

Alpha Omega Alpha Honor Medical Society

Financial Statements

August 31, 2019 and 2018

(With Independent Auditor's Report Thereon)

Independent Auditor's Report

**Board of Directors
Alpha Omega Alpha Honor Medical Society**

Report on Financial Statements

We have audited the accompanying financial statements of Alpha Omega Alpha Honor Medical Society, which comprise the statement of financial position as of August 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year 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 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 entity'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 entity'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 Alpha Omega Alpha Honor Medical Society as of August 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Directors
Alpha Omega Alpha Honor Medical Society

Other-Matter

The financial statement of Alpha Omega Alpha Honor Medical Society for the year ended August 31, 2018 were audited by another auditor, who expressed an unmodified opinion on those financial statements on February 12, 2019. In our opinion, the comparative information presented herein as of and for the year ended August 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matter

As discussed in note 1, Alpha Omega Alpha Honor Medical Society adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended August 31, 2019. Our opinion is not modified with respect to this matter.

February 19, 2020

Alpha Omega Alpha Honor Medical Society
Statements of Financial Position
August 31, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	\$ 47,794	10,477
Investments (note 3)	20,344,498	20,736,061
Prepaid expenses and other assets	27,217	22,906
Total assets	\$ 20,419,509	20,769,444
Liabilities and net assets		
Accounts payable and accrued expenses	\$ 117,142	133,719
Fellowships, grants and awards payable (note 4)	359,911	364,033
Deferred lifetime dues	8,495,175	8,130,794
Total liabilities	8,972,228	8,628,546
Net assets		
Without donor restrictions	11,325,533	12,025,573
With donor restrictions (note 5)	121,748	115,325
Total net assets	11,447,281	12,140,898
Commitments (notes 6 and 7)		
Total liabilities and net assets	\$ 20,419,509	20,769,444

See the accompanying notes to the financial statements.

Alpha Omega Alpha Honor Medical Society
Statement of Activities
Year Ended August 31, 2019

	Without donor restrictions	With donor restrictions	Total
Operating revenue and support			
Member dues	\$ 1,681,250	–	1,681,250
Insignia and other	174,227	–	174,227
Contributions	146,784	–	146,784
Net assets released from restrictions (note 5)	(1,398)	1,398	–
Total operating revenue and support	<u>2,000,863</u>	<u>1,398</u>	<u>2,002,261</u>
Operating expenses			
Program expenses			
<i>The Pharos</i>	516,386	–	516,386
Student awards	356,701	–	356,701
Leadership program	205,104	–	205,104
Chapter development and other	218,745	–	218,745
Visiting professorships	169,469	–	169,469
Insignia	173,396	–	173,396
Distinguished teacher awards	88,768	–	88,768
Professionalism awards	106,516	–	106,516
Total program expenses	<u>1,835,085</u>	<u>–</u>	<u>1,835,085</u>
Supporting services			
Management and general	535,451	–	535,451
Solicitations	83,779	–	83,779
Total supporting services	<u>619,230</u>	<u>–</u>	<u>619,230</u>
Total operating expenses	<u>2,454,315</u>	<u>–</u>	<u>2,454,315</u>
Change in net assets from operating activities	(453,452)	1,398	(452,054)
Nonoperating activities			
Investment return, net (note 3)	(246,588)	5,025	(241,563)
Change in net assets	(700,040)	6,423	(693,617)
Net assets at beginning of year	<u>12,025,573</u>	<u>115,325</u>	<u>12,140,898</u>
Net assets at end of year	<u>\$ 11,325,533</u>	<u>121,748</u>	<u>11,447,281</u>

See the accompanying notes to the financial statements.

