

Audited Consolidated Financial Statements

**AMERICAN ACADEMY OF
PHYSICIAN ASSISTANTS
AND AFFILIATE**

JUNE 30, 2019

American Academy of Physician Assistants and Affiliate

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Independent Auditor's Report

To the Board of Directors
American Academy of Physician Assistants

We have audited the accompanying consolidated financial statements of American Academy of Physician Assistants (the Academy) and Affiliate, American Academy of Physician Assistants Political Action Committee (collectively referred as the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2019 and June 30, 2018, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Academy of Physician Assistants and American Academy of Physician Assistants Political Action Committee as of June 30, 2019 and June 30, 2018, and the changes in their consolidated net assets and their consolidated cash flows for the years then ended, and the related notes to the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
November 13, 2019
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Adoption of Accounting Standards Update 2016-14

As described in Note A to the consolidated financial statements, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). As required by the FASB, the Academy adopted the provisions of ASU 2016-14 during the year ended June 30, 2019. In addition to changes in terminology used to describe categories of net assets throughout the consolidated financial statements, new disclosures were added regarding liquidity and the availability of resources and functional expenses. There was no change in the Academy's previously reported change in net assets as a result of the adoption of the ASU. Our opinion is not modified with respect to this matter.



Washington, DC
November 13, 2019

American Academy of Physician Assistants and Affiliate

Consolidated Statements of Financial Position

<i>June 30,</i>	2019	2018 (As restated)
Assets		
Cash and cash equivalents	\$ 2,134,412	\$ 4,580,412
Investments	23,173,125	22,208,474
Accounts receivable	964,046	941,312
Due from Foundation	44,941	50,406
Prepaid expenses	491,586	519,945
Deferred compensation investments	172,309	463,359
Property and equipment	2,923,234	3,197,880
Total assets	\$ 29,903,653	\$ 31,961,788
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 3,490,360	\$ 3,654,691
Deferred revenue	7,886,179	9,232,683
Deferred compensation obligation	172,309	463,359
Deferred rent and lease incentive	2,591,375	2,813,044
Total liabilities	14,140,223	16,163,777
Net assets		
Without donor restrictions	15,371,456	15,039,039
With donor restrictions	391,974	758,972
Total net assets	15,763,430	15,798,011
Total liabilities and net assets	\$ 29,903,653	\$ 31,961,788

American Academy of Physician Assistants and Affiliate

Consolidated Statements of Activities

<i>Year Ended June 30,</i>	2019	2018 (As restated)
Activities without donor restrictions		
Revenue and support		
Dues	\$ 11,833,331	\$ 11,415,508
Registration and exhibit fees	5,630,201	5,058,729
Royalties	3,298,440	3,028,811
Grants	2,822,636	2,836,625
Product theatre and product sales	1,120,365	966,913
Continuing education	602,439	740,956
Interest and dividends, net of investment fees	332,369	212,396
Sponsorships	281,900	371,880
Advertising	263,962	199,762
Rental income	208,802	208,802
Other activities	151,454	133,931
Management fees	80,000	80,000
Net assets released from restrictions	631,454	-
Total revenue and support without donor restrictions	27,257,353	25,254,313
Expense		
Personnel expenses	12,714,210	11,633,940
Professional fees	8,001,078	6,258,851
Meeting and conferences	2,187,189	2,222,224
Occupancy	1,443,298	1,376,699
Other activities	1,209,959	1,155,951
Awards and contributions	577,988	487,733
Travel	527,585	684,455
Postage and subscription	517,839	541,389
Supplies	190,805	214,836
Communication	109,988	93,526
Insurance	57,769	63,597
Interest	19,510	20,121
Total expense	27,557,218	24,753,322
Change in net assets without donor restrictions before other activity	(299,865)	500,991
Investment gain	632,282	1,080,718
Change in net assets without donor restrictions	332,417	1,581,709
Activities with donor restrictions		
Contributions	264,456	416,832
Net assets released from donor restrictions	(631,454)	-
Change in net assets with donor restrictions	(366,998)	416,832
Change in net assets	(34,581)	1,998,541
Net assets, beginning of year, before restatement	15,798,011	13,664,143
Restatement for consolidation of Political Action Committee - net assets with donor restrictions	-	135,327
Net assets, beginning of year, as restated		13,799,470
Net assets, end of year	\$ 15,763,430	\$ 15,798,011

See notes to the consolidated financial statements.

