\$ 7,238,526

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

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

Notes to Combined Financial Statements December 31, 2015 and 2014

Note 7 - Net Assets (Continued)

Permanently restricted net assets are as follows:

	<u>2015</u>	<u>2014</u>
World Congress of Dermatology Endowment Fund	\$ 1,300,000	\$ 1,300,000
Lila Gruber Endowment Fund	318,115	318,115
Awards for Young Investigators Endowment Fund	125,000	125,000
Program for Innovative Continuing Medical Education in Dermatology Endowment Fund	<u>600,000</u>	<u>600,000</u>
Total	<u>\$ 2,343,115</u>	<u>\$ 2,343,115</u>

Note 8 - Operating Leases

The Academy is obligated under certain operating leases, primarily for office space and office equipment. The Academy has a sublease in effect for a portion of its office space. The total of minimum rentals to be received in the future under noncancelable subleases is \$49,668 as of December 31, 2015.

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

<u>Years Ending December 31</u>	<u>Amount</u>
2016	\$ 775,972
2017	779,116
2018	778,151
2019	726,543
2020	<u>668,391</u>
Total	<u>\$ 3,728,173</u>

Total rent expense under all operating leases was \$771,080 and \$752,309 for the years ended December 31, 2015 and 2014, 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 \$656,378 and \$606,907 for the years ended December 31, 2015 and 2014, respectively, net of forfeitures applied in the amount of \$11,300 and \$20,000 for 2015 and 2014, respectively.

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

Notes to Combined Financial Statements December 31, 2015 and 2014

Note 9 - Employee Benefit Plans (Continued)

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 approximately \$729,832 and \$675,537 for the years ended December 31, 2015 and 2014, respectively, net of forfeitures applied of approximately \$37,000 and \$38,000 for 2015 and 2014, respectively.

Deferred Compensation Plans

Effective November 1, 2004, the Academy adopted a 457(b) deferred compensation plan. According to the 457(b) plan, the participants are eligible to make salary reduction contributions.

The Academy extended the employment agreement with its current executive director that included a severance provision that would be effective if certain conditions are met prior to December 31, 2016.

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

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

Notes to Combined Financial Statements December 31, 2015 and 2014

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

In accordance with UPMIFA, the Academy considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Academy and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Academy
- (7) The investment policies of the Academy

Endowment Net Asset Composition by Type of Fund as of December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 484,596	\$ 2,343,115	\$ 2,827,711
Board-designated endowment funds	16,683,121	-	-	16,683,121
Total funds	<u>\$ 16,683,121</u>	<u>\$ 484,596</u>	<u>\$ 2,343,115</u>	<u>\$ 19,510,832</u>

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	\$ 17,101,888	\$ 679,548	\$ 2,343,115	\$ 20,124,551
Investment return:				
Investment income	389,580	66,585	-	456,165
Net depreciation (realized and unrealized)	(543,884)	(119,835)	-	(663,719)
Total investment return	(154,304)	(53,250)	-	(207,554)
Transfers to board-designated endowment funds	300,630	-	-	300,630
Appropriation of endowment assets for expenditure	(565,093)	(141,702)	-	(706,795)
Endowment net assets - End of year	<u>\$ 16,683,121</u>	<u>\$ 484,596</u>	<u>\$ 2,343,115</u>	<u>\$ 19,510,832</u>

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

Notes to Combined Financial Statements December 31, 2015 and 2014

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

Endowment Net Asset Composition by Type of Fund as of December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 679,548	\$ 2,343,115	\$ 3,022,663
Board-designated endowment funds	17,101,888	-	-	17,101,888
Total funds	<u>\$ 17,101,888</u>	<u>\$ 679,548</u>	<u>\$ 2,343,115</u>	<u>\$ 20,124,551</u>

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	\$ 16,704,260	\$ 589,066	\$ 2,343,115	\$ 19,636,441
Investment return:				
Investment income	444,856	84,886	-	529,742
Net appreciation (realized and unrealized)	293,812	60,995	-	354,807
Total investment return	738,668	145,881	-	884,549
Transfers to board-designated endowment funds	288,382	-	-	288,382
Appropriation of endowment assets for expenditure	<u>(629,422)</u>	<u>(55,399)</u>	<u>-</u>	<u>(684,821)</u>
Endowment net assets - End of year	<u>\$ 17,101,888</u>	<u>\$ 679,548</u>	<u>\$ 2,343,115</u>	<u>\$ 20,124,551</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Academy to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2015 and 2014.

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

Notes to Combined Financial Statements December 31, 2015 and 2014

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 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. These 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 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.

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

Notes to Combined Financial Statements December 31, 2015 and 2014

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*. The agreement expires on December 31, 2017.

