

# **American Academy of Physician Assistants, Inc. and Affiliate**

Consolidated Financial Report  
June 30, 2020

## Contents

---

Independent auditor's report	1-2
<hr/>	
Financial statements	
Consolidated statements of financial position	3
Consolidated statements of activities	4
Consolidated statements of cash flows	5
Notes to consolidated financial statements	6-17

---

## Independent Auditor's Report

Board of Directors  
American Academy of Physician Assistants, Inc.

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of American Academy of Physician Assistants, Inc. (the Academy) and Affiliate (collectively, the Organization), which comprise the consolidated statement of financial position as of June 30, 2020, the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 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 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, Inc. and Affiliate as of June 30, 2020, and the changes in their net assets and their cash flows for the year then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

The financial statements of the Organization, as of and for the year ended June 30, 2019, were audited by other auditors whose report dated November 13, 2019, expressed an unmodified opinion on those statements.

*RSM US LLP*

Washington, D.C.  
December 23, 2020

American Academy of Physician Assistants, Inc. and Affiliate

Consolidated Statements of Financial Position  
June 30, 2020 and 2019

	2020	2019
<b>Assets</b>		
Cash and cash equivalents	\$ 1,224,425	\$ 2,134,412
Investments	23,953,642	23,173,125
Accounts receivable	1,122,013	964,046
Due from Foundation	73,618	44,941
Prepaid expenses	649,280	491,586
Deferred compensation investments	197,614	172,309
Property and equipment, net	2,207,422	2,923,234
	<hr/>	<hr/>
<b>Total assets</b>	<b>\$ 29,428,014</b>	<b>\$ 29,903,653</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,593,420	\$ 3,490,360
Line-of-credit	4,500,000	-
Deferred revenue	8,484,709	7,886,179
Deferred compensation obligation	197,614	172,309
Deferred rent and lease incentive	2,359,109	2,591,375
	<hr/>	<hr/>
<b>Total liabilities</b>	<b>17,134,852</b>	<b>14,140,223</b>
<b>Commitment and contingency (Note 7)</b>		
Net assets:		
Without donor restrictions	12,142,564	15,371,456
With donor restrictions	150,598	391,974
	<hr/>	<hr/>
<b>Total net assets</b>	<b>12,293,162</b>	<b>15,763,430</b>
	<hr/>	<hr/>
<b>Total liabilities and net assets</b>	<b>\$ 29,428,014</b>	<b>\$ 29,903,653</b>

See notes to consolidated financial statements.

**American Academy of Physician Assistants, Inc. and Affiliate**

**Consolidated Statements of Activities  
Years Ended June 30, 2020 and 2019**

	2020	2019
Activities without donor restrictions:		
Revenue and support:		
Dues	\$ 12,283,906	\$ 11,833,331
Registration and exhibit fees	2,124,035	5,630,201
Royalties	2,605,854	3,298,440
Grants	2,004,595	2,822,636
Product theatre and product sales	129,093	1,120,365
Continuing education	648,585	602,439
Interest and dividends, net of investment fees	277,820	332,369
Sponsorships	29,399	281,900
Advertising	143,012	263,962
Rental income	33,704	208,802
Other activities	124,636	151,454
Management fees	70,716	80,000
Net assets released from restrictions	352,485	631,454
<b>Total revenue and support without donor restrictions</b>	<b>20,827,840</b>	<b>27,257,353</b>
Expenses:		
Personnel expenses	12,737,373	12,714,210
Professional fees	6,756,983	8,001,078
Meeting and conferences	670,761	2,187,189
Occupancy	1,388,243	1,443,298
Other activities	1,345,489	1,209,959
Awards and contributions	410,501	577,988
Travel	284,364	527,585
Postage and subscriptions	543,369	517,839
Supplies	157,161	190,805
Communication	127,213	109,988
Insurance	87,229	57,769
Interest	50,742	19,510
<b>Total expenses</b>	<b>24,559,428</b>	<b>27,557,218</b>
<b>Change in net assets without donor restrictions before other activity</b>	<b>(3,731,588)</b>	<b>(299,865)</b>
Investment gain	502,696	632,282
<b>Change in net assets without donor restrictions</b>	<b>(3,228,892)</b>	<b>332,417</b>
Activities with donor restrictions:		
Contributions	111,109	264,456
Net assets released from donor restrictions	(352,485)	(631,454)
<b>Change in net assets with donor restrictions</b>	<b>(241,376)</b>	<b>(366,998)</b>
<b>Change in net assets</b>	<b>(3,470,268)</b>	<b>(34,581)</b>
Net assets:		
Beginning	15,763,430	15,798,011
Ending	<b>\$ 12,293,162</b>	<b>\$ 15,763,430</b>

