



**AUDIT REPORT**

**FINANCIAL AND FEDERAL AWARD  
COMPLIANCE EXAMINATION**

**FOR THE YEAR ENDED DECEMBER 31, 2015**

**AMERICAN PSYCHIATRIC ASSOCIATION FOUNDATION**

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## **FINANCIAL STATEMENTS**



**FOR THE YEARS ENDED  
DECEMBER 31, 2015 AND 2014**

**AMERICAN PSYCHIATRIC ASSOCIATION FOUNDATION**

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# GELMAN, ROSENBERG

## & FREEDMAN

CERTIFIED PUBLIC ACCOUNTANTS



### INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
American Psychiatric Association Foundation  
Arlington, Virginia

#### Report on the Financial Statements

We have audited the accompanying financial statements of the American Psychiatric Association Foundation (APAF), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the 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 audits. We conducted our audits 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 audits 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 APAF as of December 31, 2015 and 2014, 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.

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### Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenditures of Federal Awards on pages I-(21 - 22), as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2016 on our consideration of APAF'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 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 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 APAF's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Gelman Rosenberg & Freedman".

June 8, 2016

## AMERICAN PSYCHIATRIC ASSOCIATION FOUNDATION

STATEMENTS OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2015 AND 2014

## ASSETS

	<u>2015</u>	<u>2014</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 8,874,413	\$ 9,330,372
Accounts receivable	327	-
Grants receivable	123,817	104,288
Contributions receivable	<u>84,433</u>	<u>478,271</u>
Total current assets	<u>9,082,990</u>	<u>9,912,931</u>
<b>FIXED ASSETS</b>		
Software	166,126	166,126
Less: Accumulated amortization	<u>(156,336)</u>	<u>(125,888)</u>
Net fixed assets	<u>9,790</u>	<u>40,238</u>
<b>OTHER ASSETS</b>		
Investments (Notes 2 and 9)	50,862,398	52,449,490
Assets held under unitrust agreements (Notes 3 and 9)	122,858	131,198
Deposits	<u>15,375</u>	<u>-</u>
Total other assets	<u>51,000,631</u>	<u>52,580,688</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 60,093,411</u></b>	<b><u>\$ 62,533,857</u></b>

## LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 289,902	\$ 313,803
Due to affiliates (Note 4)	336,193	1,619,447
Deferred sponsorship revenue	129,900	-
Liabilities under trust agreements, current portion (Notes 3 and 9)	<u>7,802</u>	<u>8,385</u>
Total current liabilities	<u>763,797</u>	<u>1,941,635</u>
<b>LONG-TERM LIABILITIES</b>		
Liabilities under trust agreements, net of current portion (Notes 3 and 9)	<u>46,806</u>	<u>57,022</u>
Total liabilities	<u>810,603</u>	<u>1,998,657</u>
<b>NET ASSETS</b>		
Unrestricted (Note 5)	52,866,994	55,340,760
Temporarily restricted (Note 6)	5,750,034	4,536,485
Permanently restricted (Note 7)	<u>665,780</u>	<u>657,955</u>
Total net assets	<u>59,282,808</u>	<u>60,535,200</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 60,093,411</u></b>	<b><u>\$ 62,533,857</u></b>

**AMERICAN PSYCHIATRIC ASSOCIATION FOUNDATION**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUE</b>				
Contributions	\$ 384,204	\$ 2,425,768	\$ 7,825	\$ 2,817,797
Government grants and contracts (Note 8)	873,588	-	-	873,588
Other revenue	15,039	2,411	-	17,450
Net assets released from donor restrictions (Note 6)	<u>1,244,060</u>	<u>(1,244,060)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>2,516,891</u>	<u>1,184,119</u>	<u>7,825</u>	<u>3,708,835</u>
<b>EXPENSES</b>				
Program Services:				
Research and Training	2,733,661	-	-	2,733,661
Public Education	<u>2,043,109</u>	<u>-</u>	<u>-</u>	<u>2,043,109</u>
Total program services	<u>4,776,770</u>	<u>-</u>	<u>-</u>	<u>4,776,770</u>
Supporting Services:				
General and Administrative	345,450	-	-	345,450
Fundraising	<u>359,718</u>	<u>-</u>	<u>-</u>	<u>359,718</u>
Total supporting services	<u>705,168</u>	<u>-</u>	<u>-</u>	<u>705,168</u>
Total expenses	<u>5,481,938</u>	<u>-</u>	<u>-</u>	<u>5,481,938</u>
Changes in net assets before other item	(2,965,047)	1,184,119	7,825	(1,773,103)
<b>OTHER ITEM</b>				
Investment income (Note 2)	<u>491,281</u>	<u>29,430</u>	<u>-</u>	<u>520,711</u>
Changes in net assets	(2,473,766)	1,213,549	7,825	(1,252,392)
Net assets at beginning of year	<u>55,340,760</u>	<u>4,536,485</u>	<u>657,955</u>	<u>60,535,200</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 52,866,994</u></b>	<b><u>\$ 5,750,034</u></b>	<b><u>\$ 665,780</u></b>	<b><u>\$ 59,282,808</u></b>



