

American Academy Of Child And Adolescent Psychiatry

Financial Report
December 31, 2008

McGladrey & Pullen
Certified Public Accountants

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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Financial Planning Committee
American Academy of Child and
Adolescent Psychiatry
Washington, D.C.

We have audited the accompanying balance sheet of the American Academy of Child and Adolescent Psychiatry (AACAP) as of December 31, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of AACAP's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from AACAP's 2007 financial statements and, in our report dated August 1, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2008 financial statements referred to above present fairly, in all material respects, the financial position of the American Academy of Child and Adolescent Psychiatry as of December 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2009, on our consideration of the American Academy of Child and Adolescent Psychiatry's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

McGladrey & Pullen, LLP

Vienna, Virginia
June 9, 2009

American Academy Of Child And Adolescent Psychiatry

Balance Sheet

December 31, 2008

(With Comparative Totals For 2007)

| Assets | 2008 | 2007 |
|-----------------------------|---------------|---------------|
| Cash and Cash Equivalents | \$ 1,253,123 | \$ 2,619,306 |
| Investments | 5,260,956 | 7,639,347 |
| Receivables, net | 584,690 | 953,656 |
| Prepaid Expenses | 109,310 | 56,955 |
| Promises to Give, net | 109,948 | 79,947 |
| Property and Equipment, net | 2,782,120 | 1,997,477 |
| | \$ 10,100,147 | \$ 13,346,688 |

Liabilities And Net Assets

| Liabilities | | |
|---------------------------------------|------------|--------------|
| Accounts payable and accrued expenses | \$ 929,850 | \$ 1,110,640 |
| Deferred revenues | 1,140,118 | 1,302,066 |
| Regional council dues payable | 123,707 | 182,168 |
| Note payable | 468,047 | - |
| Capital lease payable | - | 29,712 |
| Security deposits | 2,322 | 2,997 |
| | 2,664,044 | 2,627,583 |

Commitments and Contingencies (Notes 10 and 11)

Net Assets

Unrestricted:

| | | |
|------------------|-----------|-----------|
| Undesignated | 4,134,377 | 6,071,887 |
| Board-designated | 194,045 | 290,755 |
| | 4,328,422 | 6,362,642 |

Temporarily restricted

| | | |
|------------------------|-----------|------------|
| Temporarily restricted | 1,682,815 | 3,187,521 |
| Permanently restricted | 1,424,866 | 1,168,942 |
| | 7,436,103 | 10,719,105 |

| | | |
|--|---------------|---------------|
| | \$ 10,100,147 | \$ 13,346,688 |
|--|---------------|---------------|

See Notes To Financial Statements.

American Academy Of Child And Adolescent Psychiatry

Statement Of Activities

Year Ended December 31, 2008

(With Comparative Totals For 2007)