See notes to consolidated financial statements.

**American Academy of Physician Assistants, Inc. and Affiliate**

**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2020 and 2019**

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (3,470,268)	\$ (34,581)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	901,318	810,689
Investment gain	(502,696)	(632,282)
Deferred rent	(232,266)	(221,669)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(157,967)	(22,734)
Due from Foundation	(28,677)	5,465
Prepaid expenses	(157,694)	28,359
Increase (decrease) in:		
Accounts payable and accrued expenses	(1,896,940)	(164,331)
Deferred revenue	598,530	(1,346,504)
<b>Net cash used in operating activities</b>	<b>(4,946,660)</b>	<b>(1,577,588)</b>
Cash flows from investing activities:		
Purchases of investments	(3,364,616)	(11,964,575)
Proceeds from sale of investments	3,086,795	11,632,206
Purchases of property and equipment	(185,506)	(536,043)
<b>Net cash used in investing activities</b>	<b>(463,327)</b>	<b>(868,412)</b>
Cash flows from financing activities:		
Proceeds from line of credit, net	4,500,000	-
<b>Net cash provided by financing activities</b>	<b>4,500,000</b>	<b>-</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(909,987)</b>	<b>(2,446,000)</b>
Cash and cash equivalents:		
Beginning	2,134,412	4,580,412
Ending	\$ 1,224,425	\$ 2,134,412
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 50,742	\$ 19,510

See notes to consolidated financial statements.

## American Academy of Physician Assistants, Inc. and Affiliate

### Notes to Consolidated Financial Statements

---

#### Note 1. Nature of Activities and Significant Accounting Policies

**Nature of activities:** The American Academy of Physician Assistants, Inc. (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, 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 Academy and the PAC are collectively referred to as the Organization.

A summary of the Organization's significant accounting policies follows:

**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.

**Principles of consolidation:** The consolidated financial statements include the accounts of the Academy and the PAC. Significant inter-entity accounts and transactions have been eliminated in consolidation.

**Basis of presentation:** The consolidated financial statement presentation follows the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As required by the Non-Profit Entities Topic of the FASB ASC, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

**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.

**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 6 for further details regarding net assets with donor restrictions.

**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.

**Investments:** Investments are reflected at fair value. To adjust the carrying value of these investments, the change in fair value is recorded as a component of investment gain in the consolidated statements of activities.

**Financial 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, Inc. and Affiliate

### Notes to Consolidated Financial Statements

---

#### Note 1. Nature of Activities of Significant Accounting Policies (Continued)

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 consolidated 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.

**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, 2020 and 2019.

**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 accounts for the subsequent measurement of certain long-lived assets in accordance with subsections of the FASB ASC Topic, Property, Plant and Equipment that address Impairment or Disposal of Long-Lived Assets. The accounting standard requires that property, plant and equipment and certain identifiable intangible assets be reviewed 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 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 reportable at the lower of carrying amount or fair value, less costs to sell. As of June 30, 2020, there were no long-lived assets that were impaired.

**Revenue recognition:** The Academy's activities are primarily supported through membership dues, registration fees, royalties, continuing education fees and grants. Prices charged to customers are specific to distinct performance obligations and do not consist of multiple transactions. Economic factors are driven by consumer confidence, employment, inflation and other world events that impact the timing and level of cash received and revenue recognized by the Academy. Periods of economic downturn resulting from any of the above factors may result in declines of recognized future revenue of the Academy.