Alpha Omega Alpha Honor Medical Society
Statement of Activities
Year Ended August 31, 2018

	Without donor restrictions	With donor restrictions	Total
Operating revenue and support			
Member dues	\$ 1,739,061	–	1,739,061
Insignia and other	173,545	–	173,545
Contributions	139,506	–	139,506
Total operating revenue and support	<u>2,052,112</u>	<u>–</u>	<u>2,052,112</u>
Operating expenses			
Program expenses			
<i>The Pharos</i>	486,706	–	486,706
Student awards	428,767	–	428,767
Leadership program	198,211	–	198,211
Chapter development and other	206,499	–	206,499
Visiting professorships	182,253	–	182,253
Insignia	168,656	–	168,656
Distinguished teacher awards	85,928	–	85,928
Professionalism awards	68,502	–	68,502
Total program expenses	<u>1,825,522</u>	<u>–</u>	<u>1,825,522</u>
Supporting services			
Management and general	660,084	–	660,084
Solicitations	85,372	–	85,372
Total supporting services	<u>745,456</u>	<u>–</u>	<u>745,456</u>
Total operating expenses	<u>2,570,978</u>	<u>–</u>	<u>2,570,978</u>
Change in net assets from operating activities	(518,866)	–	(518,866)
Nonoperating activities			
Investment return, net (note 3)	1,734,455	–	1,734,455
Change in net assets	1,215,589	–	1,215,589
Net assets at beginning of year	<u>10,809,984</u>	<u>115,325</u>	<u>10,925,309</u>
Net assets at end of year	<u>\$ 12,025,573</u>	<u>115,325</u>	<u>12,140,898</u>

See the accompanying notes to the financial statements.

Alpha Omega Alpha Honor Medical Society
Statement of Functional Expenses
Year Ended August 31, 2019
(With Comparative Totals for the Year Ended August 31, 2018)

	<i>The Pharos</i>	Student awards	Leadership	Chapter development & other	Visiting Professor- ships	Insignia	Distinguished teacher awards	Profession- alism awards	Total program services	Management and general	Solicitations	Total supporting services	2019 Total	2018 Totals
Salaries, benefits, and taxes \$	246,821	64,853	84,930	96,858	20,392	13,134	22,831	75,743	625,561	262,282	–	262,282	887,843	795,018
Solicitations	–	–	–	–	–	–	–	–	–	–	83,779	83,779	83,779	85,372
Merchandise	–	–	–	–	–	157,573	–	–	157,573	–	–	–	157,573	147,840
Program support	241,423	282,898	111,503	105,529	144,689	–	64,166	24,075	974,283	–	–	–	974,283	1,094,901
Travel	–	–	–	–	–	–	–	–	–	6,362	–	6,362	6,362	12,346
Occupancy	19,149	6,101	5,890	11,157	2,993	1,832	1,209	4,557	52,888	22,900	–	22,900	75,788	72,389
Fees for service	–	–	–	–	–	–	–	–	–	31,963	–	31,963	31,963	43,839
Bank and other fees	–	–	–	–	–	–	–	–	–	69,205	–	69,205	69,205	71,733
Office expenses	8,993	2,849	2,781	5,201	1,394	857	563	2,141	24,780	10,894	–	10,894	35,674	73,198
Board expense	–	–	–	–	–	–	–	–	–	44,501	–	44,501	44,501	53,061
Technology upgrades	–	–	–	–	–	–	–	–	–	59,201	–	59,201	59,201	92,835
Insurance	–	–	–	–	–	–	–	–	–	7,273	–	7,273	7,273	8,441
Professional fees	–	–	–	–	–	–	–	–	–	2,955	–	2,955	2,955	4,442
Other	–	–	–	–	–	–	–	–	–	17,916	–	17,916	17,916	15,563
Total functional expenses	<u>516,386</u>	<u>356,701</u>	<u>205,104</u>	<u>218,745</u>	<u>169,469</u>	<u>173,396</u>	<u>88,768</u>	<u>106,516</u>	<u>1,835,085</u>	<u>535,451</u>	<u>83,779</u>	<u>619,230</u>	<u>2,454,315</u>	<u>2,570,978</u>

See the accompanying notes to the financial statements.