| | 2008 | | | | 2007 |
|--|--------------------|------------------------|------------------------|--------------------|------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Total |
| Revenue and Support: | | | | | |
| Grants and contributions | \$ 1,399,457 | \$ 738,242 | \$ - | \$ 2,137,699 | 1,809,448 |
| Membership dues and fees | 2,033,148 | - | - | 2,033,148 | \$ 1,955,658 |
| Annual meeting and institutes | 1,573,700 | - | - | 1,573,700 | 1,705,238 |
| Journal | 1,077,899 | - | - | 1,077,899 | 1,235,061 |
| Member benefit royalties | 249,933 | - | - | 249,933 | 267,708 |
| January Institute | 179,467 | - | - | 179,467 | 152,956 |
| Annual Review | 131,479 | - | - | 131,479 | 114,191 |
| Publications | 96,951 | - | - | 96,951 | 165,759 |
| JobSource | 68,505 | - | - | 68,505 | 95,100 |
| Building-rental income | 35,855 | - | - | 35,855 | 68,847 |
| Lifelong Learning Institute | 17,766 | - | - | 17,766 | 25,445 |
| Other income | 16,786 | - | - | 16,786 | 27,093 |
| AACAP News | 16,163 | - | - | 16,163 | 36,854 |
| Investment (Loss) Gain | (1,402,862) | (921,388) | - | (2,324,250) | 392,950 |
| Transfer from Temporarily Restricted to Permanently Restricted | - | (255,924) | 255,924 | - | - |
| Net assets released from restrictions | 1,065,636 | (1,065,636) | - | - | - |
| Total revenue and support | 6,559,883 | (1,504,706) | 255,924 | 5,311,101 | 8,052,308 |
| Expenses: | | | | | |
| Program services: | | | | | |
| Annual meeting and institutes | 1,102,027 | - | - | 1,102,027 | 880,949 |
| Grants | 999,906 | - | - | 999,906 | 1,175,744 |
| Components | 812,451 | - | - | 812,451 | 730,780 |
| Journal | 769,711 | - | - | 769,711 | 608,786 |
| Special Funds | 425,688 | - | - | 425,688 | 363,888 |
| AACAP News | 146,905 | - | - | 146,905 | 174,465 |
| January Institute | 126,650 | - | - | 126,650 | 77,968 |
| Publications | 116,941 | - | - | 116,941 | 87,292 |
| Presidential initiatives | 135,681 | - | - | 135,681 | 116,458 |
| Annual Review | 89,419 | - | - | 89,419 | 79,663 |
| Lifelong Learning Institute | 69,508 | - | - | 69,508 | 40,762 |
| JobSource | 9,705 | - | - | 9,705 | 14,546 |
| Total program services | 4,804,592 | - | - | 4,804,592 | 4,351,301 |
| Supporting services: | | | | | |
| Central office | 2,935,736 | - | - | 2,935,736 | 2,409,615 |
| Building operations | 447,624 | - | - | 447,624 | 324,533 |
| Fundraising | 406,151 | - | - | 406,151 | 342,799 |
| Total supporting services | 3,789,511 | - | - | 3,789,511 | 3,076,947 |
| Total expenses | 8,594,103 | - | - | 8,594,103 | 7,428,248 |
| Change in net assets | (2,034,220) | (1,504,706) | 255,924 | (3,283,002) | 624,060 |
| Net Assets: | | | | | |
| Beginning | 6,362,642 | 3,187,521 | 1,168,942 | 10,719,105 | 10,095,045 |
| Ending | \$ 4,328,422 | \$ 1,682,815 | \$ 1,424,866 | \$ 7,436,103 | \$ 10,719,105 |

See Notes To Financial Statements.

American Academy Of Child And Adolescent Psychiatry

Statement Of Cash Flows
 Year Ended December 31, 2008
 (With Comparative Totals For 2007)

| | 2008 | 2007 |
|---|---------------------|---------------------|
| Cash Flows From Operating Activities | | |
| Change in net assets | \$ (3,283,002) | \$ 624,060 |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities: | | |
| Realized and unrealized losses (gains) on investments | 2,575,091 | (111,388) |
| Depreciation | 241,751 | 195,947 |
| Contributions restricted for long-term purposes | - | (1,100) |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Receivables | 368,966 | (129,012) |
| Prepaid expenses | (52,355) | 73,843 |
| Promises to give | (30,001) | 33,353 |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | (180,790) | 560,368 |
| Deferred dues | (161,948) | (177,422) |
| Regional council dues payable | (58,461) | 36,106 |
| Security deposits | (675) | (2,002) |
| Net cash (used in) provided by operating activities | (581,424) | 1,102,753 |
| Cash Flows From Investing Activities | | |
| Purchase of property and equipment | (1,026,394) | (129,683) |
| Proceeds from sale of investments | 1,688,240 | 9,126,227 |
| Purchases of investments | (1,884,940) | (12,279,344) |
| Net cash (used in) investing activities | (1,223,094) | (3,282,800) |
| Cash Flows From Financing Activities | | |
| Investment in permanent endowment contributions | - | 1,100 |
| Borrowings under note payable | 500,000 | - |
| Repayments under note payable | (31,953) | - |
| Repayments under capital lease | (29,712) | (58,817) |
| Net cash provided by (used in) financing activities | 438,335 | (57,717) |
| Net (decrease) in cash and cash equivalents | (1,366,183) | (2,237,764) |
| Cash And Cash Equivalents | | |
| Beginning | 2,619,306 | 4,857,070 |
| Ending | \$ 1,253,123 | \$ 2,619,306 |
| Supplemental Disclosure Of Cash Flow Information: | | |
| Cash paid for interest | \$ 12,234 | \$ - |

