



**BULLETIN**  
**FROM THE**  
**SECRETARY-TREASURER**

**VOLUME NO. 77**

**BULLETIN NO. 5**

**JUNE 10, 2019**

**SUBJ:** AOA Annual Audit Report for the year ended Dec. 31, 2018

**FROM:** Robert C. Layman, 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 accounting firm, BKD, LLP, for the year ended Dec. 31, 2018. AOA received an unqualified opinion for the 2018 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, 2018.

The AOA Board of Trustees took successful steps in 2018 to once again ensure a balanced budget. Through sound management and effective financial oversight, the AOA also achieved its key operational objectives in spite of a 5 percent reduction in revenues arising from negative investment returns. As detailed on the income statement, line item expenses were in held in good order and a strong emphasis was maintained throughout the year on the delivery of programs, initiatives, services and support for the membership. This result is reflective of the organization's overall operational strength and its relentless focus on the advancement of the profession and practice of optometry, through state, federal, payer and media advocacy, and public awareness connected to the Think About Your Eyes national advertising campaign and practical and proven practice tools and leading-edge educational resources.

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

**NO ACTION REQUIRED**

# **American Optometric Association**

(Parent-Only)

Independent Auditor's Report and Financial Statements

December 31, 2018 and 2017

# American Optometric Association

(Parent-Only)

December 31, 2018 and 2017

## Contents

<b>Independent Auditor's Report.....</b>	<b>1</b>
--	----------

### **Parent-Only Financial Statements**

Statements of Financial Position .....	3
Statements of Activities.....	4
Statements of Functional Expenses .....	6
Statements of Cash Flows.....	8
Notes to Financial Statements .....	9

## 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, 2018 and 2017, and the related parent-only statements of activities, functional expenses 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 parent-only 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, 2018 and 2017, 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 Matters***

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.

As discussed in Note 2 to the parent-only financial statements, in 2018, the Association adopted new accounting guidance, ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. 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  
June 6, 2019

**American Optometric Association**  
**(Parent-Only)**  
**Statements of Financial Position**  
**December 31, 2018 and 2017**

**Assets**

	<b>2018</b>	<b>2017</b>
<b>Current Assets</b>		
Cash	\$ 950,196	\$ 844,337
Investments	12,495,585	13,368,436
Dues receivable, net of allowance \$718,118 in 2018 and \$639,375 in 2017	2,648,904	2,833,551
Accounts receivable, net of allowance \$96,784 in 2018 and \$88,310 in 2017	195,253	97,151
Contributions and other receivables, net of allowance, \$13,063 in 2018 and \$30,984 in 2017	341,369	430,430
Printed materials for resale	31,665	33,130
Other prepaid expenses	695,648	442,048
Total current assets	17,358,620	18,049,083
 <b>Property and Equipment, At Cost</b>		
Land	978,647	978,647
Buildings and improvements	11,029,311	10,974,500
Furniture and equipment	6,583,816	7,012,975
	18,591,774	18,966,122
Less accumulated depreciation	7,608,480	6,851,445
	10,983,294	12,114,677
Total assets	\$ 28,341,914	\$ 30,163,760

## Liabilities and Net Assets

	<u>2018</u>	<u>2017</u>
<b>Current Liabilities</b>		
Bank line of credit	\$ 1,000,000	\$ 1,500,000
Accounts payable	606,801	824,773
Accrued expenses	593,383	673,226
Current maturities of long-term debt	533,333	533,333
Deferred revenue	<u>1,020,969</u>	<u>1,100,665</u>
Total current liabilities	3,754,486	4,631,997
<b>Investment in Subsidiary</b>	835,506	1,331,075
<b>Long-Term Debt, Net</b>	6,365,392	6,896,030
<b>Interest Rate Swap Agreement</b>	<u>25,102</u>	<u>173,230</u>
Total liabilities	<u>10,980,486</u>	<u>13,032,332</u>
<b>Net Assets</b>		
Without donor restrictions		
Designated by board	(341,801)	696,603
Undesignated	<u>17,546,291</u>	<u>16,184,709</u>
Total without donor restrictions	17,204,490	16,881,312
With donor restrictions	<u>156,938</u>	<u>250,116</u>
Total net assets	<u>17,361,428</u>	<u>17,131,428</u>
Total liabilities and net assets	<u><u>\$ 28,341,914</u></u>	<u><u>\$ 30,163,760</u></u>