<b>2014</b>			
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 560,775	\$ 1,635,434	\$ 39,430	\$ 2,235,639
1,737,068	-	-	1,737,068
62,266	(4,047)	-	58,219
<u>1,846,727</u>	<u>(1,846,727)</u>	<u>-</u>	<u>-</u>
<u>4,206,836</u>	<u>(215,340)</u>	<u>39,430</u>	<u>4,030,926</u>
3,573,994	-	-	3,573,994
<u>2,046,254</u>	<u>-</u>	<u>-</u>	<u>2,046,254</u>
<u>5,620,248</u>	<u>-</u>	<u>-</u>	<u>5,620,248</u>
1,608,807	-	-	1,608,807
<u>164,250</u>	<u>-</u>	<u>-</u>	<u>164,250</u>
<u>1,773,057</u>	<u>-</u>	<u>-</u>	<u>1,773,057</u>
<u>7,393,305</u>	<u>-</u>	<u>-</u>	<u>7,393,305</u>
(3,186,469)	(215,340)	39,430	(3,362,379)
<u>3,738,698</u>	<u>188,460</u>	<u>-</u>	<u>3,927,158</u>
552,229	(26,880)	39,430	564,779
<u>54,788,531</u>	<u>4,563,365</u>	<u>618,525</u>	<u>59,970,421</u>
<b><u>\$ 55,340,760</u></b>	<b><u>\$ 4,536,485</u></b>	<b><u>\$ 657,955</u></b>	<b><u>\$ 60,535,200</u></b>

## AMERICAN PSYCHIATRIC ASSOCIATION FOUNDATION

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ (1,252,392)	\$ 564,779
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Amortization	30,448	34,976
Unrealized loss	1,109,179	249,634
Realized gain	(191,047)	(2,706,455)
Permanently restricted contributions	(7,825)	(39,430)
Change in value of unitrust agreement	(2,411)	4,047
Direct write-off to bad debt expense	-	(7,329)
(Increase) decrease in:		
Accounts receivable	(327)	7,329
Grants receivable	(19,529)	17,879
Contributions receivable	393,838	(271,531)
Deposits	(15,375)	-
Increase (decrease) in:		
Accounts payable and accrued liabilities	(23,903)	132,019
Due to affiliates	(1,283,254)	267,147
Deferred sponsorship revenue	<u>129,900</u>	<u>-</u>
Net cash used by operating activities	<u>(1,132,698)</u>	<u>(1,746,935)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(7,716,793)	(9,991,117)
Proceeds from sale of investments	<u>8,396,506</u>	<u>12,333,403</u>
Net cash provided by investing activities	<u>679,713</u>	<u>2,342,286</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Permanently restricted contributions	7,825	39,430
Payment to beneficiary under unitrust agreement	<u>(10,799)</u>	<u>(8,448)</u>
Net cash (used) provided by financing activities	<u>(2,974)</u>	<u>30,982</u>
Net (decrease) increase in cash and cash equivalents	(455,959)	626,333
Cash and cash equivalents at beginning of year	<u>9,330,372</u>	<u>8,704,039</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 8,874,413</u></b>	<b><u>\$ 9,330,372</u></b>

# AMERICAN PSYCHIATRIC ASSOCIATION FOUNDATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

#### Organization -

The American Psychiatric Association Foundation (APAF), an affiliate controlled by the American Psychiatric Association (APA), was incorporated in December 1981 under the District of Columbia Non-Profit Corporation Act. The mission of APAF is to engage in public education, research and fundraising activities in the field of psychiatry. APAF carries out some of the scientific and educational activities of APA affiliated organizations through private and government contracts and grants.

The Board of Directors under APAF consists of sixteen (16) voting members. Twelve (12) of the members are appointed by the Board of Trustees of APA. The sole corporate member of APAF is APA.

#### Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

The accompanying financial statements represent the activity of APAF only. For the years ended December 31, 2015 and 2014, the financial statements of APAF have been consolidated with APA and its affiliates in accordance with FASB ASC 958-810, *Not-for-Profit Entities, Consolidation*. The consolidated financial statements are available at APA's headquarters.

#### Cash and cash equivalents -

APAF considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents. All other highly liquid instruments, which are to be used for long-term purposes of APAF, are classified as investments.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a limit of \$250,000. At times during the year, APAF maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

#### Investments -

Investments are recorded at their readily determinable fair value. Realized and unrealized gains and losses are included in investment income in the Statements of Activities and Changes in Net Assets.

#### Accounts receivable -

Accounts receivable are stated at their net realizable value, which approximates fair value. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

#### Grants and contributions receivable -

Grants and contributions receivable approximate fair value. Management considers all amounts to be collectible within one year. The allowance for doubtful accounts is determined based upon an annual review of account balances, including the age of the balance, subsequent collections and historical experience with the customer. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

AMERICAN PSYCHIATRIC ASSOCIATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**  
(Continued)

Fixed assets -

Fixed assets in excess of \$5,000 are capitalized and stated at cost. Fixed assets currently consist of software and are being amortized on a straight-line basis over the estimated useful lives of the software, generally five years.

The cost of maintenance and repairs is recorded as expenses are incurred.

