AMERICAN ACADEMY OF PEDIATRICS

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2019 AND 2018

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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, which comprise the statements of financial position as of June 30, 2019 and 2018 and the related statements of activities and changes in net assets, 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, 2019 and 2018 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 Matter

As described in Note A to the financial statements, the Academy adopted the provisions of Accounting Standards Update No. 2016-14 for the year ended June 30, 2019. Our opinion is not modified with respect to this matter.

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 6, 2019 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 6, 2019

American Academy of Pediatrics
STATEMENTS OF FINANCIAL POSITION
As of June 30, 2019 and 2018

ASSETS	2019	2018
Cash and cash equivalents	$ 6,108,346	$ 8,056,971
Receivables		
Publications and supplements, net of allowance	1,090,993	1,292,380
Contracts and grants	5,183,883	4,789,037
Pledges receivable, net of allowance	2,117,610	1,458,989
Royalties	850,343	1,096,310
Advertising	534,243	568,997
Other	1,305,856	1,901,826
Publication inventories, net of reserve for obsolescence of $170,000 in 2019 and $143,000 in 2018	1,539,114	1,441,036
Prepaid expenses	3,125,698	2,891,864
Investments	75,199,956	73,677,014
Property and equipment, net	56,120,689	57,934,525
Asset held for sale	5,000,000	5,795,000
TOTAL ASSETS	$ 158,176,731	$ 160,903,949

LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 1,367,913	$ 1,907,992
Chapter dues payable	1,040,748	814,467
Accrued expenses	4,352,073	4,329,746
Accrued salary and related expenses	9,843,607	8,179,943
Deferred revenues		
Membership dues	13,607,669	15,553,966
Pediatrics subscription fees	4,996,130	5,374,774
Pediatrics in Review subscriptions fees and Pediatrics Review and Education Program enrollment fees	3,812,933	4,100,703
Contracts and grants	3,816,319	5,855,844
Meetings	6,132,330	5,418,008
Other	2,109,102	2,164,107
Annuity payment liability	75,770	81,231
Capital lease obligations	242,580	362,023
Loan payable	44,616,243	46,800,000
TOTAL LIABILITIES	96,013,417	100,942,804
Net assets		
Without donor restrictions		
Board-designated		
Sections	3,523,049	3,486,833
Neonatal Resuscitation Program	200,000	200,000
Friends of Children	2,459,321	2,356,742
Tomorrow's Children Fund	1,330,970	1,263,630
Undesignated	46,376,885	44,749,360
Total without donor restrictions	53,890,225	52,056,565
With donor restrictions	8,273,089	7,904,580
TOTAL NET ASSETS	62,163,314	59,961,145
TOTAL LIABILITIES AND NET ASSETS	$ 158,176,731	$ 160,903,949

The accompanying notes are an integral part of these statements.

American Academy of Pediatrics
STATEMENTS OF ACTIVITIES
Years ended June 30, 2019 and 2018

