



BULLETIN
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SUBJ: AOA Annual Audit Report for the year ended Dec. 31, 2017

FROM: William T. Reynolds, O.D.

TO: Affiliated Presidents, Presidents-Elect, Secretary-Treasurers, & Executive Directors

DIST: AOA-O, T, Group/Center & Section Chairs, AOA Staff

BACKGROUND:

Attached is the Auditor's Report from our independent auditors, BKD, LLP, for the year ended Dec. 31, 2017. AOA received an unqualified opinion for the 2017 audit, which is rendered when there are no material scope restrictions or departures from Generally Accepted Accounting Principles (GAAP). This signifies that AOA has accurately depicted its financial position for the year ended Dec. 31, 2017.

In 2017, on behalf of member doctors and students, the AOA Board of Trustees put in place a balanced budget and, through continuous financial oversight and adherence to strict accounting standards, ensured that the organization met operational objectives and goals, as well as key budgeting targets. Revenues increased by nearly 8 percent over the previous year, driven by strong investment returns, membership dues growth and increased support from industry. There was a 13 percent increase in expenses due to the organization's active efforts in the federal, state and payer and media advocacy arenas; the impactful nationwide advertising under the "Think About Your Eyes, presented by the AOA" banner, which spotlighted the importance of annual eye exams on TV, radio, the internet and in print; and the successful launch of AOA+ during Optometry's Meeting®; and other initiatives connected to the United in Possibilities membership growth campaign.

If you have any questions, comments or concerns regarding the attached Auditor's Report, please feel free to contact me at WReynolds@aoa.org, or Ryan Hayes, chief financial officer, at RPHayes@aoa.org.

NO ACTION REQUIRED

American Optometric Association

(Parent-Only)

Independent Auditor's Report and Financial Statements

December 31, 2017 and 2016

American Optometric Association
(Parent-Only)
December 31, 2017 and 2016

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Independent Auditor's Report

Board of Trustees
American Optometric Association
St. Louis, Missouri

We have audited the accompanying parent-only financial statements of American Optometric Association (the "Association"), which comprise the parent-only statements of financial position as of December 31, 2017 and 2016, and the related parent-only statements of activities and cash flows for the years then ended, and the related notes to the parent-only financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these parent-only 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 parent-only 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 parent-only financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the parent-only financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the parent-only 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 Association's preparation and fair presentation of the parent-only 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 Association'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 parent-only 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 parent-only financial statements referred to above present fairly, in all material respects, the parent-only financial position of American Optometric Association as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

We draw attention to Note 1 of the financial statements, which describes the basis of presentation. These financial statements are prepared by the Association as parent-only financial statements. Parent-only financial statements are not intended to be the general-purpose financial statements and should be read in conjunction with the Association's consolidated financial statements. Our opinion is not modified with respect to this matter.

Other Matter

Our report is intended solely for the information and use of management and the Board of Trustees of the Association and is not intended to be, and should not be, used by anyone other than these specified parties.

BKD, LLP

St. Louis, Missouri
May 2, 2018

American Optometric Association
(Parent-Only)
Statements of Financial Position
December 31, 2017 and 2016

Assets

	2017	2016
Current Assets		
Cash	\$ 844,337	\$ 1,066,837
Investments	13,368,436	11,784,635
Dues receivable, net of allowance \$639,375 in 2017 and \$528,172 in 2016	2,833,551	2,327,629
Accounts receivable, net of allowance \$88,310 in 2017 and \$8,990 in 2016	97,151	62,489
Contributions and other receivables, net of allowance, \$30,984 in 2017 and \$0 in 2016	430,430	297,857
Printed materials for resale	33,130	37,143
Other prepaid expenses	442,048	448,274
Total current assets	18,049,083	16,024,864
Restricted Cash	-	1,039,668
 Property and Equipment, At Cost		
Land	978,647	978,647
Buildings and improvements	10,974,500	10,657,137
Furniture and equipment	7,012,975	6,464,936
	18,966,122	18,100,720
Less accumulated depreciation	6,851,445	5,404,070
	12,114,677	12,696,650
Total assets	\$ 30,163,760	\$ 29,761,182

