

**AMERICAN ACADEMY  
OF PEDIATRICS  
FINANCIAL STATEMENTS AND  
REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS**

**JUNE 30, 2020 AND 2019**

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## Independent Auditor's Report

To the Board of Directors  
American Academy of Pediatrics

### Report on the Financial Statements

We have audited the accompanying financial statements of American Academy of Pediatrics (the "Academy"), which comprise the statements of financial position as of June 30, 2020 and 2019 and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

#### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Academy of Pediatrics as of June 30, 2020 and 2019 and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Emphasis of Matters***

As described in Note A to the financial statements, the COVID-19 pandemic has impacted business operations. Our opinion is not modified with respect to this matter.

As described in Note A to the financial statements, the Academy adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*; ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*; and ASU No. 2016-02, *Leases (Topic 842)*. Our opinion is not modified with respect to these matters.

To the Board of Directors  
American Academy of Pediatrics

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2020 on our consideration of American Academy of Pediatrics' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering American Academy of Pediatrics' internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

September 2, 2020

**American Academy of Pediatrics**  
**STATEMENTS OF FINANCIAL POSITION**

| <b>ASSETS</b>  | <u>2020</u>                  | <u>2019 Restated</u>         |
|--|------------------------------|------------------------------|
| Cash and cash equivalents  | \$ 11,978,982                | \$ 6,108,346                 |
| Receivables  |                              |                              |
| Publications and supplements, net of allowance   | 893,110                      | 1,090,993                    |
| Contracts and grants   | 5,233,806                    | 5,183,883                    |
| Pledges receivable, net of allowance   | 775,166                      | 2,117,610                    |
| Royalties  | 2,870,841                    | 850,343                      |
| Advertising  | 474,110                      | 534,243                      |
| Meetings   | 817,858                      | 633,305                      |
| Other  | 507,611                      | 672,551                      |
| Publication inventories, net of reserve for obsolescence of<br>\$249,000 in 2020 and \$170,000 in 2019 | 1,458,857                    | 1,539,114                    |
| Prepaid expenses   | 2,933,133                    | 3,125,698                    |
| Investments  | 80,472,419                   | 75,199,956                   |
| Property and equipment, net  | 53,849,423                   | 56,120,689                   |
| Asset held for sale  |                              | 5,000,000                    |
| Right to use asset, net  | 7,331,359                    | 2,717,360                    |
| <b>TOTAL ASSETS</b>  | <u><u>\$ 169,596,675</u></u> | <u><u>\$ 160,894,091</u></u> |
| <b>LIABILITIES AND NET ASSETS</b>  |                              |                              |
| Liabilities  |                              |                              |
| Accounts payable, trade  | \$ 735,281                   | \$ 1,367,913                 |
| Chapter dues payable   | 799,686                      | 1,040,748                    |
| Accrued expenses   | 3,644,993                    | 4,352,073                    |
| Accrued salary and related expenses  | 9,413,687                    | 9,843,607                    |
| Deferred revenues  |                              |                              |
| Membership dues  | 13,663,166                   | 13,607,669                   |
| Pediatrics subscription fees   | 5,003,166                    | 4,996,130                    |
| Pediatrics in Review subscriptions fees and Pediatrics<br>Review and Education Program enrollment fees | 3,275,174                    | 3,812,933                    |
| Contracts and grants   | 2,316,362                    | 3,816,319                    |
| Meetings   | 2,978,071                    | 6,132,330                    |
| Other  | 2,097,737                    | 2,109,102                    |
| Refundable advances  | 1,182,529                    |                              |
| Annuity payment liability  | 70,390                       | 75,770                       |
| Capital lease obligations  | 98,353                       | 242,580                      |
| Lease liability  | 7,485,883                    | 2,717,360                    |
| PPP loan payable   | 10,000,000                   |                              |
| Building loan payable  | 43,083,333                   | 44,616,243                   |
| <b>TOTAL LIABILITIES</b>   | 105,847,811                  | 98,730,777                   |
| Net assets   |                              |                              |
| Without donor restrictions   |                              |                              |
| Board-designated   |                              |                              |
| Sections   | 4,197,960                    | 3,523,049                    |
| Neonatal Resuscitation Program   | 200,000                      | 200,000                      |
| Friends of Children  | 2,816,569                    | 2,459,321                    |
| Tomorrow's Children Fund   | 1,352,861                    | 1,330,970                    |
| Undesignated   | 45,755,085                   | 46,376,885                   |
| Total without donor restrictions   | 54,322,475                   | 53,890,225                   |
| With donor restriction   | 9,426,389                    | 8,273,089                    |
| <b>TOTAL NET ASSETS</b>  | 63,748,864                   | 62,163,314                   |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>  | <u><u>\$ 169,596,675</u></u> | <u><u>\$ 160,894,091</u></u> |

The accompanying notes are an integral part of these statements.

