

**Audited Financial Statements**

**AMERICAN ACADEMY OF  
PHYSICIAN ASSISTANTS**

*JUNE 30, 2016*

# American Academy of Physician Assistants

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T A T E



T R Y O N

A Professional Corporation

Certified Public

Accountants

and Consultants

# Independent Auditor’s Report

To the Board of Directors  
American Academy of Physician Assistants

We have audited the accompanying financial statements of American Academy of Physician Assistants (the Academy), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements. The financial statements as of and for the year ended June 30, 2015, were audited by other auditors whose report thereon, dated November 4, 2015, expressed an unqualified opinion on those statements.

## Management’s Responsibility for the Financial Statements

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

## Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 Academy’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 Academy’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 2016 financial statements referred to above present fairly, in all material respects, the financial position of American Academy of Physician Assistants as of June 30, 2016, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Washington, DC  
November 2, 2016

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# American Academy of Physician Assistants

## Statements of Financial Position

<b>June 30,</b>	<b>2016</b>	<b>2015</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 2,707,294	\$ 1,899,756
Investments	18,585,955	19,029,728
Accounts receivable	1,728,170	1,594,359
Due from affiliates	54,306	80,078
Prepaid expenses	650,636	506,252
Deferred compensation investments	347,044	313,482
Property and equipment	2,385,674	2,511,140
<b>Total assets</b>	<b>\$ 26,459,079</b>	<b>\$ 25,934,795</b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable and accrued expense	\$ 2,956,703	\$ 3,609,439
Deferred revenue	8,683,189	8,164,997
Refundable advance	118,937	140,000
Deferred compensation obligation	347,044	313,482
Capital lease	60,573	201,403
Security deposit	13,370	12,797
Deferred rent and lease incentive	3,166,474	3,099,883
Total liabilities	15,346,290	15,542,001
Net assets		
Unrestricted	10,590,184	10,275,864
Temporarily restricted	522,605	116,930
Total net assets	11,112,789	10,392,794
<b>Total liabilities and net assets</b>	<b>\$ 26,459,079</b>	<b>\$ 25,934,795</b>

# American Academy of Physician Assistants

## Statements of Activities

<i>Year Ended June 30,</i>	2016	2015
<b>Unrestricted activities</b>		
Revenue and support		
Dues	\$ 10,746,543	\$ 10,029,814
Registration and exhibit fees	3,977,030	3,975,928
Royalties	3,491,639	3,231,065
Grants	1,137,587	1,874,567
Product theatre and product sales	867,613	902,358
Continuing education	814,037	548,893
Advertising	464,094	445,838
Interest and dividends	363,953	351,655
Sponsorships	275,909	224,250
Rental income	127,730	161,730
Management fees	80,000	80,000
Other activities	46,473	14,984
Net assets released from restrictions	116,930	146,000
Total unrestricted revenue and support	22,509,538	21,987,082
Expense		
Salaries	9,141,247	8,147,216
Professional fees	3,181,258	4,297,786
Travel and meetings	2,091,508	2,515,643
Payroll taxes and benefits	1,974,011	1,864,164
Rent	1,219,638	1,221,652
Printing	628,672	271,985
Repairs and maintenance	555,327	410,983
Bank and credit card fees	523,269	525,231
Depreciation	505,782	508,149
Dues and subscriptions	502,186	563,342
Supplies	298,099	266,051
Stipends	217,247	180,709
Professional development	117,669	64,675
Telephone and communications	96,337	144,359
Taxes	76,283	129,169
Temporary help	71,501	286,831
Insurance	63,942	70,458
Interest	25,116	51,632
Awards	19,051	45,311
Postage	16,786	102,802
Other activities	2,928	23,179
Total expense	21,327,857	21,691,327
Change in unrestricted net assets before other activity	1,181,681	295,755
Investment (loss) income	(634,636)	302,637
Loss on sublease	(232,725)	-
Change in unrestricted net assets	314,320	598,392
<b>Temporarily restricted activities</b>		
Contributions	522,605	116,930
Net assets released from restrictions	(116,930)	(146,000)
Change in temporarily restricted net assets	405,675	(29,070)
<b>Change in net assets</b>	<b>719,995</b>	<b>569,322</b>
Net assets, beginning of year	10,392,794	9,823,472
<b>Net assets, end of year</b>	<b>\$ 11,112,789</b>	<b>\$ 10,392,794</b>

See notes to the financial statements.