Liabilities and Net Assets

	<u>2017</u>	<u>2016</u>
Current Liabilities		
Bank line of credit	\$ 1,500,000	\$ -
Accounts payable	824,773	939,690
Accrued expenses	673,226	647,741
Current maturities of long-term debt	533,333	533,333
Deferred revenue	<u>1,100,665</u>	<u>909,211</u>
Total current liabilities	4,631,997	3,029,975
Investment in Subsidiary	1,331,075	1,762,318
Long-Term Debt, Net	6,896,030	7,426,666
Interest Rate Swap Agreement	<u>173,230</u>	<u>273,694</u>
Total liabilities	<u>13,032,332</u>	<u>12,492,653</u>
Net Assets		
Unrestricted		
Designated	696,603	2,922,846
Undesignated	<u>16,184,709</u>	<u>14,125,183</u>
Total unrestricted	16,881,312	17,048,029
Temporarily restricted	<u>250,116</u>	<u>220,500</u>
Total net assets	<u>17,131,428</u>	<u>17,268,529</u>
Total liabilities and net assets	<u><u>\$ 30,163,760</u></u>	<u><u>\$ 29,761,182</u></u>

American Optometric Association
(Parent-Only)
Statements of Activities
Years Ended December 31, 2017 and 2016

	2017	2016
Revenues		
Member dues	\$ 17,851,054	\$ 17,321,529
Membership services	765,738	841,062
Building initiative contributions	125,100	114,850
Section income	939,831	899,451
Sales of printed materials	472,328	605,575
Advertising and subscriptions	207,856	328,295
Royalty income	7,076	7,516
Registration and booth rentals	4,306,928	3,696,439
Rental income	258,673	258,673
Investment return	1,639,510	717,372
Other income	381,139	268,493
Net assets released from restriction	47,834	-
	27,003,067	25,059,255
Expenses		
Membership services	16,963,244	15,936,017
Cost of printed materials	345,856	422,984
Publications	1,050,703	1,115,598
Annual Congress	4,166,165	2,199,127
	22,525,968	19,673,726
Occupancy expenses	1,840,310	1,120,309
General administration	3,234,749	3,713,789
	5,075,059	4,834,098
	27,601,027	24,507,824
Change in Net Assets From Operations	(597,960)	551,431
Equity in net income of subsidiary	431,243	596,972
	(166,717)	1,148,403
Increase (Decrease) in Unrestricted Net Assets	(166,717)	1,148,403

American Optometric Association
(Parent-Only)
Statements of Activities (Continued)
Years Ended December 31, 2017 and 2016

	2017	2016
Change in Temporarily Restricted Net Assets		
Contributions received	\$ 77,450	\$ 220,500
Net assets released from restriction	47,834	-
Increase in temporarily restricted net assets	29,616	220,500
Change in Net Assets	(137,101)	1,368,903
Net Assets, Beginning of Year	17,268,529	15,899,626
Net Assets, End of Year	\$ 17,131,428	\$ 17,268,529

American Optometric Association
(Parent-Only)
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Operating Activities		
Change in net assets	\$ (137,101)	\$ 1,368,903
Items not requiring (providing) operating activities cash flows		
Depreciation and amortization	1,495,098	785,006
Gain disposition of property and equipment	-	(4,050)
Realized and unrealized gains on investments	(1,392,816)	(484,232)
Equity in gain of subsidiary	(431,243)	(596,972)
Provision for bad debt	123,356	8,447
Change in interest rate swap valuation	(100,464)	21,648
Changes in		
Dues receivable	(518,974)	(5,695)
Accounts receivable	(144,966)	183,083
Contributions and other receivables	(132,573)	(120,607)
Printed material for resale	4,013	38,812
Other prepaid expenses	6,226	64,163
Accounts payable	(221,929)	(496,588)
Accrued expenses	25,485	(99,493)
Deferred revenue	191,454	(30,441)
	<u>(1,234,434)</u>	<u>631,984</u>
Net cash provided by (used in) operating activities		
Investing Activities		
Purchase of property and equipment	(803,416)	(7,168,389)
Proceeds from sale of equipment	-	4,050
Purchase of investments	(4,375,604)	(5,698,672)
Proceeds from sales of investments	4,184,619	4,514,389
	<u>(994,401)</u>	<u>(8,348,622)</u>
Net cash used in investing activities		
Financing Activities		
Proceeds from issuance of long-term debt	-	8,000,000
Payments on long-term debt	(533,333)	-
Long-term debt proceeds restricted until spent	-	(1,039,668)
Restricted long-term debt proceeds returned	1,039,668	-
Payments for debt issue costs	-	(11,932)
Borrowings on line of credit agreement	2,500,000	-
Payments on line of credit agreement	(1,000,000)	-
	<u>2,006,335</u>	<u>6,948,400</u>
Net cash provided by financing activities		
Decrease in Cash	(222,500)	(768,238)
Cash, Beginning of Year	<u>1,066,837</u>	<u>1,835,075</u>
Cash, End of Year	<u>\$ 844,337</u>	<u>\$ 1,066,837</u>
Supplemental Cash Flows Information		
Interest paid	\$ 336,737	\$ -
Property and equipment in accounts payable	\$ 107,012	\$ 132,480