**American Academy of Pediatrics**  
**STATEMENTS OF ACTIVITIES**  
**Years ended June 30, 2020 and 2019**

|  | 2020                       |                         |                    | 2019                       |                         |                    |
|--|----------------------------|-------------------------|--------------------|----------------------------|-------------------------|--------------------|
|  | Without donor restrictions | With donor restrictions | Total              | Without donor restrictions | With donor restrictions | Total              |
| <b>Revenue, gains and other support:</b>                       |                            |                         |                    |                            |                         |                    |
| Membership dues  | \$ 27,176,753              | \$ -                    | \$ 27,176,753      | \$ 26,704,450              | \$ -                    | \$ 26,704,450      |
| NCE and meetings   | 7,751,488                  |                         | 7,751,488          | 7,888,476                  |                         | 7,888,476          |
| Contracts and grants   | 25,002,830                 | 2,618,080               | 27,620,910         | 26,629,135                 |                         | 26,629,135         |
| Advertising  | 4,282,604                  |                         | 4,282,604          | 4,424,465                  |                         | 4,424,465          |
| Royalties  | 5,439,225                  |                         | 5,439,225          | 3,249,166                  |                         | 3,249,166          |
| Manuals and publications                                       | 10,176,316                 |                         | 10,176,316         | 11,234,118                 |                         | 11,234,118         |
| Subscriptions  | 19,882,895                 |                         | 19,882,895         | 20,385,509                 |                         | 20,385,509         |
| Continuing education   | 7,488,922                  |                         | 7,488,922          | 8,634,397                  |                         | 8,634,397          |
| Investment income  | 1,756,773                  | 126,641                 | 1,883,414          | 1,704,093                  | 119,634                 | 1,823,727          |
| Contributions  | 1,115,437                  | 2,958,240               | 4,073,677          | 1,427,725                  | 5,387,538               | 6,815,263          |
| Release from restrictions                                      | 4,523,944                  | (4,523,944)             | -                  | 5,266,885                  | (5,266,885)             | -                  |
| Other income   | 1,519,099                  |                         | 1,519,099          | 1,356,197                  |                         | 1,356,197          |
| <b>Total revenue, gains and other support</b>                  | <b>116,116,286</b>         | <b>1,179,017</b>        | <b>117,295,303</b> | <b>118,904,616</b>         | <b>240,287</b>          | <b>119,144,903</b> |
| <b>Expenses:</b>   |                            |                         |                    |                            |                         |                    |
| Salaries   | 46,520,588                 |                         | 46,520,588         | 45,767,498                 |                         | 45,767,498         |
| Temporary help   | 131,154                    |                         | 131,154            | 195,726                    |                         | 195,726            |
| Fringe benefits  | 14,690,820                 |                         | 14,690,820         | 14,273,550                 |                         | 14,273,550         |
| Meetings   | 3,061,806                  |                         | 3,061,806          | 4,009,391                  |                         | 4,009,391          |
| Travel   | 4,318,067                  |                         | 4,318,067          | 6,038,325                  |                         | 6,038,325          |
| Meals  | 3,333,136                  |                         | 3,333,136          | 4,051,456                  |                         | 4,051,456          |
| Printing   | 6,809,694                  |                         | 6,809,694          | 7,300,625                  |                         | 7,300,625          |
| Postage and freight  | 1,656,213                  |                         | 1,656,213          | 2,006,474                  |                         | 2,006,474          |
| Software   | 1,748,512                  |                         | 1,748,512          | 1,511,047                  |                         | 1,511,047          |
| Professional services  | 4,181,322                  |                         | 4,181,322          | 4,049,657                  |                         | 4,049,657          |
| Building and utilities   | 6,478,879                  |                         | 6,478,879          | 6,726,042                  |                         | 6,726,042          |
| Supplies   | 785,430                    |                         | 785,430            | 1,124,342                  |                         | 1,124,342          |
| Support of other organizations                                 | 180,652                    |                         | 180,652            | 167,961                    |                         | 167,961            |
| Commissions  | 781,346                    |                         | 781,346            | 722,343                    |                         | 722,343            |
| Honoraria  | 1,826,420                  |                         | 1,826,420          | 1,761,596                  |                         | 1,761,596          |
| Consultant   | 5,304,585                  |                         | 5,304,585          | 6,344,367                  |                         | 6,344,367          |
| Bank charges   | 1,526,520                  |                         | 1,526,520          | 1,473,769                  |                         | 1,473,769          |
| Grants made  | 1,940,503                  |                         | 1,940,503          | 1,939,258                  |                         | 1,939,258          |
| Subcontracts   | 7,398,706                  |                         | 7,398,706          | 6,557,782                  |                         | 6,557,782          |
| Interest   | 957,967                    |                         | 957,967            | 1,261,485                  |                         | 1,261,485          |
| Miscellaneous  | 1,310,210                  |                         | 1,310,210          | 1,195,698                  |                         | 1,195,698          |
| <b>Total expenses</b>  | <b>114,942,530</b>         | <b>-</b>                | <b>114,942,530</b> | <b>118,478,392</b>         | <b>-</b>                | <b>118,478,392</b> |
| <b>Change in net assets due to operations</b>                  | <b>1,173,756</b>           | <b>1,179,017</b>        | <b>2,352,773</b>   | <b>426,224</b>             | <b>240,287</b>          | <b>666,511</b>     |
| Impairment/loss on assets held for sale, including commissions | (382,554)                  |                         | (382,554)          | (1,045,000)                |                         | (1,045,000)        |
| Net realized and unrealized (loss)/gain                        | (358,952)                  | (25,717)                | (384,669)          | 2,452,436                  | 128,222                 | 2,580,658          |
| <b>Changes in net assets</b>                                   | <b>432,250</b>             | <b>1,153,300</b>        | <b>1,585,550</b>   | <b>1,833,660</b>           | <b>368,509</b>          | <b>2,202,169</b>   |
| Beginning net assets   | 53,890,225                 | 8,273,089               | 62,163,314         | 52,056,565                 | 7,904,580               | 59,961,145         |
| Ending net assets  | \$ 54,322,475              | \$ 9,426,389            | \$ 63,748,864      | \$ 53,890,225              | \$ 8,273,089            | \$ 62,163,314      |

The accompanying notes are an integral part of these statements.

American Academy of Pediatrics  
STATEMENT OF FUNCTIONAL EXPENSES  
Year ended June 30, 2020

|  | Education activities | Educational publishing | Child health activities | Membership       | Advocacy         | Research         | Program sub-total | Management and general | Fundraising      | Supporting sub-total | Total              |
|--|----------------------|------------------------|-------------------------|------------------|------------------|------------------|-------------------|------------------------|------------------|----------------------|--------------------|
| <b>Expenses</b>                                    |                      |                        |                         |                  |                  |                  |                   |                        |                  |                      |                    |
| Salaries and fringe benefits                       | 5,355,406            | 13,873,027             | 20,519,018              | 1,788,813        | 2,855,681        | 2,552,342        | 46,944,287        | 12,772,392             | 1,625,883        | 14,398,275           | 61,342,562         |
| Travel and meals                                   | 5,784,969            | 596,025                | 3,311,377               | 218,429          | 198,036          | 69,964           | 10,178,800        | 478,167                | 56,042           | 534,209              | 10,713,009         |
| Printing and postage                               | 311,513              | 4,789,415              | 410,504                 | 217,429          | 11,385           | 80,725           | 5,820,971         | 2,568,477              | 76,459           | 2,644,936            | 8,465,907          |
| Professional services, consulting and subcontracts | 1,076,889            | 3,385,127              | 10,056,323              | 83,881           | 54,649           | 195,484          | 14,852,353        | 2,018,634              | 13,626           | 2,032,260            | 16,884,613         |
| Building, depreciation, interest and software      | 259,020              | 117,603                | 61,984                  | 6,393            | 844,170          | 4,853            | 1,294,023         | 7,890,308              | 1,027            | 7,891,335            | 9,185,358          |
| Other expenses                                     | 1,633,335            | 855,995                | 2,432,722               | 857,631          | 53,219           | 152,730          | 5,985,632         | 2,282,509              | 82,940           | 2,365,449            | 8,351,081          |
| Facilities allocation                              | 484,523              | 1,117,371              | 1,592,005               | 148,323          | 59,329           | 177,988          | 3,579,539         | (3,698,198)            | 118,659          | (3,579,539)          | -                  |
| Information technologies allocation                | 804,070              | 1,975,215              | 2,621,965               | 262,197          | 419,514          | 349,595          | 6,432,556         | (6,642,313)            | 209,757          | (6,432,556)          | -                  |
| <b>Total expenses</b>                              | <u>15,709,725</u>    | <u>26,709,778</u>      | <u>41,005,898</u>       | <u>3,583,096</u> | <u>4,495,983</u> | <u>3,583,681</u> | <u>95,088,161</u> | <u>17,669,976</u>      | <u>2,184,393</u> | <u>19,854,369</u>    | <u>114,942,530</u> |

The accompanying notes are an integral part of these statements.

