

Audited Financial Statements

**AMERICAN ACADEMY OF
PHYSICIAN ASSISTANTS**

JUNE 30, 2018

American Academy of Physician Assistants

Contents

<i>Independent Auditor's Report</i>	1
<i>Financial Statements</i>	
Statements of financial position	2
Statements of activities	3
Statements of cash flows	4
Notes to the financial statements	5 - 14

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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, 2018 and June 30, 2017, 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, 2018 and June 30, 2017, 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 30, 2018

American Academy of Physician Assistants

Statements of Financial Position

June 30,	2018	2017
Assets		
Cash and cash equivalents	\$ 4,423,664	\$ 2,446,264
Investments	22,208,474	20,915,361
Accounts receivable	941,312	861,253
Due from affiliates, net	46,931	53,063
Prepaid expenses	519,945	597,502
Deferred compensation investments	463,359	405,366
Property and equipment	3,197,880	3,370,389
Total assets	\$ 31,801,565	\$ 28,649,198
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 3,651,216	\$ 3,137,834
Deferred revenue	9,232,683	8,438,575
Deferred compensation obligation	463,359	405,366
Deferred rent and lease incentive	2,813,044	3,003,280
Total liabilities	16,160,302	14,985,055
Net assets		
Unrestricted	15,039,039	13,457,330
Temporarily restricted	602,224	206,813
Total net assets	15,641,263	13,664,143
Total liabilities and net assets	\$ 31,801,565	\$ 28,649,198

American Academy of Physician Assistants

Statements of Activities

<i>Year Ended June 30,</i>	2018	2017
Unrestricted activities		
Revenue and support		
Dues	\$ 11,415,508	\$ 11,443,023
Registration and exhibit fees	5,058,729	4,888,186
Royalties	3,028,811	3,172,449
Grants	2,384,223	2,003,971
Continuing education	1,007,966	797,647
Product theatre and product sales	966,913	609,555
Interest and dividends	413,194	384,822
Sponsorships	371,880	405,650
Rental income	208,802	208,802
Advertising	199,762	347,124
Management fees	80,000	80,000
Other activities	23,380	8,653
Net assets released from restrictions	206,813	315,792
Total unrestricted revenue and support	25,365,981	24,665,674
Expense		
Salaries	9,496,573	9,271,950
Professional fees	4,583,763	4,049,935
Travel and meetings	2,874,849	2,977,928
Payroll taxes and benefits	2,140,658	1,940,598
Rent	1,207,362	1,208,978
Repairs and maintenance	837,008	734,005
Depreciation / amortization	716,250	541,451
Bank and credit card fees	609,048	673,734
Printing	555,413	557,705
Dues and subscriptions	520,777	537,417
Temporary help	346,987	344,391
Supplies	257,014	215,225
Stipends	207,732	233,001
Taxes	118,605	89,452
Telephone and communications	93,527	91,784
Professional development	82,139	143,276
Awards	81,503	132,003
Insurance	63,597	57,302
Other activities	31,452	100,659
Postage	20,613	16,643
Interest	20,120	10,594
Total expense	24,864,990	23,928,031
Change in unrestricted net assets before other activity	500,991	737,643
Investment gain (loss)	1,080,718	2,129,503
Change in unrestricted net assets	1,581,709	2,867,146
Temporarily restricted activities		
Contributions	602,224	-
Net assets released from restrictions	(206,813)	(315,792)
Change in temporarily restricted net assets	395,411	(315,792)
Change in net assets	1,977,120	2,551,354
Net assets, beginning of year	13,664,143	11,112,789
Net assets, end of year	\$ 15,641,263	\$ 13,664,143

See notes to the financial statements.

American Academy of Physician Assistants

Statements of Cash Flows

<i>Year Ended June 30,</i>	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 1,977,120	\$ 2,551,354
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation / amortization	716,250	541,451
Investment (gain) loss	(1,080,718)	(2,129,503)
Loss on disposal of property and equipment	-	94,191
Changes in assets and liabilities:		
Accounts receivable	(80,059)	283,828
Due from affiliates	6,132	1,243
Prepaid expenses	77,557	53,134
Accounts payable and accrues expenses	513,382	167,762
Deferred revenue	794,108	338,475
Refundable advance	-	(118,937)
Deferred rent and lease incentive	(190,236)	(163,195)
Total adjustments	756,416	(931,551)
Net cash provided by operating activities	2,733,536	1,619,803
Cash flows from investing activities		
Purchases of investments	(7,609,505)	(9,281,216)
Proceeds from sale of investments	7,397,110	9,081,313
Purchases of property and equipment	(543,741)	(1,620,357)
Net cash used in investing activities	(756,136)	(1,820,260)
Cash flows from financing activities		
Proceeds from line of credit	2,000,000	1,000,000
Repayments to the line of credit	(2,000,000)	(1,000,000)
Principal payments on capital lease obligation	-	(60,573)
Net cash used in financing activities	-	(60,573)
Net increase (decrease) in cash and cash equivalents	1,977,400	(261,030)
Cash and cash equivalents, beginning of year	2,446,264	2,707,294
Cash and cash equivalents, end of year	\$ 4,423,664	\$ 2,446,264
Supplemental Information		
Cash paid for interest	\$ 20,120	\$ 10,594

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: The American Academy of Physician Assistants (the Academy) was incorporated in 1968 as a national professional association that represents all 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.

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 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 PAC's unaudited assets as of June 30, 2018 and June 30, 2017 totaled \$156,748 and \$135,327, respectively, and the PAC's unaudited revenue for the years ended June 30, 2018 and June 30, 2017, totaled \$110,551 and \$93,055, respectively. Management has determined that the activity of the PAC is immaterial to 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, 2018 and June 30, 2017, 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 fewer 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 at June 30, 2018 and June 30, 2017.