	2019			2018		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenue, gains and other support:						
Membership dues	$ 26,704,450	$ -	$ 26,704,450	$ 25,980,816	$ -	$ 25,980,816
NCE and meetings	7,888,476		7,888,476	7,313,735		7,313,735
Contracts and grants	26,629,135		26,629,135	26,866,975		26,866,975
Advertising	4,424,465		4,424,465	4,677,455		4,677,455
Royalties	3,249,166		3,249,166	3,417,118		3,417,118
Manuals and publications	11,234,118		11,234,118	12,146,749		12,146,749
Subscriptions	20,385,509		20,385,509	19,964,959		19,964,959
Continuing education	8,634,397		8,634,397	8,076,850		8,076,850
Investment income	1,704,093	119,634	1,823,727	1,575,475	111,019	1,686,494
Contributions	1,427,725	5,387,538	6,815,263	2,858,134	4,803,596	7,661,730
Release from restrictions	5,266,885	(5,266,885)	-	5,025,029	(5,025,029)	-
Other income	1,356,197		1,356,197	1,808,758		1,808,758
Total revenue, gains and other support	118,904,616	240,287	119,144,903	119,712,053	(110,414)	119,601,639
Expenses:						
Salaries	45,767,498		45,767,498	44,007,148		44,007,148
Temporary help	195,726		195,726	264,156		264,156
Fringe benefits	14,273,550		14,273,550	15,038,547		15,038,547
Meetings	4,009,391		4,009,391	4,458,181		4,458,181
Travel	6,038,325		6,038,325	6,496,046		6,496,046
Meals	4,051,456		4,051,456	4,278,511		4,278,511
Printing	7,300,625		7,300,625	7,535,247		7,535,247
Postage and freight	2,006,474		2,006,474	2,087,550		2,087,550
Software	1,511,047		1,511,047	1,358,429		1,358,429
Professional services	4,049,657		4,049,657	4,707,597		4,707,597
Building and utilities	6,726,042		6,726,042	6,433,284		6,433,284
Supplies	1,124,342		1,124,342	951,381		951,381
Support of other organizations	167,961		167,961	195,104		195,104
Commissions	722,343		722,343	765,752		765,752
Honoraria	1,761,596		1,761,596	1,979,643		1,979,643
Consultant	6,344,367		6,344,367	6,692,558		6,692,558
Bank charges	1,473,769		1,473,769	1,397,679		1,397,679
Grants made	1,939,258		1,939,258	2,014,965		2,014,965
Subcontracts	6,557,782		6,557,782	6,672,986		6,672,986
Interest	1,261,485		1,261,485	835,001		835,001
Miscellaneous	1,195,698		1,195,698	1,306,483		1,306,483
Total expenses	118,478,392	-	118,478,392	119,476,248	-	119,476,248
Change in net assets due to operations	426,224	240,287	666,511	235,805	(110,414)	125,391
Impairment on asset held for sale, including commissions	(1,045,000)		(1,045,000)			-
Net realized and unrealized gain	2,452,436	128,222	2,580,658	1,951,560	171,410	2,122,970
Changes in net assets	1,833,660	368,509	2,202,169	2,187,365	60,996	2,248,361
Beginning net assets	52,056,565	7,904,580	59,961,145	49,869,200	7,843,584	57,712,784
Ending net assets	$ 53,890,225	$ 8,273,089	$ 62,163,314	$ 52,056,565	$ 7,904,580	$ 59,961,145

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**
Expenses											
Salaries and fringe benefits	$ 5,602,854	$ 13,673,284	$ 19,408,463	$ 1,735,674	$ 3,208,012	$ 2,510,317	**$ 46,138,604**	$ 12,359,729	$ 1,738,441	**$ 14,098,170**	**$ 60,236,774**
Travel and meals	6,186,255	747,750	5,717,944	288,395	426,811	90,407	**13,457,562**	564,362	77,248	**641,610**	**14,099,172**
Printing and postage	696,734	7,030,302	722,724	221,346	18,782	120,851	**8,810,739**	418,234	78,126	**496,360**	**9,307,099**
Professional services, consulting and subcontracts	1,143,783	3,081,150	10,328,648	129,056	56,885	255,797	**14,995,319**	1,950,307	6,180	**1,956,487**	**16,951,806**
Building, depreciation, interest and software	337,456	88,680	93,140	11,940	1,253,952	6,258	**1,791,426**	7,704,977	2,171	**7,707,148**	**9,498,574**
Other expenses	1,750,309	1,331,064	2,713,123	811,005	86,895	192,852	**6,885,248**	1,429,150	70,569	**1,499,719**	**8,384,967**
Facilities allocation	465,696	1,143,992	1,518,573	151,857	60,743	202,476	**3,543,337**	(3,664,823)	121,486	**(3,543,337)**	**-**
Information technologies allocation	792,417	1,946,589	2,583,969	258,397	361,756	344,529	**6,287,657**	(6,494,375)	206,718	**(6,287,657)**	**-**
Total expenses	$ 16,975,504	$ 29,042,811	$ 43,086,584	$ 3,607,670	$ 5,473,836	$ 3,723,487	**$ 101,909,892**	$ 14,267,561	$ 2,300,939	**$ 16,568,500**	**$ 118,478,392**

The accompanying notes are an integral part of these statements.

