

American Academy of Child and Adolescent Psychiatry and Affiliates

Financial Report
December 31, 2017

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RSM US LLP

Independent Auditor's Report

To the Council
American Academy of Child and Adolescent Psychiatry

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of American Academy of Child and Adolescent Psychiatry and Affiliates (the Academy), which comprise the consolidated balance sheet as of December 31, 2017, the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Academy of Child and Adolescent Psychiatry and Affiliates as of December 31, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2018 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Academy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited the Academy's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 22, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

Washington, D.C.
September 6, 2018

American Academy of Child and Adolescent Psychiatry and Affiliates

Consolidated Balance Sheet

December 31, 2017

(With Comparative Totals for 2016)

	2017	2016
Assets		
Cash	\$ 1,484,984	\$ 2,814,366
Investments	15,369,112	12,000,746
Receivables, net	1,228,517	571,310
Prepaid expenses	135,769	110,263
Inventory	19,368	21,121
Property and equipment, net	1,657,081	1,580,171
	<u>1,657,081</u>	<u>1,580,171</u>
Total assets	\$ 19,894,831	\$ 17,097,977
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,652,942	\$ 1,440,862
Deferred revenue	1,684,057	1,643,430
Regional council dues payable	249,350	240,429
	<u>249,350</u>	<u>240,429</u>
Total liabilities	3,586,349	3,324,721
Commitments and contingencies (Note 6)		
Net assets:		
Unrestricted:		
Undesignated	11,404,248	9,761,237
Board-designated	893,634	806,929
	<u>12,297,882</u>	<u>10,568,166</u>
Temporarily restricted	1,651,980	971,570
Permanently restricted	2,358,620	2,233,520
	<u>2,358,620</u>	<u>2,233,520</u>
	<u>16,308,482</u>	<u>13,773,256</u>
Total liabilities and net assets	\$ 19,894,831	\$ 17,097,977

See notes to consolidated financial statements.

American Academy of Child and Adolescent Psychiatry and Affiliates

**Consolidated Statement of Activities
Year Ended December 31, 2017
(With Comparative Totals for 2016)**

	2017			Total	2016
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenue and support:					
Annual meeting and institutes	\$ 2,460,646	\$ -	\$ -	\$ 2,460,646	\$ 2,993,729
Membership dues and fees	2,995,738	-	-	2,995,738	2,957,127
Grants and contributions	1,574,656	428,318	125,100	2,128,074	1,696,638
Journal and royalties	1,481,489	-	-	1,481,489	1,419,870
Investment gain, net	1,559,901	523,044	-	2,082,945	961,903
Publications	251,126	-	-	251,126	298,395
Member benefit royalties	450,000	-	-	450,000	176,138
Training	38,883	-	-	38,883	80,329
Advertising	28,662	-	-	28,662	59,893
Building – rental income	235	-	-	235	10,400
Other income	1,598	-	-	1,598	8,063
Net assets released from restrictions	370,952	(370,952)	-	-	-
Total revenue and support	11,213,886	580,410	125,100	11,919,396	10,662,485
Expenses:					
Program services:					
Annual meeting and institutes	2,078,406	-	-	2,078,406	2,146,589
Components	867,250	-	-	867,250	926,155
Journal	892,627	-	-	892,627	820,902
Government affairs	866,527	-	-	866,527	755,295
Grants	1,211,236	-	-	1,211,236	718,974
Special funds	416,754	-	-	416,754	554,426
Membership	494,225	-	-	494,225	500,930
Research initiatives	413,977	-	-	413,977	394,720
Clinical practice	379,570	-	-	379,570	379,753
Communications	214,870	-	-	214,870	200,158
AACAP News	145,300	-	-	145,300	138,325
Presidential initiatives	13,048	-	-	13,048	26,297
Publications	8,151	-	-	8,151	14,986
Total program services	8,001,941	-	-	8,001,941	7,577,510
Supporting services:					
Central office	1,081,106	-	-	1,081,106	956,725
Fundraising	284,591	-	-	284,591	288,514
Building operations	16,532	-	-	16,532	16,963
Total supporting services	1,382,229	-	-	1,382,229	1,262,202
Total expenses	9,384,170	-	-	9,384,170	8,839,712
Change in net assets before other changes	1,829,716	580,410	125,100	2,535,226	1,822,773
Transfer to temporarily restricted net assets	(100,000)	100,000	-	-	-
Change in net assets	1,729,716	680,410	125,100	2,535,226	1,822,773
Net assets:					
Beginning	10,568,166	971,570	2,233,520	13,773,256	11,950,483
Ending	\$ 12,297,882	\$ 1,651,980	\$ 2,358,620	\$ 16,308,482	\$ 13,773,256

See notes to consolidated financial statements.