# American Academy of Physician Assistants

## Statements of Cash Flows

<i>Year Ended June 30,</i>	2016	2015
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 719,995	\$ 569,322
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	505,782	508,149
Realized and unrealized loss (gain) on investments	634,636	(302,637)
Loss on disposal of property and equipment	-	65,436
Changes in assets and liabilities:		
Accounts receivable	(133,811)	(499,310)
Due from affiliates	25,772	(19,564)
Prepaid expenses	(144,384)	(136,498)
Accounts payable and accrues expenses	(652,736)	885,486
Deferred revenue	518,192	1,136,097
Refundable advance	(21,063)	140,000
Security deposit	573	-
Deferred rent and lease incentive	66,591	(45,516)
Total adjustments	799,552	1,731,643
Net cash provided by operating activities	1,519,547	2,300,965
<b>Cash flows from investing activities</b>		
Purchases of investments	(5,058,486)	(6,844,227)
Proceeds from sale of investments	4,867,622	6,668,300
Purchases of property and equipment	(380,315)	(213,224)
Net cash used in investing activities	(571,179)	(389,151)
<b>Cash flows from financing activities</b>		
Proceeds from line of credit	2,000,000	3,400,000
Repayments to the line of credit	(2,000,000)	(3,900,000)
Principal payments on capital lease obligation	(140,830)	(134,645)
Net cash used in financing activities	(140,830)	(634,645)
<b>Net increase in cash and cash equivalents</b>	<b>807,538</b>	<b>1,277,169</b>
Cash and cash equivalents, beginning of year	1,899,756	622,587
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,707,294</b>	<b>\$ 1,899,756</b>
<b>Supplemental Information</b>		
Cash paid for interest	\$ 25,116	\$ 51,632

See notes to the financial statements.

# American Academy of Physician Assistants

## Notes to the Financial Statements

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### A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: American Academy of Physician Assistants (the Academy) was incorporated in 1968 as a national professional association that represents all physician assistants across all medical and surgical specialties in the United States. The mission of the Academy is to ensure the professional growth, personal excellence, and recognition of physician assistants, and to support their efforts to enable them to improve the quality, accessibility, and cost-effectiveness of patient-centered health care.

The American Academy of Physician Assistants Political Action Committee (PAC), an organization exempt from income taxes under the provisions of Section 527(a) of the Internal Revenue Code, allows the individual physician assistant to share in the opportunity to support federal candidates who have demonstrated their belief and understanding of the principles to which the profession is dedicated. The PAC's unaudited assets as of June 30, 2016 and 2015 totaled \$110,164 and \$111,914, respectively, and the PAC's unaudited revenue for the years ended June 30, 2016 and 2015, totaled \$50,201 and \$53,793, respectively. Management has determined that the activity of the PAC is immaterial the financial statements taken as a whole.

Income taxes: The Academy is exempt from income taxes under the provisions of Section 501(c)(6) of the Internal Revenue Code. Income from nonexempt functions, which includes advertising revenue, is subject to unrelated business income tax. For the year ended June 30, 2016, the Academy had no net unrelated business income and accordingly, no provision for income taxes is recorded in the accompanying financial statements.

Basis of accounting: The accompanying financial statements have been prepared using the accrual basis of accounting. Revenue is recognized when earned and expense when the obligation has been incurred.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from estimates.

Cash and cash equivalents: For financial statement purposes, the Academy considers cash equivalents to be all highly liquid investments with maturities of three months or less when purchased, other than those held as part of the Academy's investment portfolio.