**American Optometric Association**  
**(Parent-Only)**  
**Statements of Activities**  
**Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Revenues, Gains and Other Support</b>		
Member dues	\$ 18,176,836	\$ 17,851,054
Membership services	1,494,271	765,738
Building initiative contributions	-	125,100
Section income	982,356	939,831
Sales of printed materials	431,862	472,328
Advertising and subscriptions	267,715	207,856
Royalty income	6,450	7,076
Registration and booth rentals	4,292,440	4,306,928
Rental income	260,213	258,673
Investment return, net	(812,752)	1,639,510
Change in fair value of interest rate swap agreement	148,123	100,464
Other income	273,175	381,139
Net assets released from restriction	98,178	47,834
	<u>25,618,867</u>	<u>27,103,531</u>
<b>Expenses</b>		
Membership services and programs	16,968,061	16,963,244
Cost of printed materials	334,838	345,856
Publications	1,032,009	1,050,703
Annual Congress	2,519,622	4,166,165
	<u>20,854,530</u>	<u>22,525,968</u>
Occupancy expenses	1,715,692	1,840,310
General administration	3,221,036	3,335,213
	<u>4,936,728</u>	<u>5,175,523</u>
	<u>25,791,258</u>	<u>27,701,491</u>
<b>Change in Net Assets From Operations</b>	(172,391)	(597,960)
Equity in net income of subsidiary	495,569	431,243
<b>Increase (Decrease) in Net Assets Without Donor Restrictions</b>	<u>323,178</u>	<u>(166,717)</u>



**American Optometric Association**  
**(Parent-Only)**  
**Statements of Activities (Continued)**  
**Years Ended December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Change in Net Assets With Donor Restrictions</b>		
Contributions received	\$ 5,000	\$ 77,450
Net assets released from restriction	(98,178)	(47,834)
Increase (decrease) in net assets with donor restrictions	(93,178)	29,616
<b>Change in Net Assets</b>	230,000	(137,101)
<b>Net Assets, Beginning of Year</b>	17,131,428	17,268,529
<b>Net Assets, End of Year</b>	\$ 17,361,428	\$ 17,131,428

# American Optometric Association

(Parent-Only)

## Statement of Function Expenses Year Ended December 31, 2018

	Membership Services	Program Expenses					Occupancy Expenses	General Administration		Total
		Advocacy	Communication & Publications	Optometry's Meetings & Conferences	Expenditures	Expenditures		Expenditures	Expenditures	
<b>Expenses</b>										
Employment	\$ 3,625,318	\$ 2,453,792	\$ 713,719	\$ 273,728	\$ 34,724	\$ 2,347,215	\$ 9,448,496			
Postage/phone/copy	104,982	26,958	115,323	33,759	384	166,077	447,483			
Purchased material/printing/supplies	186,315	45,030	5,727	11,410	6,083	6,226	260,791			
Utilities/insurance	-	-	500	17,835	258,484	10,094	286,913			
Property taxes	531	214	-	-	204,741	-	205,486			
Travel	888,054	567,765	42,264	275,553	-	111,560	1,885,196			
Meeting	215,946	106,125	12,883	1,150,450	-	754	1,486,158			
Food functions	293,488	144,866	1,563	438,633	139	12,531	891,220			
Consultants/outside services	873,747	1,392,295	1,577,563	670,698	86,826	139,615	4,740,744			
Depreciation and amortization	847,376	1,743	-	-	674,097	166,263	1,689,479			
Software/repairs & maintenance	307,203	26,413	9,796	-	156,838	179,853	680,103			
Advertising/promotions	20,469	11,647	1,000,000	94,017	-	-	1,126,133			
Other	1,539,932	538,245	30,734	159,921	293,376	80,848	2,643,056			
<b>Total expenses</b>	<b>\$ 8,903,361</b>	<b>\$ 5,315,093</b>	<b>\$ 3,510,072</b>	<b>\$ 3,126,004</b>	<b>\$ 1,715,692</b>	<b>\$ 3,221,036</b>	<b>\$ 25,791,258</b>			