American Academy of Child and Adolescent Psychiatry and Affiliates

Consolidated Statement of Cash Flows
Year Ended December 31, 2017
(With Comparative Totals for 2016)

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 2,535,226	\$ 1,822,773
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized gain on investments, net	(1,776,087)	(741,271)
Bad debt expense	-	22,922
Depreciation	216,224	215,563
Contribution restricted for long-term investment	(125,100)	(100,250)
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables, net	(657,207)	(339,001)
Prepaid expenses	(25,506)	47,430
Inventory	1,753	(762)
Increase (decrease) in:		
Accounts payable and accrued expenses	212,080	560,686
Deferred revenue	40,627	(28,832)
Regional council dues payable	8,921	25,931
Net cash provided by operating activities	430,931	1,485,189
Cash flows from investing activities:		
Purchases of property and equipment	(293,134)	(339,208)
Proceeds from sales of investments	954,992	272,211
Purchases of investments	(2,547,271)	(1,343,678)
Net cash used in investing activities	(1,885,413)	(1,410,675)
Cash flows from financing activities:		
Contribution restricted for long-term investment	125,100	100,250
Net cash provided by financing activities	125,100	100,250
Net (decrease) increase in cash	(1,329,382)	174,764
Cash:		
Beginning	2,814,366	2,639,602
Ending	\$ 1,484,984	\$ 2,814,366

See notes to consolidated financial statements.

American Academy of Child and Adolescent Psychiatry and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: American Academy of Child and Adolescent Psychiatry and Affiliates (collectively, the Academy) consists of three entities.

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 healthcare 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.

American Association of Child and Adolescent Psychiatry (AMCAP) was created to engage in health policy and advocacy activities to promote mentally healthy children, adolescents and families, and the profession of child and adolescent psychiatry.

AMCAP created the AMCAP Political Action Committee (the PAC), which is a separate segregated fund of AMCAP and is an unincorporated committee. The PAC's purpose is to support federal candidates who support child and adolescent psychiatry. The PAC is not affiliated with any party.

The following are descriptions of the Academy's more 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.

Components: The Academy sponsors committees that work to increase the knowledge base about specific areas of interest for the Academy members and the public and help the Academy disseminate information.

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

Government affairs: The Academy's Government Affairs promotes advocacy efforts at the federal and state levels to improve policies and services for children and adolescents with mental illness. The Academy works to educate policymakers and administrators about issues affecting child and adolescent psychiatry and children's mental health.

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

Special funds and research initiatives: The Academy 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.

Membership: The Membership department is also responsible for development and maintenance of member benefits and services, and maintaining all membership records and statistics.

American Academy of Child and Adolescent Psychiatry and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Clinical practice: The Academy's Clinical Practice department is principally responsible for assisting members with issues related to their clinical practice, such as practice parameters, coordination of care/services, collaborating with other professionals and medical coding questions.

A summary of the Academy's significant accounting policies follows:

Principles of consolidation: The accompanying financial statements include the accounts of AACAP, AMCAP and the PAC. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

Basis of presentation: The financial statements presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification). As required by the Not-for-Profit Entities topics of the Codification, balance sheet and income statement, the Academy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Financial risk: The Academy maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Academy has not experienced any losses in such accounts. The Academy believes it is not exposed to any significant financial risk on cash.

The Academy invests in a professionally managed portfolio that contains various securities that are exposed to risks, such as interest, 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.