American Academy of Pediatrics  
STATEMENT OF FUNCTIONAL EXPENSES  
Year ended June 30, 2019

|  | Education activities | Educational publishing | Child health activities | Membership       | Advocacy         | Research         | Program sub-total        | Management and general | Fundraising      | Supporting sub-total     | Total                     |
|--|----------------------|------------------------|-------------------------|------------------|------------------|------------------|--------------------------|------------------------|------------------|--------------------------|---------------------------|
| <b>Expenses</b>                                    |                      |                        |                         |                  |                  |                  |                          |                        |                  |                          |                           |
| Salaries and fringe benefits                       | 5,602,854            | 13,673,284             | 19,408,463              | 1,735,674        | 3,208,012        | 2,510,317        | <b>46,138,604</b>        | 12,359,729             | 1,738,441        | <b>14,098,170</b>        | <b>60,236,774</b>         |
| Travel and meals                                   | 6,186,255            | 747,750                | 5,717,944               | 288,395          | 426,811          | 90,407           | <b>13,457,562</b>        | 564,362                | 77,248           | <b>641,610</b>           | <b>14,099,172</b>         |
| Printing and postage                               | 393,360              | 5,072,397              | 700,318                 | 221,346          | 18,066           | 120,851          | <b>6,526,338</b>         | 2,702,635              | 78,126           | <b>2,780,761</b>         | <b>9,307,099</b>          |
| Professional services, consulting and subcontracts | 1,143,783            | 3,081,150              | 10,328,648              | 129,056          | 56,885           | 255,797          | <b>14,995,319</b>        | 1,950,307              | 6,180            | <b>1,956,487</b>         | <b>16,951,806</b>         |
| Building, depreciation, interest and software      | 337,456              | 88,680                 | 93,140                  | 11,940           | 1,253,952        | 6,258            | <b>1,791,426</b>         | 7,704,977              | 2,171            | <b>7,707,148</b>         | <b>9,498,574</b>          |
| Other expenses                                     | 1,750,309            | 779,177                | 2,712,004               | 811,005          | 86,895           | 192,852          | <b>6,332,242</b>         | 1,982,156              | 70,569           | <b>2,052,725</b>         | <b>8,384,967</b>          |
| Facilities allocation                              | 465,696              | 1,143,992              | 1,518,573               | 151,857          | 60,743           | 202,476          | <b>3,543,337</b>         | (3,664,823)            | 121,486          | <b>(3,543,337)</b>       | -                         |
| Information technologies allocation                | 792,417              | 1,946,589              | 2,583,969               | 258,397          | 361,756          | 344,529          | <b>6,287,657</b>         | (6,494,375)            | 206,718          | <b>(6,287,657)</b>       | -                         |
| <b>Total expenses</b>                              | <u>16,672,130</u>    | <u>26,533,019</u>      | <u>43,063,059</u>       | <u>3,607,670</u> | <u>5,473,120</u> | <u>3,723,487</u> | <u><b>99,072,485</b></u> | <u>17,104,968</u>      | <u>2,300,939</u> | <u><b>19,405,907</b></u> | <u><b>118,478,392</b></u> |

The accompanying notes are an integral part of these statements.



**American Academy of Pediatrics**  
**STATEMENTS OF CASH FLOWS**  
**Years ended June 30, 2020 and 2019**

|  | 2020                 | 2019                |
|--|----------------------|---------------------|
| Cash flows from operating activities   |                      |                     |
| Increase in net assets   | \$ 1,585,549         | \$ 2,202,169        |
| Adjustments to reconcile increase in net assets to net cash used in operating activities |                      |                     |
| Depreciation and amortization  | 2,601,820            | 2,278,469           |
| Impairment on assets held for sale   | 632,553              | 795,000             |
| Provision for bad debt expense   | 1,020                | 11,250              |
| Net realized and unrealized losses (gains) on investments                                | 384,669              | (2,580,658)         |
| Contributions restricted for long term purposes  | (19,202)             | (132,696)           |
| Change in assets and liabilities   |                      |                     |
| Receivables  | (490,594)            | 13,361              |
| Publication inventories  | 80,257               | (98,078)            |
| Prepaid expenses   | 192,565              | (233,834)           |
| Accounts payable, trade  | (632,632)            | (540,079)           |
| Accrued expenses   | (707,080)            | 22,327              |
| Accrued salary and related expenses  | (429,920)            | 1,663,664           |
| Refundable advances  | 1,182,529            |                     |
| Deferred revenues  | (5,140,807)          | (3,992,919)         |
| Annuity payment liability  | (5,380)              | (5,461)             |
| Net cash used in operating activities  | (764,653)            | (597,485)           |
| Cash flows from investing activities   |                      |                     |
| Purchases of property and equipment  | (207,517)            | (445,406)           |
| Proceeds from sale of building   | 4,367,582            |                     |
| Proceeds from maturities and sales of investments  | 31,550,936           | 18,433,432          |
| Purchases of investments   | (37,208,068)         | (17,375,721)        |
| Net cash (used in) provided by investing activities                                      | (1,497,067)          | 612,305             |
| Cash flows from financing activities   |                      |                     |
| Contributions restricted for long term purposes  | 19,202               | 132,696             |
| Cash received from PPP Loan  | 10,000,000           |                     |
| Cash received on behalf of chapters  | 5,823,478            | 5,108,336           |
| Cash remitted to chapters  | (6,064,540)          | (4,882,049)         |
| Cash payment on long term loan   | (1,532,910)          | (2,183,757)         |
| Change in right to use lease liability   | 31,354               |                     |
| Principal payments on capital lease obligations  | (144,227)            | (138,671)           |
| Net cash provided by (used in) financing activities                                      | 8,132,357            | (1,963,445)         |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                              | <b>5,870,636</b>     | <b>(1,948,625)</b>  |
| Cash and cash equivalents at beginning of year   | 6,108,346            | 8,056,971           |
| Cash and cash equivalents at end of year   | <u>\$ 11,978,982</u> | <u>\$ 6,108,346</u> |
| Supplemental schedules of non-cash financing activities                                  |                      |                     |
| Capital lease obligations incurred for the acquisition of office equipment               | <u>\$ -</u>          | <u>\$ 19,228</u>    |
| Property and equipment additions included in accrued expenses                            | <u>\$ 8,456</u>      | <u>\$ -</u>         |
| Right to use asset obtained in exchange for new operating lease liabilities              | <u>\$ 7,454,530</u>  | <u>\$ -</u>         |
| Interest paid on long term loan  | <u>\$ 949,081</u>    | <u>\$ 1,246,312</u> |

The accompanying notes are an integral part of these statements.