See Notes To Financial Statements.

American Academy Of Child And Adolescent Psychiatry

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies

Nature of activities: The American Academy of Child and Adolescent Psychiatry (AACAP) has been a growing and dynamic organization, giving direction to and responding quickly to new developments in the health care environment by addressing the needs of children, adolescents, and families. AACAP represents child and adolescent psychiatrists with at least five years of additional training beyond medical school, including two years in child and adolescent psychiatry residency. AACAP members actively research, diagnose, and treat psychiatric disorders affecting children, adolescents, and their families. AACAP supports this work through a variety of programs including Government liaison, national public information, and continuing education.

The following are descriptions of AACAP's significant programs:

Annual meeting and institutes: The annual meeting presents the latest research and clinical practice in the field of child and adolescent psychiatry to members and non-members. Institutes at the annual meeting, the January institute, and the lifelong learning institute provide continuing professional education on the latest topics in the field.

Grant expenses: Through a number of federal and non-federal grants, AACAP supports research and training fellowships in the field of child and adolescent psychiatry.

Components: AACAP sponsors committees which work to increase the knowledge base about specific areas of interest for AACAP members and the public, and help AACAP disseminate information.

Journal: Through the monthly *Journal of the American Academy of Child and Adolescent Psychiatry*, AACAP publishes peer review scientific papers and an online subscription.

Special Funds: AACAP promotes and supports research careers, publicizes research and training opportunities, and sponsors initiatives to foster the development and continuing excellence of child and adolescent psychiatrists through fellowship programs, distinguished member lectures and research stipends.

AACAP News: The *AACAP News* is a bi-monthly publication designed to inform members about the latest developments in clinical practice and AACAP initiatives.

A summary of AACAP's significant accounting policies follows:

Basis of accounting: The financial statements are presented in accordance with the accrual basis of accounting, whereby, revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: AACAP is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Cash and cash equivalents: For purposes of reporting cash flows, AACAP considers all money market funds to be cash equivalents. All certificates of deposit, regardless of maturity, are considered investments. Cash held by investment custodians is also considered investments.

American Academy Of Child And Adolescent Psychiatry

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Financial risk: AACAP invests in a professionally managed portfolio that contains common stocks and mutual funds. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

AACAP maintains its cash in bank deposit accounts that, at times, may exceed federally-insured limits. AACAP has not experienced any losses in such accounts. AACAP believes it is not exposed to any significant financial risk on cash and cash equivalents.

Investments: Investments are reported at fair value as determined by quoted market prices. Changes in fair value are recorded as a component of investment income in the Statement of Activities. Investment income and losses that are temporarily restricted based on donor stipulations are allocated based on the average of the combined temporarily and permanently restricted net asset balance for the year.

Receivables: Receivables are carried at original invoice amounts less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. The provision for doubtful accounts receivable of \$17,673 is based on management's evaluation of the collectibility of receivables.

Property and equipment: Property and equipment are recorded at cost. Depreciation is provided using the straight-line method over estimated useful lives of 5 to 40 years. AACAP capitalizes all property and equipment purchased with a cost of \$1,000 or more.

Valuation of long-lived assets: AACAP accounts for the valuation of long-lived assets under Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

Unconditional promises to give: Unconditional promises to give are recognized as revenue or gains in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Promises to give are carried at original amount pledged less an estimate made for doubtful promises based on a review of all outstanding promises on a monthly basis. Management determines the allowance for doubtful promises by regularly evaluating individual promises to give and considering prior history of donor and collectibility of past donations. Promises to give are written off when deemed uncollectible. Management has determined that no provision is necessary for promises to give at December 31, 2008. Recoveries of promises to give previously written off are recorded when received.

