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AACP REPORTS

Independent Auditor's Report

Ronald G. Linder

Vice President of Finance and Systems, American Association of Colleges of Pharmacy

The following report was submitted on November 15, 2005, to the American Association of Colleges of Pharmacy by Edward F. Angevine, CPA:

Members of the Board of Directors:

I have audited the accompanying statements of financial position of the American Association of Colleges of Pharmacy, Inc. as of June 30, 2005 and 2004, and the related statements of unrestricted revenues, expenses and other changes in unrestricted net assets, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the American Association of Colleges of Pharmacy, Inc. as of June 30, 2005 and 2004, and the results of its activities and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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The data referred to in the above report are presented in Tables 1-5 and discussed in the following notes.

NOTES TO FINANCIAL STATEMENTS

Note 1: Significant Accounting Policies

This summary of significant accounting policies of the American Association of Colleges of Pharmacy, Inc. is presented to assist in understanding the Association's financial statements. The financial statements and notes are representations of the Association's management which is responsible for their integrity and objectivity. The accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Nature of Operations

The American Association of Colleges of Pharmacy, Inc. 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 3000 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.

The Association is a not-for-profit corporation exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes.

Revenue Recognition

Dues from institutional members and advance registration fees for the annual meeting are recognized during the period applicable. If dues or registration fees are paid in advance, the recognition of the revenues is deferred.

Dues from individuals paying for one year are treated as revenues when received. For individuals paying for membership years beyond the current year recognition of revenues relating to the future periods is deferred.

Accounts receivable reflect current amounts due and, in the opinion of management, are considered fully collectible. The Association employs the direct charge

Table 1. Statements of Financial Position

	June 30, 2005	June 30, 2004
Cash and cash equivalents	1,183,064	656,123
Accounts receivable	190,311	115,413
Long-term investments (at FMV) (Note 2)	1,093,645	969,409
Endowment funds (at FMV) (Note 2)	222,577	229,242
Prepaid expenses	273,001	222,809
Furniture, equipment and software (net of accumulated depreciation 2005 - 665 646; 2004 - 478,879) (Note 1)	525,927	734,317
Building and improvements (net of accumulated depreciation 2005 - 392 040; 2004 - 366,822) (Note 1)	498,300	523,518
Land	172,000	172,000
ASSETS	4,158,825	3,622,831
Accounts payable (Note 8)	314,749	176,018
Pharmcas software system obligation (Note 11)	516,667	516,667
Dues received in advance (Note 1)	1, 043,800	1,070,200
Advance registration and exhibitor fees (Note 1)	553,690	425,620
Mortgage payable (Note 9)	254,161	324,500
LIABILITIES	2,683,067	2,513,005
Unrestricted net assets (Notes 1)	1,119,529	767,447
Temporarily restricted net assets (Notes 1 & 3)	109,500	98,500
Permanently restricted net assets (Notes 1 & 5)	246,729	243,879
Net Assets	1,475,758	1,109,826
LIABILITIES AND NET ASSETS	4,158,825	3,622,831

Table 2. Statements of Unrestricted Revenues, Expenses and Other Changes in Unrestricted Net Assets

	Year Ending	
Unrestricted Revenues and Gains	**June 30, 2005**	**June 30, 2004**
Membership dues	2,171,444	2,103,085
Grants and contracts	339,886	305,833
Meeting registration, fees and grants	674,173	631,377
Pharmcas application fees	3,088,405	2,851,522
Sales and royalties	482,927	294,297
Interest, dividends, gains and losses	93,905	281,449
Other income	11,238	13,942
	6,861,978	6,481,505
Net assets released from restrictions (Note 4)	98,500	43,735
Total Unrestricted Revenues and Gains	6,960,478	6,525,240
Expenses		
Program services		
Individual member services	437,984	473,910
Meetings - annual, interim and institute	1,008,396	737,274
Pharmcas program expenses	2,771,288	2,655,998
Other programs	677,919	646,476
	4,895,587	4,513,658
Support services		
Program administration	929,467	916,728
Administration overhead	783,342	825,565
	1,712,809	1,742,293
Total Expenses	6,608,396	6,255,951
Increase (Decrease) in Unrestricted Net Assets	352,082	269,289

method for uncollectible accounts; thus no provision for uncollectible accounts has been made.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Basis of Presentation

Temporarily Restricted Net Assets. The Association reports grants as restricted support if they are received with grantor stipulations that limit the use of the donated assets. When a grant 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. The Association shows restricted contributions whose restrictions are met in the same reporting period as unrestricted support.