## NOTE A - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

### *Nature of Business*

The mission of the American Academy of Pediatrics (the Academy) is to obtain optimal physical, mental and social health and well-being for all infants, children, adolescents, and young adults. To accomplish this, the Academy shall support the professional needs of its members.

The financial statements of the Academy have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). A summary of significant accounting policies follows.

### *Use of Estimates*

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Although estimates are considered to be fairly stated at the time the estimates are made, actual results could differ.

### *Classification of Net Assets*

Net assets of the Academy are classified as without donor restrictions or with donor restriction 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.

Accordingly, net assets of the Academy are reported as follows:

**Net assets without donor restrictions:** Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Academy. These net assets may be used at the discretion of the Academy's management and the Executive Committee of the Board of Directors (the Executive Committee). These include any designated amounts the Executive Committee has set aside for a particular purpose. The Executive Committee has resolved that the Academy shall maintain certain operating fund balances as follows:

*Sections Fund* - Sections are subspecialty medical groups of the Academy. Certain amounts are designated to be used by various sections based on section dues collected and budgeted and actual expenditures.

**NOTE A - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING  
POLICIES – Continued**

*Neonatal Resuscitation Program Fund* - The contract, effective July 1, 2010, with American Heart Association (AHA) has designated \$200,000 for use by the Neonatal Resuscitation Program. The designated amount will remain \$200,000 until this program incurs a net loss in any given year, which would result in a reduction of the designated amount. The agreement that governs the program requires that 12.5% of net sales of manuals, publications and educational programming related to the Neonatal Resuscitation Program are paid to AHA in each year.

*Friends of Children Fund* - Represents amounts designated for Friends of Children Fund that have not yet been expended.

*Tomorrow's Children Fund* - Represents amounts designated as Tomorrow's Children Fund Endowment.

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

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

***Cash and Cash Equivalents***

Cash and cash equivalents include all highly liquid investments with maturities of three months or less when purchased. Substantially all of the Academy's cash, which exceeds federally insured limits, is deposited in one financial institution. The Academy has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on these accounts.

***Receivables***

Receivables are amounts due from members, donors and customers, net of allowances for uncollectible amounts. The Academy determines its allowances by considering a number of factors, including the length of time accounts receivable are past due, the Academy's previous collection history, the member, donor, or customer's current ability to pay its obligation to the Academy, and the condition of the general economy as a whole. The Academy sets up an allowance for receivables when they become uncollectible, and payments subsequently received on such receivables are credited to the appropriate allowance for uncollectible amounts.

**NOTE A - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING  
POLICIES – Continued**

***Publication Inventories***

Publication inventories consist of program manuals and publications primarily held for resale or use in educational programs. Inventories are recorded on the FIFO method at lower of cost or net realizable value.

***Prepaid Expenses***

Costs incurred for meetings and educational programs to be held in subsequent fiscal years are deferred and expensed in the years to which they apply.

***Investments***

Investments are measured at fair value in the accompanying statements of financial position. Net realized gains or losses on sales of securities are based on first-in, first-out (FIFO) cost. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Management considers gains and losses on investments, both realized and unrealized, as nonoperating income or expense. These gains and losses are segregated from operating revenues and expenses on the statements of activities.

The Academy's investments are exposed to various risks, such as interest rates, credit and overall market volatility. Due to these risk factors, it is reasonably possible that changes in the value of investments could occur in the near future and materially affect the amounts reported in the financial statements.

***Property and Equipment***

Property and equipment are stated at cost, less accumulated depreciation computed on the straight-line method over the useful lives of the assets ranging from 3 to 40 years. Amortization on assets under capital lease is included with depreciation expense on owned assets. Amortization on these assets is computed over the life of the lease. Leasehold improvements are amortized over the shorter of the lease or the useful life of the improvements.

**NOTE A - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING  
POLICIES – Continued**

***Revenue and Revenue Recognition for Contracts with Customers***

The Academy recognizes revenue under contracts with customers from membership dues, nonmember subscription fees, manuals and publications, and other income sources.

For each revenue stream identified above, revenue recognition is subject to the completion of performance obligations. For each contract with a customer, the Academy determined whether the performance obligations in the contracts are distinct or should be bundled. Factors to be considered include the pattern of transfer, whether members or customers (customers) can benefit from the resources, and whether the resources are readily available. The Academy also performs an analysis to determine if and part of the contract constitutes separate performance obligations. The Academy's revenue is recognized when a given performance obligation is satisfied, either over a period of time or at a given point in time. The Academy recognizes the revenue over a period of time if the customer receives and consumes the benefits that the Academy provided, or if the Academy's performance does not create an asset with an alternative use, and has an enforceable right to payment for the performance. The revenue is recognized at a given point in time when the control of the goods or service is transferred to the customer and when the customer can direct its use and obtain substantial benefit from the goods.

The transaction price is calculated as the amount of consideration to which the Academy expects to be entitled. Payment is typically expected at the point of sale. In some situations, such as meetings and continued education courses, the Academy bills customers and collects payment prior to the satisfaction of the performance obligation, which results in the Academy recognizing contract liabilities upon receipt of payment.

Performance obligations related to each revenue stream are detailed below.

*Membership Dues* – The Academy bills membership dues on anniversary dates. Billings are due upon receipt. Membership dues are recognized as revenue over the 12-month membership period, representing the period over which the Academy satisfies the performance obligation.

*Nonmember Subscription Fees* – The Academy produces and sells the periodical PEDIATRICS, which covers a 12-month period and is billed on their respective subscription anniversary dates. The fees are deferred and recognized as revenue over the subscription period.

*Manuals and Publications* – The Academy generates revenue from a multitude of manuals and publications it produces. Shipping terms are FOB destination and revenue is recognized when orders have been delivered.

**NOTE A - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING  
POLICIES – Continued**

*Other Income* – The Academy generates revenue from other activities including meeting fees, advertising revenue, royalties, and continuing education courses. Revenue is recognized in the period in which services are rendered.