American Academy of Pediatrics
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2018

	Education activities	Educational publishing	Child health activities	Membership	Advocacy	Research	**Program sub-total**	Management and general	Fundraising	**Supporting sub-total**	**Total**
Expenses											
Salaries and fringe benefits	$ 5,352,765	$ 13,191,479	$ 18,629,404	$ 1,666,661	$ 3,325,897	$ 2,500,631	**$ 44,666,837**	$ 12,968,987	$ 1,674,027	**$ 14,643,014**	**$ 59,309,851**
Travel and meals	6,592,345	1,001,530	5,973,139	269,886	546,933	144,899	**14,528,732**	603,098	100,908	**704,006**	**15,232,738**
Printing and postage	780,133	7,467,903	457,228	282,875	21,636	93,524	**9,103,299**	444,121	75,377	**519,498**	**9,622,797**
Professional services, consulting and subcontracts	1,380,076	3,301,226	10,301,005	171,657	77,791	524,587	**15,756,342**	2,207,523	109,276	**2,316,799**	**18,073,141**
Building, depreciation, interest and software	270,304	94,864	138,519	9,291	1,225,479	7,208	**1,745,665**	6,877,151	3,898	**6,881,049**	**8,626,714**
Other expenses	1,716,605	1,389,232	2,902,878	803,612	139,720	131,049	**7,083,096**	1,489,750	38,161	**1,527,911**	**8,611,007**
Facilities allocation	441,186	968,878	1,323,557	147,062	51,904	181,665	**3,114,252**	(3,218,060)	103,808	**(3,114,252)**	**-**
Information technologies allocation	839,772	2,062,917	2,738,385	273,839	383,374	365,118	**6,663,405**	(6,882,476)	219,071	**(6,663,405)**	**-**
Total expenses	$ 17,373,186	$ 29,478,029	$ 42,464,115	$ 3,624,883	$ 5,772,734	$ 3,948,681	**$ 102,661,628**	$ 14,490,094	$ 2,324,526	**$ 16,814,620**	**$ 119,476,248**

The accompanying notes are an integral part of these statements.

American Academy of Pediatrics
STATEMENTS OF CASH FLOWS
Years ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Increase in net assets	$ 2,202,169	$ 2,248,361
Adjustments to reconcile increase in net assets to net cash used in operating activities		
Depreciation	2,278,469	2,743,435
Impairment on assets held for sale	795,000	
Provision for bad debt expense	11,250	24,572
Loss on disposal of equipment		4,514
Net realized and unrealized gains on investments	(2,580,658)	(2,122,970)
Contributions restricted for long-term purposes	(132,696)	(78,002)
Change in assets and liabilities		
Receivables	13,361	823,434
Publication inventories	(98,078)	12,928
Prepaid expenses	(233,834)	441,056
Accounts payable, trade	(540,079)	(1,060,099)
Accrued expenses	22,327	(5,419,740)
Accrued salary and related expenses	1,663,664	(2,282,448)
Deferred revenues	(3,992,919)	(328,235)
Annuity payment liability	(5,461)	9,397
Net cash used in operating activities	(597,485)	(4,983,797)
Cash flows from investing activities		
Purchases of property and equipment	(445,406)	(26,941,029)
Proceeds from maturities and sales of investments	18,433,432	16,508,267
Purchases of investments	(17,375,721)	(15,575,215)
Net cash provided by (used in) investing activities	612,305	(26,007,977)
Cash flows from financing activities		
Contributions restricted for long-term purposes	132,696	78,002
Cash received on behalf of chapters	5,108,336	5,498,139
Cash remitted to chapters	(4,882,049)	(5,514,179)
Cash (payment) received from long term loan	(2,183,757)	30,684,000
Principal payments on capital lease obligations	(138,671)	(125,936)
Net cash (used in) provided by financing activities	(1,963,445)	30,620,026
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,948,625)	(371,748)
Cash and cash equivalents at beginning of year	8,056,971	8,428,719
Cash and cash equivalents at end of year	$ 6,108,346	$ 8,056,971
Supplemental schedules of non-cash financing activities		
Capital lease obligations incurred for the acquisition of office equipment	$ 19,228	$ 377,141
Property and equipment additions included in accrued expenses	$ -	$ 542,773
Long term loan entered into for purchase of land/headquarters	$ -	$ 46,800,000
Interest paid on long term loan	$ 1,246,312	$ 826,150

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, where by 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 50 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 Recognition

An unconditional promise of a contribution (pledge or gift) from a donor is recognized at the time of receipt of the promise. Gifts of cash and other assets are presented as revenue of funds without restriction unless received with donor stipulations limiting the use of the donated assets. Contributions to be received after one year are initially recorded at fair value. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Membership dues are billed on anniversary dates. Billings are due upon receipt. These dues are recognized as revenue over the membership period.

