American Journal of Pharmaceutical Education 2015; 79 (9) Article S16.

AACP REPORTS

CONSOLIDATED AUDITED FINANCIAL STATEMENTS

For the years ended June 30, 2014 and 2013

TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
American Association of Colleges of Pharmacy, Inc. and Subsidiary
Alexandria, VA

We have audited the accompanying consolidated financial statements of the American Association of Colleges of Pharmacy, Inc. and Subsidiary (together, the Association) (a nonprofit organization) which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the American Association of Colleges of Pharmacy, Inc. and Subsidiary as of June 30, 2014 and 2013, 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.

Columbia, Maryland
October 22, 2014

NOTE 1 - DESCRIPTION OF THE ASSOCIATION

The American Association of Colleges of Pharmacy, Inc. (the Association) is the national organization representing the interests of pharmacy education in the United States. The Association's membership is comprised of all the pharmacy colleges with professional programs accredited by the American Council on Pharmaceutical

Education, and approximately 3,700 faculty and deans and other individuals interested in pharmaceutical education. The mission of the Association is to promote the advancement of pharmaceutical education, research, patient care and public service.

Professions Quest LLC (PQLLC), a limited liability corporation wholly owned by the American Association of Colleges of Pharmacy (the Association), was registered in the Commonwealth of Virginia on Feb 20, 2014 and will develop and publish virtual inter-professional interactive multiplayer learning (VIIML) solutions targeted toward health professions education institutions and health professions students.

The program activities of the Association are as follows:

Member Services: The Association offers unique benefits, services and opportunities for institutional and individual members with challenging and relevant educational programming, advocacy efforts, publications and partnership initiatives designed to provide opportunities to pharmacy professionals at every stage of their development. The Association's core ideology – "to provide leadership in advancing the quality of pharmacy education at all levels" – is reflected in the teaching, research and service activities that take place within and outside our nation's colleges and schools of pharmacy. The Association seeks to provide leadership in advancing and enhancing the quality of education and training in its member institutions.

Meetings: The Association's member-directed programming provides pharmacy educators with opportunities to network with peers at the Association's annual, interim and other meetings for the purpose of enrichment, professional growth and development. The Association's annual meeting is the largest gathering of academic pharmacy administrators, faculty and staff and offers more than 75 educational programs that cut across all disciplines. The Association also holds other specialized meetings on topics related to professional education, leadership and curricular development.

PharmCAS: The Pharmacy College Application Service (PharmCAS) is a centralized application service that is used by the majority of the colleges and schools of pharmacy. Designed for first-year professional pharmacy degree applicants, PharmCAS offers a simple, efficient process to apply to multiple colleges and schools of pharmacy using a single web-based application. This program assists member schools by helping meet their mission of educating and training pharmacists.

PQ – IPE Learning Solutions: Professions Quest LLC will develop and publish virtual inter-professional interactive multiplayer learning (VIIML) solutions targeted toward health professions education institutions and health professions students. Professions Quest's product and services bring numerous benefits, not discovered through any other venue or educational vehicle. It provides for increased health professions/students interaction, collaboration and knowledge and also serves as a vehicle for inter-professional education.

Other Programs: The Association's other programs include but are not limited to "Education Scholar" focusing on teaching excellence and provides scholarship development resources for health professions educators. The area of faculty recruitment and retention provides a series of manuscripts, documents, reprints, case studies and exercises to improve pharmacy educator's management and leadership capabilities. The Association also provides analyses and demographic data reported for full-time, part-time and emeriti, and on salaries reported for full-time pharmacy faculty and administrators. The contributions of outstanding faculty at colleges and schools of pharmacy are annually recognized with a series of awards presented at the Association's national meetings.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Association and PQLLC (together, the Association). Intercompany transactions and accounts have been eliminated during consolidation.

Basis of Accounting

The financial statements of the Association have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The Association 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.

Restricted and Unrestricted Support and Revenue

Revenues received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is 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 as unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Cash and Cash Equivalents

Cash and cash equivalents include amounts invested in short-term investments with original maturities of 90 days or less or designated for use in operations. Cash and cash equivalents held by an investment custodian to facilitate investment transactions or for investment are included in investments in the consolidated statement of financial position.