American Optometric Association

(Parent-Only)

Notes to Financial Statements

December 31, 2017 and 2016

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

American Optometric Association (the “Association” or “AOA”) is the national not-for-profit professional association of optometrists. The Association’s primary source of revenue is membership dues. The Association extends unsecured credit to its customers on purchases of printed materials.

Basis of Presentation

In the parent-only financial statements, the equity of AOAExcel, Inc., the Association’s wholly-owned for-profit subsidiary, has been included in the statements of financial position as investment in subsidiary. The Association’s share of net income of its unconsolidated subsidiary is included in the statements of activities using the equity method. The net assets and operations of Optometry Cares – The AOA Foundation and American Optometric Association Political Action Committee, affiliated organizations, are not reported. These parent-only financial statements should be read in conjunction with the Association’s consolidated financial statements.

Use of Estimates

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

Cash

At December 31, 2017, the Association’s cash accounts exceeded federally insured limits by approximately \$732,000.

At December 31, 2016, the Association had restricted cash of \$1,039,668. This cash was a portion of the proceeds received from the long-term debt that was restricted by the lender until the Association either submitted documentation of construction costs or returned the unspent funds. During 2017, the Association submitted documentation of construction costs and the unspent funds were returned to the lender.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. The Association considers money market funds and all highly liquid debt instruments purchased with a maturity of three months or less held by the investment manager as part of the investment portfolio. Other investments are valued at the lower of cost or fair value.

American Optometric Association (Parent-Only)

Notes to Financial Statements December 31, 2017 and 2016

Investment return includes interest and realized and unrealized gains and losses on investments carried at fair value.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted revenue and expenses.

Dues and Accounts Receivable

Dues receivable are stated at the amount billed to members by affiliated associations. The Association provides an allowance for doubtful accounts, which is based upon a review of outstanding dues obligations, historical collection information and existing economic conditions. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the member.

Accounts receivable are stated at the amount billed. The Association provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are ordinarily due 30 days after the issuance of the invoice. Accounts past due more than 120 days are considered delinquent. Delinquent receivables are written off based on the individual credit evaluation and specific circumstances of the customer.

Printed Materials for Sale

Printed materials for sale are stated at the lower of cost or market. Costs are determined using the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and are depreciated over the estimated useful life of each asset. Annual depreciation is computed using the straight-line method.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Building and improvements	15-40 years
Furniture and equipment	5-10 years

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Association has been limited by donors to a specific time period or purpose.

American Optometric Association
(Parent-Only)
Notes to Financial Statements
December 31, 2017 and 2016

Revenue Recognition

Revenues from member dues and other sources are recognized in the period to which it relates.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

Deferred Revenue

Revenues from industry funding, accreditation and Optometry's Meeting® exhibit fees are recognized in the period to which they relate. Fees billed and collected in advance are recorded as deferred revenue.

Fair Value of Financial Instruments

The fair value of financial instruments included on the parent-only statements of financial position are not materially different from their carrying values.

Investment in Subsidiary

Investment in subsidiary includes the equity interest in AOAEExcel, Inc., the Association's wholly-owned for-profit subsidiary.

Income Taxes

The Association is exempt from income taxes under Section 501 of the *Internal Revenue Code* and a similar provision of state law. However, the Association is subject to federal income tax on any unrelated business income.

The Association files tax returns in the U.S. federal jurisdiction.

