

American Optometric Association

(Parent-Only)

Independent Auditor's Report and Financial Statements

December 31, 2019 and 2018

American Optometric Association

(Parent-Only)

December 31, 2019 and 2018

Contents

Independent Auditor's Report.....	1
--	----------

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, 2019 and 2018, 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, 2019 and 2018, 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 29, 2020

American Optometric Association
(Parent-Only)
Statements of Financial Position
December 31, 2019 and 2018

Assets

	2019	2018
Current Assets		
Cash	\$ 1,180,776	\$ 950,196
Investments	15,277,391	12,495,585
Dues receivable, net of allowance \$451,519 in 2019 and \$718,118 in 2018	2,711,725	2,551,546
Accounts and other receivables, net of allowance \$102,107 in 2019 and \$96,784 in 2018	481,982	379,727
Contributions receivable, net of allowance, \$4,125 in 2019 and \$13,062 in 2018	74,386	73,938
Printed materials for resale	33,020	31,665
Other current assets	473,454	695,648
Total current assets	20,232,734	17,178,305
Contributions Receivable - Long-Term	26,500	83,000
Property and Equipment, Net		
Land	978,647	978,647
Buildings and improvements	11,056,256	11,029,311
Furniture and equipment	6,014,540	6,583,816
	18,049,443	18,591,774
Less accumulated depreciation	8,278,739	7,608,480
	9,770,704	10,983,294
Other Long-Term Assets	59,156	97,315
Total assets	\$ 30,089,094	\$ 28,341,914

Liabilities and Net Assets

	<u>2019</u>	<u>2018</u>
Current Liabilities		
Bank line of credit	\$ 1,500,000	\$ 1,000,000
Accounts payable	1,339,084	606,801
Accrued liabilities	662,196	593,383
Current maturities of long-term debt	533,333	533,333
Deferred revenue	932,249	1,020,969
	<hr/>	<hr/>
Total current liabilities	4,966,862	3,754,486
Investment in Subsidiary	488,985	835,506
Long-Term Debt, Net	5,834,756	6,365,392
Interest Rate Swap Agreement	329,888	25,102
	<hr/>	<hr/>
Total liabilities	11,620,491	10,980,486
Net Assets		
Without donor restrictions		
Designated by board	(1,816,719)	(341,801)
Undesignated	20,184,436	17,546,291
	<hr/>	<hr/>
Total without donor restrictions	18,367,717	17,204,490
With donor restrictions	100,886	156,938
	<hr/>	<hr/>
Total net assets	18,468,603	17,361,428
	<hr/>	<hr/>
Total liabilities and net assets	\$ 30,089,094	\$ 28,341,914
	<hr/> <hr/>	<hr/> <hr/>

American Optometric Association
(Parent-Only)
Statements of Activities
Years Ended December 31, 2019 and 2018

	2019	2018
Revenues, Gains and Other Support		
Membership dues	\$ 18,669,491	\$ 18,204,366
Contributions and industry support	2,588,140	2,769,898
Registration income	1,616,176	1,835,967
ACOE site visits and fees	650,740	607,713
Sales of printed materials	407,452	431,862
Exhibit booths and meetings	1,220,301	1,243,845
Royalties income	6,225	6,465
Program revenue	93,898	90,782
Advertising	224,634	256,383
Rental income	278,240	260,213
Investment return, net	2,839,542	(807,647)
Change in fair value of interest rate swap agreement	(304,786)	148,128
Other revenue	576,835	472,714
Net assets released from restriction	56,052	98,178
Total revenues, gains and other support	28,922,940	25,618,867
Expenses		
Salaries and benefits	9,956,926	9,641,438
Phone, copy and supplies	469,956	496,799
Software, purchases and printing	852,857	749,093
Rent, utilities, insurance and property taxes	728,161	739,057
Consultant, legal and professional fees	4,997,187	4,244,497
Travel expenses	2,095,283	1,885,195
Meeting expenses	1,931,203	1,618,959
Food functions	999,095	875,257
Facilities and service administration fees	870	-
Stipends, honorariums and payments to affiliates	1,007,070	1,107,036
Advertising and promotions	1,502,921	1,030,824
Awards, grants and contributions	563,377	362,814
Depreciation and amortization	1,512,564	1,689,479
Interest expense	291,915	319,216
Other expenses	1,196,849	1,031,594
Total expenses	28,106,234	25,791,258
Change in Net Assets From Operations	816,706	(172,391)
Equity in net income of subsidiary	346,521	495,569
Increase (Decrease) in Net Assets Without Donor Restrictions	1,163,227	323,178