The Association maintains bank accounts with a local financial institution. The balances may have occasionally exceeded the maximum amount covered by the Federal Deposit Insurance Corporation (FDIC). The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk in cash and cash equivalents.

Accounts Receivable

Accounts receivable are valued at management's estimate of the amount that will ultimately be collected. The allowance for doubtful accounts is based on specific identification of uncollectible accounts and the Association's historical collection experience. At June 30, 2014 and 2013, the allowance for doubtful accounts was $14,160.

Investments

Investments are carried at their fair value as of the date of the statement of financial position, which may differ from the amount ultimately realized at the time of sale. Realized and unrealized gains and losses are reflected in the statement of activities. The cost of investments sold is determined by the specific identification method.

Property and Equipment

All purchases of property and equipment in excess of $500 are capitalized at cost and depreciated using the straight-line method over their estimated useful lives ranging from three to ten years.

Deferred Revenue

Monies received in advance for dues and various programs relating to the following year are recorded as dues received in advance and as advance registration and exhibitor fees.

Fair Value Measurements

The Association follows FASB ASC 820, *Fair Value Measurements and Disclosures* which provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to the unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

- *Level 1*: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date.
- *Level 2*: Level 2 inputs are from other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- *Level 3*: Level 3 inputs are unobservable and should be used to measure fair value to the extent that observable inputs are not available.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of the observable inputs and minimize the use of the unobservable inputs.

Functional Expense Allocation

The costs of providing various programs and other activities 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.

Advertising

Advertising costs are expensed as incurred. Advertising expense for the year ended June 30, 2014 and 2013 was $0 and $1,500 respectively.

Income Tax Status

The Association is exempt from federal income taxes (except taxes on unrelated business income, if any) under Section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Service as *other than a private foundation*. PQLLC is considered a disregarded entity with respect to the Association for IRS reporting purposes.

The income tax positions taken by the Association for any year open under the various statutes of limitations are that the Association continues to be exempt from income taxes and that the Association has properly reported unrelated business income that is subject to income taxes. The Association believes that there are no tax positions taken or expected to be taken that would significantly increase unrecognized tax benefits within 12 months of the reporting date. None of the Association's income tax returns are currently under examination. However, fiscal years 2011 and later remain subject to examination by the IRS and state authorities.

Use of Estimates

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

Endowment Funds

The Association follows *FASB Accounting Standards Codification (ASC) 958* relating to endowments. Management has determined that the Association's permanently restricted net assets meet the definition of endowment funds under the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and *ASC 958*.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2014	2013
Computers and equipment	$ 1,582,545	$ 1,795,895
Leasehold improvements	470,987	470,987
Furniture and fixtures	350,170	399,190
Building	106,296	106,296
	2,509,998	2,772,368
Less accumulated depreciation and amortization	(1,917,907)	(2,048,596)
	592,091	723,772
Land	12,000	12,000
Net property and equipment	604,091	735,772

Total depreciation and amortization expense of $207,048 and $213,263 was incurred for the years ended June 30, 2014 and 2013, respectively.

NOTE 4 – SOFTWARE DEVELOPMENT

During the fiscal year ended June 30, 2014, PQLLC began development of software to be sold. For fiscal year ended June 30, 2014, $32,917 of associated costs were expensed for research and development and $26,759 of associated costs were capitalized for production costs and are unamortized at June 30, 2014. Amortization will begin when the software is available for general release to customers.

NOTE 5 - INVESTMENTS

Investments, including assets held in charitable remainder trusts and gift annuities, consist of the following at June 30:

	2014	2013
Cash and money market accounts	$ 163,315	$ 105,642
Equity securities	2,415,015	2,584,123
Fixed income mutual funds	2,303,183	1,849,874
Equity mutual funds	2,133,325	1,566,305
	$ 7,014,838	6,105,944

Investment income consisted of the following at June 30:

	2014	2013
Interest and dividend income	$ 199,946	$ 167,033
Net realized gain on sales of investments	302,367	161,214
Net unrealized gain on investments	411,733	208,551
	$ 914,046	$ 536,798

Included above are investments which are held to fund the deferred compensation benefit plan described in Note 10. The investments held to fund deferred compensation totaled $131,659 and $89,785 at June 30, 2014 and 2013, respectively.