***Contributions and Grant Revenue***

The Academy recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, 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. Consequently, at June 30, 2020, contributions approximating \$2,333,259, have not been recognized in the Academy's statement of activities because the condition(s) on which they depend has not yet been met, with advanced payments of \$1,182,529 recognized in the statement of financial position as refundable advances.

Contracts and grant revenue consist of cost-reimbursable federal, state, foundation, and corporate contracts and grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Academy has incurred expenditures in compliance with specific contract or grant provisions. Amounts that have been awarded but not yet recognized as revenue are treated as conditional contributions and are not reflected in the accompanying financial statements. As of June 30, 2020, the Academy is eligible to receive and recognize \$29,128,394 of these conditional contributions upon the occurrence of future qualifying expenses, with advanced payments of \$2,316,362 recognized in the statement of financial position as deferred contracts and grants.

The Academy has adopted Accounting Standards Update (ASU) No. 2018-08 Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made as management believes the standard improves the usefulness and understandability of the Academy's financial reporting.

Analysis of various provisions of this standard resulted in no significant changes in the way the Academy recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

**NOTE A - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING  
POLICIES – Continued**

***Split-Interest Agreements***

The Academy manages a number of charitable gift annuities for which the Academy has received contributions in exchange for a promise to pay fixed amounts for a specific period of time to the donor, individuals or organizations specified by the donor. The assets received by the Academy are included in its general investments and valued at fair value. The annuity payment liability is recorded at the present value of future cash flows.

***Income Taxes***

The Academy is a not-for-profit Illinois corporation organized for scientific and educational purposes and has received a favorable determination letter from the Internal Revenue Service stating that it is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). The Academy has been classified as an organization that is not a private foundation, as defined in Section 509(a) of the IRC. As such, the Academy is only subject to taxation on its unrelated business income less related expenses under Section 512 of the IRC.

The Academy's unrelated business income results from advertising revenue and other non-member revenue. For the years ended June 30, 2020 and 2019, the Academy's unrelated business expenses exceeded unrelated business income. As a result, no provision for income taxes is necessary.

Management has analyzed the tax positions taken by the Academy and has concluded that as of June 30, 2020, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

***Functional Expenses***

The costs of providing programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

| <u>Expense</u>              | <u>Method of Allocation</u> |
|-----------------------------|-----------------------------|
| Depreciation and facilities | Employee headcount          |
| Information technology      | Employee headcount          |

**NOTE A - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING  
POLICIES – Continued**

***Adoption of New Accounting Pronouncement***

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842). The standard 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 are classified as either finance or operating leases, with the classification affecting the pattern of expense recognition in the statement of activities. Previously, leases were classified as either capital or operating leases, with only capital leases recognized on the statement of financial position. The new guidance was adopted as of July 1, 2019 and applied retrospectively to all periods presented. Accordingly, the Academy has recognized the right-of-use asset and related lease liability based on the present value of the minimum lease payments for its land lease. To establish the initial lease liability, the lease was reported with a total future commitment, discounted for present value of \$7,485,883. The right-of-use assets are amortized over the term of the leases and have a combined carrying value net of accumulated amortization of \$7,331,359 and \$2,717,360 as of June 30, 2020 and 2019, respectively. As a result of the adoption of this standard, the financial information as of June 30, 2019 has been restated as follows: total assets and liabilities increased by \$2,717,360. There was no cumulative effect on the change in net assets.

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



**NOTE A - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING  
POLICIES – Continued**

In May 2014, the FASB issued 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 and services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The Academy adopted the ASU effective July 1, 2019 retrospectively with the cumulative effect of initially applying the guidance recognized at June 30, 2020. Management determined there was no significant change in the timing of revenue recognition.

***Subsequent Events***

The Academy has evaluated subsequent events through September 2, 2020, the date the financial statements were available to be issued.

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, as of March 20, 2020, Gov. J. B. Pritzker ordered the closure of the physical location of every “non-life sustaining” [“non-essential”] business for what may be an extended period of time. We had to close our physical location(s) and all employees must work remotely as they can. In addition, all “live” meetings have been cancelled or postponed. Future potential impacts may include continued disruptions or restrictions on our employees’ ability to work, additional cancellations of “live” meetings and impairment of our ability to obtain contributions and volunteers. The future effects of these issues are unknown.

The Academy applied for and was approved a \$10,000,000 loan under the Paycheck Protection Program created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration. The Academy received the funds on April 20, 2020. The loan accrues interest at 1%, with principal payments of \$559,964 beginning on November 20, 2020, due monthly. The loan matures on April 20, 2022. The Academy may be eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The loan is uncollateralized and is fully guaranteed by the Federal government.

Management is carefully monitoring the situation and evaluating its options during this time. No adjustments have been made to these financial statements as a result of this uncertainty. However, the investment and credit markets have experienced significant volatility. As a result, a portion of the Academy’s investments have experienced significant decline as of year-end.

**NOTE B - PLEDGES RECEIVABLE**

Unconditional promises to give to the Academy are recorded as pledges receivable at fair value based upon discounted estimated future cash flows, net of the allowance for uncollectible accounts. The discount rates for the years ended June 30, 2020 and 2019 ranged from 0.69% to 2.77%.

Pledges receivable as of June 30, 2020 and 2019 include the following:

|                            | <u>2020</u>       | <u>2019</u>         |
|----------------------------|-------------------|---------------------|
| Pledges receivable due in: |                   |                     |
| Less than one year         | \$ 550,656        | \$ 1,650,579        |
| One year to five years     | <u>251,422</u>    | <u>565,427</u>      |
|                            | 802,078           | 2,216,006           |
| Less allowance             | (15,000)          | (15,000)            |
| Less unamortized discount  | <u>(11,912)</u>   | <u>(83,396)</u>     |
| Pledges receivable, net    | <u>\$ 775,166</u> | <u>\$ 2,117,610</u> |

## NOTE C – 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 valuation techniques and inputs used to measure fair value.

The following tables present information about the Academy's assets measured at fair value on a recurring basis at June 30, 2020 and 2019, and the valuation techniques used by the Academy to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Academy has the ability to access. Fair values of the Academy's money market funds, corporate bond funds, equity securities and other mutual funds were based on quoted market prices.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals. Fair value of the assets held for sale was based on the expected sales price negotiated between the Academy and the potential purchaser of the assets (see Note E).

Fair values determined by 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 uses no Level 3 inputs.

In instances where inputs used to measure fair value fall into different levels of the 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.

The following tables set forth by level, within the fair value hierarchy, the Academy's financial assets that were accounted for at fair value on a recurring basis as of June 30, 2020 and 2019. As required by US GAAP, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Academy's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect their placement within the fair value hierarchy levels.

