

Financial Report: Treasurer's FY 2018 4th Quarter Report

Submitted by: Carl Garrubba, MPA, CPA, PA-C
Treasurer, Physician Assistant Education Association

Date: September 25, 2018

The Association's fiscal year (FY) ended June 30, 2018, in a positive financial position. The Board met its fiduciary responsibility by meeting with the Association's auditing firm and reviewing the financial statement in detail. In addition, the Board reviewed the financial forecast in detail in April during the FY 2019 budget preparation discussion and approved the FY 2019 budget in June. The financial statements are currently being audited and are not finalized; however, here are some of the highlights of the Association's financial performance in the past fiscal year (July 1, 2017-June 30, 2018).

Financial Position

At the end of FY 2018, our net assets increased by \$850,801 to \$14,010,888. This increase can be primarily attributed to substantial growth in the Association's financial investments held in the reserve accounts. In addition, the Association continued to managed expenses effectively and maintain revenue streams. The growth in net assets has been invested in our financial reserve accounts and will be used to support strategic initiatives approved by the Board as appropriate. Maintaining a healthy reserve also provides financial sustainability in case of any unanticipated major expenses or downturn in revenue. We can credit our financial stability to the prudent business practices of the Association's past and present staff, Boards, and Finance Steering Committees. It is important that we remain focused on expense management and revenue diversification and growth to continue our internal investments aimed at enhancing our member experience and achieving our mission.

Revenues

Revenues totaled \$9,863,208 in FY 2018, resulting in a net surplus of \$999,272. The Association's investment portfolio contributed \$677,122 of this surplus. The additional increase in net revenues \$322,150 was achieved through exam sales, CASPA royalties, and membership dues. Much of this surplus was transferred to our reserve account and will support the upcoming budget and initiatives. Since anticipated revenue for interest and investments is not included in the financial budget, this amount has an impact on excess revenues. More importantly, the unrealized gains do not represent additional monies brought in by the organization, but rather a change in the valuation of our investments and overall net assets.

The variance in CASPA royalties over our budget this year was \$246,277 and for exam sales the variance was \$229,704. We are continuing to improve CASPA modeling and forecasting and expect future variances to be smaller as forecast accuracy increases.

In the current fiscal year, CASPA royalties totaled \$4,752,541, representing 52% of the Association's revenue (excluding investment income). Applicant participation in CASPA continues to grow but at a slower rate, with a 2% increase in applicants seen in the 2017-2018 cycle. End of Rotation™ exams and PACKRAT™ sales totaled \$2,127,197 or 23% of the Association's revenue, up from 20% for the previous fiscal year. We generated membership related dues of \$1,111,092, or 12% in FY 2018, as the number of programs has continued to grow. The Education Forum and workshops together totaled \$954,704 or 10% of total revenue. Other revenue from the JPAE 50th Anniversary edition and professional services totaled \$179,438, or 2% for the year.

Expenses

Expenses came in under budget by \$504,301 at \$8,863,936 in total. The largest category that was underspent was employee-related expenses, including salary and benefits, by \$674,754. This was a result of delayed hiring for planned additional staff, as well as from employee turnover during the year. Expenses were over budget in legal and consulting fees primarily due to the increased cost of the NCCPA exam contract negotiations and newly signed contract terms.

FY 2019 Budget

PAEA continues to utilize the annual budgeting process to prioritize the Association's mission work and future needs of the organization. In April 2018, the Finance Steering Committee and Board reviewed the working draft of the FY 2019 budget compiled by the staff. The proposed FY 2019 budget included an updated forecast of CASPA and exam sales revenue, as well as details regarding the ongoing investments needed to create new exam products. The Board continues to support funding for new products and resources needed to align to member needs and approved an overall deficit budget for FY 2019. In addition, the Board reviewed a request for technology enhancements to the overall learning program that was outside of the budget request and approved funding from the Association's reserves up to \$1,000,000 in FY 2019.

Endowment

Within our overall investments, the Board has designated/restricted specific funds for use in supporting research initiatives. Built both on donations and Board-designated funds, the endowments have grown to over \$480,000 in FY 2018. The endowment will continue to support the Don Pederson Grant Program in FY 2019.

Fund Reserve

At present, our fund reserve stands at well over one year of expenses, which is more than twice the recommended six months guidance provided to nonprofits similar to our size. The consistent yearly growth in CASPA revenues and more recently, in investment income and exam sales, have been the primary contributors that have grown the reserves. This surplus level of reserves affords the Board the ability to prioritize funding of new products, services, and strategic initiatives for member programs and services. As discussed above, the FY 2019 budget was approved by the Board with an anticipated deficit and the Board also approved an additional \$1,000,000 to be used to focus on strategic initiatives, mostly related to enhancing the technology and member experience.

Socially Responsible Investment Policy

The Association continues to avoid direct investment in companies that derive revenue from products or practices that conflict with PAEA's values and mission and in turn emphasizes investments in companies that align with the organization's values and mission. This socially responsible investment policy was approved by the Board in July 2017 and will continue to be adhered to with future investments.

Finance Steering Committee

The Association benefited from the expertise and diligent work of the members of the Finance Steering Committee – Mark Archambault, Jacqueline Barnett, Erin Hoffman, Ellen Mandel, and Diana Noller – as well as staff members Timi Agar Barwick, Mary Jo Anderson, Ann Goldsmith, and Lynn Heitzman. These individuals deserve our significant thanks for their contributions to the steering committee's work this year.

Respectfully Submitted,

A handwritten signature in black ink that reads "Carl Garrubba". The signature is written in a cursive style with a long, sweeping underline.

Carl Garrubba, MPA, CPA, PA-C
Treasurer, Physician Assistant Education Association