American Optometric Association

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Notes to Financial Statements

December 31, 2017 and 2016

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program and management and general categories based on the best estimates of management.

Subsequent Events

Subsequent events have been evaluated through May 2, 2018, which is the date the parent-only financial statements were available to be issued.

Note 2: Investments and Investment Return

Investments at December 31 consisted of the following:

	2017	2016
Common stocks, diverse industry sectors	\$ 6,613,569	\$ 5,700,067
Preferred stocks, financial sector	-	74,961
Money market funds	155,115	234,921
Corporate bonds, primarily financial sector	2,456,530	2,913,637
Certificates of deposit	514,060	-
Government bonds	627,344	47,684
Mutual funds, diverse types of funds	3,001,818	2,813,365
	<u>\$ 13,368,436</u>	<u>\$ 11,784,635</u>

Total investment return is comprised of the following:

	2017	2016
Net realized and unrealized gains on investments reported at fair value	\$ 1,392,816	\$ 484,232
Interest and dividend income	246,694	233,140
	<u>\$ 1,639,510</u>	<u>\$ 717,372</u>

American Optometric Association
(Parent-Only)

Notes to Financial Statements
December 31, 2017 and 2016

Note 3: Contributions and Other Receivables

All contributions receivable are temporarily restricted for time or purpose. Contributions and other receivables consist of the following:

	2017	2016
Contributions receivable		
Due within one year	\$ 135,850	\$ 70,150
Due in one to five years	145,250	150,400
	281,100	220,550
Less allowance for uncollectible contributions	(30,984)	-
Total contributions receivable	250,116	220,550
Other receivables	180,314	77,307
	\$ 430,430	\$ 297,857

Note 4: Revolving Line of Credit

The Association has a \$2,000,000 unsecured revolving line of credit that expires in July 2018. At December 31, 2017, \$1,500,000 was borrowed on the line. At December 31, 2016, there were no borrowings against the line. Interest is payable monthly and varies based on 30 day London Interbank Offered Rate (LIBOR) rate. At December 31, 2017 and 2016, the interest rate was 2.86 percent and 2.07 percent, respectively.

Note 5: Long-Term Debt

	2017	2016
Note payable to bank due December 31, 2031; principal payable - \$44,444 monthly in addition to interest at LIBOR plus 145 basis points, interest rate was 3.02% and 2.22% at December 31, 2017 and 2016, respectively, secured by first lien on building	\$ 7,466,667	\$ 8,000,000
Less unamortized debt issuance costs	37,304	40,001
Less current maturities	533,333	533,333
	\$ 6,896,030	\$ 7,426,666

Unamortized debt issuance cost will be amortized over the 15-year term of the note payable. The effective rates approximate the stated rates on the debt for the years ended December 31, 2017 and 2016.

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Notes to Financial Statements
December 31, 2017 and 2016

Aggregate annual maturities of long-term debt payments at December 31, 2017, are:

2018	\$ 533,333
2019	533,333
2020	533,333
2021	533,333
2022	533,333
Thereafter	<u>4,800,002</u>
	<u>\$ 7,466,667</u>

Note 6: Interest Rate Swap

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Association entered into an interest rate swap agreement for its variable rate debt which was effective December 1, 2016. The agreement provides for the Association to receive interest from the counterparty at LIBOR plus 1.45 percent and to pay interest to the counterparty at a fixed rate of 4.04 percent on current notional amounts of \$7,446,667 and \$8,000,000 at December 31, 2017 and 2016, respectively. Under the agreement, the Association pays or receives the net interest amount monthly, with the monthly settlements included in interest expense.

The table below presents certain information regarding the Association's interest rate swap agreement.

	<u>2017</u>	<u>2016</u>
Fair value of the interest rate swap agreement	\$ 173,230	\$ 273,694
Statement of financial position location of fair value amount	Long-term liabilities	Long-term liabilities
Gain (loss) recognized in statement of activities	\$ 100,464	\$ (21,648)
Location of loss recognized in statement of activities	administration	General administration
Net monthly settlements paid	\$ 118,592	\$ 13,594
Location of settlement expense in statement of activities	Interest	Interest

American Optometric Association
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Notes to Financial Statements
December 31, 2017 and 2016

Note 7: Net Assets

Unrestricted Net Assets

Unrestricted net assets at December 31 consist of:

	2017	2016
Undesignated	\$ 16,184,709	\$ 14,125,183
Internally designated for		
Emergency funds	183,691	183,691
Program working capital funds	512,912	2,739,155
	<u>696,603</u>	<u>2,922,846</u>
	<u>\$ 16,881,312</u>	<u>\$ 17,048,029</u>

Temporarily Restricted Net Assets

Temporarily restricted net assets December 31, 2017 and 2016, were \$250,116 and \$220,500, respectively, and were for the AOA Building Investment Campaign.