Alpha Omega Alpha Honor Medical Society
Statements of Cash Flows
Years Ended August 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ (693,617)	1,215,589
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net realized and unrealized losses (gains) on investments	576,732	(1,408,055)
Net change in cash held in investments	-	18,596
Amortization of lifetime dues	(396,994)	(347,501)
Receipts of lifetime dues	761,375	689,490
Change in operating assets and liabilities		
Prepaid expenses and other assets	(4,311)	31,883
Accounts payable and accrued expenses	(20,698)	75,238
Net cash provided by operating activities	<u>222,487</u>	<u>275,240</u>
Cash flows from investing activities		
Purchase of investments	(585,170)	(2,867,191)
Proceeds from sale of investments	400,000	2,566,695
Net cash used in investing activities	<u>(185,170)</u>	<u>(300,496)</u>
Increase (decrease) in cash and cash equivalents	37,317	(25,256)
Cash and cash equivalents, beginning of year	<u>10,477</u>	<u>35,733</u>
Cash and cash equivalents, end of year	<u>\$ 47,794</u>	<u>10,477</u>

See the accompanying notes to the financial statements.

Alpha Omega Alpha Honor Medical Society

Notes to Financial Statements

August 31, 2019 and 2018

(1) Summary of Significant Accounting Policies

(a) Organization

Alpha Omega Alpha Honor Medical Society (AΩA) is a nonprofit honor medical society, organized in 1902 and currently has 132 self-directed chapters at medical schools in the United States and Lebanon. AΩA's financial statements do not include chapter financial activities.

AΩA publishes *The Pharos*, a quarterly, multidisciplinary, peer-reviewed medical humanities journal, and sponsors twelve national fellowships, grants, and awards that are available to all students, residents, faculty, fellows, and community and private physicians. These awards include visiting professorships; distinguished teacher awards; student research fellowship; postgraduate research fellowships; essay and poetry awards; and recognition for AΩA chapter administrative personnel and volunteer clinical faculty. AΩA promotes leadership through its Medical Student Service Leadership Project grant, Fellow in Leadership, and Professionalism awards.

AΩA's revenue is derived primarily from member dues, return on investments, and contributions.

(b) Basis of Accounting

The accompanying financial statements of AΩA have been prepared on the accrual basis of accounting, and accordingly reflect all significant receivables, payables, and other liabilities.

(c) Financial Statement Presentation

AΩA is required to present information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of AΩA. These net assets may be used at the discretion of AΩA's management and the board of directors.

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of AΩA or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

(d) Measure of Operations

The statements of activities report all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributed to AΩA's ongoing activities and program services. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

Alpha Omega Alpha Honor Medical Society

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(e) Cash and Cash Equivalents

For purposes of the statements of cash flows, AΩA considers all highly liquid investments with an initial maturity of three months or less, and which are not held by investment managers as part of an investment portfolio, to be cash equivalents.

(f) Concentrations of Credit Risk

Financial instruments which potentially subject AΩA to concentrations of credit risk consist of investments. Investments are made by investment consultants engaged by AΩA and are monitored by the Board of Directors and management. Though the market value of investments is subject to fluctuations on a year-to-year basis, management believes that the investment policy is prudent for the long-term welfare of AΩA.

(g) Investments

AΩA reports investments at fair value. Fair value is determined as more fully described in note 1(g). AΩA's management is responsible for the fair value measurement of investments reported in the financial statements and believes that the reported values are reasonable. Investment return consists of the AΩA's distributive share of any interest, dividends, and capital gains and losses generated from investments. Investment gain or loss (including realized and unrealized gains and losses on investments) is included in the change in net assets in the statements of activities as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by donor or law.

(h) Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. U.S. generally accepted accounting principles establish a fair value hierarchy that prioritizes investments based on those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). Assets are grouped in three levels based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.
- Level 2 Inputs other than quoted market prices that are observable for the asset/liability, either directly or indirectly.
- Level 3 Unobservable inputs that cannot be corroborated by observable market data.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. These classifications (Level 1, 2 and 3) are intended to reflect the observability of inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity.