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, 2015 and 2014 and have issued our report thereon dated May 25, 2016, 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 audit 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

May 25, 2016

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

Combining Statement of Financial Position December 31, 2015

	<u>AAD</u>	<u>AADA</u>	<u>Eliminating Entries</u>	<u>Total</u>
Assets				
Cash	\$ 3,509,183	\$ 654,598	\$ -	\$ 4,163,781
Investments	45,556,246	13,626,861	-	59,183,107
Receivables - Net	1,911,305	314,225	-	2,225,530
Due from related organizations	5,788,755	2,784,937	(8,573,692)	-
Pledges receivable	3,639,650	-	-	3,639,650
Inventory - Net	364,118	-	-	364,118
Prepaid expenses and other assets	1,420,849	233,646	-	1,654,495
Property and equipment - Net	9,546,032	329,597	-	9,875,629
Total assets	<u>\$ 71,736,138</u>	<u>\$ 17,943,864</u>	<u>\$ (8,573,692)</u>	<u>\$ 81,106,310</u>

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

Combining Statement of Financial Position (Continued) December 31, 2015

	AAD	AADA	Eliminating Entries	Total
Liabilities and Net Assets				
Liabilities				
Accounts payable and other	\$ 1,117,091	\$ 78,824	\$ -	\$ 1,195,915
Accrued salaries	1,090,816	-	-	1,090,816
Accrued retirement costs	656,378	-	-	656,378
Accrued vacation leave	509,491	-	-	509,491
Accrued real estate taxes	322,119	-	-	322,119
Deferred revenue - Annual national meeting	9,795,554	-	-	9,795,554
Deferred revenue - Subscriptions and other	670,161	847,449	-	1,517,610
Due to related organizations	7,009,637	1,564,055	(8,573,692)	-
Deferred revenue - Membership dues	-	6,333,621	-	6,333,621
Loan commitment	3,000,000	-	-	3,000,000
Interest rate swap	251,745	-	-	251,745
Total liabilities	24,422,992	8,823,949	(8,573,692)	24,673,249
Net Assets				
Unrestricted	36,081,178	9,119,915	-	45,201,093
Temporarily restricted	8,888,853	-	-	8,888,853
Permanently restricted	2,343,115	-	-	2,343,115
Total liabilities and net assets	<u>\$ 71,736,138</u>	<u>\$ 17,943,864</u>	<u>\$ (8,573,692)</u>	<u>\$ 81,106,310</u>

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

Combining Statement of Financial Position December 31, 2014

	<u>AAD</u>	<u>AADA</u>	<u>Eliminating Entries</u>	<u>Total</u>
Assets				
Cash	\$ 2,722,685	\$ 811,932	\$ -	\$ 3,534,617
Investments	47,631,086	13,444,911	-	61,075,997
Receivables - Net	2,314,813	347,227	-	2,662,040
Due from related organizations	3,700,367	1,942,241	(5,642,608)	-
Pledges receivable	2,448,357	63,750	-	2,512,107
Inventory - Net	408,717	-	-	408,717
Prepaid expenses and other assets	1,508,488	219,561	-	1,728,049
Property and equipment - Net	9,555,899	406,592	-	9,962,491
Total assets	<u>\$ 70,290,412</u>	<u>\$ 17,236,214</u>	<u>\$ (5,642,608)</u>	<u>\$ 81,884,018</u>

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

Combining Statement of Financial Position (Continued) December 31, 2014

	AAD	AADA	Eliminating Entries	Total
Liabilities and Net Assets				
Liabilities				
Accounts payable and other	\$ 1,099,662	\$ 94,100	\$ -	\$ 1,193,762
Accrued salaries	789,861	-	-	789,861
Accrued retirement costs	606,907	-	-	606,907
Accrued vacation leave	466,023	-	-	466,023
Accrued real estate taxes	320,080	-	-	320,080
Deferred revenue - Annual national meeting	9,909,747	-	-	9,909,747
Deferred revenue - Subscriptions and other	912,273	980,764	-	1,893,037
Due to related organizations	4,800,781	841,827	(5,642,608)	-
Deferred revenue - Membership dues	-	6,247,313	-	6,247,313
Loan commitment	3,500,000	-	-	3,500,000
Interest rate swap	335,624	-	-	335,624
Total liabilities	22,740,958	8,164,004	(5,642,608)	25,262,354
Net Assets				
Unrestricted	38,110,313	8,929,710	-	47,040,023
Temporarily restricted	7,096,026	142,500	-	7,238,526
Permanently restricted	2,343,115	-	-	2,343,115
Total liabilities and net assets	<u>\$ 70,290,412</u>	<u>\$ 17,236,214</u>	<u>\$ (5,642,608)</u>	<u>\$ 81,884,018</u>