Receivables: Receivables are carried at original invoice amounts less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. There was no provision for doubtful accounts.

In the normal course of business, the Academy regularly enters into enforceable contracts related to future meetings and events. When invoices for these meetings and events are generated, the Academy records an account receivable and deferred revenue. Such contracts totaled approximately \$583,000 as of June 30, 2016.

# American Academy of Physician Assistants

## Notes to the Financial Statements

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### A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net assets: For financial statement purposes, net assets consist of the following:

Unrestricted: Unrestricted net assets represent net assets not restricted by donors for a specific purpose, even though their use may be limited in other respects, such as by board designation.

Temporarily restricted net assets: Temporarily restricted net assets represent unspent contributions that have been restricted by the donor for a specified period of time or for a specific purpose. See Note G for details regarding temporarily restricted net assets.

Revenue recognition: Dues are recognized as revenue ratably over the membership period. Dues received in advance are reported as deferred revenue and recognized during the period of membership. Student memberships expire four months after graduation; all other Academy membership types expire 12 to 24 months from the join date. Refunds may be issued for the unused portion.

Registration fees and exhibit fees related to the conferences are recognized at the time of the conference. Amounts received in advance are recorded as deferred revenue. Revenue from cost reimbursable contracts is recognized as the costs are incurred. Funds received, but not yet expended, under these contracts are presented as refundable advances. Royalties, continuing education, product theatre, and all other revenue is recognized when earned or upon performance of service.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Academy considers grants as contributions received for scientific and educational activities to further the education of physicians and health care providers, patients and the general public to enhance their ability to care for patients.

Reclassification: Certain 2015 amounts totaling \$140,000 have been reclassified from deferred revenue to refundable advance within the statements of financial position in order to conform to the 2016 presentation.

Subsequent events: Subsequent events have been evaluated through November 2, 2016, which is the date the financial statements were available to be issued.



# American Academy of Physician Assistants

## Notes to the Financial Statements

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### B. CREDIT AND MARKET RISK

Credit risk: The Academy maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Academy has not experienced any such loss in the past, and does not believe it is exposed to any significant financial risk on these balances.

Market value risk: The Academy invests funds in professionally managed portfolios that are exposed to various risks, such as interest rate, credit, and market value risk. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amount reported in the financial statements. As a result, investment balances reported in the accompanying financial statements may not be reflective of the portfolio's value during subsequent periods.

### C. INVESTMENTS

In accordance with generally accepted accounting principles, the Academy uses the following prioritized input levels to measure fair value of financial instruments. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets, such as stock quotes;

Level 2 – Includes inputs other than Level 1 inputs that are directly or indirectly observable in the marketplace, such as yield curves or other market data;

Level 3 – Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability including assumptions about risk, such as bid/ask spreads and liquidity discounts.

Investments using Level 1 - inputs consist of investments in stocks of companies nationally and across various industries and are valued based on quoted market prices at the reporting date for those or similar investments in active markets. Additionally, investments in mutual funds and exchange traded funds listed on a national market or exchange are valued at the last sales price or, if there is no sale and the market is still considered active, at the last transaction price before year-end.

Investments using Level 2 - inputs consist of accelerated return notes and are valued using an outside data and pricing company (the Company). In determining the fair value of the investments, the Company uses a market approach based on the credit risk of the issuer, maturity, current yield, and other terms and conditions of each security. Management believes the Company's estimate to be a reasonable approximation of the fair value of the investments.