Dues are recognized as revenue ratably over the membership period. All member benefits are considered one performance obligation and revenue is recognized ratably over the membership period as the delivery of the member benefit is provided. Student memberships expire four months after graduation; all other Academy membership types expire 12 to 24 months from the join date.

Registration fees and exhibit fees related to the conferences and product theatre revenues are recognized over the period of time the events occur. Amounts received in advance are recorded as deferred revenue.

Royalties are earned by the Academy for granting the use of its name to third parties that market services to Academy members. Revenues from these activities are recorded when the related royalty is earned.

## American Academy of Physician Assistants, Inc. and Affiliate

### Notes to Consolidated Financial Statements

---

#### Note 1. Nature of Activities of Significant Accounting Policies (Continued)

Continuing education fees are recognized at the point in time that the individual takes the examination.

The Academy has determined that revenue received from private grants is considered to be conditional conditions and are recorded as deferred revenue because the agreements stipulate both a right of return of funds in the event of non-performance in addition to specific outcomes, or measurable barriers, that the Academy must achieve specifically through its scientific and educational activities. These activities further the education of physicians and health care providers, patients and the general public to enhance their ability to care for patients and is recognized as costs are incurred. At June 30, 2020, there is approximately \$655,000 in funding received for specific scientific and educational activities.

**Contributions:** Contributions are recognized as support when promised unconditionally and are recorded net of any current year allowance or discount activity. The Academy reports gifts of cash and other assets as net assets with donor restrictions if they are received or promised with donor stipulations that limit the use of the donated assets to the Academy's programs or to a future year. Contributions 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 donor restrictions.

**Recently adopted accounting standards:** In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. This requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 replaces most existing recognition guidance in accounting principles generally accepted in the United States of America (U.S. GAAP). The ASU also requires expanded disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. The Academy adopted the new standard effective for the year ended June 30, 2020, using the modified retrospective method. The Academy's revenue arrangements are recognized over time and consist of performance obligations that are satisfied ratably over a period of no more than one year. Membership dues, registration and exhibit fees, royalties, product theatre and product sales and continuing education are those line items affected by this standard. Based on the Academy's review of its contracts with customers, the timing of the amount of revenue recognized previously is consistent with how revenue is recognized under this new standard. The adoption of this standard had no effect on the consolidated change in net assets.

In June, 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. The purpose of the ASU is to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in the ASU should assist entities in: (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance, and (2) determining whether a contribution is conditional. The amendments in the ASU likely will result in more grants and contracts being accounted for as either contributions or conditional contributions than observed in practice under current guidance. The amendments in the ASU should be applied on a modified prospective basis, although retrospective application is permitted. The Academy elected to adopt the contributions received requirement of ASU for the year ended June 30, 2020 and early adopted the contributions made requirement effective for the year ended June 30, 2021, using the modified prospective transition method. Based on management's review of its contributions, any new grants received during 2020 and going forward will be treated as conditional contributions on the consolidated statements of financial position and recognized as the conditions are met.

## American Academy of Physician Assistants, Inc. and Affiliate

### Notes to Consolidated Financial Statements

---

#### Note 1. Nature of Activities of Significant Accounting Policies (Continued)

**Upcoming accounting pronouncement:** In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the consolidated statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating with classification affecting the pattern of expense recognition in the consolidated statement of activities. The new standard is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. A modified retrospective transition method is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements, with certain practical expedients available. The Academy is currently evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.

**Functional allocation of expenses:** 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.

**Use of estimates:** The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

**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, 2020 and 2019, 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.

**Reclassifications:** Certain amounts have been reclassified to conform to the current year presentation. Accordingly, occupancy expenses have been reclassified to the programs and supporting activities to which they relate.

**Subsequent events:** Subsequent events have been evaluated through December 23, 2020, which is the date the consolidated financial statements were available to be issued.

#### Note 2. Investments

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.