American Academy of Physician Assistants and Affiliate

Consolidated Statements of Cash Flows

<i>Year Ended June 30,</i>	2019	2018 (As restated)
Cash flows from operating activities		
Change in net assets	\$ (34,581)	\$ 1,998,541
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation / amortization	810,689	716,250
Investment gain	(632,282)	(1,080,718)
Changes in assets and liabilities:		
Accounts receivable	(22,734)	(80,059)
Due from Foundation	5,465	2,657
Prepaid expenses	28,359	77,557
Accounts payable and accrues expenses	(164,331)	516,857
Deferred revenue	(1,346,504)	794,108
Deferred rent and lease incentive	(221,669)	(190,236)
Total adjustments	(1,543,007)	756,416
Net cash (used in) provided by operating activities	(1,577,588)	2,754,957
Cash flows from investing activities		
Purchases of investments	(11,964,575)	(7,609,505)
Proceeds from sale of investments	11,632,206	7,397,110
Purchases of property and equipment	(536,043)	(543,741)
Net cash used in investing activities	(868,412)	(756,136)
Cash flows from financing activities		
Proceeds from line of credit	1,750,000	2,000,000
Repayments to the line of credit	(1,750,000)	(2,000,000)
Net cash from financing activities	-	-
Net (decrease) increase in cash and cash equivalents	(2,446,000)	1,998,821
Cash and cash equivalents, beginning of year	4,580,412	2,581,591
Cash and cash equivalents, end of year	\$ 2,134,412	\$ 4,580,412
Supplemental Information		
Cash paid for interest	\$ 19,510	\$ 20,120

See notes to the consolidated financial statements.

American Academy of Physician Assistants and Affiliate

Notes to the Consolidated 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 (PAs) 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 PAs, and to support their efforts to enable them to improve the quality, accessibility, and cost-effectiveness of patient-centered health care.

American Academy of Physician Assistants Political Action Committee (PAC) allows the individual PA 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 activities of the PAC have been included in the consolidated financial statements (see Note J).

Income taxes: The Academy is exempt from income taxes under the provisions of Section 501(c)(6) of the Internal Revenue Code (IRC). Academy income from nonexempt functions, which includes advertising revenue, is subject to unrelated business income tax. The PAC is an organization exempt from income taxes under the provisions of Section 527(a) of the IRC. For the years ended June 30, 2019 and June 30, 2018, the Academy and the PAC had no net unrelated business income and accordingly, no provision for income taxes is recorded in the accompanying consolidated financial statements.

Basis of accounting: The accompanying consolidated 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 the consolidated 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.

Principles of consolidation: The consolidated financial statements include the accounts of the Academy and the PAC, collectively referred to as "the Organization". Significant intra-entity accounts and transactions have been eliminated in consolidation.

Cash and cash equivalents: For consolidated financial statement purposes, the Organization considers cash equivalents to be all highly liquid investments with maturities of three months or fewer when purchased, other than those held as part of the Organization'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 as revenue when received. There was no provision for doubtful accounts at June 30, 2019 and June 30, 2018.

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

Without donor restrictions: Net assets without donor restrictions 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.

American Academy of Physician Assistants and Affiliate

Notes to the Consolidated Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net assets (continued):

With donor restrictions: Net assets with donor restrictions are comprised of grants the Academy has received, and PAC contributions, that are restricted for a specific purpose or time period. When the restriction has been satisfied, net assets with donor restrictions are released to net assets without donor restrictions. See Note G for further details regarding net assets with donor restrictions.

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. Royalties, continuing education, product theatre, and all other revenue are recognized when earned or upon performance of service.

Contributions and grants that are restricted by the donor are reported as increases in net assets without donor restrictions 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 net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements 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.

New accounting standard: The Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14)*. The Academy adopted the provisions of ASU 2016-14 during the year ended June 30, 2019. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and the availability of resources and functional expenses.

Reclassifications: Certain 2018 revenues and expenses have been reclassified within the 2018 consolidated financial statements in order to conform with the 2019 presentation.

Subsequent events: Subsequent events have been evaluated through November 13, 2019, which is the date the financial statements were available to be issued. The Academy's sublessor filed for bankruptcy subsequent to year end (see Note I).

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.