American Optometric Association
(Parent-Only)
Statements of Activities (Continued)
Years Ended December 31, 2019 and 2018

	2019	2018
Change in Net Assets With Donor Restrictions		
Contributions received	\$ -	\$ 5,000
Net assets released from restriction	(56,052)	(98,178)
Decrease in net assets with donor restrictions	(56,052)	(93,178)
Change in Net Assets	1,107,175	230,000
Net Assets, Beginning of Year	17,361,428	17,131,428
Net Assets, End of Year	\$ 18,468,603	\$ 17,361,428

American Optometric Association
(Parent-Only)
Statement of Function Expenses
Year Ended December 31, 2019

	Program Expenses						Total
	Membership Services	Advocacy	Communication & Publications	Optometry's Meetings & Conferences	Occupancy Expenses	General Administration	
Expenses							
Salaries & Benefits	\$ 3,610,475	\$ 2,768,632	\$ 779,091	\$ 350,396	\$ 11,072	\$ 2,437,260	\$ 9,956,926
Phone, Copy & Supplies	136,113	52,850	93,614	14,259	4,242	168,878	469,956
Software, Purchases & Printing	467,414	57,262	17,252	10,727	563	299,639	852,857
Rent, Utilities, Insurance & Property Taxes	35,704	27,186	144	20,599	638,075	6,453	728,161
Consultant, Legal & Professional Fees	928,943	1,587,657	1,871,826	300,512	81,964	226,285	4,997,187
Travel Expenses	831,820	688,601	26,131	448,727	-	100,004	2,095,283
Meeting Expenses	227,064	220,120	4,367	1,468,222	-	11,430	1,931,203
Food Functions	200,031	277,618	1,057	510,226	-	10,163	999,095
Depreciation and Amortization	706,367	1,356	-	-	623,872	180,969	1,512,564
Facilities & Services Administration Fees	-	870	-	-	-	-	870
Interest Expense	22,657	50	-	-	269,208	-	291,915
Stipends, Honorariums, & Payments to							
Affiliates	734,745	42,294	-	230,031	-	-	1,007,070
Advertising & Promotions	35,789	33,322	1,350,000	83,810	-	-	1,502,921
Awards, Grants & Contributions	257,210	297,380	1,875	6,160	-	752	563,377
Other Expenses	522,419	515,549	1,465	101,687	5,786	49,943	1,196,849
Total expenses	\$ 8,716,751	\$ 6,570,747	\$ 4,146,822	\$ 3,545,356	\$ 1,634,782	\$ 3,491,776	\$ 28,106,234

American Optometric Association
(Parent-Only)
Statement of Function Expenses (Continued)
Year Ended December 31, 2018