## American Academy of Physician Assistants, Inc. and Affiliate

### Notes to Consolidated Financial Statements

#### Note 2. Investments (Continued)

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.

Investments are measured at fair value at June 30, 2020 and 2019, using the following input levels:

	Total	2020 Fair Value		
		Level 1	Level 2	Level 3
Investments:				
Mutual funds – domestic fixed income	\$ 11,297,788	\$ 11,297,788	\$ -	\$ -
Equities	8,219,699	8,219,699	-	-
Funds – equities (accelerated return notes)	2,205,641	2,205,641	-	-
Mutual funds – domestic equities	1,778,923	1,778,923	-	-
Money market funds	451,591	451,591	-	-
Total investments	<u>\$ 23,953,642</u>	<u>\$ 23,953,642</u>	<u>\$ -</u>	<u>\$ -</u>
Investments held for deferred compensation:				
Mutual funds – fixed income	\$ 122,686	\$ 122,686	\$ -	\$ -
Mutual funds – equities	74,928	74,928	-	-
Total investments held for deferred compensation	<u>\$ 197,614</u>	<u>\$ 197,614</u>	<u>\$ -</u>	<u>\$ -</u>
Deferred compensation liability	<u>\$ (197,614)</u>	<u>\$ -</u>	<u>\$ (197,614)</u>	<u>\$ -</u>
	Total	2019 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	-	-
Money market funds	536,373	536,373	-	-
Total investments	<u>\$ 23,173,125</u>	<u>\$ 23,173,125</u>	<u>\$ -</u>	<u>\$ -</u>
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	<u>\$ 172,309</u>	<u>\$ 172,309</u>	<u>\$ -</u>	<u>\$ -</u>
Deferred compensation liability	<u>\$ (172,309)</u>	<u>\$ -</u>	<u>\$ (172,309)</u>	<u>\$ -</u>

Investment fees totaled \$186,256 and \$200,343 for the years ended June 30, 2020 and 2019, respectively, and have been netted against interest and dividend revenue in the accompanying consolidated statements of activities.

## American Academy of Physician Assistants, Inc. and Affiliate

### Notes to Consolidated Financial Statements

---

#### Note 3. 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 7). The following represents the Organization's financial assets as of June 30, reduced by amounts not available for general use within one year due to contractual or donor-imposed restrictions:

	2020	2019
Financial assets:		
Cash and cash equivalents	\$ 1,224,425	\$ 2,134,412
Investments	23,953,642	23,173,125
Accounts receivable	1,122,013	964,046
Due from Foundation	73,618	44,941
Deferred compensation investments	197,614	172,309
	<u>26,571,312</u>	<u>26,488,833</u>
Less amounts unavailable for general expenditures:		
Net assets with donor restrictions	(150,598)	(391,974)
Deferred compensation obligation	(197,614)	(172,309)
Total financial assets available within one year	<u>\$ 26,223,100</u>	<u>\$ 25,924,550</u>

#### Note 4. Property and Equipment

Property and equipment at June 30, 2020 and 2019, consists of the following:

	2020	2019
Computer software and equipment	\$ 4,907,236	\$ 4,721,729
Furniture and equipment	2,577,659	2,595,032
Leasehold improvements	1,907,880	1,890,508
	<u>9,392,775</u>	<u>9,207,269</u>
Less accumulated depreciation and amortization	(7,185,353)	(6,284,035)
	<u>\$ 2,207,422</u>	<u>\$ 2,923,234</u>

#### Note 5. Related Party Transactions With the 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, 2020 and 2019, were \$541,657 and \$463,899, respectively. At June 30, 2020 and 2019, amounts due to the Academy from the Foundation were \$73,618 and \$44,941, respectively.