Net asset classification -

The net assets are reported in three self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of APAF and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of APAF and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions.
- **Permanently restricted net assets** represent funds restricted by the donor to be maintained in-perpetuity by APAF. There are restrictions placed on the use of investment earnings from these endowment funds.

Contributions and grants -

Unrestricted and temporarily restricted contributions are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions.

Temporarily restricted contributions received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements. Conditional promises to give are not included as support until the conditions are met.

APAF receives funding under grants from the U.S. Government and other grantors for direct and indirect program costs. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such grants are considered exchange transactions and are recorded as unrestricted income to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements. Grant funding received in advance of incurring the related expenses is recorded as a refundable advance.

APAF also receives funding under contracts from the U.S. Government, which are considered to be available for unrestricted use, unless specifically restricted by the funder. Revenue from such contracts is recognized based on the work performed in correlation to the deliverables of the contract.

# AMERICAN PSYCHIATRIC ASSOCIATION FOUNDATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

#### Deferred revenue -

Deferred revenue consists of sponsorship revenue. APAF recognizes sponsorship revenue when the related event has occurred.

#### Income taxes -

APAF is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. APAF is not a private foundation.

#### Uncertain tax positions -

For the years ended December 31, 2015 and 2014, APAF has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements. APAF is not a private foundation.

#### 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 at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

#### Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

#### Risks and uncertainties -

APAF invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

#### Fair value measurement -

APAF adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. APAF accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

#### Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported changes in net assets.

**AMERICAN PSYCHIATRIC ASSOCIATION FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

**2. INVESTMENTS**

APAF owns shares in a pooled investment account with its affiliate. APAF's allocated share of investments consisted of the following at December 31, 2015 and 2014:

	<u>Fair Value</u>	
	<u>2015</u>	<u>2014</u>
Money market funds	\$ 302,080	\$ 284,257
Alternative investments	11,976,424	9,767,623
Mutual funds:		
Baird Aggregate Bond Fund	4,382,641	5,557,674
Brandes International Small Cap Equity Fund	2,743,680	2,226,699
Delaware Pooled High-Yield Bond Fund	756,596	1,045,725
Dodge and Cox International Stock Fund	3,065,039	3,688,655
Nuveen Symphony Floating Rate Income	992,649	-
Fidelity Spartan Total Market Index Fund	5,422,521	5,990,704
Eaton Vance Floating Rate Fund	-	1,550,266
Transamerica Emerging Markets Debt Fund	1,003,965	1,318,799
Vanguard Total Bond Market Index Fund	3,857,007	3,336,141
Vanguard Total International Stock Index Fund	3,098,903	3,060,869
Vanguard Total Stock Market Index Fund	<u>13,260,893</u>	<u>14,622,078</u>
<b>TOTAL INVESTMENTS</b>	<b><u>\$ 50,862,398</u></b>	<b><u>\$ 52,449,490</u></b>

Alternative investments, and the respective terms of the agreements, are comprised of the following at December 31, 2015 and 2014:

<u>Investment Type</u>	<u>2015</u>	<u>2014</u>	<u>Liquidity</u>
Pinehurst Institutional Ltd with Citigroup	\$ 4,056,761	\$ 4,040,155	Hedge fund of a fund. Quarterly liquidity with 90 days notice; no initial lockup period.
Common Sense Long-Biased Offshore Ltd.	-	44,407	Hedge fund of a fund. Quarterly liquidity with 100 days notice; 1 year lockup period; Lockup amount of \$1,000,000 expired in May 2012.
Morgan Stanley Prime Property Fund	6,465,973	5,683,061	Real estate fund. Quarterly liquidity; no initial lockup period.
Trumbull Property Growth and Income Fund	<u>1,453,690</u>	<u>-</u>	Real estate fund. Quarterly liquidity with 60 days notice; no initial lockup period.
<b>ALTERNATIVE INVESTMENTS</b>	<b><u>\$ 11,976,424</u></b>	<b><u>\$ 9,767,623</u></b>	

Included in investment income are the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 1,438,843	\$ 1,470,337
Unrealized loss	(1,109,179)	(249,634)
Realized gain	<u>191,047</u>	<u>2,706,455</u>
<b>TOTAL INVESTMENT INCOME</b>	<b><u>\$ 520,711</u></b>	<b><u>\$ 3,927,158</u></b>

**AMERICAN PSYCHIATRIC ASSOCIATION FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

**2. INVESTMENTS (Continued)**

Investment administrative fees of \$107,755 and \$82,145 for the years ended December 31, 2015 and 2014, respectively, are included in General and Administrative expenses on the accompanying Statements of Activities and Changes in Net Assets.

**3. ASSETS AND LIABILITIES UNDER TRUST AGREEMENTS**

APAF is the trustee of a Charitable Remainder Unitrust. The beneficiary of the trust is to receive payments equal to 7% of the fair value of the trust assets annually. Upon the death of the beneficiary, the trust assets, including accumulated investment earnings, pass to APAF for its unrestricted use.

In accordance with accounting principles generally accepted in the United States of America, the assets held in trust under the agreement and the estimated liability have been recorded at fair value in the Statements of Financial Position.