Regional council dues payable: Regional council dues payable consist of state and local AACAP chapter dues collected by AACAP which need to be paid out to chapters.

American Academy Of Child And Adolescent Psychiatry

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Board-designated net assets: AACAP's Board of Directors has designated net assets in the amount of \$194,045 at December 31, 2008, for the Presidential Initiative Funds.

Revenue and support: AACAP has federal and non-federal grants. Revenue from grants is recognized as services are performed and costs are incurred. Conditional grants are recognized when the conditions on which they depend are substantially met. Such grant funds received prior to conditions being met are reported as refundable advances.

All donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Membership dues and fees are recognized as revenue over the dues period which coincides with AACAP's calendar year. Dues received in advance are reported as deferred dues, and recognized during the period of membership.

Annual meetings and institutes revenues are recognized in the period the meetings and institutes occur. Payments received in advance are recorded as deferred revenue.

Journal revenue is recognized in the period it is earned.

Functional expense classification: The costs of providing various programs and supporting services have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs, including overhead, have been allocated among the programs and services benefited.

Income taxes: AACAP is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, AACAP has been classified as an organization that is not a private foundation. Under current Internal Revenue Service regulations, advertising revenue earned in AACAP's publications, less applicable deductions, is subject to unrelated business income tax. There was no net tax liability for unrelated business income for the year ended December 31, 2008.

Estimates: The preparation of financial statements 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Prior year information: The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with AACAP's financial statements for the year ended December 31, 2007, from which the summarized information was derived. Certain prior year amounts were reclassified to conform to the current year presentation.

American Academy Of Child And Adolescent Psychiatry

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Recent and upcoming accounting pronouncements: In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return including positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. If there are changes in net assets as a result of application of FIN 48 these will be accounted for as an adjustment to the opening balance of net assets. Additional disclosures about the amounts of such liabilities will be required also. AACAP presently recognizes income tax positions based on management's estimate of whether it is probable and reasonably estimable that a liability has been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, *Accounting for Contingencies*. AACAP has elected to defer the application of Interpretation 48 in accordance with FASB Staff Position (FSP) FIN 48-3. This FSP defers the effective date of Interpretation 48 for nonpublic enterprises included within its scope to the annual financial statements for fiscal year beginning after December 15, 2008. AACAP will be required to adopt FIN 48 in its 2009 annual financial statements. AACAP is in the process of working with its tax specialists to determine the impact of the adoption of FIN 48 on its financial statements.

Effective January 1, 2008, the Academy adopted SFAS No. 157, *Fair Value Measurements*, issued by FASB. SFAS No. 157 defines the fair value of 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, and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets of liabilities (Level 1) and lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under SFAS No. 157 as assumptions market participants would use in pricing and asset or liability. The Academy has added the required disclosures in Note 15 to the financial statements.

The Academy adopted Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, at the beginning of the 2008 year. This standard prescribes new guidelines for expenditure of donor-restricted endowment funds, as well as the disclosures required. See Note 13 to the financial statements for details.

Note 2. Investments

The fair value of investments at December 31, 2008, is as follows:

| | |
|--------------------|---------------------|
| Equities | \$ 2,694,458 |
| Fixed income | 2,196,011 |
| REIT's | 283,939 |
| Money market funds | 86,548 |
| | <u>\$ 5,260,956</u> |

American Academy Of Child And Adolescent Psychiatry

Notes To Financial Statements

Note 2. Investments (Continued)

Net investment loss for the year ended December 31, 2008, consists of the following:

| | |
|---|-----------------------|
| Dividends and interest | \$ 262,780 |
| Realized and unrealized (losses) gains on investments | (2,575,091) |
| | <u>(2,312,311)</u> |
| Less management fees | 11,939 |
| | <u>\$ (2,324,250)</u> |