Investments: Investments consist of mutual funds and money market funds that are recorded in the accompanying balance sheet at their fair value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Investment gains and losses that are temporarily restricted based on donor stipulations are allocated based on the methodology detailed in Note 7.

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 \$39,894 at December 31, 2017, is based on management's evaluation of the collectability of receivables.

Property and equipment: Property and equipment are recorded at cost less accumulated depreciation. Depreciation is provided using the straight-line method over estimated useful lives of 3 to 40 years. The Academy capitalizes all property and equipment purchased with a cost of \$500 or more.

American Academy of Child and Adolescent Psychiatry and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Valuation of long-lived assets: Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets 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 reportable at the lower of the carrying amount or fair value, less cost to sell.

Regional council dues payable: Regional council dues payable consists of state and local Academy council dues collected by the Academy, which need to be paid out to councils.

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

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

The Academy receives 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 deferred revenue. There were no significant conditional grants at December 31, 2017.

All donor-restricted unconditional contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction, when received. 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.

Journal revenue is recognized in the period it is earned. Initial publishing royalties and other multi-year royalty agreements are recognized over the life of the agreements. Amounts received in advance for these agreements are recorded as deferred revenue.

Publication revenue is recognized when sales are made and member royalties are recognized in the period earned. Payments received in advance are recorded as deferred revenue.

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 have been allocated among the programs and supporting services benefited based on time spent.

Use of 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, support and expenses during the reporting period. Actual results could differ from those estimates.

American Academy of Child and Adolescent Psychiatry and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Prior year information: The consolidated 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 (GAAP). Accordingly, such information should be read in conjunction with the Academy's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Income taxes: AACAP, AMCAP and the PAC are generally exempt from federal income taxes under the provisions of Section 501(c)(3), 501(c)(6) and 527(f)(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, are subject to unrelated business income tax. There were no net tax liabilities for unrelated business income for the year ended December 31, 2017.

Management evaluated the Academy's tax positions and concluded that the Academy had taken no uncertain tax positions that require adjustment to the consolidated financial statements.

Pending accounting pronouncements: In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance and cash flows. The ASU is effective for the year ending December 15, 2018.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. A lessee is required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The standard is effective on January 1, 2020, with early adoption permitted.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. Where the Academy is a resource recipient, the ASU is applicable to contributions received for annual periods beginning after December 15, 2018. Where the Academy is a resource provider, the ASU is effective for annual periods beginning after December 15, 2019. Early adoption is permitted. The Academy is currently evaluating the impact of the adoption of this guidance on its financial statements. The adoption of ASU No. 2018-08 is not expected to have a material impact on the Academy's consolidated financial statements.

American Academy of Child and Adolescent Psychiatry and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Subsequent events: The Academy evaluated subsequent events through September 6, 2018, which is the date the consolidated financial statements were available to be issued.

Note 2. Receivables

Receivables at December 31, 2017, consist of the following:

Federal grant receivables	\$ 1,179,306
General receivables	89,105
	<u>1,268,411</u>
Less allowance for doubtful accounts	39,894
	<u><u>\$ 1,228,517</u></u>

Note 3. Property and Equipment

Property and equipment at December 31, 2017, and depreciation expense for the year then ended, consist of the following:

Asset Category	Estimated Useful Lives	2017			
		Cost	Accumulated Depreciation	Net	Depreciation Expense
Building and improvements	10 to 40 years	\$ 4,213,834	\$ 3,049,190	\$ 1,164,644	\$ 168,851
Office equipment, computers and software	3 to 10 years	600,581	483,561	117,020	47,373
Land	-	375,417	-	375,417	-
		<u>\$ 5,189,832</u>	<u>\$ 3,532,751</u>	<u>\$ 1,657,081</u>	<u>\$ 216,224</u>

Note 4. Deferred Revenue

Deferred revenue at December 31, 2017, consists of the following:

Membership dues	\$ 1,268,332
Meeting registration	324,550
Initial publishing royalty	60,000
Others	31,175
	<u>\$ 1,684,057</u>

Note 5. Retirement Plan

The Academy 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. Amounts contributed to the plan for the year ended December 31, 2017, were \$207,398.