On an annual basis, APAF revalues the liability based on applicable mortality tables and discount rates. The difference between the change in the fair value of the assets received and the liability to the beneficiary is recognized as temporarily restricted revenue.

As of December 31, 2015 and 2014, the assets held by APAF for trust agreements were \$122,858 and \$131,198, respectively.

The estimated liability at December 31, 2015 and 2014 was calculated using the following assumptions:

	<u>2015</u>	<u>2014</u>
Long-term rate of return on assets	8.00%	8.00%
Discount rate on future payments to beneficiary	2.67	2.47
Estimated period of distributions to beneficiary	6 years	7 years
Liability under unitrust agreement	\$ 58,748	\$ 70,896
Less: Discount to present value	<u>(4,140)</u>	<u>(5,489)</u>
Net liability under unitrust agreement	54,608	65,407
Less: Current portion	<u>(7,802)</u>	<u>(8,385)</u>
<b>LIABILITY UNDER UNITRUST AGREEMENT, NET OF CURRENT PORTION</b>	<b><u>\$ 46,806</u></b>	<b><u>\$ 57,022</u></b>

**4. AFFILIATES TRANSACTIONS**

APAF regularly carries on transactions with its related organizations. APAF was formed for the purpose of supporting the mission and purposes of the American Psychiatric Association (APA).

*American Psychiatric Association (APA) -*

APA has the authority to appoint twelve (12) members of the APAF Board of Directors and provides shared employees, administrative services, and facilities to APAF. APA charged APAF \$3,642,984 and \$4,464,014 related to these shared costs during the years ended December 31, 2015 and 2014, respectively.

As of December 31, 2015 and 2014, APAF owed APA \$336,193 and \$1,619,447, respectively.

**AMERICAN PSYCHIATRIC ASSOCIATION FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

**5. BOARD DESIGNATED NET ASSETS**

As of December 31, 2015 and 2014, net assets have been designated by the Board of Directors for the following purposes:

	<u>2015</u>	<u>2014</u>
K Street Proceeds	\$ 14,939,903	\$ 17,126,122
Legacy Fund	12,859,558	15,437,483
Reserve Replenishment Fund	8,058,661	11,430,269
Special Projects	<u>1,052,530</u>	<u>217,141</u>
Total Board Designated net assets	36,910,652	44,211,015
Undesignated net assets	<u>15,956,342</u>	<u>11,129,745</u>
<b>TOTAL UNRESTRICTED NET ASSETS</b>	<b><u>\$ 52,866,994</u></b>	<b><u>\$ 55,340,760</u></b>

**6. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consisted of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Judges Leadership Initiative	\$ 1,666,289	\$ 746,133
Accumulated investment earnings from endowed funds	215,591	243,465
Typical or Troubled	80,439	242,334
Marmor Award	227,414	235,625
Research Scholars	131,910	228,011
Kun-Po Soo Award	200,667	200,307
Community Connection	167,745	167,745
Research Grant	166,185	164,343
National Partnership for Workplace Mental Health	271,491	161,357
Bond Strecker Appel Award	141,723	140,153
BMSF South Florida	137,954	137,954
Helping Hands Otsuka	279,714	126,359
McGavin Award	119,778	123,271
Professional Education and Lifelong Learning Fund	164,323	-
Public Education Outreach Fund	116,402	-
APF Minority Mental Health Awards	184,788	66,626
Other Programs	<u>1,477,621</u>	<u>1,552,802</u>
<b>TOTAL TEMPORARILY RESTRICTED NET ASSETS</b>	<b><u>\$ 5,750,034</u></b>	<b><u>\$ 4,536,485</u></b>

The following temporarily restricted net assets were released from donor restrictions by incurring expenses (or through the passage of time), which satisfied the restricted purposes specified by the donors:

	<u>2015</u>	<u>2014</u>
Judges Leadership Initiative	\$ 300,069	\$ 269,204
Typical or Troubled	263,177	331,949
APF Schizophrenia Research Fellowship	-	441,209
National Partnership for Workplace Mental Health	-	172,707
Other Programs	<u>680,814</u>	<u>631,658</u>
<b>TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS</b>	<b><u>\$ 1,244,060</u></b>	<b><u>\$ 1,846,727</u></b>



**AMERICAN PSYCHIATRIC ASSOCIATION FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

**7. ENDOWMENT**

APAF's endowment consists of donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, APAF classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. 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 organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, APAF 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.

Endowment net assets were restricted for the following as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Kempf-Schizophrenia Research Award	\$ 311,603	\$ 311,603
Gralnick Award	100,000	100,000
Ozarin Fund	50,000	50,000
APIRE Endowment	41,880	41,880
Fryer Award	47,507	44,682
Mrazek Memorial Fund	<u>114,790</u>	<u>109,790</u>
<b>TOTAL FUNDS</b>	<b><u>\$ 665,780</u></b>	<b><u>\$ 657,955</u></b>