American Academy of Pediatrics  
NOTES TO FINANCIAL STATEMENTS  
Years Ended June 30, 2020 and 2019

**NOTE C - FAIR VALUE MEASUREMENTS – Continued**

| Description               | 2020<br>Fair Value   | Fair Value Measurements as of Reporting Date                     |   |  |
|---------------------------|----------------------|--|---|--|
|                           |                      | Prices in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>Assets</b>             |                      |  |   |  |
| Money market funds        | \$ 99,123            | \$ 99,123  | \$ -  | \$ -   |
| Fixed income securities   |                      |  |   |  |
| Corporate bonds           | 27,770,635           | 27,770,635   |   |  |
| Equity securities         |                      |  |   |  |
| U.S. large cap growth     | 10,160,060           | 10,160,060   |   |  |
| U.S. large cap value      | 17,125,422           | 17,125,422   |   |  |
| U.S. small/mid-cap value  | 3,761,733            | 3,761,733  |   |  |
| International             | 17,439,664           | 17,439,664   |   |  |
| Fixed income mutual funds | 4,115,782            | 4,115,782  |   |  |
| Total recurring assets    | <u>\$ 80,472,419</u> | <u>\$ 80,472,419</u>   | <u>\$ -</u>   | <u>\$ -</u>  |

| Description                 | 2019<br>Fair Value   | Fair Value Measurements as of Reporting Date                     |   |  |
|-----------------------------|----------------------|--|---|--|
|                             |                      | Prices in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>Assets</b>               |                      |  |   |  |
| Money market funds          | \$ 12,202            | \$ 12,202  | \$ -  | \$ -   |
| Fixed income securities     |                      |  |   |  |
| Corporate bonds             | 25,454,357           | 25,454,356   |   |  |
| Equity securities           |                      |  |   |  |
| U.S. large cap growth       | 8,187,891            | 8,187,891  |   |  |
| U.S. large cap value        | 17,503,760           | 17,503,760   |   |  |
| U.S. small/mid-cap growth   | 77,234               | 77,234   |   |  |
| U.S. small/mid-cap value    | 3,554,235            | 3,554,235  |   |  |
| International               | 17,390,608           | 17,390,608   |   |  |
| Fixed income mutual funds   | 3,019,669            | 3,019,669  |   |  |
| Total recurring assets      | <u>\$ 75,199,956</u> | <u>\$ 75,199,956</u>   | <u>\$ -</u>   | <u>\$ -</u>  |
| <b>Non-recurring assets</b> |                      |  |   |  |
| Asset held for sale         | \$ 5,000,000         | \$ -   | \$ 5,000,000  | \$ -   |

**NOTE C - FAIR VALUE MEASUREMENTS – Continued**

Concentrations

At June 30, 2020 and 2019, approximately 78 percent of the Academy’s investments were held in six individual securities, BMO TCH Core Plus Bond Fund, BMO Pyford International Stock Fund, BMO Large-Cap Growth Fund, BMO Large-Cap Value Fund, BMO Low Volatility Equity Fund, and BMO High Yield Bond Fund Class 1.

The Academy does not believe it is exposed to any significant credit risk on investments.

**NOTE D - PROPERTY AND EQUIPMENT**

Property and equipment as of June 30, 2020 and 2019 consists of the following:

|  | <u>2020</u>         | <u>2019</u>         |
|--|---------------------|---------------------|
| Land and improvements                      | \$ 11,867,705       | \$ 11,867,705       |
| Building and improvements                  | 31,419,969          | 31,421,323          |
| Building equipment                         | 6,497,922           | 6,366,467           |
| Office equipment                           | 15,256,217          | 15,283,004          |
| Furniture and fixtures                     | 8,266,996           | 8,266,996           |
| Construction in progress                   | 384,327             | 308,264             |
| Assets held for sale                       |                     | <u>5,000,000</u>    |
| Total property and equipment               | <u>73,693,135</u>   | <u>78,513,759</u>   |
| Less accumulated depreciation              | <u>(19,843,712)</u> | <u>(17,393,070)</u> |
| Property and equipment, net                | <u>\$53,849,423</u> | <u>\$61,120,689</u> |
| <br>                                       |                     |                     |
| Right to use (RTU) lease                   | \$ 7,454,530        | \$ 2,717,390        |
| Less accumulated amortization of RTU lease | <u>(123,171)</u>    |                     |
| Right to use asset, net                    | <u>\$ 7,331,359</u> | <u>\$ 2,717,390</u> |

During 2017, the Academy placed its headquarters building, land and related improvements up for sale. As a result, these assets with a carrying value of approximately \$12,600,000 were written down to their respective fair values of approximately \$5,795,000, based on the expected sales price and associated costs. During 2019, these assets were written down to \$5,000,000 to reflect the contracted selling price. The building was sold in October 2019 for \$4,600,000, net of closing fees.

#### **NOTE E - AGENCY FUND**

Chapter dues are billed and collected by the Academy on behalf of many of its chapters and subsequently remitted to the respective chapters. Cash includes chapter dues collected, but not yet remitted, of \$799,686 and \$1,040,748 as of June 30, 2020 and 2019, respectively.

#### **NOTE F - ENDOWMENT**

##### Endowment

The Academy's endowment consists of 23 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors (the Board) to function as endowments. As required by US GAAP, net assets associated with endowment funds, including funds designated by the Board 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 of Illinois' 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 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 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:

1. The duration and preservation of the fund
2. The purposes of the donor-restricted endowment funds
3. General economic conditions
4. The expected total return from income and the appreciation of investments
5. Other resources of the Academy
6. The investment policies of the Academy

## **NOTE F – ENDOWMENT - 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. Endowment assets include those assets of donor-restricted funds that the Academy must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Academy expects its endowment funds, over time, to provide an average rate of return of approximately 6 percent annually. Actual returns in any given year may vary from this amount.

### Spending Policy and How the Investment Objectives Relate to Spending Policy

The Academy has a policy of appropriating for distribution each year no greater than 5 percent of its endowment fund's fair value over the prior 4 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. 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 allow its endowment to grow an average of 1 percent annually.

### 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 equity-based investments to achieve its long-term return objectives within prudent risk constraints.

### 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 SMIFA requires the Academy to retain as a fund of perpetual duration. There were no deficiencies as of June 30, 2020 or 2019.