Note 3. Receivables

Receivables at December 31, 2008, consist of the following:

| | |
|--------------------------------------|-------------------|
| General receivables | \$ 302,237 |
| Federal receivables | 300,126 |
| | <u>602,363</u> |
| Less allowance for doubtful accounts | 17,673 |
| | <u>\$ 584,690</u> |

Note 4. Promises To Give

Unconditional promises to give in one year or more are measured using the present value of future cash flows based on a discount rate of approximately six percent (6%). Unconditional promises to give at December 31, 2008, consist of the following:

| | |
|--------------------------------------|-------------------|
| Amounts due in less than one year | \$ 43,251 |
| Amounts due in one to two years | 77,067 |
| Total unconditional promises to give | <u>120,318</u> |
| Less discount to net present value | 10,370 |
| Net unconditional promises to give | <u>\$ 109,948</u> |

Note 5. Property And Equipment

Property and equipment at December 31, 2008, and depreciation expense for the year then ended, is as follows:

| Asset Category | Estimated Useful Lives | Cost | Accumulated Depreciation | Net | Depreciation Expense |
|---|------------------------|---------------------|--------------------------|---------------------|----------------------|
| Building and improvements | 10 to 40 years | \$ 3,403,456 | \$ 1,295,004 | \$ 2,108,452 | \$ 160,847 |
| Office equipment, computers, and software | 3 to 10 years | 1,007,506 | 709,255 | 298,251 | 80,904 |
| Land | | 375,417 | - | 375,417 | - |
| | | <u>\$ 4,786,379</u> | <u>\$ 2,004,259</u> | <u>\$ 2,782,120</u> | <u>\$ 241,751</u> |

American Academy Of Child And Adolescent Psychiatry

Notes To Financial Statements

Note 6. Deferred Revenues

Deferred revenues at December 31, 2008, consist of the following:

| | | |
|-------------------|----|------------------|
| Membership Dues | \$ | 931,108 |
| January Institute | | 120,050 |
| Publishing Bonus | | 70,000 |
| Other | | 18,960 |
| | \$ | <u>1,140,118</u> |

Note 7. Loan Agreement

AACAP entered into a loan agreement with Suntrust Bank on May 1, 2008. The loan provided AACAP \$500,000, at an interest rate of 4.207%. The loan was interest only for the first 90 days, and is payable over a five year period. AACAP is subject to various reporting requirements and covenants, as detailed in the loan agreement. AACAP obtained this loan to finance its building renovations.

The future principal payments on the loan at December 31, 2008 are due as follows:

| | | |
|---------------------------|----|----------------|
| Years Ending December 31, | | |
| 2009 | \$ | 93,402 |
| 2010 | | 97,408 |
| 2011 | | 101,586 |
| 2012 | | 105,943 |
| 2013 | | 69,708 |
| | \$ | <u>468,047</u> |

Note 8. Building Rental

During the year ended December 31, 2008, AACAP leased a portion of its building under an operating lease. The lease expired on December 31, 2008. Rental income for the year ended December 31, 2008, was \$35,855.

Note 9. Retirement Plan

AACAP maintains a defined contribution pension plan for its full-time employees. Contributions are made on behalf of eligible employees at the rate of 10% of their compensation below the social security wage base, and 15.7% of compensation in excess of the social security taxable wage base. Amounts contributed to the plan for the year ended December 31, 2008, were \$128,915.

American Academy Of Child And Adolescent Psychiatry

Notes To Financial Statements

Note 10. Commitments

Hotels: AACAP has entered into several contracts for hotel room rentals relating to its annual meetings to be held during the years ending December 31, 2009 through 2010. In the event of cancellation, AACAP is required to pay various costs of the hotel rooms as stipulated in the contracts, the amounts of which are dependent upon the date of cancellation.

