

Audited Financial Statements

**AMERICAN ACADEMY OF
PHYSICIAN ASSISTANTS**

JUNE 30, 2017

American Academy of Physician Assistants

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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 statements of financial position as of June 30, 2017 and 2016, and the related statements of activities 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. Those standards require that we plan and perform the audits 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 financial statements referred to above present fairly, in all material respects, the financial position of American Academy of Physician Assistants as of June 30, 2017 and 2016, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Washington, DC
November 15, 2017

American Academy of Physician Assistants

Statements of Financial Position

June 30,	2017	2016
Assets		
Cash and cash equivalents	\$ 2,446,264	\$ 2,707,294
Investments	20,915,361	18,585,955
Accounts receivable	861,253	1,145,081
Due from affiliates	53,063	54,306
Prepaid expenses	597,502	650,636
Deferred compensation investments	405,366	347,044
Property and equipment	3,370,389	2,385,674
Total assets	\$ 28,649,198	\$ 25,875,990
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 3,124,464	\$ 2,956,702
Deferred revenue	8,438,575	8,100,100
Refundable advance	-	118,937
Deferred compensation obligation	405,366	347,044
Capital lease	-	60,573
Security deposit	13,370	13,370
Deferred rent and lease incentive	3,003,280	3,166,475
Total liabilities	14,985,055	14,763,201
Net assets		
Unrestricted	13,457,330	10,590,184
Temporarily restricted	206,813	522,605
Total net assets	13,664,143	11,112,789
Total liabilities and net assets	\$ 28,649,198	\$ 25,875,990

American Academy of Physician Assistants

Statements of Activities

<i>Year Ended June 30,</i>	2017	2016
Unrestricted activities		
Revenue and support		
Dues	\$ 11,443,023	\$ 10,746,543
Registration and exhibit fees	4,888,186	3,977,030
Royalties	3,172,449	3,491,639
Grants	2,003,971	1,137,587
Continuing education	797,647	814,037
Product theatre and product sales	609,555	867,613
Sponsorships	405,650	275,909
Interest and dividends	384,822	363,953
Advertising	347,124	464,094
Rental income	208,802	127,730
Management fees	80,000	80,000
Other activities	8,653	46,473
Net assets released from restrictions	315,792	116,930
Total unrestricted revenue and support	24,665,674	22,509,538
Expense		
Salaries	9,271,950	9,141,247
Professional fees	4,051,294	3,181,258
Travel and meetings	2,977,928	2,091,508
Payroll taxes and benefits	1,940,598	1,974,011
Rent	1,208,978	1,219,638
Repairs and maintenance	732,646	555,327
Bank and credit card fees	673,734	523,269
Printing	557,705	628,672
Depreciation / amortization	541,451	505,782
Dues and subscriptions	537,417	502,186
Temporary help	344,391	71,501
Stipends	233,001	217,247
Supplies	215,225	298,099
Professional development	143,276	117,669
Awards	132,003	19,051
Other activities	100,659	2,928
Telephone and communications	91,784	96,337
Taxes	89,452	76,283
Insurance	57,302	63,942
Postage	16,643	16,786
Interest	10,594	25,116
Total expense	23,928,031	21,327,857
Change in unrestricted net assets before other activity	737,643	1,181,681
Investment gain (loss)	2,129,503	(634,636)
Loss on sublease	-	(232,725)
Change in unrestricted net assets	2,867,146	314,320
Temporarily restricted activities		
Contributions	-	522,605
Net assets released from restrictions	(315,792)	(116,930)
Change in temporarily restricted net assets	(315,792)	405,675
Change in net assets		
Net assets, beginning of year	11,112,789	10,392,794
Net assets, end of year	\$ 13,664,143	\$ 11,112,789

See notes to the financial statements.