	Program Expenses						Total
	Membership Services	Advocacy	Communication & Publications	Optometry's Meetings & Conferences	Occupancy Expenses	General Administration	
Expenses							
Salaries & Benefits	\$ 3,664,332	\$ 2,484,867	\$ 713,719	\$ 381,618	\$ 34,724	\$ 2,362,178	\$ 9,641,438
Phone, Copy & Supplies	121,449	50,074	115,493	33,919	6,467	169,397	496,799
Software, Purchases & Printing	475,409	50,656	20,875	16,076	-	186,077	749,093
Rent, Utilities, Insurance & Property Taxes	42,907	33,351	500	17,835	634,370	10,094	739,057
Consultant, Legal & Professional Fees	825,884	1,340,080	1,577,563	289,492	86,826	124,652	4,244,497
Travel Expenses	888,053	567,765	42,264	275,553	-	111,560	1,885,195
Meeting Expenses	253,439	107,817	12,883	1,244,066	-	754	1,618,959
Food Functions	255,996	144,866	1,563	460,162	139	12,531	875,257
Depreciation and Amortization	847,376	1,743	-	-	674,097	166,263	1,689,479
Interest Expense	24,776	-	-	-	294,440	-	319,216
Stipends, Honorariums, & Payments to							
Affiliates	754,962	21,140	-	330,934	-	-	1,107,036
Advertising & Promotions	20,469	9,955	1,000,000	400	-	-	1,030,824
Awards, Grants & Contributions	252,137	105,836	2,175	2,230	-	436	362,814
Other Expenses	476,176	396,942	23,035	73,719	(15,372)	77,094	1,031,594
	<u>\$ 8,903,365</u>	<u>\$ 5,315,092</u>	<u>\$ 3,510,070</u>	<u>\$ 3,126,004</u>	<u>\$ 1,715,691</u>	<u>\$ 3,221,036</u>	<u>\$ 25,791,258</u>

American Optometric Association
(Parent-Only)
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Activities		
Change in net assets	\$ 1,107,175	\$ 230,000
Items not requiring (providing) operating activities cash flows		
Depreciation and amortization	1,512,564	1,689,479
Loss on disposition of property and equipment	19,293	177
Net realized and unrealized (gains) losses on investments	(2,582,736)	1,067,873
Gain in equity of subsidiary	(346,521)	(495,569)
Provision (credit) for losses on receivables	(264,024)	167,650
Change in interest rate swap valuation	304,786	(148,128)
Changes in		
Dues receivable	144,618	(20,349)
Accounts and other receivables	(104,829)	(103,842)
Contributions receivable	56,051	94,801
Printed material for resale	(1,355)	1,465
Other prepaid expenses	222,155	(216,254)
Accounts payable	732,283	(217,972)
Accrued expenses	68,813	(79,843)
Deferred revenue	(88,720)	(79,696)
Net cash provided by operating activities	779,553	1,889,792
Investing Activities		
Purchase of property and equipment	(316,569)	(555,577)
Purchase of investments	(7,854,167)	(6,575,061)
Proceeds from sales of investments	7,655,097	6,380,039
Net cash used in investing activities	(515,639)	(750,599)
Financing Activities		
Payments on long-term debt	(533,334)	(533,334)
Borrowings on line of credit agreement	1,500,000	1,500,000
Payments on line of credit agreement	(1,000,000)	(2,000,000)
Net cash used in financing activities	(33,334)	(1,033,334)
Increase in Cash	230,580	105,859
Cash, Beginning of Year	950,196	844,337
Cash, End of Year	\$ 1,180,776	\$ 950,196
Supplemental Cash Flows Information		
Interest paid	\$ 286,842	\$ 327,351

American Optometric Association

(Parent-Only)

Notes to Financial Statements

December 31, 2019 and 2018

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, 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, 2019, the Association’s cash accounts exceeded federally insured limits by approximately \$1,081,000.

Investments

The Association measures securities 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.

Net Investment Return

Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expenses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

American Optometric Association
(Parent-Only)
Notes to Financial Statements
December 31, 2019 and 2018

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 of consideration from members, of which the Association has an unconditional right to receive. 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 stated at the amount of consideration from members or customers, of which the Association has an unconditional right to receive. 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, 2019 and 2018.

American Optometric Association
(Parent-Only)
Notes to Financial Statements
December 31, 2019 and 2018

Debt Issuance Costs

Debt issuance costs represent costs incurred in connection with the issuance of long-term debt. The Association records these costs as direct deductions from the related debt. Such costs are being amortized over the term of the respective debt using the effective interest method.

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

Revenue is recognized as the Association satisfies performance obligations under its contract, in an amount that reflects the consideration that it expects to be entitled to in exchange for those goods or services. The amount and timing of revenue recognition varies based on the nature of the goods provided and the terms and conditions of the member or customer contract. See Note 13 for additional information about the Association's revenue.

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.

American Optometric Association
(Parent-Only)
Notes to Financial Statements
December 31, 2019 and 2018

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 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.