## American Academy of Physician Assistants, Inc. and Affiliate

### Notes to Consolidated Financial Statements

#### Note 6. Net Assets With Donor Restrictions

Changes in net assets with donor restrictions at June 30, 2020 and 2019, are as follows:

	Balance July 1, 2019	Additions	Releases	Balance June 30, 2020
Educational activities	\$ 275,504	\$ -	\$ (252,015)	\$ 23,489
AAPA PAC	116,470	111,109	(100,470)	127,109
	<u>\$ 391,974</u>	<u>\$ 111,109</u>	<u>\$ (352,485)</u>	<u>\$ 150,598</u>

  

	Balance July 1, 2018	Additions	Releases	Balance June 30, 2019
Educational activities	\$ 602,224	\$ 264,456	\$ (591,176)	\$ 275,504
AAPA PAC	156,748	-	(40,278)	116,470
	<u>\$ 758,972</u>	<u>\$ 264,456</u>	<u>\$ (631,454)</u>	<u>\$ 391,974</u>

#### Note 7. Commitments and Contingency

**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 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. In addition, the terms of the office lease provide a tenant build-out allowance as an incentive to lease the office space. U.S. GAAP requires that certain costs of the build-out be capitalized and depreciated as property and equipment. U.S. 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. The Academy has an adjustable letter-of-credit with a bank in lieu of a security deposit. For the years ended June 30, 2020 and 2019, the letter-of-credit amounted to \$95,180. The letter-of-credit does not expire.

Rent expense totaled \$1,091,920 and \$1,176,908 for the years ended June 30, 2020 and 2019, respectively. Future minimum lease payments related to the office lease agreement are as follows:

Years ending June 30:	
2021	\$ 1,207,573
2022	1,240,782
2023	1,274,903
2024	1,309,963
2025	1,345,987
Thereafter	7,608,118
	<u>\$ 13,987,326</u>

## American Academy of Physician Assistants, Inc. and Affiliate

### Notes to Consolidated Financial Statements

---

#### Note 7. Commitments and Contingency (Continued)

**Office sublease:** The Academy had a sublease agreement with a tenant that expired 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 had 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.

The Academy's sublessor filed for bankruptcy during the year ending June 30, 2020, as a result, any remaining receivables from the sublease were written off, as were any accounts receivable relating to the sublease, and, as a result, the Academy incurred a loss on the sublease amounting to \$25,832 for the year ended June 30, 2020.

**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, 2020 and 2019:

	2020	2019
Office lease:		
Deferred rent	\$ 1,637,328	\$ 1,726,765
Build-out incentive	721,781	845,515
Sublease:		
(Accrued) rent income	-	(14,844)
Loss on sublease	-	33,939
	<u>\$ 2,359,109</u>	<u>\$ 2,591,375</u>

**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 21, 2021. There was \$4,500,000 outstanding on the line-of-credit at June 30, 2020. The interest rate was 1.93% at June 30, 2020.

**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.

#### Note 8. Pension Plans

**Retirement plan:** The Academy has a defined contribution plan under Section 401(k) of the IRC, 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 IRC 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 \$333,810 and \$335,472 for the years ended June 30, 2020 and 2019, respectively.

**Deferred compensation plan:** The Academy maintains a deferred compensation plan under Section 457(b) of the IRC. Contributions by the Academy to the plan for the years ended June 30, 2020 and 2019, were \$0 and \$18,500, respectively. The deferred compensation obligation is adjusted annually to the fair market value of the investments in the plan and is presented as Level 2 within the audited consolidated financial statements. At June 30, 2020 and 2019, the fair market value of the investments was \$197,614 and \$172,309, respectively.

## American Academy of Physician Assistants, Inc. and Affiliate

### Notes to Consolidated Financial Statements

---

#### Note 9. COVID-19

On January 30, 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) a “Public Health Emergency of International Concern” and, on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of COVID-19 include restrictions on travel, quarantines and forced closures for certain types of public places and businesses. COVID-19 and actions taken to mitigate the spread of it have had, and are expected to continue to have, an adverse impact on the economies and financial markets of many countries, including the geographical areas in which the Academy operates and holds meetings and other activities.

It is unknown how long the adverse conditions associated with COVID-19 will last and what the complete financial effect will be to the Academy. Quarantines, labor shortages or other disruptions to the Academy operations, or those of its members, may adversely impact the Academy’s revenues, ability to provide its services and operating results. The Academy largest conference of 2020, the 2020 Annual Conference was cancelled, and almost all of the cash received for this event has been refunded. As a result, the Academy filed a claim under its event cancellation insurance in June of 2020. The claim is pending and the adjusters are in the discovery phase to determine the amount of recovery available under the policy.