American Academy of Physician Assistants

Statements of Cash Flows

<i>Year Ended June 30,</i>	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 2,551,354	\$ 719,995
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation / amortization	541,451	505,782
Investment (gain) loss	(2,129,503)	634,636
Loss on disposal of property and equipment	94,191	-
Changes in assets and liabilities:		
Accounts receivable	283,828	449,278
Due from affiliates	1,243	25,772
Prepaid expenses	53,134	(144,384)
Accounts payable and accrues expenses	167,762	(652,738)
Deferred revenue	338,475	(64,897)
Refundable advance	(118,937)	(21,062)
Security deposit	-	573
Deferred rent and lease incentive	(163,195)	66,592
Total adjustments	(931,551)	799,552
Net cash provided by operating activities	1,619,803	1,519,547
Cash flows from investing activities		
Purchases of investments	(9,281,216)	(5,058,486)
Proceeds from sale of investments	9,081,313	4,867,622
Purchases of property and equipment	(1,620,357)	(380,315)
Net cash used in investing activities	(1,820,260)	(571,179)
Cash flows from financing activities		
Proceeds from line of credit	1,000,000	2,000,000
Repayments to the line of credit	(1,000,000)	(2,000,000)
Principal payments on capital lease obligation	(60,573)	(140,830)
Net cash used in financing activities	(60,573)	(140,830)
Net (decrease) increase in cash and cash equivalents	(261,030)	807,538
Cash and cash equivalents, beginning of year	2,707,294	1,899,756
Cash and cash equivalents, end of year	\$ 2,446,264	\$ 2,707,294
Supplemental Information		
Cash paid for interest	\$ 10,594	\$ 25,116

See notes to the financial statements.

American Academy of Physician Assistants

Notes to the Financial Statements

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, 2017 and 2016 totaled \$135,327 and \$110,164, respectively, and the PAC's unaudited revenue for the years ended June 30, 2017 and 2016, totaled \$93,055 and \$50,201, 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 years ended June 30, 2017 and 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. The recording of such contracts creates up a gross-up of accounts receivable and deferred revenue of approximately \$546,000 and \$583,000 as of June 30, 2017 and 2016, respectively. The gross-up amount for 2016 has been removed from accounts receivable and deferred revenue in order to conform with the 2017 presentation.

American Academy of Physician Assistants

Notes to the Financial Statements

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.

Subsequent events: Subsequent events have been evaluated through November 15, 2017, which is the date the financial statements were available to be issued.

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.

American Academy of Physician Assistants

Notes to the Financial Statements

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.

The following is a summary of the input levels used to determine fair values at June 30, 2017:

	Total	Fair Value		
		Level 1	Level 2	Level 3
Investments				
Equities	\$ 11,723,628	\$ 11,723,628	\$ -	\$ -
Mutual funds - fixed income	7,480,261	7,480,261		
Mutual funds - equities	1,251,004	1,251,004		
	<u>20,454,893</u>	<u>\$ 20,454,893</u>	-	-
Money Market Funds*	460,468			
Total Investments	\$ 20,915,361			
Investments Held for Deferred Compensation				
Mutual funds - fixed income	\$ 47,304	\$ 47,304	\$ -	\$ -
Mutual funds - equities	358,062	358,062		
Total Investments Held for Deferred Compensation	\$ 405,366	\$ 405,366	\$ -	\$ -

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
Investments				
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	\$ 18,182,674	\$ -	\$ -
Money Market Funds*	403,281			
Total Investments	\$ 18,585,955			
Investments Held for Deferred Compensation				
Mutual funds - fixed income	\$ 37,870	\$ 37,870	\$ -	\$ -
Mutual funds - equities	309,174	309,174		
Total Investments Held for Deferred Compensation	\$ 347,044	\$ 347,044	\$ -	\$ -

* 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 \$184,919 and \$173,090 for the years ended June 30, 2017 and 2016, respectively.

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.

American Academy of Physician Assistants

Notes to the Financial Statements

D. PROPERTY AND EQUIPMENT - CONTINUED

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

	2017	2016
Computer equipment	\$ 3,108,753	\$ 2,232,191
Furniture and equipment	2,472,929	2,472,929
Leasehold improvements	1,890,508	1,890,508
Computer software	655,295	168,385
	<u>8,127,485</u>	<u>6,764,013</u>
Less: accumulated depreciation and amortization	<u>(4,757,096)</u>	<u>(4,378,339)</u>
	<u>\$ 3,370,389</u>	<u>\$ 2,385,674</u>

E. CAPITAL LEASE

The Academy's capital lease for audio-visual equipment expired 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 was amortized over the term of the lease agreement.