Alpha Omega Alpha Honor Medical Society

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(h) Fair Value Measurements, Continued

In addition, certain investments are reported using the “practical expedient” method. The practical expedient method allows net asset value per share or its equivalent to represent fair value for reporting purposes when the criteria for using this method are met. Investments valued using net asset value per share or its equivalent are not categorized within the hierarchy.

(i) Contributions

Contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions, depending on the existence or nature of any donor restrictions.

All donor restricted support, including pledges, is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a donor restriction expires, (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from donor restrictions.

(j) Membership Dues

Annual dues are credited to income upon receipt of cash, which has been determined to be materially consistent with recognizing revenue ratably over the fiscal year. AΩA offers the option of a one-time lifetime dues payment; such payments are recorded as deferred lifetime dues and are amortized over the estimated membership service period, which is based on the member’s estimated age at the time of electing to pay lifetime dues.

(k) Functional Allocation of Expenses

The costs of providing program and supporting services have been summarized on a functional basis in the accompanying statements of functional expenses. AΩA incurs expenses that directly relate to, and can be assigned to, a specific program or supporting activity. AΩA also conducts a number of activities which benefit both program objectives as well as supporting services (i.e. management and general and solicitations activities). These costs, which are not specifically attributable to a specific program or supporting activity, are allocated by management on a consistent basis among program and supporting services benefited, based on either financial or nonfinancial data, such as estimates of time and effort incurred by personnel.

(l) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Alpha Omega Alpha Honor Medical Society

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(m) Income Tax Status

AΩA is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, AΩA qualifies for the charitable contribution deduction. Income from activities not directly related to AΩA's tax-exempt purpose is subject to taxation as unrelated business income. There was no unrelated business income subject to tax in 2019.

Management is required to evaluate tax positions taken by AΩA and to recognize a tax liability if AΩA has taken an uncertain position that probably would not be sustained upon examination by taxing authorities. AΩA believes that it has appropriate support for any tax positions taken and that none would require recognition of a liability or disclosure in the financial statements. AΩA is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes AΩA is no longer subject to income tax examinations for years prior to June 30, 2016.

(n) Subsequent Events

Management has evaluated subsequent events through February 19, 2020, the date the financial statements were available to be issued.

(o) Not-for-Profit Financial Statement Presentation

During the year ended August 31, 2019, AΩA adopted ASU No. 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about its liquidity and availability of resources, expenses and investment returns, and cash flows. The guidance replaces the three classes of net assets previously presented on the statements of financial position with two new classes of net assets, which are based on the existence or absence of donor-imposed restrictions. ASU 2016-14 includes specific disclosure requirements intended to improve a financial statement user's ability to assess an entity's available financial resources, along with its management of liquidity and liquidity risk (note 2).

Alpha Omega Alpha Honor Medical Society

Notes to Financial Statements, Continued

(2) Liquidity and Availability of Financial Assets

The following represents the AΩA's financial assets available for general expenditures within one year as of August 31, 2019:

Cash and cash equivalents	\$ 47,794
Operating investments	<u>20,222,750</u>
Financial assets available to meet cash expenditures over the next twelve months	\$ <u>20,270,544</u>

The AΩA's financial assets available to meet cash needs for general expenditures within one year represent funding for ongoing operational requirements. General expenditures include administrative, program and solicitation expenses incurred in the conduct of the AΩA's ongoing activities. In the normal course of operations, AΩA earns revenue from membership fees that are available to meet cash needs for general expenditures throughout the year. Investments totaling \$121,748 represent AΩA's donor restricted endowment funds, which are subject to an annual spending policy and the income from which is restricted for specific purposes as described in note 4. As part of its liquidity management, cash in excess of daily requirements is invested in investment funds that provide immediate liquidity.