Net Assets Released from Restriction

Net assets were released from donor restriction through the payment of pledges for the AOA Building Investment Campaign. Total releases for 2017 were \$47,834. There were no releases during 2016.

Note 8: Unconsolidated Entities

The Association has agreements with the American Board of Optometry (“the Company”) and American Optometric Student Association (“AOSA”) in which the Association provides certain staffing, support and facilities for the Company and AOSA. The Association, Company and AOSA are not financially interrelated organizations.

The Association’s accounts receivable include amounts due from the Company of \$4,413 and \$25,483 for the years ended December 31, 2017 and 2016, respectively. The Association’s accounts receivable from AOSA was \$104,923 as of December 31, 2017. No amount was due from AOSA in 2016.

Note 9: Defined Contribution Plan

The Association has a 401(k) contributory pension plan to which the Association contributes an amount up to 5.5 percent of eligible (as to age and length of service) employees’ annual compensation, as defined. Expense under this plan was approximately \$370,000 and \$357,000 for the years ended December 31, 2017 and 2016, respectively.

American Optometric Association
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Notes to Financial Statements
December 31, 2017 and 2016

Note 10: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017 and 2016:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Common stocks, diverse industry sectors	\$ 6,613,569	\$ 6,613,569	\$ -	\$ -
Money market funds	\$ 155,115	\$ 155,115	\$ -	\$ -
Corporate bonds, primarily financial sector	\$ 2,456,530	\$ -	\$ 2,456,530	\$ -
Government bonds	\$ 627,344	\$ -	\$ 627,344	\$ -
Certificates of deposit	\$ 514,060	\$ -	\$ 514,060	\$ -
Mutual funds, diverse types of funds	\$ 3,001,818	\$ 3,001,818	\$ -	\$ -
Interest rate swap agreement	\$ (173,230)	\$ -	\$ (173,230)	\$ -

American Optometric Association
(Parent-Only)

Notes to Financial Statements
December 31, 2017 and 2016

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2016				
Common stocks, diverse industry sectors	\$ 5,700,067	\$ 5,700,067	\$ -	\$ -
Preferred stocks, financial sector	\$ 74,961	\$ 74,961	\$ -	\$ -
Money market funds	\$ 234,921	\$ 234,921	\$ -	\$ -
Corporate bonds, primarily financial sector	\$ 2,913,637	\$ -	\$ 2,913,637	\$ -
Government bonds	\$ 47,684	\$ -	\$ 47,684	\$ -
Mutual funds, diverse types of funds	\$ 2,813,365	\$ 2,813,365	\$ -	\$ -
Interest rate swap agreement	\$ (273,694)	\$ -	\$ (273,694)	\$ -

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in valuation techniques during the year ended December 31, 2017.

Investments

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, the inputs of which are market-based or independently sourced market parameters, including but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such investments are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, investments may be classified within Level 3 of the hierarchy.

Interest Rate Swap Agreement

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

American Optometric Association

(Parent-Only)

Notes to Financial Statements December 31, 2017 and 2016

Note 11: Significant Estimates

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates. Those matters include the following:

Litigation

The Association is subject to claims and lawsuits that arose primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of the Association. Events could occur that would change this estimate materially in the near term.

Investments

The Association invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statements of financial position.

Allowance for Uncollectible Receivables

Estimates of the allowance for uncollectible dues receivable and accounts receivable are described in Note 1.

Note 12: Transactions With Affiliated Organization

The Association has an agreement with Optometry Cares – The AOA Foundation (“Foundation”), whereby the Foundation pays a management fee of \$10,000 per month to the Association for providing various administrative, technology and occupancy services to the Foundation. Management fee income is included in other income on the parent-only statements of activities totaled \$120,000 in 2017 and 2016. At December 31, 2017 and 2016, the Association had receivables from the Foundation for \$131,877 and \$34,027, respectively, which is included in other receivables on the parent-only statements of financial position.