Changes in endowment net assets for the year ended December 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>ENDOWMENT NET ASSETS, JANUARY 1, 2015</b>	\$ -	\$ 243,465	\$ 657,955	\$ 901,420
Investment return:				
Investment income	-	26,042	-	26,042
Net depreciation (realized and unrealized)	<u>-</u>	<u>(16,634)</u>	<u>-</u>	<u>(16,634)</u>
Total investment return	<u>-</u>	<u>9,408</u>	<u>-</u>	<u>9,408</u>
Contributions	-	-	7,825	7,825
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(37,282)</u>	<u>-</u>	<u>(37,282)</u>
<b>ENDOWMENT NET ASSETS, DECEMBER 31, 2015</b>	<b><u>\$ -</u></b>	<b><u>\$ 215,591</u></b>	<b><u>\$ 665,780</u></b>	<b><u>\$ 881,371</u></b>

**AMERICAN PSYCHIATRIC ASSOCIATION FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

**7. ENDOWMENT (Continued)**

Changes in endowment net assets for the year ended December 31, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>ENDOWMENT NET ASSETS, JANUARY 1, 2014</b>	\$ <u>          -</u>	\$ <u>  221,020</u>	\$ <u>  618,525</u>	\$ <u>  839,545</u>
Investment return:				
Investment income	-	22,704	-	22,704
Net appreciation (realized and unrealized)	<u>          -</u>	<u>  37,973</u>	<u>          -</u>	<u>  37,973</u>
Total investment return	<u>          -</u>	<u>  60,677</u>	<u>          -</u>	<u>  60,677</u>
Contributions	-	-	39,430	39,430
Appropriation of endowment assets for expenditure	<u>          -</u>	<u>  (38,232)</u>	<u>          -</u>	<u>  (38,232)</u>
<b>ENDOWMENT NET ASSETS, DECEMBER 31, 2014</b>	\$ <u>          -</u>	\$ <u>  243,465</u>	\$ <u>  657,955</u>	\$ <u>  901,420</u>

Funds with Deficiencies -

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the organization to retain as funds of perpetual duration. These deficiencies result from unfavorable market fluctuations which occurred after the investment of permanently restricted contributions and continued appropriations for certain programs that were deemed prudent by the Board of Directors. There were no fund deficiencies as of December 31, 2015 and 2014.

Return Objectives and Risk Parameters -

APAF has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that APAF must hold in-perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. APAF expects its endowment funds, over time, to provide an average rate of return of approximately 8.6% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives -

To satisfy its long-term rate-of-return objectives, APAF relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). APAF targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy -

APAF allocates the investment income generated by the endowment each year based on the purpose of the endowment and the donor's request. If the donor does not specify a purpose of the income generated from their permanently restricted endowment, the income is used for general support.

## AMERICAN PSYCHIATRIC ASSOCIATION FOUNDATION

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

#### 8. CONTINGENCY

APAF receives grants from various agencies of the United States Government. For fiscal years through December 31, 2014, such grants were subject to audit under the provisions of OMB Circular A-133. Beginning for fiscal year ended December 31, 2015, such grants are subject to audit under the provisions of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The ultimate determination of amounts received under the United States Government grants is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits. Audits in accordance with the applicable provisions have been completed for all required fiscal years through 2015. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

#### 9. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, APAF has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Investments recorded in the Statements of Financial Position are categorized based on the inputs to valuation techniques as follows:

**Level 1.** These are investments where values are based on unadjusted quoted prices for identical assets in an active market APAF has the ability to access.

**Level 2.** These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

**Level 3.** These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at December 31, 2015 and 2014.

- *Money market funds* - Fair value is equal to the reported net asset value of the fund.
- *Mutual funds* - Fair value is equal to the reported net asset value of the fund, which is the price at which additional shares can be obtained.
- *Assets held under trust agreements* - Fair value is derived from quotes from a dealer or broker, where available for the underlying assets held in the charitable remainder unitrust.
- *Alternative investments* - consists of investments in hedge funds. Management has used the practical expedient for these investments which permits the use of net asset value without adjustment. These hedge funds have various redemption frequency and redemption notice periods.
- *Charitable remainder unitrust liability* - APAF revalues the liability, annually, based on applicable mortality tables and discount rates.

**AMERICAN PSYCHIATRIC ASSOCIATION FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

**9. FAIR VALUE MEASUREMENT (Continued)**

The table below summarizes, by level within the fair value hierarchy, APAF's investments as of December 31, 2015:

Asset Class:	2015			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 302,080	\$ -	\$ -	\$ 302,080
Alternative investments	-	-	11,976,424	11,976,424
Mutual funds:				
Baird Aggregate Bond Fund	4,382,641	-	-	4,382,641
Brandes International Small Cap Equity	2,743,680	-	-	2,743,680
Delaware Pooled High-Yield Bond Fund	756,596	-	-	756,596
Dodge and Cox International Stock Fund	3,065,039	-	-	3,065,039
Nuveen Symphony Floating Rate Income	992,649	-	-	992,649
Eaton Vance Floating Rate Fund	-	-	-	-
Fidelity Spartan Total Market Index Fund	5,422,521	-	-	5,422,521
Transamerica Emerging Markets Debt Fund	1,003,965	-	-	1,003,965
Vanguard Total Bond Market Index Fund	3,857,007	-	-	3,857,007
Vanguard Total International Stock Index Fund	3,098,903	-	-	3,098,903
Vanguard Total Stock Market Index Fund	<u>13,260,893</u>	<u>-</u>	<u>-</u>	<u>13,260,893</u>
Total investments	38,885,974	-	11,976,424	50,862,398
Assets held under unitrust agreement	<u>-</u>	<u>122,858</u>	<u>-</u>	<u>122,858</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 38,885,974</u></b>	<b><u>\$ 122,858</u></b>	<b><u>\$ 11,976,424</u></b>	<b><u>\$ 50,985,256</u></b>
<b>Liability Category:</b>				
<b>Liabilities under trust agreements</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 54,608</u></b>	<b><u>\$ 54,608</u></b>