# American Optometric Association

## (Parent-Only)

### Statement of Function Expenses Year Ended December 31, 2017

	Membership Services	Program Expenses				Occupancy Expenses	General Administration		Total
		Advocacy	Communication & Publications	Optometry's Meetings & Conferences					
<b>Expenses</b>									
Employment	\$ 3,439,624	\$ 2,397,856	\$ 693,064	\$ 243,462	\$ 33,685	\$ 2,557,308	\$ 9,364,999		
Postage/phone/copy	117,433	14,372	100,096	28,991	121	152,691	413,704		
Purchased material/printing	171,415	43,965	124	4,801	9,970	3,007	233,282		
Utilities/insurance	-	-	500	19,648	253,951	2,503	276,602		
Property taxes	1,372	476	-	-	205,099	-	206,947		
Travel	848,886	278,053	34,231	316,607	79	118,986	1,596,842		
Meeting	167,591	103,036	10,826	1,228,958	4,650	4,066	1,519,127		
Food functions	230,559	119,249	1,104	371,184	613	15,479	738,188		
Consultants/outside services	768,488	1,605,966	1,626,941	572,360	105,331	107,582	4,786,668		
Depreciation and amortization	685,378	2,156	-	-	655,762	151,801	1,495,097		
Software/repairs & maintenance	304,720	64,281	3,453	849	186,937	166,511	726,751		
Advertising/promotions	18,908	6,256	2,000,000	134,041	-	-	2,159,205		
Other	1,555,918	354,040	15,240	1,819,490	384,112	55,279	4,184,079		
<b>Total expenses</b>	<b>\$ 8,310,292</b>	<b>\$ 4,989,706</b>	<b>\$ 4,485,579</b>	<b>\$ 4,740,391</b>	<b>\$ 1,840,310</b>	<b>\$ 3,335,213</b>	<b>\$ 27,701,491</b>		

**American Optometric Association**  
**(Parent-Only)**  
**Statements of Cash Flows**  
**Years Ended December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Operating Activities</b>		
Change in net assets	\$ 230,000	\$ (137,101)
Items not requiring (providing) operating activities cash flows		
Depreciation and amortization	1,689,479	1,495,098
Loss disposition of property and equipment	177	-
Realized and unrealized (gains) losses on investments	1,067,873	(1,392,816)
Equity in gain of subsidiary	(495,569)	(431,243)
Provision for bad debt	167,650	123,356
Change in interest rate swap valuation	(148,128)	(100,464)
Changes in		
Dues receivable	16,997	(518,974)
Accounts receivable	(98,102)	(144,966)
Contributions and other receivables	89,061	(132,573)
Printed material for resale	1,465	4,013
Other prepaid expenses	(253,600)	6,226
Accounts payable	(217,972)	(221,929)
Accrued expenses	(79,843)	25,485
Deferred revenue	(79,696)	191,454
	<u>1,889,792</u>	<u>(1,234,434)</u>
Net cash provided by (used in) operating activities		
<b>Investing Activities</b>		
Purchase of property and equipment	(555,577)	(803,416)
Purchase of investments	(6,575,061)	(4,375,604)
Proceeds from sales of investments	6,380,039	4,184,619
	<u>(750,599)</u>	<u>(994,401)</u>
Net cash used in investing activities		
<b>Financing Activities</b>		
Payments on long-term debt	(533,334)	(533,333)
Restricted long-term debt proceeds returned	-	1,039,668
Borrowings on line of credit agreement	1,500,000	2,500,000
Payments on line of credit agreement	(2,000,000)	(1,000,000)
	<u>(1,033,334)</u>	<u>2,006,335</u>
Net cash provided by (used in) financing activities		
<b>Increase (Decrease) in Cash</b>	105,859	(222,500)
<b>Cash, Beginning of Year</b>	<u>844,337</u>	<u>1,066,837</u>
<b>Cash, End of Year</b>	<u>\$ 950,196</u>	<u>\$ 844,337</u>
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 327,351	\$ 336,737
Property and equipment in accounts payable	\$ -	\$ 107,012

# American Optometric Association

## (Parent-Only)

### Notes to Financial Statements

#### December 31, 2018 and 2017

#### 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 AOAEExcel, 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, Alliance for Patient Safety 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 parent-only 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, 2018, the Association’s cash accounts exceeded federally insured limits by approximately \$869,000.

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

# American Optometric Association

(Parent-Only)

## Notes to Financial Statements

December 31, 2018 and 2017

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statements of activities as revenue and expenses without donor restrictions.

### ***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***

Costs for printed materials for sale are determined using the first-in, first-out (FIFO) method. FIFO inventories are stated at the lower of cost or net realizable value.

### ***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

### ***Long-Lived Asset Impairment***

The Association evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2018 and 2017.