# American Academy of Physician Assistants

## Notes to the Financial Statements

### C. INVESTMENTS - CONTINUED

The following is a summary of the input levels used to determine fair values at June 30,:

2016	Total	Fair Value		
		Level 1	Level 2	Level 3
<b>Investments</b>				
Equities	\$ 10,294,506	\$ 10,294,506	\$ -	\$ -
Mutual funds - fixed income	6,820,062	6,820,062		
Mutual funds - equities	1,068,106	1,068,106		
	18,182,674	<b>\$ 18,182,674</b>	-	-
Money Market Funds*	403,281			
<b>Total Investments</b>	<b>\$ 18,585,955</b>			
<b>Investments Held for Deferred Compensation</b>				
Mutual funds - fixed income	\$ 37,870	\$ 37,870	\$ -	\$ -
Mutual funds - equities	309,174	309,174		
<b>Total Investments Held for Deferred Compensation</b>	<b>\$ 347,044</b>	<b>\$ 347,044</b>	<b>\$ -</b>	<b>\$ -</b>

  

2015	Total	Fair Value		
		Level 1	Level 2	Level 3
<b>Investments</b>				
Equities	\$ 9,038,809	\$ 9,038,809	\$ -	\$ -
Exchange traded funds	4,859,982	4,859,982		
Mutual funds - fixed income	2,927,170	2,927,170		
Mutual funds - equities	79,034	79,034		
Accelerated return notes	1,821,662		1,821,662	
	18,726,657	<b>\$ 16,904,995</b>	<b>\$ 1,821,662</b>	<b>\$ -</b>
Money Market Funds*	303,071			
<b>Total Investments</b>	<b>\$ 19,029,728</b>			
<b>Investments Held for Deferred Compensation</b>				
Mutual funds - fixed income	\$ 26,925	\$ 26,925	\$ -	\$ -
Mutual funds - equities	286,557	286,557		
<b>Total Investments Held for Deferred Compensation</b>	<b>\$ 313,482</b>	<b>\$ 313,482</b>	<b>\$ -</b>	<b>\$ -</b>

Money market funds included in the investment portfolio are not subject to the provisions of fair value measurements as they are recorded at cost.

Investment fees totaled \$173,090 and \$175,730 for the years ended June 30, 2016 and 2015, respectively.

# American Academy of Physician Assistants

## Notes to the Financial Statements

### D. PROPERTY AND EQUIPMENT

Acquisitions of furniture and equipment, computer equipment, and software greater than \$2,500 are recorded at cost and depreciated using the straight-line method over their respective useful lives, ranging from three to ten years. Leasehold improvements and capitalized leases are amortized on the straight-line method over the shorter of the lease term or estimated useful life of the asset.

The Academy reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

Property and equipment consists of the following at June 30,:

	2016	2015
Computer equipment	\$ 2,696,971	\$ 2,480,542
Furniture and equipment	2,008,149	1,996,898
Leasehold improvements	1,890,508	1,890,508
Computer software	<u>168,385</u>	<u>15,750</u>
	6,764,013	6,383,698
Less: accumulated depreciation and amortization	<u>(4,378,339)</u>	<u>(3,872,558)</u>
	<u><b>\$ 2,385,674</b></u>	<u><b>\$ 2,511,140</b></u>

### E. CAPITAL LEASE

The Academy has a capital lease for audio-visual equipment expiring November 2016. The aggregate lease payments were discounted at the inception of the capital lease, and the net present value was recorded as a liability. The fair value of the related equipment was recorded as an asset within property and equipment. The leased equipment asset is amortized over the term of the lease agreement.

The net book value of the leased equipment consists of the following at June 30,:

	2016	2015
Audio-visual equipment	\$ 464,780	\$ 464,780
Less: accumulated amortization	<u>(408,099)</u>	<u>(272,066)</u>
	<u><b>\$ 56,681</b></u>	<u><b>\$ 192,714</b></u>

Under the terms of the lease, future minimum lease payments due for the year ended June 30, 2017 totaled \$61,256 of which \$683 represents payments of future interest.

# American Academy of Physician Assistants

## Notes to the Financial Statements

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### F. RELATED PARTY TRANSACTIONS

The Academy has an agreement with Physician Assistant Foundation (Foundation), a related entity, to provide staffing, office space, and certain other administrative support for annual management fee of \$80,000. Under the terms of the agreement, the Academy is also reimbursed for any actual costs based on representative allocations of payroll and other administrative costs incurred by the Academy on behalf of the Foundation.