Nonmember subscription fees for PEDIATRICS, the Academy's periodical, cover a 12-month period and are billed on their respective subscription anniversary dates. The fees are deferred and recognized as revenue over the subscription period.

Manuals and Publications revenues are recognized when the order is shipped.

Contracts and grants received are deferred until the related costs are incurred. To the extent reimbursable costs exceed cash received, a receivable is recorded from the grantor or contractor.

Meeting fees, advertising revenue, royalties and continuing education revenue are recognized in the year in which they are earned.

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.

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

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, 2019 and 2018, 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, 2019, 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:

Expense	Method of Allocation
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 August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities*. This standard requires net assets to be classified in two categories, net assets without donor restrictions and net assets with donor restrictions, rather than the three previous classifications. In addition, the underwater portion of donor-restricted endowments is now reported as net assets with donor restrictions. This standard also requires changes in the way certain information is aggregated and reported by the Academy, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification. The standard also clarifies the definition of management and general and prohibits certain expenses from being allocated out of management and general. The Academy adopted the ASU for the year ended June 30, 2019, applied retrospectively to all years presented. As a result of the adoption of this standard, the financial information for the year ended June 30, 2018 has been restated, as follows: program expenses increased approximately $11,000,000 from the amount previously reported, with a corresponding decrease in support services expenses. Additionally, net assets of $4,847,618 previously reported as temporarily restricted net assets and net assets of $3,056,962 previously reported as permanently restricted net assets have been combined into net assets with donor restrictions.

Upcoming Accounting Changes

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 new guidance will be effective for the Academy's year ending June 30, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods: retrospectively to each period presented (full retrospective method) or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). The Academy will most likely adopt the cumulative catch-up transition method if implementation of the standard does not result in a significant adjustment. During management's preliminary evaluation of the various revenue contracts, management determined there would not be a significant impact on the timing of recognizing revenue. Additionally, there will be new disclosures related to revenue from contracts with customers.

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

In February 2016, the FASB 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 June 30, 2021 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have a significant impact on the Academy's financial statements as a result of the leases for office space classified as operating leases. The leases are expected to significantly increase assets and lease liabilities upon adoption. There is not expected to be a significant impact on expenses or cash flows.

In June 2018, the FASB issued Accounting Standards Update 2018-08, *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 will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Academy's year ending June 30, 2020 and will be applied on a modified prospective basis. The Academy does not expect the standard to have a significant impact on the timing of revenue recognition for government grants and contracts but has not yet determined the impact on the timing of recognition of foundation and individual grants and contributions.

Subsequent Events

The Academy has evaluated subsequent events through September 6, 2019, the date the financial statements were available to be issued. The Academy is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

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 year ended June 30, 2019 ranged from 0.69% to 2.77% and for the year ended June 30, 2018 ranged from 0.54% to 2.77%.

Pledges receivable as of June 30, 2019 and 2018 include the following:

	2019	2018
Pledges receivable due in		
Less than one year	$ 1,650,579	$ 793,688
One year to five years	565,427	789,284
Five years to ten years		2,150
	2,216,006	1,585,122
Less allowance	15,000	15,000
Less unamortized discount	83,396	111,133
Pledges receivable, net	$ 2,117,610	$ 1,458,989

NOTE C – ACCOUNTS RECEIVABLE

Changes in the Academy’s allowance for uncollectible amounts for publications and supplements receivables are as follows for the years ended June 30:

	2019	2018
Beginning balance	$ 31,770	$ 32,143
Bad debt expense	11,250	24,572
Accounts written-off	(16,731)	(24,945)
Ending balance	$ 26,289	$ 31,770

NOTE D – 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, 2019 and 2018, and the valuation techniques used by the Academy to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets 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, 2019 and 2018. 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.