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

Combining Statement of Activities Year Ended December 31, 2015

	AAD	AADA	Eliminating Entries	Total
Changes in Unrestricted Net Assets				
Revenue, gains, and other support:				
Membership dues	\$ -	\$ 9,391,406	\$ -	\$ 9,391,406
Meetings	18,474,813	199,305	-	18,674,118
JAAD and other royalties	4,529,801	967,162	-	5,496,963
Educational product sales	2,360,590	859,323	-	3,219,913
Other	14,823	202,844	-	217,667
Grants and contributions	392,068	88,791	-	480,859
Investment income	(130,271)	(67,154)	-	(197,425)
Net assets released from restrictions	5,073,226	142,500	-	5,215,726
	<u>30,715,050</u>	<u>11,784,177</u>	<u>-</u>	<u>42,499,227</u>
Total revenue, gains, and other support				
Expenses - Direct expenses:				
Educational	8,400,289	4,295	-	8,404,584
Communications	2,168,515	92,902	-	2,261,417
Government affairs and research	2,010,824	5,084,559	-	7,095,383
Governance and committees	1,997,681	733,465	-	2,731,146
Member services and administration	18,166,876	5,678,751	-	23,845,627
	<u>32,744,185</u>	<u>11,593,972</u>	<u>-</u>	<u>44,338,157</u>
Total expenses				
(Decrease) Increase in Unrestricted Net Assets	(2,029,135)	190,205	-	(1,838,930)
Unrestricted Net Assets - Beginning of year	<u>38,110,313</u>	<u>8,929,710</u>	<u>-</u>	<u>47,040,023</u>
Unrestricted Net Assets - End of year	<u><u>\$ 36,081,178</u></u>	<u><u>\$ 9,119,915</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 45,201,093</u></u>

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

Combining Statement of Activities (Continued) Year Ended December 31, 2015

	AAD	AADA	Eliminating Entries	Total
Changes in Temporarily Restricted Net Assets				
Grants and contributions	\$ 6,935,564	\$ -	\$ -	\$ 6,935,564
Investment income - Temporarily restricted	(69,511)	-	-	(69,511)
Net assets released from restrictions	(5,073,226)	(142,500)	-	(5,215,726)
Increase (Decrease) in Temporarily Restricted Net Assets	1,792,827	(142,500)	-	1,650,327
Temporarily Restricted Net Assets - Beginning of year	7,096,026	142,500	-	7,238,526
Temporarily Restricted Net Assets - End of year	\$ 8,888,853	\$ -	\$ -	\$ 8,888,853

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

Combining Statement of Activities Year Ended December 31, 2014

	AAD	AADA	Eliminating Entries	Total
Changes in Unrestricted Net Assets				
Revenue, gains, and other support:				
Membership dues	\$ -	\$ 9,226,731	\$ -	\$ 9,226,731
Meetings	16,215,938	141,056	-	16,356,994
JAAD and other royalties	4,469,455	1,116,243	-	5,585,698
Educational product sales	2,742,057	855,422	-	3,597,479
Other	27,136	211,164	-	238,300
Grants and contributions	416,118	69,250	-	485,368
Investment income	1,604,689	517,074	-	2,121,763
Net assets released from restrictions	4,507,106	75,175	-	4,582,281
Total revenue, gains, and other support	29,982,499	12,212,115	-	42,194,614
Expenses - Direct expenses:				
Educational	6,872,513	2,112	-	6,874,625
Communications	1,675,334	48,592	-	1,723,926
Government affairs and research	1,780,135	4,568,857	-	6,348,992
Governance and committees	1,858,959	713,104	-	2,572,063
Member services and administration	17,321,834	5,431,740	-	22,753,574
Total expenses	29,508,775	10,764,405	-	40,273,180
Increase in Unrestricted Net Assets	473,724	1,447,710	-	1,921,434
Unrestricted Net Assets - Beginning of year	36,936,869	8,181,720	-	45,118,589
Transfer from AADA to AAD	699,720	(699,720)	-	-
Unrestricted Net Assets - End of year	\$ 38,110,313	\$ 8,929,710	\$ -	\$ 47,040,023

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

Combining Statement of Activities (Continued) Year Ended December 31, 2014

	AAD	AADA	Eliminating Entries	Total
Changes in Temporarily Restricted Net Assets				
Grants and contributions	\$ 6,029,500	\$ 105,000	\$ -	\$ 6,134,500
Investment income - Temporarily restricted	216,737	-	-	216,737
Net assets released from restrictions	(4,507,106)	(75,175)	-	(4,582,281)
Increase in Temporarily Restricted Net Assets	1,739,131	29,825	-	1,768,956
Temporarily Restricted Net Assets - Beginning of year	5,356,895	112,675	-	5,469,570
Temporarily Restricted Net Assets - End of year	\$ 7,096,026	\$ 142,500	\$ -	\$ 7,238,526