**American Optometric Association**  
**(Parent-Only)**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

***Net Assets***

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an emergency fund, program working capital fund, scholarships and memorials.

Net assets with donor restrictions are subject to donor-imposed restrictions. The restrictions are temporary in nature and will be met by the passage of time or other events specified by the donor.

***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 revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement 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 revenue and net assets without donor restrictions.

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.

***Investment in Subsidiary***

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

**American Optometric Association**  
**(Parent-Only)**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

***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.

***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. The statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the program, management and general and fundraising categories based on time spent and other methods.

***Reclassifications***

Certain reclassifications have been made to the 2017 parent-only financial statements to conform to the 2018 parent-only financial statement presentation. These reclassifications had no effect on the change in net assets.

**Note 2: Change in Accounting Principle**

In 2018, the Association adopted Accounting Standards Update (ASU) 2016-14, *Not-For-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-For-Profit Entities*. A summary of the changes is as follows:

*Statements of Financial Position*

- The statements of financial position distinguish between two new classes of net assets – those without donor-imposed restrictions and those with. This is a change from the previously presented classes of net assets – unrestricted and temporarily restricted.

*Statement of Functional Expenses*

- Functional expenses are included as a statement within the parent-only financial statements.

*Notes to the Parent-Only Financial Statements*

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one-year from the date of the Statement of Financial Position.
- Amounts and purposes of Governing Board designations as of the end of the year are disclosed.

This change had no impact on previously reported total change in net assets.



**American Optometric Association**  
**(Parent-Only)**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 3: Contributions and Other Receivables**

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

	<u>2018</u>	<u>2017</u>
Contributions receivable		
Due within one year	\$ 87,000	\$ 135,850
Due in one to five years	83,000	145,250
	<u>170,000</u>	<u>281,100</u>
Less allowance for uncollectible contributions	(13,063)	(30,984)
Total contributions receivable	156,937	250,116
Other receivables	184,432	180,314
	<u>\$ 341,369</u>	<u>\$ 430,430</u>

**Note 4: Revolving Line of Credit**

The Association has a \$2,000,000 unsecured revolving line of credit that expires in July 2019. At December 31, 2018 and 2017, \$1,000,000 and \$1,500,000, respectively, was borrowed on the line. Interest is payable monthly and varies based on 30 day London Interbank Offered Rate (LIBOR) rate. At December 31, 2018 and 2017, the interest rate was 3.80 percent and 2.86 percent, respectively.

**Note 5: Long-Term Debt**

	<u>2018</u>	<u>2017</u>
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 3.97% and 3.02% at December 31, 2018 and 2017, respectively, secured by first lien on building	\$ 6,933,333	\$ 7,466,667
Less unamortized debt issuance costs	34,608	37,304
Less current maturities	<u>533,333</u>	<u>533,333</u>
	<u>\$ 6,365,392</u>	<u>\$ 6,896,030</u>

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, 2018 and 2017.

**American Optometric Association**  
**(Parent-Only)**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

Aggregate annual maturities of long-term debt payments at December 31, 2018, are:

2019	\$ 533,333
2020	533,333
2021	533,333
2022	533,333
2023	533,333
Thereafter	<u>4,266,668</u>
	<u>\$ 6,933,333</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 \$6,933,333 and \$7,466,667 at December 31, 2018 and 2017, 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.

	<b>2018</b>	<b>2017</b>
Fair value of the interest rate swap agreement	\$ 25,102	\$ 173,230
Statement of financial position location of fair value amount	Long-term liabilities	Long-term liabilities
Gain recognized in statement of activities	\$ 148,128	\$ 100,464
	Change in fair value of interest rate swap agreement	Change in fair value of interest rate swap agreement
Location of gain recognized in statement of activities	Interest	Interest
Net monthly settlements paid	\$ 44,574	\$ 118,592
Location of settlement expense in statement of activities	Interest	Interest

**American Optometric Association**  
**(Parent-Only)**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note 7: Net Assets**

***Net Assets Without Donor Restrictions***

Net assets without donor restrictions at December 31 consist of:

	<b>2018</b>	<b>2017</b>
Undesignated	\$ 17,546,291	\$ 16,184,709
Internally designated for		
Emergency funds	183,691	183,691
Program working capital funds	(525,492)	512,912
	<u>(341,801)</u>	<u>696,603</u>
	<u>\$ 17,204,490</u>	<u>\$ 16,881,312</u>

***Net Assets With Donor Restrictions***

Net assets with donor restrictions December 31, 2018 and 2017, were \$156,938 and \$250,116, 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 2018 and 2017 were \$98,178 and \$47,834, respectively.