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 2018 parent-only financial statements to conform to the 2019 parent-only financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Change in Accounting Principle

On January 1, 2019, the Association adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), (ASU 2014-09) using a modified retrospective method of adoption to all contracts not completed at the date of adoption. The Association did not have a material cumulative effect as a result of adopting this guidance and expects the impact to be immaterial on an ongoing basis. The core guidance in ASU 2014-09 is to recognize revenue to depict the transfer of promised goods or services to members and customers in amounts that reflect the consideration to which the Association expects to be entitled in exchange for those goods or services. The amount to which the Association expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing goods or services.

American Optometric Association
(Parent-Only)
Notes to Financial Statements
December 31, 2019 and 2018

Adoption of ASU 2014-19 resulted in no changes in the presentation of the parent-only financial statements. The adoption did impact related disclosures in the notes to the parent-only financial statements.

Note 3: Contributions Receivable

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

	<u>2019</u>	<u>2018</u>
Contributions receivable		
Due within one year	\$ 78,511	\$ 87,000
Due in one to five years	26,500	83,000
	<u>105,011</u>	<u>170,000</u>
Less allowance for uncollectible contributions	(4,125)	(13,062)
	<u>\$ 100,886</u>	<u>\$ 156,938</u>

Note 4: Revolving Line of Credit

The Association has a \$2,000,000 unsecured revolving line of credit that expires in July 2020. At December 31, 2019 and 2018, \$1,500,000 and \$1,000,000, 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, 2019 and 2018, the interest rate was 3.06 percent and 3.80 percent, respectively.

Note 5: Long-Term Debt

	<u>2019</u>	<u>2018</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 3.25% and 3.97% at December 31, 2019 and 2018, respectively, secured by first lien on building	\$ 6,400,000	\$ 6,933,333
Less unamortized debt issuance costs	31,911	34,608
Less current maturities	<u>533,333</u>	<u>533,333</u>
	<u>\$ 5,834,756</u>	<u>\$ 6,365,392</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, 2019 and 2018.

American Optometric Association
(Parent-Only)
Notes to Financial Statements
December 31, 2019 and 2018

Aggregate annual maturities of long-term debt payments at December 31, 2019, are:

2020	\$ 533,333
2021	533,333
2022	533,333
2023	533,333
2024	533,333
Thereafter	<u>3,733,335</u>
	<u>\$ 6,400,000</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 \$6,400,000 and \$6,933,333 at December 31, 2019 and 2018, 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>2019</u>	<u>2018</u>
Fair value of the interest rate swap agreement	\$ 329,888	\$ 25,102
Statement of financial position location of fair value amount	Long-term liabilities	Long-term liabilities
Gain (loss) recognized in statement of activities	\$ (304,786)	\$ 148,128
Location of gain (loss) recognized in statement of activities	Change in fair value of interest rate swap agreement	Change in fair value of interest rate swap agreement
Net monthly settlements paid	\$ 25,896	\$ 44,574
Location of settlement expense in statement of activities	Interest	Interest

American Optometric Association
(Parent-Only)
Notes to Financial Statements
December 31, 2019 and 2018

Note 7: Net Assets

Net Assets Without Donor Restrictions

Net assets without donor restrictions at December 31 consist of:

	2019	2018
Undesignated	\$ 20,184,436	\$ 17,546,291
Internally designated for		
Emergency funds	183,691	183,691
Program working capital funds	(2,000,410)	(525,492)
	<u>(1,816,719)</u>	<u>(341,801)</u>
	<u>\$ 18,367,717</u>	<u>\$ 17,204,490</u>

Net Assets With Donor Restrictions

Net assets with donor restrictions December 31, 2019 and 2018, were \$100,886 and \$156,938, 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 2019 and 2018 were \$56,052 and \$98,178, 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 \$5,339 and \$6,710 for the years ended December 31, 2019 and 2018, respectively. The Association’s accounts receivable from AOSA were \$196,503 and \$208,946 for the years ended December 31, 2019 and 2018, respectively

American Optometric Association
(Parent-Only)
Notes to Financial Statements
December 31, 2019 and 2018