(3) Investments

Investments are stated at fair value and consist of the following at August 31:

	<u>2019</u>	<u>2018</u>
Short-term and money market funds	\$ 306,168	508,370
Equity Funds		
Domestic	9,823,395	10,077,206
International	3,880,510	4,141,935
Bond Funds		
Domestic	5,861,407	5,561,672
International	<u>473,018</u>	<u>446,878</u>
	\$ <u>20,344,498</u>	<u>20,736,061</u>

AΩA has adopted investment and spending policies approved by the Board of Directors consistent with the Uniform Prudent Management of Institutional Funds Act (UPMIFA) to ensure support for the long-term viability of AΩA's programs through consistent, predictable cash flows. The return objective shall be to earn 4.5% net of inflation on average over longer periods of time (+/- 25 years). AΩA has a policy of appropriating for distribution each year 4% of the average value of the endowment assets over the last 12 quarters measured at June 30.

AΩA employs an outside investment manager to manage its equity and fixed income portfolios and these funds are largely invested across a highly diversified group of mutual funds.

AΩA's net investment return consists of the following for the years ended August 31:

	<u>2019</u>	<u>2018</u>
Net realized and unrealized (losses)/gains	\$ (576,732)	1,408,055
Interest and dividends	419,748	398,432
Less investment fees	<u>(84,579)</u>	<u>(72,032)</u>
Net investment return	\$ <u>(241,563)</u>	<u>1,734,455</u>

Alpha Omega Alpha Honor Medical Society

Notes to Financial Statements, Continued

(3) Investments, Continued

The following table summarizes AΩA's investments by the fair value hierarchy levels as of August 31, 2019:

	Fair Value	Assets Measured at			
		NAV (a)	Level 1	Level 2	Level 3
Short-term fund	\$ 218,261	218,261	—	—	—
Mutual funds	<u>20,126,237</u>	<u>—</u>	<u>20,126,237</u>	<u>—</u>	<u>—</u>
Total	\$ <u>20,344,498</u>	<u>218,261</u>	<u>20,126,237</u>	<u>—</u>	<u>—</u>

The following table summarizes AΩA's investments by the fair value hierarchy levels as of August 31, 2018:

	Fair Value	Assets Measured at			
		NAV (a)	Level 1	Level 2	Level 3
Short-term fund	\$ 363,451	363,451	—	—	—
Mutual funds	<u>20,372,610</u>	<u>—</u>	<u>20,372,610</u>	<u>—</u>	<u>—</u>
Total	\$ <u>20,736,061</u>	<u>363,451</u>	<u>20,372,610</u>	<u>—</u>	<u>—</u>

(a) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient, which is a reasonable estimate of fair value, have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

All assets have been valued using a market approach. There were no changes in the valuation techniques during the current year. The fair value of the short-term fund is determined using NAV, or its equivalent, and is based on financial information determined and reported by the investment manager.

The short-term fund seeks to attain as high a rate of current income as is consistent with ensuring that the fund's risk of principal loss does not exceed that of a portfolio invested in U.S. six-month Treasury bills. The fund provides daily liquidity. As of August 31, 2019 and 2018, AΩA has no unfunded commitments to the fund.

(4) Fellowships, Grants, and Awards Payable

At August 31, 2019 and 2018, fellowships, grants and awards payable total \$359,911 and \$364,033, respectively, and consist of approved but unpaid second- and third-year awards for various AΩA programs, including Student Research, Post Graduate, and Medical Student Leadership awards.

Alpha Omega Alpha Honor Medical Society

Notes to Financial Statements, Continued

(5) Endowment Funds

At August 31, net assets with donor restrictions consist of the following:

	<u>2019</u>	<u>2018</u>
Endowments subject to spending policy and appropriation		
Gifts restricted in perpetuity	\$ 115,325	115,325
Unexpended endowment earnings	<u>6,423</u>	<u>—</u>
Total endowment funds	<u>121,748</u>	<u>115,325</u>
Total net assets with donor restrictions	\$ <u>121,748</u>	<u>115,325</u>

AQA's donor-restricted endowment funds restricted in perpetuity consist of the following as of August 31:

	<u>2019</u>	<u>2018</u>
Dr. David J. and Diane L. de Harter Gift Endowment Fund (de Harter Fund)	\$ 70,000	70,000
Robert H. Moser Gift Endowment Fund (Moser Fund)	<u>45,325</u>	<u>45,325</u>
Total donor-restricted endowment funds	\$ <u>115,325</u>	<u>115,325</u>

Net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The de Harter Fund endowment gift agreement established \$70,000 as the amount to be invested in perpetuity. This fund is to support AQA's Visiting Professorship program at the University of Wisconsin. The de Harter Fund will be invested according to AQA's Investment policy. Up to 4% of the average annual investment return will be available for annual distributions. AQA has agreed to match the annual yield of the gift up to 4% of \$30,000 in the AQA investment pool.

The Moser Fund was established to issue a recurring Moser Editorial award. The funds are invested under AQA's investment program described in note 3. At August 31, 2019 and 2018, net assets maintained in perpetuity related to the Moser Fund consist of original contributions plus accumulated earnings and appreciation.

AQA has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, AQA classifies as donor-restricted endowment funds to be maintained in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds that are not retained in perpetuity are classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the AQA's Board in a manner consistent with the standard of prudence prescribed by UPMIFA.

Alpha Omega Alpha Honor Medical Society

Notes to Financial Statements, Continued

(5) Endowment Funds, Continued

In accordance with UPMIFA, AΩA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purpose of AΩA and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effects of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other AΩA resources
- (7) The investment policies of the AΩA.

Following are the changes in the endowment net assets for 2019 and 2018:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets at August 31, 2018	\$ 8,567	115,325	123,892
Investment return, net	–	5,025	5,025
Endowment assets appropriated for expenditure	–	(7,169)	(7,169)
Reclassification to correct net asset classes	(8,567)	8,567	–
Endowment net assets at August 31, 2019	\$ –	121,748	121,748

Return Objectives and Risk Parameters

The primary investment objective is to generate income and assets to carry out the purpose of the endowment funds while reducing, to the greatest extent possible, the possibility of loss. Consistent with prudent standards of preservation of capital and maintenance of liquidity, the goal is to earn the highest possible total rate of return by investing in socially responsible investment vehicles, consistent with the investment guidelines and social criteria of AΩA.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, AΩA relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). To achieve its long-term return objectives within prudent risk constraints, AΩA invests across a highly diversified group of mutual funds. AΩA has an active investment committee that consistently reviews allocations and returns.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Investment income earned on endowment assets are to be used per donor intent. Distributions from the endowment funds shall not cause the fund's net asset value to drop below the restricted amount. In establishing the spending policy, AΩA considers the long-term expected return on its endowments. Accordingly, over the long term, AΩA expects the current spending policy to allow its investment portfolio to grow at an average of 4.5% annually. This is consistent with AΩA's objective to provide additional real growth through investment return.

Alpha Omega Alpha Honor Medical Society

Notes to Financial Statements, Continued

(6) Operating Leases

AΩA leases office space under non-cancelable operating leases that expires over the next three years. Future minimum lease payments at August 31, 2019 are as follows:

2020	\$ 76,890
2021	79,195
2022	<u>81,562</u>
	\$ <u>237,647</u>

Rent expense incurred for the years ended August 31, 2019 and 2018 was \$202,732 and \$228,000, respectively.

AΩA entered into a sublease agreement beginning June 2017 for the space in Menlo Park, California with an unaffiliated organization that expired in June 2019. Rental income under the sublease of \$126,944, including direct costs, was recorded as a reduction of rent expense for 2019 (\$152,000 in 2018).

(7) Employee Retirement Plan

The employees of AΩA participate in a defined contribution plan under Section 403(b) of the Internal Revenue Code. Under the plan, AΩA is required to contribute 10% of employees' eligible compensation to the plan annually. Pension expense incurred by AΩA during the years ended August 31, 2019 and 2018 was \$59,639 and \$41,280, respectively.