American Academy of Physician Assistants and Affiliate

Notes to the Consolidated Financial Statements

B. CREDIT AND MARKET RISK - CONTINUED

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 consolidated 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, other market data, or by using a market approach from pricing sources utilized by investment managers;

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 equities which are valued based on quoted market prices at the reporting date for those investments in active markets. Additionally, investments in mutual funds 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, 2019:

	Total	Fair Value		
		Level 1	Level 2	Level 3
Investments				
Mutual funds - fixed income	\$ 11,094,835	\$ 11,094,835	\$ -	\$ -
Equities	7,825,847	7,825,847		
Funds - equities (accelerated return notes)	2,155,007		2,155,007	
Mutual funds - equities	1,561,063	1,561,063		
	22,636,752	\$ 20,481,745	\$ 2,155,007	\$ -
Money Market Funds - at cost	536,373			
Total Investments	\$ 23,173,125			
Investments Held for Deferred Compensation				
Mutual funds - fixed income	\$ 69,770	\$ 69,770	\$ -	\$ -
Mutual funds - equities	102,539	102,539		
Total Investments Held for Deferred Compensation	\$ 172,309	\$ 172,309	\$ -	\$ -

American Academy of Physician Assistants and Affiliate

Notes to the Consolidated Financial Statements

C. INVESTMENTS - CONTINUED

The following is a summary of the input levels used to determine fair values at June 30, 2018:

	Total	Fair Value		
		Level 1	Level 2	Level 3
Investments				
Equities	\$ 11,686,046	\$ 11,686,046	\$ -	\$ -
Mutual funds - fixed income	8,485,275	8,485,275		
Mutual funds - equities	1,456,383	1,456,383		
	21,627,704	\$ 21,627,704	\$ -	\$ -
Money Market Funds - at cost	580,770			
Total Investments	\$ 22,208,474			
 Investments Held for Deferred Compensation				
Mutual funds - fixed income	\$ 55,554	\$ 55,554	\$ -	\$ -
Mutual funds - equities	407,805	407,805		
Total Investments Held for Deferred Compensation	\$ 463,359	\$ 463,359	\$ -	\$ -

Investment fees totaled \$200,343 and \$200,798 for the years ended June 30, 2019 and June 30, 2018, respectively, and have been netted against interest and dividend revenue in the accompanying consolidated statements of activities.

D. LIQUIDITY AND AVAILABILITY OF FUNDS

The Organization operates under an investment policy that describes the investment philosophies and investment management procedures to be utilized for managing the assets of the Organization to meet current operating needs as well as its long-term goals. The Academy has a \$6 million revolving line of credit at their disposal (see Note I). The following represents the Organization's financial assets as of June 30, 2019, reduced by amounts not available for general use within one year due to contractual or donor-imposed restrictions:

June 30,	2019
Financial assets	
Cash and cash equivalents	\$ 2,134,412
Investments	23,173,125
Accounts receivable	964,046
Due from Foundation	44,941
Deferred compensation investments	172,309
	26,488,833
Less amounts unavailable for general expenditures:	
Net assets with donor restrictions	(391,974)
Deferred compensation obligation	(172,309)
	\$ 25,924,550
Total financial assets available within one year	\$ 25,924,550

American Academy of Physician Assistants and Affiliate

Notes to the Consolidated Financial Statements

E. 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 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,:

	2019	2018
Computer software and equipment	\$ 4,721,729	\$ 4,307,789
Furniture and equipment	2,595,032	2,472,929
Leasehold improvements	<u>1,890,508</u>	<u>1,890,508</u>
	9,207,269	8,671,226
Less: accumulated depreciation and amortization	<u>(6,284,035)</u>	<u>(5,473,346)</u>
	<u>\$ 2,923,234</u>	<u>\$ 3,197,880</u>

F. RELATED PARTY TRANSACTIONS WITH FOUNDATION

The Academy has an agreement with Physician Assistant Foundation of the American Academy of Physician Assistants (the 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, 2019 and June 30, 2018 were \$463,899 and \$274,535, respectively. At June 30, 2019 and June 30, 2018, amounts due to the Academy from the Foundation were \$44,941 and \$50,406, respectively.

G. NET ASSETS WITH DONOR RESTRICTIONS

The Academy has received contributions with donor restrictions for the following educational purposes:

Pfizer Inc.: To support a multi-faceted project relating to “The Learning Rheum: Establishing a Rheumatology Preceptor Network for PA Students.”

AstraZenca: To host an educational activity, “Managing Cardiovascular Risk Factors in Patients with Type 2 Diabetes: Emerging Concepts.”