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 F for details regarding temporarily restricted net assets.

American Academy of Physician Assistants

Notes to the Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 are 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 30, 2018, 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 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, 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*	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	\$ -	\$ -

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, 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		
	20,454,893	\$ 20,454,893	\$ -	\$ -
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	\$ -	\$ -

* 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 \$200,798 and \$184,919 for the years ended June 30, 2018 and June 30, 2017, 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 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,:

	2018	2017
Computer software and equipment	\$ 4,307,789	\$ 3,764,048
Furniture and equipment	2,472,929	2,472,929
Leasehold improvements	<u>1,890,508</u>	<u>1,890,508</u>
	8,671,226	8,127,485
Less: accumulated depreciation and amortization	<u>(5,473,346)</u>	<u>(4,757,096)</u>
	<u>\$ 3,197,880</u>	<u>\$ 3,370,389</u>

E. RELATED PARTY TRANSACTIONS

The Academy has an agreement with the 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, 2018 and June 30, 2017 were \$274,535 and \$426,287, respectively. At June 30, 2018 and June 30, 2017, amounts due to the Academy from the Foundation were \$50,406 and \$53,063, 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, 2018 and June 30, 2017, amounts collected on the PAC's behalf and due by the Academy to the PAC were \$3,475 and \$0, respectively.

F. TEMPORARILY RESTRICTED NET ASSETS

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

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.

American Academy of Physician Assistants

Notes to the Financial Statements

F. TEMPORARILY RESTRICTED NET ASSETS - CONTINUED

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.

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."

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

	Balance			Balance
	July 1, 2017	Additions	Releases	June 30, 2018
Educational activities				
Novo Nordisk (Obesity)	\$ 168,325	\$ 366,848	\$ (168,325)	\$ 366,848
Novo Nordisk (Diabetes)	38,488		(38,488)	-
La Jolla	-	125,876		125,876
Lupin	-	75,000		75,000
Biogen	-	34,500		34,500
	\$ 206,813	\$ 602,224	\$ (206,813)	\$ 602,224

	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. FUNCTIONAL EXPENSES

Program services: The Academy operates the following major programs:

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.

Marketing: Develops and executes go-to-market strategies for Academy products and services to optimize revenue, awareness and impact among all audiences and stakeholder groups, including PAs, Constituent Organizations, the public, federal and state legislators and regulators, other health care providers, PA employers, public and private payers, and Academy partners.

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.

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.

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. In coordination with other departments, responds to customer service requests, oversees the quality of the Academy's member and non-member data, and develops and manages the Academy's career products and services.

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.

American Academy of Physician Assistants

Notes to the Financial Statements

G. 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/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.

Strategic Business Development: Supports the financial sustainability of the organization by helping to increase the Academy's non-dues revenue through partnerships, collaborations and new product development.

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 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,:

	2018	2017
Program services		
Education	\$ 4,150,621	\$ 3,250,293
Advocacy and government relations	3,705,395	3,353,292
Marketing and communications	3,585,446	3,718,660
Annual conference and meeting services	2,683,562	2,841,928
Membership	1,153,797	1,112,300
Governance and leadership development	1,120,712	1,107,671
Center for Healthcare Leadership and Management	685,221	1,224,994
Strategic business development	410,158	271,164
Research and statistics	369,053	357,645
Total program services	17,863,965	17,237,947
Supporting services		
Finance, human resources and administrative services	4,116,288	4,107,995
Technology services	2,045,861	1,708,814
Executive department	838,876	873,275
Total supporting services	7,001,025	6,690,084
	<u>\$ 24,864,990</u>	<u>\$ 23,928,031</u>

American Academy of Physician Assistants

Notes to the Financial Statements

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 \$329,075 and \$287,995 for the years ended June 30, 2018 and June 30, 2017, 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, 2018 and June 30, 2017 were \$14,364 and \$4,137, respectively. The deferred compensation obligation is adjusted annually to the fair market value of the investments in the plan. At June 30, 2018 and June 30, 2017, the fair market value of the investments was \$463,359 and \$405,366, respectively.

I. 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 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 the cost 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. The Academy has an adjustable letter-of-credit with a bank in lieu of a security deposit. For the years ended June 30, 2018 and June 30, 2017, the letter-of-credit amounted to \$95,180. The letter of credit expires February 2019.

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

Year Ending June 30,	Amount
2019	\$ 1,362,539
2020	1,400,008
2021	1,438,509
2022	1,478,068
2022	1,518,715
Thereafter	<u>5,646,272</u>
	<u>\$ 12,844,111</u>

American Academy of Physician Assistants

Notes to the Financial Statements

I. COMMITMENTS - CONTINUED

Office sublease: The Academy has a sublease agreement with a tenant that expires 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.

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. 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.

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

Year Ending June 30,	Amount
2019	\$ 172,764
2020	102,707
	<hr/>
	\$ 275,471

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,:

	2018	2017
Office lease		
Deferred rent	\$ 1,788,662	\$ 1,814,092
Build-out incentive	969,249	1,092,984
Sublease		
Deferred rent	(36,987)	(54,098)
Loss on sublease	92,120	150,302
	<hr/>	<hr/>
	\$ 2,813,044	\$ 3,003,280

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 2019. There were no amounts outstanding on the line-of-credit at June 30, 2018 and June 30, 2017.

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 2019. Under certain circumstances, the agreement stipulates that the Academy may be liable for severance and other payments.