Permanently Restricted Net Assets. Endowment contributions and investments are permanently restricted by the donor. Investment earnings available for distribution

Table 3. Statements of Changes in Net Assets

	Year Ending	
	June 30, 2005	June 30, 2004
Increase (Decrease) in Unrestricted Net Assets	352,082	269,289
Temporarily Restricted Net Assets		
Grant revenues	109,500	98,500
Net assets released from restrictions (Note 4)	(98,500)	(43,735)
Increase (Decrease) in Temporarily Restricted Net Assets	11,000	54,765
Permanently Restricted Net Assets		
Endowment fund contributions	2,850	8,395
Increase (Decrease) in Permanently Restricted Net Assets	2,850	8,395
Increase (Decrease) in Net Assets	365,932	332,449
Net Assets at Beginning of Year	1,109,826	777,377
Net Assets at End of Year	1,475,758	1,109,826

are recorded in unrestricted net assets. Investment earnings with donor restrictions are recorded in temporarily or permanently restricted net assets based on the nature of the restrictions.

Buildings, Furniture, Equipment and Software. Fixed assets are carried at cost. Depreciation is provided using the straight-line method over the estimated useful lives of 10-40 years for buildings and improvements, 5-10 years for furniture and equipment and 3-5 years for computer software. Depreciation expense of $267,296 has been recorded for the year ending June 30, 2005 and $265,260 for the year ending June 30, 2004.

Expenditures for major renewals and betterments that extend the useful lives of buildings and equipment are capitalized. Expenditures for maintenance and repairs are charged to expenses as incurred.

Cash and Cash Equivalents. For purposes of the statements of cash flows, the Association considers all currency on hand, demand deposits with banks and certificates of deposit to be cash equivalents.

The Association classifies money market accounts held in the Association's brokerage accounts as a part of long-term investments. These funds are not considered cash equivalents.

Note 2: Investment Securities

Investments are stated at fair value and consist primarily of equity securities, U.S. treasury notes and money market funds, as follows:

Long-term Investments	Cost 2005	Fair Value 2005	Fair Value 2004
Equity securities	796,910	969,546	919,204
Money market funds	124,099	124,099	50,205
Subtotal	921,009	1,093,645	969,409
Endowment funds:			
Equity securities	99,689	132,919	142,902
U.S. treasury notes	73,770	73,459	71,421
Money market funds	16,199	16,199	14,919
Subtotal	189,658	222,577	229,242
Total	1,110,667	1,316,222	1,198,651

Long-term investments represent board designated amounts set aside as long-term investments. Endowment funds are investment accounts started using contributions permanently restricted by the donor. The investment income and gains on these accounts are unrestricted investment income.

Investment return is summarized as follows:

	2005	2004
Interest and dividend income - investments	20,869	18,342
Interest and dividend income - other	8,417	7,198
Net gains (losses) on investments	64,619	255,909
Total unrestricted investment income	93,905	281,449

Management fees were $22,861 for the year ended June 30, 2005 and $20,178 for the year ended June 30, 2004.

Note 3: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2005	2004
Annual meeting program grants	9,500	38,500
Academic leadership fellow program	40,000	60,000
Academic practice partnership initiative	60,000	0
Total Temporarily Restricted Net Assets	109,500	98,500

Note 4: Net Assets Released From Restrictions

Net assets released from grantor restrictions by incurring expenses satisfying the restricted purposes of $38,500 for the year ended June 30, 2005 and $43,735 for the year ended June 30, 2004 relate to annual meeting grants. The Academic leadership fellow program grant of $60,000 was released from restriction for the year ended June 30, 2005.