The table below summarizes, by level within the fair value hierarchy, APAF's investments as of December 31, 2014:

Asset Class:	2014			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 284,257	\$ -	\$ -	\$ 284,257
Alternative investments	-	-	9,767,623	9,767,623
Mutual funds:				
Baird Aggregate Bond Fund	5,557,674	-	-	5,557,674
Brandes International Small Cap Equity	2,226,699	-	-	2,226,699
Delaware Pooled High-Yield Bond Fund	1,045,725	-	-	1,045,725
Dodge and Cox International Stock Fund	3,688,655	-	-	3,688,655
Eaton Vance Floating Rate Fund	1,550,266	-	-	1,550,266
Fidelity Spartan Total Market Index Fund	5,990,704	-	-	5,990,704
Transamerica Emerging Markets Debt Fund	1,318,799	-	-	1,318,799
Vanguard Total Bond Market Index Fund	3,336,141	-	-	3,336,141
Vanguard Total International Stock Index Fund	3,060,869	-	-	3,060,869
Vanguard Total Stock Market Index Fund	<u>14,622,078</u>	<u>-</u>	<u>-</u>	<u>14,622,078</u>
Total investments	42,681,867	-	9,767,623	52,449,490
Assets held under unitrust agreement	<u>-</u>	<u>131,198</u>	<u>-</u>	<u>131,198</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 42,681,867</u></b>	<b><u>\$ 131,198</u></b>	<b><u>\$ 9,767,623</u></b>	<b><u>\$ 52,580,688</u></b>
<b>Liability Category:</b>				
<b>Liabilities under trust agreements</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 65,407</u></b>	<b><u>\$ 65,407</u></b>

**AMERICAN PSYCHIATRIC ASSOCIATION FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014**

**9. FAIR VALUE MEASUREMENT (Continued)**

**Level 3 Financial Assets**

The following table provides a summary of changes in fair value of APAF's Level 3 financial assets for the years ended December 31, 2015 and 2014:

	<u>Pinehurst Institutional Ltd</u>	<u>Common Sense Long- Biased Offshore Ltd</u>	<u>Morgan Stanley Prime Property Fund</u>	<u>Trumbull Properties</u>	<u>Total Level 3 Investments</u>
Balance as of January 1, 2014	\$ 2,118,113	\$ 1,496,021	\$ 6,251,764	\$ -	\$ 9,865,898
Purchases	1,708,573	-	734,626	-	2,443,199
Interest	-	-	233,060	-	233,060
Fees	-	-	(61,399)	-	(61,399)
Sales	-	(1,431,702)	-	-	(1,431,702)
Transfers	-	(10,160)	(2,000,000)	-	(2,010,160)
Realized gains	-	215,429	-	-	215,429
Unrealized gains (losses)	<u>213,469</u>	<u>(225,181)</u>	<u>525,010</u>	<u>-</u>	<u>513,298</u>
Balance as of December 31, 2014	4,040,155	44,407	5,683,061	-	9,767,623
Purchases	-	-	-	1,351,944	1,351,944
Interest	-	-	245,293	34,328	279,621
Fees	-	-	(66,174)	(21,157)	(87,331)
Sales	-	(44,561)	-	-	(44,561)
Transfers	-	-	-	-	-
Realized gains	-	154	-	-	154
Unrealized gains (losses)	<u>16,606</u>	<u>-</u>	<u>603,793</u>	<u>88,575</u>	<u>708,974</u>
<b>BALANCE AS OF DECEMBER 31, 2015</b>	<b><u>\$ 4,056,761</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 6,465,973</u></b>	<b><u>\$ 1,453,690</u></b>	<b><u>\$ 11,976,424</u></b>

The amounts of total gains for the years ended December 31, 2015 and 2014, included in net unrestricted net assets attributable to the change in unrealized gains relating to Level 3 financial assets still held at the reporting date, were \$708,974 and \$513,298, respectively.