American Academy of Physician Assistants and Affiliate

Notes to the Consolidated Financial Statements

G. NET ASSETS WITH DONOR RESTRICTIONS - CONTINUED

Amgen Inc. (Dyslipidemia): To develop a medical educational program titled “Improving Outcomes in Dyslipidemia: New Guidelines, New Opportunities.”

AbbVie & Novartis: To develop an educational program titled “Managing Rheumatoid Arthritis in Primary Care: Facilitating Improved Patient Outcomes.”

Sanofi & Regeneron: To develop and educational program titled “New Approaches to the Management of Atopic Dermatitis.”

Takeda: To support a multi-faceted project relating to “Updated Strategies for the Management of IBD: Making a difference in Patient Outcomes.”

Abbott Nutrition: To support a multi-faceted project relating to “Needs assessment in Nutrition: Understanding the educational gaps and needs of PAs in Nutrition.”

Amgen Inc. (Osteoporosis): To support a multi-faceted project relating to “Highlighting the Role of the Fracture Liaison Service in the Management of Patients with Osteoporosis.”

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.

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.

La Jolla: To host an educational activity, “The Role of PAs and NPs in the Management of Distributive Shock.”

Lupin: To support a multi-faceted project related to the general medical education and awareness of PAs on the clinical condition of bacterial infections.

Biogen: To host an educational activity, “Moving Toward Improved Outcomes in MS: How PAs Can Make a Difference.”

The net assets and activities of the PAC are also considered to be with net assets with donor restrictions, as funds are collected and spent for a specific purpose.

American Academy of Physician Assistants and Affiliate

Notes to the Consolidated Financial Statements

G. NET ASSETS WITH DONOR RESTRICTIONS - CONTINUED

Changes in net assets with donor restrictions are as follows for the year ended June 30,:

	Balance July 1, 2018	Additions	Releases	Balance June 30, 2019
Educational activities				
Pfizer Inc.	\$ -	\$ 77,000	\$ -	\$ 77,000
AstraZeneca		40,660		40,660
Amgen Inc. (Dyslipidemia)		37,927		37,927
AbbVie & Novartis		34,800		34,800
Sanofi & Regeneron		24,380		24,380
Takeda		22,075		22,075
Amgen Inc. (Osteoporosis)		16,763		16,763
Abbott Nutrition		10,851		10,851
Novo Nordisk (Obesity)	230,048		(219,000)	11,048
Novo Nordisk (Diabetes)	136,800		(136,800)	-
La Jolla	125,876		(125,876)	-
Lupin	75,000		(75,000)	-
Biogen	34,500		(34,500)	-
AAPA PAC	156,748		(40,278)	116,470
	\$ 758,972	\$ 264,456	\$ (631,454)	\$ 391,974

	Balance July 1, 2017	Additions	Releases	Balance June 30, 2018
Educational activities				
Novo Nordisk (Obesity)	\$ 168,325	\$ 61,723	\$ -	\$ 230,048
Novo Nordisk (Diabetes)	38,488	98,312		136,800
La Jolla		125,876		125,876
Lupin		75,000		75,000
Biogen		34,500		34,500
AAPA PAC	135,327	21,421		156,748
	\$ 342,140	\$ 416,832	\$ -	\$ 758,972

H. 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 elect for a portion of their deferral to be 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 \$335,472 and \$329,075 for the years ended June 30, 2019 and June 30, 2018, respectively.

American Academy of Physician Assistants and Affiliate

Notes to the Consolidated Financial Statements

H. PENSION PLANS - CONTINUED

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, 2019 and June 30, 2018 were \$18,500 and \$14,364, respectively. During the year ended June 30, 2019, a participant requested to have \$336,366 of their vested funds distributed. The deferred compensation obligation is adjusted annually to the fair market value of the investments in the plan. At June 30, 2019 and June 30, 2018, the fair market value of the investments was \$172,309 and \$463,359, respectively.

I. COMMITMENTS

Office lease: The Academy has a lease agreement for its office space that was to expire in December 2026. The terms of the office lease agreement provide an abatement of rent for the first year of the lease agreement and include an escalation clause that adjusts annual base rentals. In addition, the terms of the office lease provide a tenant build-out allowance as an incentive to lease the office space. Generally accepted accounting principles (GAAP) require that certain costs of the build-out be capitalized and depreciated as property and equipment. GAAP also requires that the build-out allowance, 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. In the year ended June 30, 2019, the lease was amended to extend the expiration date of the lease to December 31, 2030 and was further amended, effective January 2020, to decrease base rent over the remaining rental period relating to the removal of the space occupied on the eleventh floor, the space that was being subleased. The Academy has an adjustable letter-of-credit with a bank in lieu of a security deposit. For the years ended June 30, 2019 and June 30, 2018, the letter-of-credit amounted to \$95,180. The letter of credit expires February 2020.