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

	2017	2016
Audio-visual equipment	\$ -	\$ 464,780
Less: accumulated amortization	<u>-</u>	<u>(408,099)</u>
	<u>\$ -</u>	<u>\$ 56,681</u>

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 an annual management fee of \$80,000. Under the terms of the agreement, the Academy is 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, 2017 and 2016 were \$426,287 and \$441,345, respectively. At June 30, 2017 and 2016, amounts due to the Academy from the Foundation were \$53,063 and \$55,841, 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, 2017 and 2016, amounts collected on the PAC's behalf and due by the Academy to the PAC were \$0 and \$1,535, respectively.

American Academy of Physician Assistants

Notes to the Financial Statements

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 PA's 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.

Changes in temporarily restricted net assets are as follows for the year ended June 30, 2017:

	Balance				Balance
	July 1, 2016	Additions	Releases		June 30, 2017
Educational activities					
Novo Nordisk (Obesity)	\$ 337,605	\$ -	\$ (169,280)		\$ 168,325
Novo Nordisk (Diabetes)	135,000		(96,512)		38,488
Lilly	50,000		(50,000)		-
	\$ 522,605	\$ -	\$ (315,792)		\$ 206,813

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, 2016:

	Balance		Balance	
	July 1, 2015	Additions	Releases	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)	
	\$ 116,930	\$ 522,605	\$ (116,930)	\$ 522,605

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 PA profession.

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

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

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

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.

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

American Academy of Physician Assistants

Notes to the Financial Statements

H. FUNCTIONAL EXPENSES - CONTINUED

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

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.

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

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

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,:

	2017	2016
Program services		
Marketing and communications	\$ 3,718,660	\$ 3,442,284
Advocacy and government relations	3,353,292	2,992,599
Education	3,250,293	2,621,475
Annual conference and meeting services	2,841,928	2,124,067
Center for Healthcare Leadership and Management	1,224,994	940,930
Membership	1,112,300	991,269
Governance and leadership development	1,107,671	1,138,589
Research	357,645	343,943
Strategic business development	271,164	380,668
Total program services	<u>17,237,947</u>	<u>14,975,824</u>
Supporting services		
Finance, human resources and administrative services	4,107,995	3,740,572
Technology services	1,708,814	1,698,425
Executive department	873,275	913,036
Total supporting services	<u>6,690,084</u>	<u>6,352,033</u>
Total expense	<u>\$ 23,928,031</u>	<u>\$ 21,327,857</u>

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Notes to the Financial Statements

I. PENSION PLANS

Retirement plan: The Academy has a defined contribution plan under Section 401(k) of the Internal Revenue Code 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 Code 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 \$287,995 and \$284,852 for the years ended June 30, 2017 and 2016, 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, 2017 and 2016 were \$4,137 and \$15,914, respectively. The deferred compensation obligation is adjusted annually to the fair market value of the investments in the plan. At June 30, 2017 and 2016, the fair market value of the investments was \$405,366 and \$347,044, respectively.

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 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, 2017 and 2016, the letter-of-credit amounted to \$95,180.

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

Year Ending June 30,	Amount
2018	\$ 1,326,072
2019	1,362,539
2020	1,400,008
2021	1,438,509
2022	1,478,068
Thereafter	<u>7,164,987</u>
	<u>\$ 14,170,183</u>

Office sublease: The Academy has a 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 \$54,098 and \$62,759 at June 30, 2017 and 2016, respectively.

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Notes to the Financial Statements

J. COMMITMENTS - CONTINUED

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 \$150,302 and \$208,483 as of June 30, 2017 and 2016, respectively.

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

Year Ending June 30,	Amount
2018	\$ 167,732
2019	172,764
2020	102,707
	<hr/>
	\$ 443,203

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,:

	2017	2016
Office lease		
Deferred rent	\$ 1,814,092	\$ 1,804,033
Build-out incentive	1,092,984	1,216,717
Sublease		
Deferred rent	(54,098)	(62,759)
Loss on sublease	150,302	208,484
	<hr/>	<hr/>
	\$ 3,003,280	\$ 3,166,475

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 One-Month LIBOR Floating Rate plus 1.75% annually. The line-of-credit matures February 2018. There were no amounts outstanding on the line-of-credit at June 30, 2017 and 2016.

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 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.