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 \$398,000 and \$383,000 for the years ended December 31, 2019 and 2018, 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, 2019 and 2018:

American Optometric Association
(Parent-Only)
Notes to Financial Statements
December 31, 2019 and 2018

	Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2019				
Assets				
Investments				
Common stocks, diverse industry sectors	\$ 7,047,036	\$ 7,047,036	\$ -	\$ -
Money market funds	353,151	353,151	-	-
Corporate bonds, primarily financial sector	1,999,488	-	1,999,488	-
Government bonds	1,080,876	-	1,080,876	-
Certificates of deposit	1,514,068	-	1,514,068	-
Mutual funds, diverse types of funds	<u>3,282,772</u>	<u>3,282,772</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 15,277,391</u>	<u>\$ 10,682,959</u>	<u>\$ 4,594,432</u>	<u>\$ -</u>
Liabilities				
Interest rate swap agreement	<u>\$ (329,888)</u>	<u>\$ -</u>	<u>\$ (329,888)</u>	<u>\$ -</u>
December 31, 2018				
Assets				
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	<u>2,507,409</u>	<u>2,507,409</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 12,495,585</u>	<u>\$ 9,128,025</u>	<u>\$ 3,367,560</u>	<u>\$ -</u>
Liabilities				
Interest rate swap agreement	<u>\$ (25,102)</u>	<u>\$ -</u>	<u>\$ (25,102)</u>	<u>\$ -</u>

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, 2019.

American Optometric Association

(Parent-Only)

Notes to Financial Statements

December 31, 2019 and 2018

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, 2019 and 2018, are cash and investment balances of \$16,458,167 and \$13,445,781, respectively.

American Optometric Association

(Parent-Only)

Notes to Financial Statements

December 31, 2019 and 2018

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: Revenue from Contracts with Members and Customers

Membership Dues

Revenue from contracts with members for annual dues is reported at the amount that reflects the consideration to which the Association expects to be entitled in exchange for providing membership benefits. These amounts are due from members and others and do not include variable consideration.

Revenue is recognized as performance obligations are satisfied, which is ratably over the membership term using the input method. Generally, the Association bills members annually with payment due quarterly.

Industry Support, Registration Income and Exhibit Booths and Meetings

Revenue from contracts with customers for industry support, registration income and exhibit booths and meetings is reported at the amount that reflects the consideration to which the Association expects to be entitled in exchange for providing goods or services to the customer. These amounts are due from customers and do not include variable consideration.

Revenue is recognized as performance obligations are satisfied, which is at a point in time. Generally, for industry support, registration income and exhibit booths and meetings, the point in time coincides with an event at which time the goods or services are provided to the customer.

Accreditation Council on Optometric Education Site Visits and Fees

Revenue from contracts with professionals for Accreditation Council on Optometric Education (“ACOE”) site visits and fees are reported at the amount that reflects the consideration to which the Association expects to be entitled in exchange for providing services to the professional. These amounts are due from professionals and do not include variable consideration.

The performance obligations include application processing, site visits and providing annual accreditation status. Revenue is recognized as performance obligations are satisfied, which is at a point in time.

American Optometric Association

(Parent-Only)

Notes to Financial Statements

December 31, 2019 and 2018

Sale of Printed Materials

Revenue from the sale of printed materials is measured as the amount of consideration the Association expects to receive in exchange for transferring the materials to customers. The revenue is reported net of sales discounts offered to customers. The Association recognizes revenue when performance obligations under the terms of contracts with its customers are satisfied, which occurs when control passes to a customer to enable them to direct the use of and obtain benefit from a product which is when the product is shipped.

Advertising Revenue

Revenue from contracts with customers for advertising revenue is reported at the amount that reflects the consideration to which the Association expects to be entitled in exchange for advertising. These amounts are due from customer and may include explicit variable consideration based on the amount of advertising space purchased.

Revenue is recognized as performance obligations are satisfied, which is at a point in time and typically at the time the related media is published.

Other Contract Revenue

Performance obligations are determined based on the nature of the goods or services provided by the Association in accordance with the contract. Revenue for performance obligations satisfied over time is recognized ratably over the period based on time elapsed. The Association believes this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation.