Rent expense totaled \$968,106, net of sublease income of \$208,802, for each of the years ended June 30, 2019 and 2018. Future minimum lease payments related to the office lease agreement are as follows:

Year Ending June 30,	Amount
2020	\$ 1,305,090
2021	1,207,573
2022	1,240,782
2023	1,274,903
2024	1,518,715
Thereafter	<u>4,739,832</u>
	<u>\$ 11,286,895</u>

Office sublease: The Academy has a sublease agreement with a tenant that expires January 2020. The original sublease agreement included 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. During the year ended June 30, 2019, the sublease was amended to include an abatement of rental payments for the period of August 2019 through January 2020.

American Academy of Physician Assistants and Affiliate

Notes to the Consolidated Financial Statements

I. 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 the sublease amounting to \$11,072 for the year ended June 30, 2019. As required by GAAP, the loss has been recorded as a liability and amortized ratably so as to record rental income on a straight-line basis over the term of the office sublease agreement. The Academy's sublessor filed for bankruptcy during the year ending June 30, 2020, as a result, the receipt of future rent from the sublease is uncertain.

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,:

	2019	2018
Office lease		
Deferred rent	\$ 1,726,765	\$ 1,788,662
Build-out incentive	845,515	969,249
Sublease		
(Accrued) rent income	(14,844)	(36,987)
Loss on sublease	33,939	92,120
	\$ 2,591,375	\$ 2,813,044

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 One-Month LIBOR Floating Rate plus 1.75% annually. The line-of-credit matures February 2020. There were no amounts outstanding on the line-of-credit at June 30, 2019 and June 30, 2018.

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.

J. PRIOR PERIOD RESTATEMENT

During the year, the Academy decided to consolidate the activities of the PAC within the Academy's financial statements for the year ended June 30, 2019. The retroactive application of the consolidation of the PAC into the Academy's financial statements resulted in a restatement of the July 1, 2017 net assets of the Organization totaling an increase of \$135,327. This amount reflects the PAC's net asset balance at July 1, 2017. The consolidation of the PAC increased the change in net assets for the year ended June 30, 2018 by \$21,421 (see Note G).

American Academy of Physician Assistants and Affiliate

Notes to the Consolidated Financial Statements

K. FUNCTIONAL EXPENSES

Program services: The Organization operates the following major programs:

Marketing and communications: Develops and executes strategies and tactics to reach Academy stakeholders with relevant news, information, and resources to help advance the mission of the Organization as well as meet member needs.

Education and quality: Sets Continuing Medical Education (CME) accreditation standards for PAs. Reviews and approves CME programs for Academy Category 1 CME credit. Develops and provides CME programs to PAs in a variety of formats, and measures educational outcomes of CME programming. Develops and independently executes medical educational grants in support of CME programs and the Academy's national health quality improvement initiatives.

Advocacy and government relations: Represents the PA profession before the federal government and at the state level. Provides resources and tools for PAs related to the Academy's policy goals. Represents the profession with external stakeholders. Coordinates the Academy's affiliation and relationships with more than 115 constituent organizations, and provides them with assistance and benefits related to management and policy goals.

Annual conference and meeting services: Organizes and manages the Academy's annual conference and specialty meetings, which provide CME and non-CME education, networking opportunities, and exposure to new trends and technologies to attendees.

Governance and leadership development: Supports the Board of Directors in fulfilling its fiduciary and governance responsibilities; the House of Delegates in fulfilling its responsibility to enact policies that establish the collective values, philosophies, and principles of the PA profession; and the Student Academy in identifying PA student concerns and educating student leaders about the PA profession generally and the Academy specifically. Manages Academy volunteer engagement to ensure the PA voice is present whenever there are policy or clinical opportunities to improve healthcare delivery to patients.

Membership: Recruits, retains and engages pre-PA, PA student, Fellow and retired PA members through marketing and communication about the Academy's member value proposition. Manages the Academy's online community, PA recognition programs and PA program outreach efforts.