Note 5: Permanently Restricted Net Assets

Net assets were permanently restricted for the following purposes:

	2005	2004
Paul R. Dawson Biotechnology Award Endowment Fund	200,000	200, 000
Donald C. Brodie Scholar-In-Residence Endowment Fund	17,848	16,848
AACP Endowment Fund	28,881	27,031
Total Permanently Restricted Net Assets	246,729	243,879

The Paul R. Dawson Biotechnology Award Endowment Fund is a permanently restricted net asset to endow the Paul R. Dawson Biotechnology Award. This award of $10,000 has been awarded annually beginning in July 1999. The Donald C. Brodie scholar-in-residence endowment fund has been established to fund the scholar-in-residence program in future years. This endowment fund has received $1,000 of contributions during the year ended June 30, 2005 and $1,000 of contributions during the year ended June 30, 2004. The AACP endowment fund earnings support programs in faculty development, leadership development, and research and development. This endowment fund has received $1,850 of contributions during the year ended June 30, 2005 and $7,395 of contributions during the year ended June 30, 2004. Endowment fund earnings are recorded as unrestricted net assets.

Note 6: Significant Concentration of Credit Risk

The Association held funds in demand deposit accounts which exceeded the federally guaranteed amount by $1,212,483 at June 30, 2005 and $621,127 at June 30, 2004.

Note 7: Pension Plan

The Association participates in the TIAA-CREF retirement plan. The Association has contributed to the plan 11% of salaries for all eligible employees. All employees begin participation in this plan on the second anniversary of their employment. Voluntary contributions by the Association's employees, no greater than individual plus employer contributions allowed by law, may be made to the plan as soon as an employee begins employment. Pension expense for the years ended June 30, 2005 and June 30, 2004 was $124,148 and $123,750, respectively.

Starting January 1, 2004 the Association has adopted a section 457(a) deferred compensation plan to provide additional deferred compensation opportunities for employees through voluntary salary reduction contributions by the Association's employees.

Note 8: Accrued Vacation and Sick Pay

The Association's policy on employee leave is to give each employee a fixed number of days per month for compensated absences for sickness, vacation or personal reasons. In accordance with this policy an employee may accumulate and carry over to future years up to thirty days of leave. The Association has recorded adjustments to administration overhead expenses in

Table 4. Statements of Cash Flows

	Year Ending	
	June 30, 2005	June 30, 2004
Cash Flows From Operating Activities		
Cash received from service recipients	6,511,339	5,967,885
Cash received from grants and contracts	386,677	538,060
Interest and dividend income	29,286	25,540
Other receipts	11,238	13,941
Cash paid for employees and suppliers	(5,894,496)	(5,717,060)
Grants paid	(311,459)	(260,648)
Interest paid	(46,607)	(49,921)
Net cash provided by operating activities	685,978	517,797
Cash Flows From Investing Activities		
Purchase of fixed assets	(35,747)	(45,840)
Gross proceeds from sale of securities and other investments	442,423	295,639
Net cash invested in securities and other investments	(495,374)	(273,803)
Net cash used in investing activities	(88,698)	(24,004)
Cash Flows From Financing Activities	empty	empty
Line of credit principal advances	750,000	700,000
Line of credit principal payments	(750,000)	(700,000)
Mortgage principal payments	(70,339)	(54,292)
Net Cash Used in Financing Activities	(70,339)	(54,292)
Net Change in Cash and Cash Equivalents	526,941	439,501
Cash and Cash Equivalents at Beginning of Year	656,123	216,622
Cash and Cash Equivalents at End of Year	1,183,064	656,123
Non-cash Investing and Financing Transactions		
Pharmcase software system obligation	0	516,667

Table 5. Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities

	Year Ending	
	June 30, 2005	June 30, 2004
Change in Net Assets	365,932	332,449
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Depreciation and amortization	267,296	265,260
Disposal of fixed assets	2,059	4,863
(Gain) Loss on investments	(64,619)	(255,909)
(Increase) decrease in accounts receivable	(74,898)	(46,548)
(Increase) decrease in other assets	(50,192)	(40,891)
Increase (decrease) in accounts payable	138,730	3,953
Increase (decrease) in dues in advance	(26,400)	225,320
Increase (decrease) in registration and exhibitor fees in advance	128,070	29,300
Total Adjustments	320,046	185,348
Net Cash Provided by Operating Activities	685,978	517,797

the statement of activities to recognize the change in compensated absences for which the right to receive compensation for future absences has been earned and vested by the employees at the balance sheet dates. The adjustment was an increase of $13,342 for the year ended June 30, 2005 and a decrease of $3,303 for the year ended June 30, 2004. The liability for accrued vacation and sick pay at June 30, 2005 and June 30, 2004 is $127,043 and $113,701, respectively. These amounts are included in the Association's total accounts payable.