Revenue for performance obligations satisfied at a point in time is generally recognized when goods or services are provided to customers at a single point in time and the Association does not believe it is required to provide additional goods or services related to that sale.

Transaction Price and Recognition

The Association determines the transaction price based on standard charges for goods and services provided, reduced by discounts provided in accordance with the Association's policy and implicit price concessions provided to customers. The Association determines its estimates of explicit price concessions based on its discount policies. The Association determines its estimate of implicit price concessions based on its historical collection experience with this class of customers. The Association's revenue streams do not have significant financing components or contract costs.

The Association has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by Association's line of business that provided the service and by customer demand.

For the year ended December 31, 2019, the Association recognized revenue of \$19,100,309 and from goods and services that transfer to the member or customer over time and \$6,853,577 from goods and services that transfer to the member or customer at a point in time.

American Optometric Association
(Parent-Only)
Notes to Financial Statements
December 31, 2019 and 2018

Contract Balances

The following table provides information about the Association’s net receivables and deferred revenue from contracts with customers:

	<u>2019</u>
Dues, accounts and other receivables, net, beginning of year	\$ 2,931,273
Dues, accounts and other receivables, net, end of year	\$ 3,193,707
Deferred revenue, beginning of year	\$ 1,020,969
Deferred revenue, end of year	\$ 932,249

Note 14: 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 and totaled \$120,000 in 2019 and 2018. At December 31, 2019 and 2018, the Association had receivables from the Foundation for \$10,000 and \$100,539, respectively, which is included in other receivables on the parent-only statements of financial position. In addition, the Association has an agreement with Alliance for Patient Safety (“APS”) whereby APS pays a management fee of \$2,500 per month to the Association for providing administrative services. This fee income is included in other income on the parent-only statements of activities and totaled \$30,000 for 2019.

At December 31, 2019, the Association received sponsorship and advertisement related income from AOAExcel and Alliance for Patient Safety for \$335,000.

The Association makes monthly contributions to the Foundation in support of its missions. During 2019 and 2018, the Association paid \$200,000 in contributions to the Foundation.

Note 15: 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 2019 and 2018. At December 31, 2019 and 2018, the Association had receivables from Excel for \$10,542 and \$17,809, 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 2020. The line is collateralized by the Association’s assets. At December 31, 2019 and 2018, \$750,000 and \$1,150,000, 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, 2019 and 2018

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:

	2019	2018
Current assets	\$ 490,709	\$ 465,281
Total assets	<u>\$ 490,709</u>	<u>\$ 465,281</u>
Current liabilities	\$ 979,694	\$ 1,300,787
Equity	(488,985)	(835,506)
Total liabilities and equity	<u>\$ 490,709</u>	<u>\$ 465,281</u>
Total revenues	\$ 1,389,784	\$ 1,526,401
Net income	\$ 346,521	\$ 495,569

Note 16: Future Changes in Accounting Principle

Accounting for Leases

The FASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the statements of financial position as both a right-of-use asset and a liability. The standard has two types of leases for statements of activities recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2021, and any interim periods within annual reporting periods that begin after December 15, 2022. The Association is evaluating the effect the standard will have on the financial statements; however, the standard is expected to have a material effect on the financial statements due to the recognition of additional assets and liabilities for operating leases.

American Optometric Association
(Parent-Only)
Notes to Financial Statements
December 31, 2019 and 2018

Note 17: Subsequent Events

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the Association. This includes significant volatility in the investment markets both nationally and globally, resulting in an overall market decline in certain market segments which has resulted in a substantial decline in the value of the Association's investment portfolio.

The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time. Known financial impact for 2020 includes the cancellation of Optometry's Meeting, which is the Association's annual convention, and a two month waiver of membership dues for every member. In 2019, Optometry's Meeting revenues were approximately 13 percent of total revenues and related expenses were approximately 11 percent. The estimated impact of the decreased membership dues is approximately \$3,200,000.

Subsequent events have been evaluated through May 29, 2020, which is the date the parent-only financial statements were available to be issued.