Center for Healthcare Leadership and Management: Supports healthcare organizations in their efforts to improve operational efficiencies, increase profitability, and develop future healthcare leaders. Provides advisory services to PA/nurse practitioner (NP) employers to optimize provider utilization, address scope of practice and compliance concerns, maximize billing and reimbursement, and improve the organizational leadership structure. Working with other Academy departments, develops CME, certificate, and degree programs, often in conjunction with accredited colleges and universities, to provide PAs and NPs with opportunities to improve their leadership and management knowledge and skills and advance their careers.

American Academy of Physician Assistants and Affiliate

Notes to the Consolidated Financial Statements

K. FUNCTIONAL EXPENSES - CONTINUED

Program services (continued):

Research and statistics: Regularly conducts studies and produces reports for PAs and other stakeholders regarding PA compensation, PA practice, and member satisfaction/preferences. Maintains a bibliography of research relevant to the PA profession, and supports the PA research community by providing access to PAs and PA data. Collaborates with other organizations to provide thought leadership, improve research related to PAs, and gain knowledge that will benefit the PA community.

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

American Academy of Physician Assistants and Affiliate

Notes to the Consolidated Financial Statements

K. FUNCTIONAL EXPENSES - CONTINUED

The costs of providing various programs and other activities have been summarized on a functional basis in the following schedule of functional expenses. Accordingly, salaries, related benefits costs and certain other costs have been allocated to programs and supporting activities based upon the level of effort by employees.

Expenses by function consisted of the following at June 30,:

	Program Services									Support Services					Total
	Marketing and communications	Education and quality	Advocacy and government relations	Annual conference and meeting services	Governance and leadership development	Membership	Center for Healthcare Leadership Management	Research and statistics	Total program services	Finance, human resources and administrative services	Technology services	Executive department	Strategic business development	Total support services	
Personnel expenses	\$ 2,651,774	\$ 1,345,484	\$ 2,910,655	\$ 550,730	\$ 660,069	\$ 954,589	\$ 498,949	\$ 329,661	\$ 9,901,911	\$ 1,245,485	\$ 670,194	\$ 651,083	\$ 245,537	\$ 2,812,299	\$ 12,714,210
Professional fees	2,503,871	2,162,985	745,460	382,434	116,692	72,555	80,729	43,140	6,107,866	534,203	1,192,354	89,579	77,076	1,893,212	8,001,078
Meeting and conferences	2,441	332,592	95,183	1,351,604	214,568	44,567	111,059	5,428	2,157,442	18,381	261	8,022	3,083	29,747	2,187,189
Occupancy	77	633	28	1,713	3,490	77	13	750	6,781	1,434,656	1,847	14	-	1,436,517	1,443,298
Other activities	1,483	11,303	-	114,105	144	1	151	-	127,187	1,082,507	146	119	-	1,082,772	1,209,959
Awards and contributions	21,439	113,682	153,827	169,196	52,536	7,801	4,193	850	523,524	50,354	-	-	4,110	54,464	577,988
Travel	34,225	89,065	136,852	-	167,348	19,399	23,339	9,617	479,845	6,619	16,973	15,944	8,204	47,740	527,585
Postage and subscription	13,071	357,598	95,463	2,663	862	8,749	17,475	434	496,315	3,140	778	8,566	9,040	21,524	517,839
Supplies	1,634	30,094	1,450	926	1,161	41,757	713	603	78,338	28,628	81,777	1,241	821	112,467	190,805
Communication	1,306	202	1,388	235	355	429	186	194	4,295	1,402	104,065	226	-	105,693	109,988
Insurance	-	-	-	5,201	-	-	-	-	5,201	52,568	-	-	-	52,568	57,769
Interest	-	-	-	-	-	-	-	-	-	19,510	-	-	-	19,510	19,510
Total expense - 2019	\$ 5,231,321	\$ 4,443,638	\$ 4,140,306	\$ 2,578,807	\$ 1,217,225	\$ 1,149,924	\$ 736,807	\$ 390,677	\$ 19,888,705	\$ 4,477,453	\$ 2,068,395	\$ 774,794	\$ 347,871	\$ 7,668,513	\$ 27,557,218
Total expense - 2018	\$ 3,585,446	\$ 4,150,621	\$ 3,815,946	\$ 2,683,562	\$ 1,120,712	\$ 1,153,797	\$ 685,221	\$ 369,053	\$ 17,564,358	\$ 3,894,069	\$ 2,045,861	\$ 838,876	\$ 410,158	\$ 7,188,964	\$ 24,753,322