Total costs incurred by the Academy on behalf of the Foundation for the years ended June 30, 2016 and 2015, were \$441,345 and \$420,641, respectively. At June 30, 2016 and 2015, amounts due to the Academy from the Foundation were \$55,841 and \$80,893, respectively.

The Academy also provides office space, use of equipment, supplies, and administrative support to the American Academy of Physician Assistants Political Action Committee (PAC). At June 30, 2016 and 2015, amounts collected on the PAC's behalf and due by the Academy to the PAC were \$1,535 and \$815, respectively.

### G. TEMPORARILY RESTRICTED NET ASSETS

The Academy has received contributions temporarily restricted by donors for the following purposes:

Takeda: To host an educational activity, "Achieving Sustained Remission in Major Depressive Disorder; Patient-Centered Strategies for Improved Outcomes", to further the education of physicians and health care providers, patients and the general public to enhance their ability to care for patients.

Takeda and Novo Nordisk: To host an educational activity, "Understanding HCPs and their Roles In Treating and Managing Adult Obese Patients: A Behavioral Assessment", to further the education of physicians and health care providers, patients and the general public to enhance their ability to care for patients.

The France Foundation (via AstraZeneca and Sanofi): To host an educational activity, "Diabetes: Making the Right Choices in a Sea of Treatment Options."

Novo Nordisk (Diabetes): To host an educational activity, "Diabetes Leadership Edge Advancing Physician Assistant (PA) Leadership in the Management of Type 2 Diabetes", a call to action to fight the growing health concern of Type 2 Diabetes through discussing tools to effectively manage and treat it.

Lilly: To host an educational activity, "Diabetes Leadership Edge Advancing PA Leadership in the Management of Type 2 Diabetes", a call to action to fight the growing health concern of Type 2 Diabetes through discussing tools to effectively manage and treat it.

Novo Nordisk (Obesity): To host an educational activity, "Obesity Leadership Edge: A PA Driven Chronic Care Model for the Management of Overweight and Obesity", to train Pas as primary care providers that can diagnose and treat overweight and obese patients regardless of practice setting and across the spectrum of the disease and patients age.

Merck: To support two Insomnia print material and web programs.

# American Academy of Physician Assistants

## Notes to the Financial Statements

### G. TEMPORARILY RESTRICTED NET ASSETS - CONTINUED

Changes in temporarily restricted net assets are as follows for the years ended June 30,:

	Balance July 1, 2015	Additions	Releases	Balance June 30, 2016
Educational activities				
Novo Nordisk (Obesity)	\$ -	\$ 337,605	\$ -	\$ 337,605
Novo Nordisk (Diabetes)	-	135,000		135,000
Lilly	-	50,000		50,000
Takeda	38,650		(38,650)	-
France Foundation	22,000		(22,000)	-
Takeda and Novo Nordisk	20,860		(20,860)	-
Educational materials				
Merck	35,420		(35,420)	-
	<b>\$ 116,930</b>	<b>\$ 522,605</b>	<b>\$ (116,930)</b>	<b>\$ 522,605</b>

	Balance July 1, 2014	Additions	Releases	Balance June 30, 2015
Educational activities				
Takeda	\$ -	\$ 38,650	\$ -	\$ 38,650
France Foundation	-	22,000		22,000
Takeda and Novo Nordisk	-	20,860		20,860
Institute for Preventive Foot Health	76,000		(76,000)	-
Bristol-Myers Squibb Company	70,000		(70,000)	-
Educational materials				
Merck	-	35,420		35,420
	<b>\$ 146,000</b>	<b>\$ 116,930</b>	<b>\$ (146,000)</b>	<b>\$ 116,930</b>

# American Academy of Physician Assistants

## Notes to the Financial Statements

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### H. FUNCTIONAL EXPENSES

Program services: The Academy operates the following major programs:

Marketing and Communications: Publish PA Professional and JAAPA journals and provide media outreach and campaigns to raise awareness to correct misconceptions regarding the physician assistant profession.