American Academy of Child and Adolescent Psychiatry and Affiliates

Notes to Consolidated Financial Statements

Note 6. Commitments and Contingencies

Hotels, facilities and services: The Academy has entered into several contracts for hotel room rentals, convention centers, and other services relating to its annual meetings to be held through 2022. In the event of cancellation, the Academy is required to pay various costs as stipulated in the contracts, the amounts of which are dependent upon the date of cancellation.

Legal: From time to time, the Academy may be subject to various legal proceedings, which are incidental to the ordinary course of business. In the opinion of the management of the Academy, there are no material pending legal proceedings or claims.

Federal grants: All direct expenses and overhead rates charged under the Academy's government grants are subject to audit by a government agency. Such audits could result in claims against the Academy for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits, since management believes that the Academy is in compliance with all grant restrictions, and the amount of such liabilities, if any, cannot be determined.

Note 7. Temporarily Restricted Net Assets

The composition of temporarily restricted net assets as of December 31, 2017, along with the activity in the temporarily restricted funds for the year then ended, is as follows:

For the year ended December 31, 2017, the Academy allocated investment return to its temporarily restricted net asset funds on a monthly basis. This allocation has two components. The first is an allocation based on the balance and activity in each temporarily restricted fund. The second is an allocation based on the balance and activity in each permanently restricted fund. In each of the two allocations described above, the allocation methodology is the same, and the allocated investment return is recorded within the respective temporarily restricted fund. The allocations were calculated for each fund based on the balance in each fund at the end of the month, plus the current month activities, divided by the Academy's average investment balance for the month, multiplied by the Academy's net investment return for the month.

The Academy does not allocate investment income to programs that are less than one year in duration or that have a measurable date of completion during the fiscal year, such as programs where the terms of the restriction are satisfied at the annual meeting. In addition, the Academy does not allocate investment income to programs where the donors, such as but not limited to governmental entities or pharmaceutical companies, do not have expectations of receiving investment gains or intend the funds to be subject to market losses.

Temporarily restricted funds that are driven by multi-year promises to give are allocated differently. The Academy only allocates the investment return based on the actual cash received by year-end and excludes the amount that has yet to be received.

American Academy of Child and Adolescent Psychiatry and Affiliates

Notes to Consolidated Financial Statements

Note 7. Temporarily Restricted Net Assets (Continued)

Changes in temporarily restricted net assets during the year ended December 31, 2017, are as follows:

	Balance December 31, 2016	Contributions	Net Assets Released From Restrictions	Investment Gain on Temporarily Restricted	Investment Gain on Permanently Restricted	Transfer to Temporary Restricted	Balance December 31, 2017
Campaign for America Kids	\$ 191,061	\$ 177,735	\$ 12,316	\$ 36,994	\$ -	\$ -	\$ 393,474
Marilyn B Benoit Child Maltreatment Award	-	99,758	-	15,371	-	100,000	215,129
E. Schlosser Lewis	59,541	30,600	40,069	16,642	120,992	-	187,706
Endowment Fund	152,632	-	124,582	28,758	112,177	-	168,985
Berman Learning Disability Fund	132,319	-	5,034	21,264	-	-	148,549
Abramson Fund	80,251	-	14,250	13,244	26,730	-	105,975
International Fund - Ulku Ulgur, MD Int'l Scholar Fund	61,741	1,000	2,582	10,078	-	-	70,237
Amaya Fund (The Marc Amaya Award of NC)	47,394	11,395	3,334	8,146	-	-	63,601
Life Member Fund	59,945	25,130	45,023	10,386	-	-	50,438
Philips Fund for Prevention	22,233	-	5,011	4,566	15,509	-	37,297
Tarjan Developmental Disabilities Award	27,269	-	1,511	4,373	-	-	30,131
John E. Schowalter, MD Fund (Roberto)	15,650	-	11,621	2,309	22,574	-	28,912
Aubrey Metcalf Fund (Northern California-ROCAP)	22,727	-	-	3,661	-	-	26,388
NIDA AACAP Resident Research Award II 2015/2016/2017	-	30,000	4,549	-	-	-	25,451
Simon Wile Fund - Liason Psychiatry Award	21,328	-	1,545	3,406	-	-	23,189
Klingenstein	8,963	32,000	23,858	-	-	-	17,105
Paramjit Toor Joshi, MD International Scholars Fund	2,825	-	5,122	1,521	15,656	-	14,880
E. James Anthony Fund	1,578	50	44	786	7,526	-	9,896
James C. Harris MD Developmental Neuropsychiatry Forum	3,227	-	10,001	1,513	15,050	-	9,789
Beatrix Hamburg Award	8,446	-	1,377	1,305	-	-	8,374
Cancro Academic Achievement Award	9,013	-	4,181	1,229	-	-	6,061
Spurlock Minority Research Fellowship - NIDA	17,981	-	13,836	-	-	-	4,145
International Fund	3,322	150	-	551	-	-	4,023
Spurlock Fund-AACAP	4,852	500	4,354	632	-	-	1,630
Pilot Research Awards (Pfizer)	15,906	20,000	35,291	-	-	-	615
Robinson/Cunningham	1,366	-	1,461	95	-	-	-
	<u>\$ 971,570</u>	<u>\$ 428,318</u>	<u>\$ 370,952</u>	<u>\$ 186,830</u>	<u>\$ 336,214</u>	<u>\$ 100,000</u>	<u>\$ 1,651,980</u>