**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 \$6,710 and \$4,413 for the years ended December 31, 2018 and 2017, respectively. The Association’s accounts receivable from AOSA were \$208,946 and \$104,923 for the years ended December 31, 2018 and 2017, respectively

**American Optometric Association**  
**(Parent-Only)**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**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 \$383,000 and \$370,000 for the years ended December 31, 2018 and 2017, respectively.

**Note 10: Fair Value Measurements and Disclosures**

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, 2018 and 2017:

**American Optometric Association**  
**(Parent-Only)**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

	<b>Total</b>	<b>Fair Value Measurements Using</b>		
		<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>December 31, 2018</b>				
<b>Assets</b>				
Investments				
Common stocks, diverse industry sectors	\$ 5,532,095	\$ 5,532,095	\$ -	\$ -
Money market funds	1,088,521	1,088,521	-	-
Corporate bonds, primarily financial sector	2,362,558	-	2,362,558	-
Government bonds	598,969	-	598,969	-
Certificates of deposit	406,033	-	406,033	-
Mutual funds, diverse types of funds	2,507,409	2,507,409	-	-
<b>Total investments</b>	<b>\$ 12,495,585</b>	<b>\$ 9,128,025</b>	<b>\$ 3,367,560</b>	<b>\$ -</b>
<b>Liabilities</b>				
Interest rate swap agreement	\$ (25,102)	\$ -	\$ (25,102)	\$ -
<b>December 31, 2017</b>				
<b>Assets</b>				
Investments				
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	-	-
<b>Total investments</b>	<b>\$ 13,368,436</b>	<b>\$ 9,770,502</b>	<b>\$ 3,597,934</b>	<b>\$ -</b>
<b>Liabilities</b>				
Interest rate swap agreement	\$ (173,230)	\$ -	\$ (173,230)	\$ -

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, 2018.

# American Optometric Association

## (Parent-Only)

### Notes to Financial Statements

#### December 31, 2018 and 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 are 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.

### **Note 11: Significant Estimates and Concentrations**

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

#### ***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 receivables are described in Note 1.

### **Note 12: Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2018 and 2017, are cash and investment balances of \$13,445,781 and \$14,212,773, respectively.

# American Optometric Association

## (Parent-Only)

### Notes to Financial Statements

December 31, 2018 and 2017

The Association manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

#### **Note 13: 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 2018 and 2017. At December 31, 2018 and 2017, the Association had receivables from the Foundation for \$100,539 and \$131,877, 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 2018 and 2017, the Association paid \$200,000 in contributions to the Foundation.

#### **Note 14: Transactions With Wholly-Owned For-Profit Subsidiary**

The Association has an agreement with AOAExcel, 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 2018 and 2017. At December 31, 2018 and 2017, the Association had receivables from Excel for \$17,809 and \$28,681, 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 2019. The line is collateralized by the Association’s assets. At December 31, 2018 and 2017, \$1,150,000 and \$1,600,000, respectively, was borrowed on the line. The Association may seek reimbursement from Excel of any amounts expended under the guarantee.

# American Optometric Association

(Parent-Only)

## Notes to Financial Statements

December 31, 2018 and 2017

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:

	<b>2018</b>	<b>2017</b>
Current assets	\$ 465,281	\$ 327,211
Total assets	\$ 465,281	\$ 332,899
Current liabilities	\$ 1,300,787	\$ 1,663,974
Equity	(835,506)	(1,331,075)
Total liabilities and equity	\$ 465,281	\$ 332,899
Total revenues	\$ 1,526,401	\$ 1,417,604
Net income	\$ 495,569	\$ 431,243

### Note 15: Future Changes in Accounting Principle

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The standard allows either full or modified retrospective adoption effective for nonpublic entities for annual periods beginning after December 15, 2018. The Association is in the process of evaluating the impact the amendment will have on the parent-only financial statements.

### Note 16: Subsequent Events

In January 2019, the Association entered into an agreement to contribute \$1,350,000 to a campaign which promotes the message of eye health and better vision. In exchange for the contribution, the Association receives committee membership on the campaign's Advisory and Marketing Committee and promotion of the Association's membership.

Subsequent events have been evaluated through June 6, 2019, which is the date the parent-only financial statements were available to be issued.