Advocacy and Government Relations Professional Development: Represent the physician assistant profession on Capitol Hill and at the State level. Provide information and tools regarding legislative activities. Provide information regarding physician assistant practice. Support specialty and special interest constituent organizations on policy related matters.

Education: Set standards and approve CME programs and credits for physician assistants for programs that have not already been designated for physician CME credit. Provide continuing medical education programs. Provide information for physician assistant programs and physician assistant professional development.

Annual Conference and Meeting Services: Provide continuing medical education (CME) and non-CME education and learning opportunities to the physician assistant profession by virtue of organizing and managing an Annual Conference as well as specialty meetings.

Governance and Leadership Development: Facilitate and promote dialogue among physician assistants to help formulate public policies regarding physician assistants and health care in general. Award extraordinary leaders among the physician assistants community in recognition of their efforts.

Center for Healthcare Leadership and Management: Support healthcare organizations by improving operational efficiencies, drive profitability and develop future healthcare leaders. Provide services for healthcare institutions that address a variety of areas, including provider workforce utilization, increasing patient access and reducing costs and risk.

Membership: Support, recruit, and retain student, fellow, and retired physician assistant members through educating them regarding member benefits and member value by virtue of being a member of the Academy.

Strategic Business Development: Support financial sustainability by helping grow the non-dues revenue through advertising, sponsorship sales and royalty revenue.

Research and Statistics: Conduct compensation studies at regular intervals and produce resulting reports. Conduct member research studies at regular intervals and produce resulting reports. Serve as thought leader as the Academy collaborates with external partners.

Supporting services: Supporting services include the functions necessary to provide support to the Academy's program activities and include activities such as member retention, business management, financial recordkeeping, human resources, and technology and facility support.

# American Academy of Physician Assistants

## Notes to the Financial Statements

### H. FUNCTIONAL EXPENSES - CONTINUED

The costs of providing various programs and other activities have been summarized below. Accordingly, certain costs have been allocated to the programs and supporting services benefited. Expenses by function consisted of the following at June 30,:

	2016	2015
Program services		
Marketing and communications	\$ 3,376,251	\$ 3,760,436
Advocacy and government relations	2,993,850	2,948,606
Education	2,620,798	3,147,155
Annual conference and meeting services	2,184,513	2,474,562
Governance and leadership development	1,143,713	1,059,552
Center for Healthcare Leadership and Management	940,895	-
Membership	855,373	1,038,635
Strategic business development	380,667	376,137
Research and statistics	343,956	360,945
Total program services	<u>14,840,016</u>	<u>15,166,028</u>
Supporting services		
Finance, human resources and administrative services	3,683,444	3,829,794
Technology services	1,628,313	1,621,032
Executive department	913,036	736,700
Membership recruiting	205,716	298,000
Contract support	57,332	39,773
Total supporting services	<u>6,487,841</u>	<u>6,525,299</u>
Total expense	<u>\$ 21,327,857</u>	<u>\$ 21,691,327</u>

### I. PENSION PLANS

**Retirement plan:** The Academy has a defined contribution 401(k) plan covering substantially all employees who have met certain eligibility requirements as defined in the plan document. Under the plan, employees may defer a maximum of 90% of their annual compensation to the plan each year, not to exceed Internal Revenue Service limits. Employees may also defer a portion of their annual compensation as a Roth deferral. The Academy provides a matching contribution limited to 4% of an employee's contribution; and at times, a discretionary contribution. Employer contributions paid under this plan totaled \$284,852 and \$250,019 for the years ended June 30, 2016 and 2015, respectively.

**Deferred compensation plan:** The Academy maintains a deferred compensation plan under Section 457(b) of the Internal Revenue Code. Contributions by the Academy to the plan for the years ended June 30, 2016 and 2015, were \$15,914 and \$17,298, respectively. The deferred compensation is adjusted annually to represent the fair market value of the investments in the plan. At June 30, 2016 and 2015, the fair market value of the investments was \$347,044 and \$313,482, respectively.