The Association makes monthly contributions to the Foundation in support of its missions. During 2017 and 2016, the Association paid \$200,000 in contributions to the Foundation.

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Notes to Financial Statements
December 31, 2017 and 2016

Note 13: Transactions With Wholly-Owned For-Profit Subsidiary

The Association has an agreement with AOAEExcel, Inc. (“Excel”), whereby the Excel pays a management fee of \$10,000 per month to the Association for providing various administrative, technology and occupancy services to Excel. Management fee income is included in other income on the parent-only statements of activities totaled \$120,000 in 2017 and 2016. At December 31, 2017 and 2016, the Association had receivables from Excel for \$28,681 and \$24,450, respectively, which is included in other receivables on the parent-only statements of financial position.

In addition, the Association has guaranteed a revolving \$2,000,000 line of credit for Excel which matures in July 2018. The line is collateralized by the Association’s assets. At December 31, 2017 and 2016, \$1,600,000 and \$1,975,000, respectively, was borrowed on the line. The Association may seek reimbursement from Excel of any amounts expended under the guarantee.

As described in Note 1, the Association’s investment in Excel has been included within these financial statements as investment in subsidiary. The financial position and results of operations of Excel are summarized below:

	2017	2016
Current assets	\$ 327,211	\$ 437,154
Total assets	<u>\$ 332,899</u>	<u>\$ 450,425</u>
Current liabilities	\$ 1,663,974	\$ 2,212,743
Equity	<u>(1,331,075)</u>	<u>(1,762,318)</u>
Total liabilities and equity	<u>\$ 332,899</u>	<u>\$ 450,425</u>
Total revenues	\$ 1,417,602	\$ 1,387,555
Net income	\$ 431,243	\$ 596,972

Supplementary Information

Independent Auditor's Report on Supplementary Information

Board of Trustees
American Optometric Association
St. Louis, Missouri

Our audits were conducted for the purpose of forming an opinion on the parent-only financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the parent-only financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the parent-only financial statements. The information has been subjected to the auditing procedures applied in the audit of the parent-only financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the parent-only financial statements or to the parent-only financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the parent-only financial statements as a whole.

BKD, LLP

St. Louis, Missouri
May 2, 2018

American Optometric Association
(Parent-Only)
Schedules of Revenue and Expenses
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenues		
Member dues	\$ 17,851,054	\$ 17,321,529
Membership services	765,738	841,062
Building initiative contributions	125,100	114,850
Section income	939,831	899,451
Sales of printed materials	472,328	605,575
Advertising and subscriptions	207,856	328,295
Royalty income	7,076	7,516
Registration and booth rentals	4,306,928	3,696,439
Rental income	258,673	258,673
Investment return	1,639,510	717,372
Other income	381,139	268,493
Net assets released from restriction	47,834	-
	<u>27,003,067</u>	<u>25,059,255</u>
Expenses		
Salaries	7,222,781	7,384,536
Health benefits	1,694,847	1,112,038
Payroll taxes	1,317	474,589
Retirement	370,497	357,208
Temporary help	75,556	308,121
	<u>9,364,998</u>	<u>9,636,492</u>
Total salaries and benefits	9,364,998	9,636,492
Postage/UPS/delivery	263,740	409,737
Telephone/copying	149,964	184,655
Travel	1,596,841	1,892,983
Meeting	1,519,127	1,419,750
Outside services	4,786,669	4,766,966
Purchased material/printing	178,903	318,428
Depreciation	1,490,981	784,320
Amortization	4,117	686
Food functions	738,189	694,144
Supplies	54,379	56,526
Utilities	126,468	139,426
Insurance	150,133	150,498
Property taxes	206,947	133,695
Repairs and maintenance	726,752	721,785
Advertising/promotions	2,159,204	714,255
Change in fair value of interest rate swap agreement	(100,464)	21,648
Other	4,184,079	2,461,830
	<u>27,601,027</u>	<u>24,507,824</u>
Total expenses	27,601,027	24,507,824
Change in net assets from operations	<u>\$ (597,960)</u>	<u>\$ 551,431</u>