The transfer to temporarily restricted net assets is due to a change in donor restriction during the year ended December 31, 2017.

Note 8. Permanently Restricted and Board Designated Net Assets

The Academy follows the Codification subtopic, Reporting Endowment Funds. The Codification 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, the Academy classifies as permanently restricted net assets (a) the original value of permanently restricted cash contribution 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, the Academy considers the following factors in making a determination to appropriate or accumulate donor-restricted cash contributions:

- The purposes of the Academy and donor-restricted endowment fund
- The duration and preservation of the funds

American Academy of Child and Adolescent Psychiatry and Affiliates

Notes to Consolidated Financial Statements

Note 8. Permanently Restricted and Board Designated Net Assets (Continued)

- 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 (losses) from the Academy's permanently restricted net assets are recorded as temporarily restricted net assets, as each permanently restricted fund has a temporarily restricted component. The Academy's permanently restricted funds are geared towards programmatic spending that falls within the mission and purpose of the Academy. The Academy 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. The Academy's endowment fund is used to support programs that promote the health and development of children, adolescents and families. The programs, which the Academy supports are ultimately decided by the Council. Board designated net assets are used to fund programs determined by the President.

Investment policy: The Academy invests all permanently restricted funds, as well as other invested funds, in a fund managed by an investment manager according to the objectives and guidelines of the Academy's Statement of Investment Objectives. The Academy's overall objective is to outperform inflation while minimizing potential losses. At least annually, the Academy's Financial Planning Committee, in consultation to the Treasurer and Executive Director, will review the Statement of Investment Objectives to determine their continued applicability. Ultimate authority and responsibility for the financial policies rest with the Council.

The Academy's endowment funds consist of the following at December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 563,440	\$ 2,358,620	\$ 2,922,060
Board designated endowment funds	836,496	-	-	836,496
	<u>\$ 836,496</u>	<u>\$ 563,440</u>	<u>\$ 2,358,620</u>	<u>\$ 3,758,556</u>

Endowment fund activity for the year ended December 31, 2017, consists of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 745,840	\$ 336,359	\$ 2,233,520	\$ 3,315,719
Contributions	-	30,650	125,100	155,750
Current year designations	1,770	-	-	1,770
Investment income, net	119,696	405,553	-	525,249
Amounts appropriated for expenditure	(30,810)	(209,122)	-	(239,932)
Endowment net assets, end of year	<u>\$ 836,496</u>	<u>\$ 563,440</u>	<u>\$ 2,358,620</u>	<u>\$ 3,758,556</u>

All Academy endowment funds are included with the investments as shown in Note 9.