NOTE D - FAIR VALUE MEASUREMENTS – Continued

Description	2019 Fair Value	Fair Value Measurements as of Reporting Date: Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Money market funds	$ 12,202	$ 12,202	$ -	$ -
Fixed income securities				
Corporate bond funds	25,454,357	25,454,357		
Equity securites				
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	$ 75,199,956	$ 75,199,956	$ -	-
Non-recurring assets				
Asset held for sale	$ 5,000,000	$ -	$ 5,000,000	$ -

NOTE D - FAIR VALUE MEASUREMENTS – Continued

		Fair Value Measurements as of Reporting Date		
	2018	Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
Description	Fair Value	(Level 1)	(Level 2)	(Level 3)
Assets				
Money market funds	$ 34,169	$ 34,169	$ -	$ -
Fixed income securities				
Corporate bond funds	24,178,556	24,178,556		
Equity securites				
U.S. large cap growth	7,069,926	7,069,926		
U.S. large cap value	15,984,038	15,984,038		
U.S. small/mid-cap growth	70,278	70,278		
U.S. small/mid-Cap value	3,221,362	3,221,362		
International	17,251,958	17,251,958		
Fixed income mutual funds	5,866,727	5,866,727		
Total recurring assets	$ 73,677,014	$ 73,677,014	$ -	$ -
Non-recurring assets				
Asset held for sale	$ 5,795,000	$ -	$ 5,795,000	$ -

Concentrations

At June 30, 2019 and 2018, approximately 78 percent of the Academy's investments were held in six individual securities, BMO TCH Core Plus Bond Fund, BMO Pyrford International Stock Fund, BMO Large-Cap Growth Fund, BMO Large-Cap Value Fund, BMO Low Volatility Equity Fund, BMO Short-Term Income 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 E - PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2019 and 2018 consists of the following:

	2019	2018
Land and improvements	$11,867,705	$14,432,334
Building and improvements	31,421,323	40,297,985
Building equipment	6,366,467	6,251,321
Office equipment	15,283,004	15,267,234
Furniture and fixtures	8,266,996	8,122,823
Construction in progress	308,264	261,216
Assets held for sale	5,000,000	5,795,000
Total property and equipment	78,513,759	90,427,913
Less accumulated depreciation	17,393,070	26,698,388
Property and equipment, net	$61,120,689	$63,729,525

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, which is the current contracted selling price.

NOTE F - 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 $1,040,748 and $814,467 as of June 30, 2019 and 2018, respectively.

NOTE G - ENDOWMENT

Endowment

The Academy's endowment consists of approximately 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 G – 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, 2019 or 2018.

NOTE G – ENDOWMENT - Continued

The Academy's endowment net asset composition by type of fund as of June 30, 2019 and 2018 are as follows:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 1,330,970	$ -	$ 1,330,970
Donor-restricted endowment funds		4,401,206	4,401,206
Total funds	$ 1,330,970	$ 4,401,206	$ 5,732,176

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 1,263,630	$ -	$ 1,263,630
Donor-restricted endowment funds		4,368,485	4,368,485
Total funds	$ 1,263,630	$ 4,368,485	$ 5,632,115

NOTE G - ENDOWMENT – Continued

Changes in endowment net assets for the year ended June 30, 2019 and 2018, are as follows:

	2019		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Endowment net assets, 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 assets for expenditure		(344,953)	(344,953)
Investment fees		(2,878)	(2,878)
Endowment net assets, end of year	$ 1,330,970	$ 4,401,206	$ 5,732,176

	2018		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Endowment net assets, beginning of year	$ 1,206,858	$ 4,220,153	$ 5,427,011
Investment return:			
Investment income	22,102	111,019	133,121
Net appreciation (realized and unrealized)	34,760	171,410	206,170
Total investment return	56,862	282,429	339,291
Contributions		78,002	78,002
Appropriation of endowment assets for expenditure		(207,639)	(207,639)
Investment fees	(90)	(4,460)	(4,550)
Endowment net assets, end of year	$ 1,263,630	$ 4,368,485	$ 5,632,115

NOTE H – RESTRICTIONS ON NET ASSETS

Net assets with donor restrictions for the years ended June 30, 2019 and 2018 are as follows:

	2019	2018
Specific purpose:		
Education activities	$ 192,000	$ 323,898
Educational publishing	734,577	907,500
Child health activities	2,688,257	2,107,204
Membership	247,048	177,292
Management and general		20,201
Fundraising	10,000	
Endowment investments:		
Tomorrow's children endowment	1,922,335	2,068,136
Education activities	155,035	149,520
Child health activities	2,107,407	1,938,352
Membership	216,430	212,477
Net assets with donor restrictions	$ 8,273,089	$ 7,904,580

Net assets released from net assets with donor restrictions for the years ended June 30, 2019 and 2018 are as follows:

	2019	2018
Satisfaction of purpose restrictions:		
Education activities	$ 562,703	$ 510,419
Educational publishing	1,553,589	1,668,472
Child health activities	2,734,164	2,486,075
Membership	413,977	312,473
Advocacy	218	41,791
Supporting activities	2,234	5,799
Net assets released with donor restrictions	$ 5,266,885	$ 5,025,029

NOTE I - 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, 2019 and 2018 amounting to \$2,817,633 and \$2,854,817 in 2019 and 2018, respectively. Total Academy contributions were \$4,487,298 and \$4,635,595 for the years ended June 30, 2019 and 2018, 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.

NOTE J - OPERATING LEASE

The Academy leases office space in Washington, D.C. under a noncancelable, renewable lease that expires in June 2023. 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, 2019 under this lease, excluding real estate taxes and CAM, are due as follows:

Years Ending June 30,	
2020	$ 677,418
2021	694,385
2022	711,688
2023	729,553
Total	$ 2,813,044

Rental expense amounted to $1,076,006 and $1,045,045 for the years ended June 30, 2019 and 2018, respectively.

NOTE K - 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 $435,797, and accumulated amortization was $205,906 and $92,895 at June 30, 2019 and 2018 respectively.

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, 2019:

2020	$ 152,462
2021	97,553
2022	2,604
Total minimum lease payments	252,619
Less amount representing interest	10,039
Total capital lease obligations	242,580
Less current maturities	144,227
Total long-term capital lease obligations	$ 98,353

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

NOTE L – DEBT

On February 20, 2015, the Academy entered into a term loan agreement with First Merit Bank to borrow up to $15,000,000 to purchase land and begin construction. Loan balance borrowed and outstanding as of June 30, 2019 and 2018 was $11,132,910 and $11,800,000, 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 2.77 percent and 2.36 percent at June 30, 2019 and 2018, respectively. Under the agreement, the Academy is subject to various financial covenants.

On June 23, 2016, the Academy entered into a second loan agreement with First Merit Bank to borrow up to $35,000,000 for the construction of the new building. Loan balance borrowed and outstanding as of June 30, 2019 and 2018 was $33,483,333 and $35,000,000, 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 2.77 percent and 2.37 percent at June 30, 2019 and 2018, respectively.

The balance of the above debt matures as follows:

FY 2020	$	1,400,000
FY 2021		1,400,000
FY 2022		1,400,000
FY 2023		1,400,000
FY 2024		1,400,000
Thereafter		37,616,243
Total:	$	44,616,243

Interest expense was $1,246,312 and $826,150 for the years ended June 30, 2019 and 2018, respectively.

NOTE M – AVAILABILITY AND LIQUIDITY

The following table reflects the Academy's financial assets as of June 30, 2019 and 2018, 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.

	2019	2018
Financial assets at year-end:		
Cash and cash equivalents	$ 6,108,346	$ 8,056,971
Publications and supplements receivable	1,090,993	1,292,380
Contracts and grants receivable	5,183,883	4,789,037
Pledges receivable	2,117,610	1,458,989
Royalties receivable	850,343	1,096,310
Advertising receivable	534,243	568,997
Other	1,305,856	1,901,826
Investments	75,199,956	73,677,014
Total financial assets	92,391,230	92,841,524
Less amounts not available to be used within one year:		
Contractual or donor-imposed		
Receivables with purpose restrictions, net	$ 5,183,883	$ 4,789,037
Pledges receivable for restricted gifts, net	1,238,500	339,750
Pledges receivable for operations due after one year, net	482,031	680,301
Investments held in annuity trusts	608,045	522,401
Donor-imposed and board designated endowment net assets	4,401,207	4,368,485
Net assets not expected to be spent within one year	2,832,861	2,257,670
	14,746,527	12,957,644
Financial assets available to meet general expenditures over the next twelve months	$77,644,703	$79,883,880

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