American Academy of Pediatrics  
 NOTES TO FINANCIAL STATEMENTS  
 Years Ended June 30, 2020 and 2019

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**NOTE F – ENDOWMENT - Continued**

The Academy’s endowment net asset composition by type of fund as of June 30, 2020 and 2019 are as follows:

|   | <b>2020</b>                          |                                   |                     |
|---|--------------------------------------|-----------------------------------|---------------------|
|   | <b>Without Donor<br/>Restriction</b> | <b>With Donor<br/>Restriction</b> | <b>Total</b>        |
| Board-designated endowment funds  | \$ 1,352,861                         | \$ -                              | \$ 1,352,861        |
| Donor-restricted endowment funds  |                                      |                                   |                     |
| Original donor-restricted gift amount<br>and amounts required to be<br>maintained in perpetuity |                                      | 3,967,307                         | 3,967,307           |
| Accumulated investment gains  |                                      | 265,282                           | 265,282             |
| <b>Total funds</b>  | <b>\$ 1,352,861</b>                  | <b>\$ 4,232,589</b>               | <b>\$ 5,585,450</b> |

  

|   | <b>2019</b>                          |                                   |                     |
|---|--------------------------------------|-----------------------------------|---------------------|
|   | <b>Without Donor<br/>Restriction</b> | <b>With Donor<br/>Restriction</b> | <b>Total</b>        |
| Board-designated endowment funds  | \$ 1,330,970                         | \$ -                              | \$ 1,330,970        |
| Donor-restricted endowment funds  |                                      |                                   |                     |
| Original donor-restricted gift amount<br>and amounts required to be<br>maintained in perpetuity |                                      | 3,945,363                         | 3,945,363           |
| Accumulated investment gains  |                                      | 455,843                           | 455,843             |
| <b>Total funds</b>  | <b>\$ 1,330,970</b>                  | <b>\$ 4,401,206</b>               | <b>\$ 5,732,176</b> |



American Academy of Pediatrics  
NOTES TO FINANCIAL STATEMENTS  
Years Ended June 30, 2020 and 2019

**NOTE F - ENDOWMENT – Continued**

Changes in endowment net assets for the year ended June 30, 2020 and 2019, are as follows:

|  | <b>2020</b>                          |                                   |                     |
|--|--------------------------------------|-----------------------------------|---------------------|
|  | <b>Without Donor<br/>Restriction</b> | <b>With Donor<br/>Restriction</b> | <b>Total</b>        |
| Endowment net assets,<br>beginning of year           | \$ 1,330,970                         | \$ 4,401,206                      | \$ 5,732,176        |
| Investment return:                                   |                                      |                                   |                     |
| Investment income                                    | 27,952                               | 126,641                           | 154,593             |
| Net depreciation (realized and unrealized)           | (6,061)                              | (25,717)                          | (31,778)            |
| Total investment return                              | 21,891                               | 100,924                           | 122,815             |
| Contributions  |                                      | 19,202                            | 19,202              |
| Appropriation of endowment<br>assets for expenditure |                                      | (286,843)                         | (286,843)           |
| Investment fees                                      |                                      | (1,900)                           | (1,900)             |
| <b>Endowment net assets, end of year</b>             | <b>\$ 1,352,861</b>                  | <b>\$ 4,232,589</b>               | <b>\$ 5,585,450</b> |
|  |                                      |                                   |                     |
|  | <b>2019</b>                          |                                   |                     |
|  | <b>Without Donor<br/>Restriction</b> | <b>With Donor<br/>Restriction</b> | <b>Total</b>        |
| Endowment net assets,<br>beginning of year           | \$ 1,263,630                         | \$ 4,368,485                      | \$ 5,632,115        |
| Investment return:                                   |                                      |                                   |                     |
| Investment income                                    | 26,573                               | 119,634                           | 146,207             |
| Net appreciation (realized and unrealized)           | 40,767                               | 128,222                           | 168,989             |
| Total investment return                              | 67,340                               | 247,856                           | 315,196             |
| Contributions  |                                      | 132,696                           | 132,696             |
| Appropriation of endowment<br>assets for expenditure |                                      | (344,953)                         | (344,953)           |
| Investment fees                                      |                                      | (2,878)                           | (2,878)             |
| <b>Endowment net assets, end of year</b>             | <b>\$ 1,330,970</b>                  | <b>\$ 4,401,206</b>               | <b>\$ 5,732,176</b> |

**NOTE G – RESTRICTIONS ON NET ASSETS**

Net assets with donor restrictions for the years ended June 30, 2020 and 2019 are as follows:

|                                    | <u>2020</u>         | <u>2019</u>         |
|------------------------------------|---------------------|---------------------|
| Specific purpose:                  |                     |                     |
| Education activities               | \$ 684,900          | \$ 192,000          |
| Educational publishing             | 958,093             | 734,577             |
| Child health activities            | 3,028,615           | 2,688,258           |
| Membership                         | 110,292             | 247,048             |
| Advocacy                           | 411,900             |                     |
| Fundraising                        |                     | 10,000              |
| Endowment investments:             |                     |                     |
| Tomorrow's Children fund           | 1,745,390           | 1,922,334           |
| Education activities               | 159,410             | 155,035             |
| Child health activities            | 2,113,921           | 2,107,407           |
| Membership                         | 213,868             | 216,430             |
| Net assets with donor restrictions | <u>\$ 9,426,389</u> | <u>\$ 8,273,089</u> |

Net assets released from net assets with donor restrictions for the years ended June 30, 2020 and 2019 are as follows:

|   | <u>2020</u>         | <u>2019</u>         |
|---|---------------------|---------------------|
| Satisfaction of purpose restrictions:       |                     |                     |
| Education activities                        | \$ 403,000          | \$ 562,703          |
| Educational publishing                      | 1,654,819           | 1,553,589           |
| Child health activities                     | 2,044,482           | 2,734,164           |
| Membership                                  | 410,643             | 413,977             |
| Advocacy                                    |                     | 218                 |
| Supporting activities                       | 11,000              | 2,234               |
| Net assets released with donor restrictions | <u>\$ 4,523,944</u> | <u>\$ 5,266,885</u> |

**NOTE H - RETIREMENT PLAN**

The Academy maintains a defined contribution retirement plan covering substantially all full-time employees. The plan contains a 401(k) provision that allows employees to make contributions to the plan on a pretax basis, subject to limitations established by the IRC. The Academy contributes an amount equal to the participant's contributions, up to 3% of the participant's compensation \$1 for \$1 and an additional \$.50 on the \$1 for the contributions from 3% to 6%. In addition, the Academy may make discretionary contributions to the plan up to an amount equal to 5% to 10% of the aggregate annual compensation of all employees, less any forfeitures of nonvested employees' accounts. The Academy made 7% discretionary contributions for the years ended June 30, 2020 and 2019 amounting to \$3,033,048 and \$2,817,633, respectively. Total Academy contributions were \$4,769,908 and \$4,487,298 for the years ended June 30, 2020 and 2019, respectively.