#### Note 10. 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.



## American Academy of Physician Assistants, Inc. and Affiliate

### Notes to Consolidated Financial Statements

---

#### Note 10. Functional Expenses (Continued)

**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.

**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.

## American Academy of Physician Assistants, Inc. and Affiliate

### Notes to Consolidated Financial Statements

#### Note 10. Functional Expenses (Continued)

**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.

Expenses by function consisted of the following at June 30, 2020 and 2019:

	2020														Total
	Program Services						Support Services								
	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	\$ 2,815,567	\$ 1,427,857	\$ 2,912,426	\$ 497,843	\$ 654,008	\$ 745,972	\$ 204,661	\$ 349,027	\$ 9,607,361	\$ 1,407,340	\$ 1,057,480	\$ 526,458	\$ 138,734	\$ 3,130,012	\$ 12,737,373
Professional fees	1,365,462	1,820,412	1,019,592	306,011	83,678	343,567	32,220	40,713	5,011,655	371,519	1,118,345	189,382	66,082	1,745,328	6,756,983
Meeting and conferences	1,663	300,810	95,286	100,337	10,791	11,450	131,413	2,509	654,259	11,788	759	3,039	916	16,502	670,761
Occupancy	299,533	170,154	258,693	54,466	78,119	109,066	47,661	40,860	1,058,552	117,460	157,765	54,466	-	329,691	1,388,243
Other activities	141,387	167,252	139,014	138,334	34,185	34,604	16,958	16,090	687,824	538,475	89,824	21,555	7,811	657,665	1,345,489
Awards and contributions	24,636	118,425	103,068	127,550	12,088	2,255	7,970	1,060	397,052	11,607	-	-	1,842	13,449	410,501
Travel	15,861	51,215	58,832	25,948	87,115	11,797	14,895	9,252	274,915	1,791	2,711	3,503	1,444	9,449	284,364
Postage and subscriptions	39,518	377,612	85,669	5,358	452	8,328	17,962	401	535,300	4,219	406	585	2,859	8,069	543,369
Supplies	2,707	769	855	13,044	8	44,119	279	34	61,815	25,620	69,424	19	283	95,346	157,161
Communication	1,148	256	168	127	884	257	127	132	3,099	1,832	122,275	7	-	124,114	127,213
Insurance	-	1,372	-	15,150	-	-	498	-	17,020	70,209	-	-	-	70,209	87,229
Interest	-	-	-	-	-	-	-	-	-	50,742	-	-	-	50,742	50,742
Total expenses	\$ 4,707,482	\$ 4,436,134	\$ 4,673,603	\$ 1,284,168	\$ 961,328	\$ 1,311,415	\$ 474,644	\$ 460,078	\$ 18,308,852	\$ 2,612,602	\$ 2,618,989	\$ 799,014	\$ 219,971	\$ 6,250,576	\$ 24,559,428

American Academy of Physician Assistants, Inc. and Affiliate

Notes to Consolidated Financial Statements

Note 10. Functional Expenses (Continued)

	2019														
	Program Services						Support Services								
	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	Total
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	309,513	176,449	267,268	57,974	80,849	112,599	49,241	42,946	1,096,839	126,587	163,597	56,275	-	346,459	1,443,298
Other activities	164,471	147,190	129,653	191,619	38,226	37,137	23,332	12,734	744,362	365,049	65,749	24,566	10,233	465,597	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 subscriptions	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 expenses	\$ 5,703,745	\$ 4,755,341	\$ 4,537,199	\$ 2,712,582	\$ 1,332,666	\$ 1,299,582	\$ 809,216	\$ 445,607	\$ 21,595,938	\$ 2,451,926	\$ 2,295,748	\$ 855,502	\$ 358,104	\$ 5,961,280	\$ 27,557,218