American Academy of Child and Adolescent Psychiatry and Affiliates

Notes to Consolidated Financial Statements

Note 8. Permanently Restricted and Board Designated Net Assets (Continued)

Permanently restricted net assets at December 31, 2017, consists of the following endowments:

E. Schlosser Lewis Fund	\$ 803,804
Endowment Fund	745,206
Abramson Fund	177,605
John E. Schowalter Fund	275,000
Philips Fund for Prevention	103,055
Joshi International Scholars Fund	103,950
James C. Harris MD Developmental Neuropsychiatry Forum	100,000
E. James Anthony Fund	50,000
	<u>\$ 2,358,620</u>

Board designated net assets activity for the year ended December 31, 2017, consists of the following programs:

	Balance December 31, 2016	Current Year Designations and Investment Income	Net Assets Released From Designations	Balance December 31, 2017
Presidential initiative funds:				
Dr. Fritz Presidential Initiative Fund	\$ 21,089	\$ -	\$ (21,089)	\$ -
Dr. Wagner Presidential Initiative Fund	40,000	20,000	(2,862)	57,138
	<u>61,089</u>	<u>20,000</u>	<u>(23,951)</u>	<u>57,138</u>
Other funds:				
Noshpitz/ Cline History Lecture	63,863	10,248	(3,250)	70,861
Karl Menninger Plenary	165,525	26,574	(7,800)	184,299
Lawrence A. Stone, MD Plenary	118,412	19,017	(5,000)	132,429
Douglas Hansen Annual Review	104,616	16,801	(5,000)	116,417
Virginia Q. Anthony Fund	71,611	13,316	(2,103)	82,824
Jerry M. Wiener Resident	18,840	3,035	-	21,875
John F McDermott Assistant Editor in Residence	68,143	10,940	(2,919)	76,164
John E. Schowalter, MD Resident	61,598	9,921	-	71,519
Stubblefield House of Delegates	73,232	11,614	(4,738)	80,108
	<u>745,840</u>	<u>121,466</u>	<u>(30,810)</u>	<u>836,496</u>
	<u>\$ 806,929</u>	<u>\$ 141,466</u>	<u>\$ (54,761)</u>	<u>\$ 893,634</u>

The Presidential Initiative Funds are not considered part of the board designated endowment funds, as these funds are not intended to be perpetual in nature, nor are they allocated investment returns.

American Academy of Child and Adolescent Psychiatry and Affiliates

Notes to Consolidated Financial Statements

Note 9. Investments and Fair Value Measurements

The Academy follows the Codification topic, Fair Value Measurement. The topic applies to all assets and liabilities that are being measured and reported on a fair value basis. The topic establishes a framework for measuring fair value in accordance with GAAP and expands disclosure about fair value measurements. The topic 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 topic 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 corroborated by market data.

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

In determining the appropriate levels, the Academy performs a detailed analysis of the assets and liabilities that are subject to the topic. 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 Academy had no Level 2 or Level 3 investments at December 31, 2017.

The table below presents the balances of assets at December 31, 2017, measured at fair value on a recurring basis by level within the hierarchy:

	Total	Level 1
Money market funds	\$ 15,717	\$ 15,717
Mutual funds:		
Large blend	4,525,003	4,525,003
Intermediate-term bond	3,826,490	3,826,490
Foreign large blend	2,295,211	2,295,211
Tactical allocation	1,141,905	1,141,905
Foreign small/mid value	766,954	766,954
Small growth	760,460	760,460
Diversified emerging markets	780,979	780,979
Floating rate funds	373,068	373,068
High-yield bond	288,938	288,938
Emerging markets bond	369,797	369,797
Large growth	125,332	125,332
	<u>15,254,137</u>	<u>15,254,137</u>
Telecommunication, consumer defensive and other common stock	99,258	99,258
Total investments	<u>\$ 15,369,112</u>	<u>\$ 15,369,112</u>

The money market funds, mutual funds, and common stock above are classified as Level 1 instruments, as there are quoted market prices in active markets for identical assets.

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Notes to Consolidated Financial Statements

Note 9. Investments and Fair Value Measurements (Continued)

Net investment gain for the year ended December 31, 2017, consists of the following:

Realized and unrealized gain on investments	\$ 1,776,087
Dividends and interest	<u>369,872</u>
	2,145,959
Less management fees	<u>63,014</u>
	<u><u>\$ 2,082,945</u></u>