Publishing: AACAP has entered into a publishing agreement with Lippincott Williams & Wilkins pertaining to the *Journal of the American Academy of Child & Adolescent Psychiatry*. The current agreement extends through the year ending December 31, 2009. Under this agreement, AACAP is entitled to receive minimum royalty payments, as well as an annual editorial subsidy.

AACAP also entered into a new publishing agreement with Elsevier Inc, effective January 1, 2010 and extends to 2014. Under this agreement, AACAP is entitled to receive minimum royalty payments, as well as an annual editorial subsidy.

AACAP's minimum royalty payment will be \$700,000 for the year ending December 31, 2009. AACAP's editorial subsidy will be \$252,000 for the year ending December 31, 2009.

Note 11. Contingency

AACAP participates in a federally-assisted grant program that is subject to financial and compliance audits by the federal agency or its representatives. As such, there exists a contingent liability for potential questioned costs that may result from such an audit. Management does not anticipate any significant adjustments that may result from such audits.

Note 12. Temporarily Restricted Net Assets

The makeup of temporarily restricted net assets as of December 31, 2008, along with the activity in the temporarily restricted funds for the year then ended, is as follows. AACAP performed extensive research regarding certain permanently restricted funds, and determined that they should actually be temporarily restricted. Due to this, AACAP transferred the funds, as detailed below. In addition, AACAP transferred certain assets from temporarily restricted to permanently restricted, at the request of the donor, as detailed below.

For the year ended December 31, 2008, AACAP allocated investment losses to its temporarily restricted net asset funds. This allocation was calculated for each fund based on the balance in each fund at December 31, 2007, plus the current year activities, while taking into consideration the average investment balance, as well as the investment losses for the year. Temporarily restricted funds which are driven by multi-year promises to give, are allocated differently. AACAP only allocates the investment loss based on the actual cash received by year-end, and excludes the amount that has yet to be received. In addition, AACAP did not allocate investment losses to temporarily restricted programs which ended during the fiscal year.

American Academy Of Child And Adolescent Psychiatry

Notes To Financial Statements

Note 12. Temporarily Restricted Net Assets (Continued)