NOTE 6 - FAIR VALUE MEASUREMENT

The following are the major categories of assets measured at fair value on a recurring basis during the years ended June 30, 2014 and 2013, using quoted prices in active markets for identical assets (Level 1):

	2014	2013
Investments		
Cash and cash equivalents	$ 163,315	$ 105,642
Equity securities:		
Consumer discretionary	335,770	382,111
Consumer staples	186,995	191,189
Energy	255,616	261,304
Financials	389,511	403,717
Healthcare	355,713	362,450
Industrials	239,189	284,957
Information technology	367,457	493,387
Other	284,764	205,008
	2,415,015	2,584,123
Mutual funds - fixed income:		
Intermediate term bond	1,549,313	1,254,954
Long term bond	93,423	255,105
Intermediate term government	-	154,294
High yield bond	111,806	-
Multi-sector bond	168,149	-
World bond	210,634	185,521
	2,133,325	1,849,874
Mutual funds - equities		
Foreign	374,857	263,512
Large-cap	267,074	327,638
Mid-cap	325,372	-
Large blend	256,433	-
Small blend	103,112	-
Large value	22,071	327,020
Small-cap	17,011	22,374
Small growth	87,111	-
Large growth	158,721	-
Diversified emerging markets	257,239	255,670
Real estate	228,158	250,494
Commodities-broad basket	206,024	119,597
	2,303,183	1,566,305
	$ 7,014,838	$ 6,105,944

All assets have been valued using a market approach. There have been no changes in valuation techniques and related inputs.

NOTE 7 – LINE OF CREDIT

The Association has two bank promissory notes. One is in the amount of $500,000 and expires November 21, 2015. Interest accrues at the bank's prime rate and is adjusted monthly. There was no outstanding balance at June 30, 2014 or 2013. The other line of credit is in the amount of $29,889 and expires November 19, 2014. Interest accrues at the bank's prime rate plus 1% and is adjusted daily. There was no outstanding balance at June 30, 2014 or 2013.

NOTE 8 – NOTE PAYABLE

The Association leases office space. The building owner paid for the construction of a new office build out. Under the lease, the Association is obligated to pay the owner for $116,640 of the cost of the build out over the initial term of the lease. This obligation bears interest at an annual rate of 6.00% and is payable in monthly payments of principal and interest of $1,295. Interest expense was $3,458 and $4,160 for the years ended June 30, 2014 and 2013, respectively.

Maturities of the note payable are as follows:

2015	$ 12,826
2016	13,617
2017	14,457
2018	10,132
	$ 51,032

NOTE 9 – OPERATING LEASE

In 2008, the Association entered into a 10 year operating lease for its office space. The initial term of the lease expires in February 2018 and there is a renewal option for an additional five years. The lease includes annual rent escalations and a waiver of the first three months' rent. The Association accounts for the escalating payments and waiver by spreading the rent payments as expense, on a straight-line basis, over the term of the lease resulting in deferred rent liability.

Future minimum lease payments are as follows for years ended June 30:

2015	$ 448,118
2016	461,065
2017	474,401
	$ 1,383,584

Rent expense for the office space for the years ended June 30, 2014 and 2013 was $476,835 and $467,311, respectively.

NOTE 10 – RETIREMENT PLANS

Defined Contribution Plan

The Association provides as part of its employee benefit package a 403b defined contribution plan that covers all employees 21 years of age or older, who have completed two years of service. Eligible employees can make pretax contributions up to federal limits. The Association makes contributions to eligible employees according to a fixed contribution rate it establishes each year. For the years ended June 30, 2014 and 2013, the Association contributed 11% of eligible employees' salaries to the plan. The Association contributed $215,592 and $193,565 to the defined contribution plan for the years ended June 30, 2014 and 2013, respectively.

Deferred Compensation Plan

The Association has deferred compensation agreements with key employees under Section 457(b) of the Internal Revenue Code. The Association has designated certain investments as held to fund its obligation under the agreements. During the year ended June 30, 2013, the Association provided distributions to two participants under the deferred compensation agreement representing full satisfaction of its obligation. The deferred compensation liabilities appear in the Statement of Financial Position under "non-qualified employee benefit plan". The Association contributed $55,340 and $28,052 to the deferred compensation plan for the years ended June 30, 2014 and 2013, respectively.