Note 9: Mortgage Notes Payable

The Association's note to the First Virginia Bank secured by the Association's office facilities has been refinanced with BB&T of Virginia during the year ended June 30, 2004. Interest paid on the First Virginia Bank note for the year ending June 30, 2004 was $8,964.

The note secured by the Association's office facilities with BB&T of Virginia is dated October 23, 2003 and bears interest at a fixed rate of 5.25% per annum. This note is repayable in 60 payments of $7,167 per month commencing December 5, 2003 with one final payment of all remaining principal and accrued interest on November 5, 2008.

The balance of this mortgage at June 30, 2005 is $254,161 and at June 30, 2004 was $324,500. Interest paid on this note was $16,385 for the year ended June 30, 2005 and $15,803 for the year ending June 30, 2004.

Maturities of long-term debt are as follows:

Year Ended	Amount
6/30/06	74,269
6/30/07	78,320
6/30/08	82,589
6/30/09	18,983
Total	254,161

The Association maintains a line of credit with BB&T of Virginia in the amount of $400,000. This line of credit was originated on September 17, 2003 and has been renewed through June 5, 2006. The Association pays interest on this line of credit at the bank's prime rate plus 0.25%.

There is no outstanding balance on this line of credit at June 30, 2005 or June 30, 2004. The Association has paid interest of $9,642 during the year ended June 30, 2005 and $6,925.92 during the year ended June 30, 2004.

Note 10: Shadow Loan Account

The Association has entered into an agreement with Smith Barney, Inc. to borrow funds as needed for the operations of the Association. This loan is secured by the stocks maintained at Smith Barney, Inc. in the investment accounts. The maximum amount of this loan is 50% of the value of the stocks in the managed accounts that are eligible for margin borrowing. The loan limit at June 30, 2005 is approximately $590,000. The loan bears interest at rates determined by Smith Barney, Inc. based on their current margin borrowing rates and the loan balance. The current rate is approximately 6.125%. The Association has no principle balance on this loan as of June 30, 2005 or June 30, 2004. Interest incurred on this note was $15,599 for the year ended June 30, 2005 and $9,240 for the year ending June 30, 2004.

Note 11: Pharmacy College Application Service (PharmCAS)

The Association has 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. This agreement is dated May 28, 2002 and is for a term of nine years The agreement can be renewed for an additional term of five years.

Under the terms of these agreements the Association is obligated to pay Liaison and AMS for several long term commitments:

1. The Association is obligated to pay $775,000 for development and setup costs for the year 2002 2003. Of this amount $258,333 was paid during the year ended June 30, 2003 with the balance in three payment of $172,222 due by February 1st of 2006, 2007 and 2008. This amount has been recorded as a Pharmcas software system obligation on the statement of financial position. The associated costs are being amortized over a period of five years. The allowance is allocated between accounting periods based on the ratio of total current applicants to total projected applicants for the period. For the year ended June 30, 2005 $155,000 has been recorded as an expense, for the year ended June 30 , 2004 $155,000 has been recorded.
2. The Association is obligated to pay Liaison a yearly license fee of $520,000 with a yearly increase of 4% of the previous cycle's yearly license fee commencing in the Association's year ending June 30, 2003. For the year ended June 30, 2005 the Association has paid $546,000 of this obligation and $525,200 during the year ended June 30, 2003. Of these amounts $540,974 has been recorded as an expense for the year ended June 30, 2005 and $520,265 has been recorded as an expense for the year ended June 30 , 2004.
3. During the first three years of the agreement the Association is obligated to reimburse Liaison for all PharmCAS related expenses. The reimbursement is on a predetermined expense-per-application basis with a minimum number of applications. The base cost was $1,770,000 for 2003-2004 at a rate of $40.30 per application. The rate was $38.31 per application for 2004 2005 and is currently projected to be $34.69 per application for 2005 2006.
4. The Association is obligated to pay AMS an annual license fee for each institution which participates in the Pharmacy Admissions and Information Tools (PharmAdmit) program for a period of five years. The fee for the year ended June 30, 2005 was $118,400 and $118,000 for the year ended June 30, 2004. This fee is currently projected to be $262,500 over the next two years.