As of December 31, 2015, APAF's allocable shares of investments which exceed 5% of net assets are:

<u>Name of Investment</u>	<u>Type of Investment</u>	<u>Fair Value</u>	<u>Fair Value as a % of Net Assets</u>
Vanguard Total Stock Market Index Fund	Mutual Fund	\$ 13,260,893	22%
Morgan Stanley Prime Property Fund	Alternative - Hedge Fund	\$ 6,465,973	11%
Fidelity Spartan Total Market Index Fund	Mutual Fund	\$ 5,422,521	9%
Baird Aggregate Bond Fund	Mutual Fund	\$ 4,382,641	7%
Pinehurst Institutional Ltd	Alternative - Hedge Fund	\$ 4,056,761	7%
Vanguard Total Bond Market Index Fund	Mutual Fund	\$ 3,857,009	7%
Vanguard International Stock Index Fund	Mutual Fund	\$ 3,098,903	5%
Dodge and Cox International Stock Fund	Mutual Fund	\$ 3,065,039	5%
Brandes International Small Cap Equity	Mutual Fund	\$ 2,743,680	5%

AMERICAN PSYCHIATRIC ASSOCIATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014

9. FAIR VALUE MEASUREMENT (Continued)

As of December 31, 2014 , APAF's allocable shares of investments which exceed 5% of net assets are:

<u>Name of Investment</u>	<u>Type of Investment</u>	<u>Fair Value</u>	<u>Fair Value as a % of Net Assets</u>
Vanguard Total Stock Market Index Fund	Mutual Fund	\$14,622,078	24%
Fidelity Spartan Total Market Index Fund	Mutual Fund	\$ 5,990,704	10%
Baird Aggregate Bond Fund	Mutual Fund	\$ 5,557,674	9%
Morgan Stanley Prime Property Fund	Alternative - Hedge Fund	\$ 5,683,061	9%
Pinehurst Institutional Ltd	Alternative - Hedge Fund	\$ 4,040,155	7%
Dodge and Cox International Stock Fund	Mutual Fund	\$ 3,688,655	6%
Vanguard Total Bond Market Index Fund	Mutual Fund	\$ 3,336,141	5%
Vanguard International Stock Index Fund	Mutual Fund	\$ 3,060,869	5%

10. SUBSEQUENT EVENTS

In preparing these financial statements, APAF has evaluated events and transactions for potential recognition or disclosure through June 8, 2016, the date the financial statements were issued.

**SUPPLEMENTAL INFORMATION**

## AMERICAN PSYCHIATRIC ASSOCIATION FOUNDATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2015

<u>Federal Granting Agency and Program Title</u>	<u>Pass-Through Entity</u>	<u>Pass-Through Identification Number</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<b>Department of Health and Human Services:</b>				
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	N/A	N/A	93.243	\$ 207,546
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	N/A	N/A	93.243	482,840
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	Education Development Center, Inc.	11575	93.243	<u>65,105</u>
<b>Subtotal CFDA #93.243</b>				<b><u>755,491</u></b>
<b>Research and Development Cluster:</b>				
<b>Department of Health and Human Services:</b>				
Medical Library Assistance	N/A	N/A	93.879	<u>22,102</u>
Research on Healthcare Costs, Quality and Outcomes	N/A	N/A	93.226	19,118
Research on Healthcare Costs, Quality and Outcomes	N/A	N/A	93.226	<u>28,537</u>
<b>Subtotal CFDA #93.226</b>				<b><u>47,655</u></b>
Mental Health Research Grants	N/A	N/A	93.242	<u>48,340</u>
<b>Subtotal Research and Development Cluster</b>				<b><u>118,097</u></b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>				<b>\$ <u>873,588</u></b>



AMERICAN PSYCHIATRIC ASSOCIATION FOUNDATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2015

**Summary of Significant Accounting Policies:**

**Note 1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of APAF under programs of the federal government for the year ended December 31, 2015. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of APAF, it is not intended to and does not present the financial position, changes in net assets or cash flows of APAF.

**Note 2. Cost Principles**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. APAF has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

AMERICAN PSYCHIATRIC ASSOCIATION FOUNDATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2015

Section I - Summary of Auditor's Results

Financial Statements

- 1). Type of auditor's report issued: **Unmodified**
- 2). Internal control over financial reporting:
- Material weakness(es) identified?  Yes  No
  - Significant deficiency(ies) identified that are not considered to be material weakness(es)?  Yes  None Reported
- 3). Noncompliance material to financial statements noted?  Yes  No

Federal Awards

- 4). Internal control over major programs:
- Material weakness(es) identified?  Yes  No
  - Significant deficiency(ies) identified that are not considered to be material weakness(es)?  Yes  None Reported
- 5). Type of auditor's report issued on compliance for major programs: **Unmodified**
- 6). Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  Yes  No

7). Identification of major programs:

<u>Federal Program Title</u>	<u>CFDA or Award Number</u>	<u>Pass-Through Entity</u>	<u>Expenditures</u>
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	N/A	\$ 207,546
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	N/A	\$ 482,840
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	N/A	\$ 65,105

- 8). Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000**
- 9). Auditee qualified as a low-risk auditee?  Yes  No

AMERICAN PSYCHIATRIC ASSOCIATION FOUNDATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2015

Section II - Financial Statement Findings

*Finding 2015-001: Account Reconciliations*

**Criteria:** Title 2 CFR 200 Section 200.303 "Internal Controls" requires recipients of Federal funds to establish internal controls that should be in compliance with guidance in the "Integral Control Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

**Condition:** During fiscal year 2015, asset and liability account balances were not reviewed and approved on a monthly basis by a member of the senior finance team. As a result, there were several adjustments posted during the audit process to correct account balances. The overall impact of the adjustments did not materially impact the year-end financial statements taken as a whole.