Effective July 1, 2008, the Academy adopted a 457(f) deferred compensation plan (the 457(f) Plan) for the former Executive Director. The Executive Director shall have a fully vested, nonforfeitable interest in his deferred compensation if the Academy dissolves or if he (1) dies, (2) becomes disabled, or (3) is terminated from employment for reasons other than set forth in the employment agreement.

Effective October 1, 2008, the Academy adopted a 457(b) nonqualified deferred compensation plan. The Executive Director, Associate Executive Directors, Department Directors and employees in equivalent positions are eligible to defer compensation and receive employer discretionary contributions into the plan. All participant deferrals and employer credits are 100% vested immediately. Amounts under the 457(b) plan may only be distributed upon a qualifying distribution, which includes separation from service, death, disability or an unforeseeable emergency. Amounts attributed to the 457(f) and 457(b) deferred compensation plan are included on the Statement of Financial Position investments and accrued salary line items.

**NOTE I - OPERATING LEASE**

The Academy leases office space in Washington, D.C. under a noncancelable, renewable lease that expires in November 2033. Rent expense is recognized on a straight-line basis. In addition to monthly rental payments, the Academy must also pay its proportionate share of real estate taxes and common-area maintenance expenses (CAM) on the leased space. The total minimum rental commitments as of June 30, 2020 under this lease, excluding real estate taxes and CAM, are due as follows:

| Years Ending June 30, |                     |
|-----------------------|---------------------|
| 2021                  | \$ 597,553          |
| 2022                  | 592,097             |
| 2023                  | 592,097             |
| 2024                  | 584,575             |
| Thereafter            | <u>5,504,729</u>    |
| Total                 | <u>\$ 7,871,051</u> |

The Academy's right-of-use asset relates entirely to the lease described above, which is classified as an operating lease. The right-of-use asset and related lease liability have been calculated using a borrowing rate of 1.68 percent. The statement of financial position as of June 30, 2019 has been restated to incorporate this lease commitment.

**NOTE J - CAPITAL LEASES**

The Academy has leasehold interests on certain office equipment under agreements that expire at various dates through November 2021. The cost of the leased assets was \$424,632 and \$424,632, and accumulated amortization was \$347,450 and \$205,906 at June 30, 2020 and 2019 respectively.

**NOTE J - CAPITAL LEASES – Continued**

The following is a schedule of the future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments as of June 30, 2020, including in the right to use asset, net and lease liability on the Statement of Financial Position:

|   | Years ending June 30, |                 |
|---|-----------------------|-----------------|
|   | 2021                  | \$ 97,553       |
|   | 2022                  | <u>2,604</u>    |
| Total minimum lease payments              |                       | 100,157         |
| Less amount representing interest         |                       | <u>(1,804)</u>  |
| Total capital lease obligations           |                       | 98,353          |
| Less current maturities                   |                       | <u>(95,775)</u> |
| Total long-term capital lease obligations |                       | <u>\$ 2,578</u> |

The Academy also has various maintenance contracts on certain of these capital leases that are expensed on a monthly basis.

**NOTE K – DEBT**

On February 20, 2015, the Academy entered into a term loan agreement with Huntington National Bank (formerly First Merit Bank) to borrow up to \$15,000,000 to purchase land and begin construction. As of June 30, 2020 and 2019 \$11,000,000 and \$11,132,910 was borrowed and outstanding, respectively. The outstanding balance on this loan is secured by all assets of the Academy. The term loan matures 15 years from the closing of the second loan entered into with First Merit Bank in June 2016. Five years after the closing of the second loan entered into, this term loan will convert to an \$11,000,000 non-amortizing term loan with a 10-year maturity. The effective interest rate was 1.07 percent and 2.77 percent at June 30, 2020 and 2019, respectively. Under the agreement, the Academy is subject to various financial covenants.

**NOTE K – DEBT – Continued**

On June 23, 2016, the Academy entered into a second loan agreement with Huntington National Bank to borrow up to \$35,000,000 for the construction of the new building. As of June 30, 2020 and 2019, \$32,083,333 and \$33,483,333 was borrowed and outstanding, respectively. The outstanding balance on this loan is secured by all assets of the Academy. The loan included a construction draw period of up to two years. The loan has converted to an amortizing term loan for the remainder of the 15 years from the closing of the loan. The effective interest rate was 1.07 percent and 2.77 percent at June 30, 2020 and 2019, respectively.

The balance of the above debt matures as follows:

| Years Ending June 30, |                     |
|-----------------------|---------------------|
| 2021                  | \$ 1,400,000        |
| 2022                  | 1,400,000           |
| 2023                  | 1,400,000           |
| 2024                  | 1,400,000           |
| 2025                  | 1,400,000           |
| Thereafter            | <u>36,083,333</u>   |
| Total                 | <u>\$43,083,333</u> |

Interest expense was \$979,558 and \$1,216,978 for the years ended June 30, 2020 and 2019, respectively.

**NOTE L – AVAILABILITY AND LIQUIDITY**

The following table reflects the Academy’s financial assets as of June 30, 2020 and 2019, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations.

|  | <u>2020</u>          | <u>2019</u>          |
|--|----------------------|----------------------|
| Financial assets at year-end:  |                      |                      |
| Cash and cash equivalents  | \$ 11,978,982        | \$ 6,108,346         |
| Publications and supplements receivable  | 893,110              | 1,090,993            |
| Contracts and grants receivable  | 5,233,806            | 5,183,883            |
| Pledges receivable   | 775,166              | 2,117,610            |
| Royalties receivable   | 2,870,841            | 850,343              |
| Advertising receivable   | 474,110              | 534,243              |
| Meetings receivable  | 817,858              | 633,305              |
| Other receivable   | 507,611              | 672,551              |
| Investments  | <u>80,472,419</u>    | <u>75,199,956</u>    |
| Total financial assets   | 104,023,903          | 92,391,230           |
| Less amounts not available to be used within one year:                                 |                      |                      |
| Contractual or donor-imposed   |                      |                      |
| Receivables with purpose restrictions, net   | \$ 5,233,806         | \$ 5,183,883         |
| Receivable for restricted grants and gifts, net  | 835,500              | 1,238,500            |
| Pledges receivable for operations due after one year, net                              | 239,509              | 482,031              |
| Investments held in annuity trusts   | 741,812              | 608,045              |
| Donor-imposed endowment net assets   | 4,232,589            | 4,401,207            |
| Net assets that are not expected to be spent within one year                           | <u>3,957,980</u>     | <u>2,832,861</u>     |
|  | <u>15,241,196</u>    | <u>14,746,527</u>    |
| Financial assets available to meet general expenditures<br>over the next twelve months | <u>\$ 88,782,707</u> | <u>\$ 77,644,703</u> |

The Academy has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.