NOTE 11 – PHARMACY COLLEGE APPLICATION SERVICE (PHARMCAS)

The Association entered into agreements with Liaison International, Inc. (Liaison) and its parent company Academic Management Systems, Inc. (AMS) to establish a centralized application service identified as the Pharmacy College Application Service (PharmCAS) for applicants to professional degree programs at pharmacy colleges. The original agreement dated May 28, 2002 was for a term of nine years. An addendum to the original agreement was signed on May 18, 2011 for a term of seven years. This agreement would automatically renew for successive one year terms unless either party provides the other party with written notice of non-renewal at least six months in advance of the expiration of the then current term. The Association receives 33% of net revenue as defined in the agreement, and Liaison receives 67%. Under the terms of the agreements, the Association paid $3,615,595 and $3,442,514 to Liaison for the years ended June 30, 2014 and 2013, respectively.

The Association pays AMS an annual license fee for each institution which participates in the Pharmacy Admissions and Information Tools (PharmAdmit) program. The fees for the years ended June 30, 2014 and 2013 were $405,767 and $412,125, respectively.

In addition, the Association has paid $591,455 and $490,974 for applicant background checks for the years ended June 30, 2014 and 2013, respectively.

The Association receives a substantial portion of its revenue under these agreements. For the years ended June 30, 2014 and 2013, PharmCAS application fees accounted for 47% and 46% of the Association's revenue, respectively. The Association does not expect the contract to terminate in the near term.

NOTE 12 – RESTRICTIONS OF NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of June 30:

	2014	2013
Wal-Mart scholarship programs	$ 82,500	$ 82,500
Grace and Harold Sewell memorial fund	7,357	-
OptumRx is Right for Me fund	38,247	-
Total temporarily restricted net assets	$ 128,104	$ 82,500

Temporarily restricted net assets were released from restriction by incurring expenses satisfying their restricted purpose and by the passage of time as follows during the year ended June 30:

	2014	2013
Wal-Mart scholarship programs	$ 82,500	$ 60,000
Grace and Harold Sewell memorial fund	4,643	12,000
Sanofi-Aventis educational grant	-	8,204
OptumRx is Right for Me fund	11,753	-
Endowment fund earnings	9,415	8,842
Total net assets released from restrictions	$ 108,311	$ 89,046

Permanently Restricted Net Assets

Permanently restricted net assets are restricted to the following at June 30:

	2014	2013
Paul R. Dawson biotechnology endowment fund	$ 200,000	$ 200,000
Donald C. Brodie scholar-in-residence endowment fund	17,948	17,948
AACP endowment fund	47,690	46,525
	$ 265,638	$ 264,473

Endowment Funds

The Association's endowment consists of various funds established to support a variety of purposes as noted above. The endowment includes donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Association has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment, beginning of year	$ -	$ -	$ 262,776	$ 262,776
Contributions	-	-	1,697	1,697
Investment return	-	8,842	-	8,842
Appropriation of endowment assets for expenditure	-	(8,842)	-	(8,842)
Endowments, end of year	$ -	$-	$ 264,473	$ 264,473

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment, beginning of year	$ -	$ -	$ 264,473	$ 264,473
Contributions	-	-	1,165	1,165
Investment return	-	9,415	-	9,415
Appropriation of endowment assets for expenditure	-	(9,415)	-	(9,415)
Endowments, end of year	$ -	$ -	265,638	$ 265,638

requiring the preservation of the fair value of the original gift absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. As stipulated by all donors, the corpus of the endowments is to be permanently restricted for perpetuity. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the organization and the donor-restricted endowment fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of the organization.

The Association has adopted investment and spending policies for endowment assets that attempt to generate a long-term, total rate of return (income plus asset appreciation) that will permit real growth in endowment assets, consistent with a moderate level of investment risk.

Changes in endowment net assets consist of the following for the year ended June 30, 2013:

Changes in endowment net assets consist of the following for the year ended June 30, 2014:

NOTE 13 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 22, 2014, which is the date the financial statements are available to be issued.

Those who are interested in viewing the AACP financial statements can contact the organization at 703-739-2330