| | Balance | | | Net Assets | Transfers within | Transfers (to) from | Balance |
|---|---------------------|-------------------|---------------------|---------------------|------------------|---------------------|---------------------|
| | December 31, | Grants and | Investment | Released from | Temporarily | Permanently | December 31, |
| | 2007 | Contributions | Loss | Restrictions | Restricted | Restricted | 2008 |
| Campaign for America Kids | \$ 778,364 | \$ 119,002 | \$ (263,022) | \$ 163,671 | \$ - | \$ - | \$ 470,673 |
| eAACAP- Psychopharmacology Online CME (Eli Lilly) | 161,977 | 101,211 | (83,560) | 30,100 | - | - | 149,528 |
| Pilot Research Awards (Eli Lilly) | 220,302 | 98,000 | (76,658) | 104,466 | - | - | 137,178 |
| Karl Menninger Plenary | 215,376 | - | (75,612) | 4,458 | - | - | 135,306 |
| Endowment Fund | 360,048 | 375 | (55,638) | 222 | (205,000) | - | 99,563 |
| Berman Learning Disability Fund | 46,841 | - | (51,689) | 4,841 | - | 102,187 | 92,498 |
| E. Schlosser Lewis | 528,115 | 48,350 | (51,074) | 33,994 | - | (400,000) | 91,397 |
| Congressional Fellow Program | 6,532 | 6,665 | (40,580) | - | 100,000 | - | 72,617 |
| Spurlock Fund-CMHS | 124,211 | - | (26,641) | 49,896 | - | - | 47,674 |
| Stubblefield AMA House of Delegates | - | 51,000 | (6,094) | - | - | - | 44,906 |
| Spurlock Fund-NIDA | 49,630 | 36,204 | (24,834) | 16,559 | - | - | 44,441 |
| John F McDermott Assistant Editor in Residence | 55,241 | - | (19,372) | 1,202 | - | - | 34,667 |
| John Schowalter Resident | 50,795 | - | (17,926) | 790 | - | - | 32,079 |
| General Resident Travel Awards (Eli Lilly) | 43,047 | 50,000 | (15,364) | 50,190 | - | - | 27,493 |
| Endowed Dues | 11,062 | 30,000 | (14,648) | 201 | - | - | 26,213 |
| Regional Council Advocacy-McNeil | 39,157 | - | (14,037) | - | - | - | 25,120 |
| Tarjan Fund for Mental Retardation | 7,470 | 5,000 | (13,029) | 1,230 | - | 25,103 | 23,314 |
| Simon Wile Fund | 10,659 | - | (9,839) | - | - | 16,786 | 17,606 |
| Cancro Award | 27,018 | - | (9,065) | 1,730 | - | - | 16,223 |
| Spurlock Fund-AACAP | 20,915 | 6,050 | (8,707) | 2,676 | - | - | 15,582 |
| Philips Fund for Prevention | 28,497 | - | (8,502) | 4,782 | - | - | 15,213 |
| Abramson Fund | 43,621 | 10,000 | (6,435) | 29,550 | (6,120) | - | 11,516 |
| Beatrice Hamburg Award | 18,670 | - | (6,251) | 1,234 | - | - | 11,185 |
| Regional Student Interest Groups | 17,221 | - | (5,098) | 3,000 | - | - | 9,123 |
| Robinson/Cunningham | 13,641 | - | (4,780) | 307 | - | - | 8,554 |
| Marshall Schechter Lecture Fund | 10,817 | - | (3,650) | 634 | - | - | 6,533 |
| Marcelino Amaya Fund | - | 9,385 | (3,341) | 65 | - | - | 5,979 |
| Jerry M. Wiener Resident | 7,251 | 250 | (2,689) | - | - | - | 4,812 |
| CAP/Education Outreach Program (Travel Grants) | - | - | (2,311) | 33,553 | 40,000 | - | 4,136 |
| ECSII Development & Test | 36,771 | - | (942) | 34,143 | - | - | 1,686 |
| eAACAP- Substance Use Curriculum (Shire) | 134,817 | - | - | 134,817 | - | - | - |
| Assembly -Advocacy & Collaboration | - | - | - | 48,000 | 48,000 | - | - |
| Parent Collaboration Initiatives/Summit | - | - | - | 17,000 | 17,000 | - | - |
| Klingenstein | 20,515 | 8,000 | - | 28,515 | - | - | - |
| Pfizer (Collaboration) | 68,087 | - | - | 68,087 | - | - | - |
| Furman initiative | 21,529 | - | - | 21,529 | - | - | - |
| Pfizer Travel for CAP Residents | 4,449 | - | - | 4,449 | - | - | - |
| Abramson Fund-Sys Based Practice Tool Kit | 3,729 | - | - | 9,849 | 6,120 | - | - |
| Rieger Scientific Achievement Award | 1,106 | 5,000 | - | 6,106 | - | - | - |
| Rieger Psychotherapy Award | 40 | 5,000 | - | 5,040 | - | - | - |
| eAACAP- Bipolar Disorder Online CME (Eli Lilly & BMS) | - | 143,750 | - | 143,750 | - | - | - |
| Rieger Service Award | - | 5,000 | - | 5,000 | - | - | - |
| | <u>\$ 3,187,521</u> | <u>\$ 738,242</u> | <u>\$ (921,388)</u> | <u>\$ 1,065,636</u> | <u>\$ -</u> | <u>\$ (255,924)</u> | <u>\$ 1,682,815</u> |

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Notes To Financial Statements

Note 13. Permanently Restricted Net Assets

In August 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. FAS 117-1 addresses accounting issues related to guidelines in the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which was adopted by the National Conferences of Commissioners on Uniform State Laws in July 2006. Management has interpreted UPMIFA as requiring the preservation of the fair value of original donor-restricted contributions as of the date of the gift, absent explicit donor stipulations to the contrary. As a result of this interpretation, AACAP classifies as permanently restricted net assets (a) the original value of permanently restricted cash contributions and (b) the discounted value of future permanently restricted cash contributions, net of allowance for uncollectible promises. The remaining portion of donor-restricted cash contributions are classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, AACAP considers the following factors in making a determination to appropriate or accumulate donor-restricted cash contributions:

- The purposes of AACAP and donor-restricted endowment fund
- The duration and preservation of the funds
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Investment policies

Spending policy: All earnings from AACAP's permanently restricted net assets are recorded as temporarily restricted net assets, as each permanently restricted fund has a temporarily restricted component. All of AACAP's permanently restricted funds are geared towards programmatic spending that falls within the mission and purpose of AACAP. AACAP analyzes the balance in the temporarily restricted component of the fund when evaluating the ability to spend prudently on related programs which coincide with the purpose of the fund.

Permanently restricted net assets at December 31, 2008, are restricted to investment in perpetuity, the income from which is expendable to support specific purposes. AACAP performed extensive research regarding certain permanently restricted funds, and determined that they should actually be temporarily restricted. Due to this, AACAP transferred the funds, as detailed below. In addition, AACAP transferred certain assets from temporarily restricted to permanently restricted, at the request of the donor, as detailed below.

| | Balance December 31, 2007 | Transfers (to) from Temporarily Restricted | Balance December 31, 2008 |
|------------------------------------|---------------------------------|--|---------------------------------|
| Endowment Fund | \$ 745,206 | \$ - | \$ 745,206 |
| E. Schlosser Lewis | - | 400,000 | 400,000 |
| Abramson Fund | 177,605 | - | 177,605 |
| Philips Fund for Prevention | 102,055 | - | 102,055 |
| Berman Learning Disability Fund | 102,187 | (102,187) | - |
| Tarjan Fund for Mental Retardation | 25,103 | (25,103) | - |
| Simon Wile Consultation Award | 16,786 | (16,786) | - |
| | <u>\$ 1,168,942</u> | <u>\$ 255,924</u> | <u>\$ 1,424,866</u> |

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Notes To Financial Statements

Note 14. Funds Provided To Subrecipients

The following funds were provided to the subrecipients listed below under the K-12 federal program:

| | | |
|--------------------------------------|-----------|----------------|
| Mount Sinai School of Medicine | \$ | 153,276 |
| UCLA Neuropsychiatric Institute | | 150,300 |
| John Hopkins University | | 137,207 |
| Denver Health and Hospital | | 158,632 |
| Medical University of South Carolina | | 154,041 |
| University of Colorado | | 46,894 |
| University of Illinois at Chicago | | 13,207 |
| | <u>\$</u> | <u>813,557</u> |

Note 15. Fair Value Measurement

AACAP adopted Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* (FAS 157) at the beginning of the 2008 fiscal year and there was no material impact to the financial statements. FAS No. 157 applies to all assets and liabilities that are being measured and reported on a fair value basis. FAS 157 requires new disclosure that establishes a framework for measuring fair value in GAAP, and expands disclosure about fair value measurements. This statement enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The statement requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, AACAP performs a detailed analysis of the assets and liabilities that are subject to FAS 157. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

The table below presents the balances of assets at December 31, 2008, measured at fair value on a recurring basis by level within the hierarchy.

| | Level 1 | Level 2 | Level 3 | Total |
|-------------------------------|---------------------|-------------|-------------|---------------------|
| Assets: | | | | |
| Equity Securities | \$ 2,694,458 | \$ - | \$ - | \$ 2,694,458 |
| Fixed Income | 2,196,011 | - | - | 2,196,011 |
| Real Estate Investment Trusts | 283,939 | - | - | 283,939 |
| Money market funds | 86,548 | - | - | 86,548 |
| | <u>\$ 5,174,408</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 5,260,956</u> |

The equity securities, fixed income, real estate investment trusts, and money market funds detailed above are classified as Level 1 instruments due to the fact that they are publicly traded in active markets.