**Context, Effect and Cause:** Over the past year, there has been a transition of staff at the senior level within the finance department. As a result, APAF's internal control policy of senior management reviewing and approving account reconciliations prepared by staff accountants was not being performed. By not following policies and procedures regarding the review and approval process, account balances could be misstated throughout the year and at year-end.

**Recommendation:** We recommend APAF's management reinstate the policies and procedures requiring the review and approval of account reconciliations by senior management at month-end to ensure all asset and liability account balances are properly stated throughout the year as well as at year-end.

**Views of Responsible Officials:** All balance sheet accounts have been reconciled by the Director of Finance. Given the number of accounts on the APAF trial balance, the high risk accounts will be reconciled on a monthly basis, while the low risk accounts will be reconciled on a quarterly basis. Each of those reconciliations will be reviewed and approved by the Director of Finance.

**Anticipated Completion Date:** April 2016

**Responsible Official:** David Keen, Chief Financial Officer

Section III - Federal Award Findings and Questioned Costs (2 CFR 200.516(a))

*Finding 2015-002: Suspension and Debarment*

**Federal Programs:** CFDA # 93.243

**Criteria:** Recipients of U.S. Government funds must adhere to specific requirements on screening all potential vendors, suppliers and sub-contractors/grantees to ensure the organization is not conducting business with excluded parties (as defined by the U.S. Government); the screening must be documented in writing.

**Condition:** During the year under audit, APAF did not perform the screening process for all payments made with Federal funds. Our audit procedures consisted of substantive testwork over a sample of expenditures paid during the year that were selected based on a representative sample of the population.

**Questioned Costs:** Undetermined.

AMERICAN PSYCHIATRIC ASSOCIATION FOUNDATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2015

Section III - Federal Award Findings and Questioned Costs (Circular A-133, Section .510)  
(Continued)

***Finding 2015--002: Suspension and Debarment (continued)***

**Context, Effect and Cause:** APAF did not have policies and procedures in place throughout the year to perform the screening process. Failure to screen potential vendors, suppliers, employees, fellows or other non-contracted federal transactions against the suspended and debarred list increases the possibility that U.S. Government funds may inadvertently be provided to individuals or organizations deemed to be excluded parties by the U.S. Government.

**Repeat Finding:** This is a repeat finding from prior year finding 2014-002.

**Recommendation:** We recommend management of APAF develop a policy to address the screening process for all contracted and non-contracted transactions including, but not limited to, with vendors, suppliers, employees, and fellows. Furthermore, we recommend that management communicate these policies and procedures to employees of the organization, and it should stress the importance of documenting compliance with the "Suspension and Debarment" provisions. Finally, the screening of potential vendors and suppliers should be completed (and documented) prior to entering into the transactions or making payments.

**Views of Responsible Officials:** The policy change began to be implemented in the fourth quarter of 2015 with the update of the disbursement and contracting policies. The updated policies have been communicated to APAF staff; however, the documentation requirement is currently being implemented. In addition, APAF has implemented a policy so that all disbursements over \$25,000 must be checked against the SAM database. Accounts payable coordinates with the General Counsel's office to check consultant invoices against the contract database and any invoice over \$25K that is part of a contract is then required to have a screen shot of the SAM database before payment will be issued.

**Anticipated Completion Date:** May, 2016

**Responsible Official:** David Keen, Chief Financial Officer

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**Independent Auditor's Report**

To the Board of Directors  
American Psychiatric Association Foundation  
Arlington, Virginia

We have audited, in accordance with the 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, the financial statements of the American Psychiatric Association Foundation (APAF) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise APAF's basic financial statements, and have issued our report thereon dated June 8, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered APAF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances, for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of APAF's internal control. Accordingly, we do not express an opinion on the effectiveness of APAF's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of APAF's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as Finding 2015-001, that we consider to be a significant deficiency.

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## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether APAF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be report under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as Finding 2015-002.

## **APAF's Response to Finding**

APAF's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. APAF's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Gelman Rosenberg & Freedman".

June 8, 2016

# GELMAN, ROSENBERG

## & FREEDMAN

CERTIFIED PUBLIC ACCOUNTANTS



### REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY TITLE 2 U.S. CODE OF FEDERAL REGULATIONS (CFR) PART 200, UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS

#### Independent Auditor's Report

To the Board of Directors  
American Psychiatric Association Foundation  
Arlington, Virginia

#### **Report on Compliance for Each Major Federal Program**

We have audited the American Psychiatric Association Foundation's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of APAF's major federal programs for the year ended December 31, 2015. APAF's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

#### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of APAF's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about APAF's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of APAF's compliance.

#### **Opinion on Each Major Federal Program**

In our opinion, APAF complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

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MEMBER OF CPAMERICA INTERNATIONAL, AN AFFILIATE OF HORWATH INTERNATIONAL  
MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

## Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as Finding 2015-002. Our opinion on each major federal program is not modified with respect to these matters.

APAF's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. APAF's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## Report on Internal Control Over Compliance

Management of APAF is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered APAF's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of APAF's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as Finding 2015-002, that we consider to be a significant deficiency.

APAF's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. APAF's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



June 8, 2016