# American Academy of Physician Assistants

## Notes to the Financial Statements

### J. COMMITMENTS

Office lease: The Academy has a lease agreement for its office space that expires in December 2026. The terms of the office lease agreement provide an abatement of rent and include an escalation clause that adjusts annual base rentals. In addition, the terms of the office lease provide a tenant build-out allowance totaling \$1,856,010 as an incentive to lease the office space. Generally accepted accounting principles (GAAP) require that the cost of the build-out be capitalized and depreciated or amortized as property and equipment. GAAP also requires that the build-out along with the rent abatement and scheduled rent increases resulting from the escalation of base rentals be recorded as a liability and amortized ratably so as to record rent expense on a straight-line basis over the term of the office lease agreement.

The Academy has an adjustable letter of credit with a bank in lieu of a security deposit. For the years ended June 30, 2016 and 2015, the letter of credit amounted to \$95,180 and \$285,540, respectively.

Future minimum lease payments related to the office lease agreement are as follows:

Year Ending June 30,	Amount
2017	\$ 1,290,581
2018	1,326,072
2019	1,362,539
2020	1,400,008
2021	1,438,509
Thereafter	<u>8,643,055</u>
	<u>\$ 15,460,764</u>

Office subleases: The Academy had a sublease agreement with a tenant which allowed the tenant to occupy space in the Academy's office space. The sublease commenced August 2012 and expired September 2015. As stipulated in the sublease agreement, the tenant paid security deposits of \$12,798.

In December 2015, the Academy signed a new sublease agreement with a tenant commencing February 2016 and expiring January 2020. The sublease agreement includes an escalation clause that adjusts the annual base rentals and an abatement of rental payments for five months. The Academy has recorded deferred rent so as to record rental income on a straight-line basis over the terms of the sublease agreement. The deferred rent related to the sublease amounted to \$62,759 at June 30, 2016.

Base rentals stipulated in the sublease are lower than the base rentals in the Academy's office lease. As a result, the Academy incurred a loss on sublease in the amount of \$232,725 over the term of the lease. As required by GAAP, the loss is being amortized on a straight line basis over the term of the sublease agreement as an increase in sublease rental income. The accrued liability for the loss on lease amounted to \$208,483 as of June 30, 2016.



# American Academy of Physician Assistants

## Notes to the Financial Statements

### J. COMMITMENTS - CONTINUED

Future minimum rental payments related to the office sublease agreement are as follows:

Year Ending June 30,	Amount
2017	\$ 159,281
2018	167,732
2019	172,764
2020	102,707
	\$ 602,484

*Deferred rent and lease incentive liability:* As described in the previous sections of this note, the liability for deferred rent and lease incentive consisted of the following components at June 30,:

	2016	2015
Office lease		
Deferred rent	\$ 1,804,033	\$ 1,759,431
Build-out incentive	1,216,717	1,340,452
Sublease		
Deferred rent	(62,759)	-
Loss on sublease	208,483	-
	\$ 3,166,474	\$ 3,099,883

*Line-of-credit:* The Academy maintains a \$6,000,000 line-of-credit collateralized by its personal property and investments. The Academy makes monthly payments equal to the British Bankers Association LIBOR Daily Floating Rate plus 1.75% annually. The line-of-credit matures February 2017. There were no amounts outstanding on the line-of-credit at June 30, 2016 and 2015.

*Hotel contracts:* The Academy has entered into contracts with hotels and other venues providing room accommodations, meeting space, and services for future meetings and conferences. Many of the agreements contain a clause whereby the Academy could be liable for liquidated damages in the event of cancellation, or lower than expected attendance, as calculated in accordance with the terms of the agreements.

*Employment agreement:* The Academy has entered into an employment agreement with its Chief Executive Officer that runs through October 2018. Under certain circumstances, the agreement stipulates that the Academy may be liable for severance and other payments.