



**Alpha Omega Alpha
Honor Medical Society**

Financial Statements

August 31, 2018 and 2017

To the Board of Directors
Alpha Omega Alpha Honor Medical Society
Aurora, Colorado

Certified
Public
Accountants



Palo Alto
San Francisco
San Jose
St. Helena

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of Alpha Omega Alpha Honor Medical Society (AΩA), which comprise the statements of financial position as of August 31, 2018 and 2017, and the related statements of revenue and expenses and change in net assets, 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.

Auditors' 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 our 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 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Frank, Rimmerman & Co. LLP

San Jose, California
February 12, 2019

Alpha Omega Alpha Honor Medical Society
Statements of Financial Position

	August 31,	
	2018	2017
ASSETS		
Cash	\$ 10,477	\$ 35,733
Investments	20,736,061	19,046,106
Other Assets	22,906	54,789
Total assets	<u>\$ 20,769,444</u>	<u>\$ 19,136,628</u>
LIABILITIES AND NET ASSETS		
Accounts Payable and Accrued Expenses	\$ 497,752	\$ 422,514
Deferred Lifetime Dues	8,130,794	7,788,805
Total liabilities	8,628,546	8,211,319
Commitments (Note 6)		
Net Assets		
Unrestricted	12,025,573	10,809,984
Permanently restricted (Note 4)	115,325	115,325
Total net assets	<u>12,140,898</u>	<u>10,925,309</u>
Total liabilities and net assets	<u>\$ 20,769,444</u>	<u>\$ 19,136,628</u>

See Notes to Financial Statements

Alpha Omega Alpha Honor Medical Society
Statements of Revenue and Expenses and Change in Net Assets

	Years Ended August 31,	
	2018	2017
Revenue		
Total return from investments	\$ 1,734,455	\$ 1,882,924
Member dues	1,739,061	1,745,863
Insignia and other	173,545	178,990
Contributions	139,506	119,596
Total revenue	<u>3,786,567</u>	<u>3,927,373</u>
Expenses		
Program expenses		
The Pharos	486,706	443,187
Student awards	428,767	371,229
Leadership program	198,211	204,983
Chapter development and other	206,499	138,007
Visiting professorships	182,253	127,638
Insignia	168,656	169,157
Distinguished teacher awards	85,928	78,692
Professionalism awards	68,502	106,346
	<u>1,825,522</u>	<u>1,639,239</u>
Administrative expenses	745,456	719,935
Total expenses	<u>2,570,978</u>	<u>2,359,174</u>
Change in Net Assets	1,215,589	1,568,199
Total Net Assets, beginning of year	<u>10,925,309</u>	<u>9,357,110</u>
Total Net Assets, end of year	<u>\$ 12,140,898</u>	<u>\$ 10,925,309</u>

See Notes to Financial Statements

Alpha Omega Alpha Honor Medical Society
Statements of Cash Flows

	Years Ended August 31,	
	2018	2017
Cash Flows from Operating Activities		
Change in net assets	\$ 1,215,589	\$ 1,568,199
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized gain on investments	(1,408,055)	(1,478,665)
Net change in cash held in investments	18,596	(85,459)
Amortization of lifetime dues	(347,501)	(391,122)
Receipt of lifetime dues	689,490	787,467
Changes in operating assets and liabilities:		
Accounts payable and accrued expenses	75,238	61,187
Other assets	31,883	1,457
Net cash provided by operating activities	<u>275,240</u>	<u>463,064</u>
Cash Flows from Investing Activities		
Purchase of investments	(2,867,191)	(1,890,181)
Proceeds from sale of investments	2,566,695	1,295,881
Net cash used in investing activities	<u>(300,496)</u>	<u>(594,300)</u>
Net Decrease in Cash	(25,256)	(131,236)
Cash, beginning of year	35,733	166,969
Cash, end of year	<u>\$ 10,477</u>	<u>\$ 35,733</u>

See Notes to Financial Statements

Alpha Omega Alpha Honor Medical Society

Notes to Financial Statements

1. General

Alpha Omega Alpha Honor Medical Society (AΩA) is a non-profit 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 12 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 fellowships; 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 grants, Fellow in Leadership, and Professionalism awards.

As a non-profit organization, AΩA is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and comparable state law. AΩA does not believe it has unrelated business income that should have been reported for tax purposes. In addition, AΩA believes that it has appropriate support for any tax positions taken to date and, therefore, has no related income tax due for all years where the statute of limitations remains open.

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 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 reported period. Actual results could differ from those estimates. Significant estimates which affect AΩA's financial statements include the estimated membership service period associated with lifetime membership dues.

Cash includes all cash balances and highly liquid investments purchased with a maturity of three months or less.

Expenses are allocated directly to program activities where they can be specifically identified. Expenses not specifically identified are allocated to programs based upon estimated usage.

Alpha Omega Alpha Honor Medical Society Notes to Financial Statements

2. Recent Accounting Pronouncements Not Yet Effective:

Presentation of Financial Statements:

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The standard, which will be effective for AΩA as of September 1, 2019, requires a retrospective transition approach for its adoption, reduces the number of net asset classes from three to two (“without donor restrictions” and “with donor restrictions”), requires expenses to be reported by function and nature, and provides disclosures on an entity’s operating measures and liquidity. AΩA is currently evaluating the impact of ASU 2016-14 on its financial statements and related disclosures.

Revenue:

In May 2014, the FASB issued Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*, which will be effective for AΩA as of September 1, 2019. AΩA does not believe the standard will have a material effect in how it reports revenue.

Leases:

In February 2016, the FASB issued ASC Topic 842, *Leases*. This standard requires all entities that lease assets under leases with terms of more than 12 months to capitalize the assets and related lease liabilities on the Statement of Financial Position. Topic 842 will be effective for AΩA as of September 1, 2020. Management expects the assets leased under operating leases, similar to the leases disclosed in Note 6 to the financial statements, will be capitalized together with the related lease obligations on the Statement of Financial Position upon the adoption of Topic 842.

Contributions Received and Contributions Made:

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard clarifies the definition of an exchange transaction and provides guidance for evaluating whether contributions are unconditional or conditional. ASU 2018-08 is effective for AΩA as of September 1, 2019. ASU 2018-08 allows a retrospective or modified prospective transition approach for its adoption. AΩA believes ASU 2018-08 will not have a material impact on its financial statements and related disclosures.

Alpha Omega Alpha Honor Medical Society
Notes to Financial Statements

3. Investments

AΩA carries its investments at fair value and includes realized and unrealized gains, losses and investment fees in the Statements of Revenue and Expenses and Change in Net Assets. In 2018, AΩA received dividends and interest of \$607,105, and the fair value of its portfolio increased by \$1,199,382. During 2017, AΩA received dividends and interest of \$476,472 and the fair value of its portfolio increased by \$1,478,665.

Fair value as of ending August 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Short-term Money Market Funds	\$ 509,172	\$ 774,329
Equity Funds		
Domestic	10,077,205	9,260,632
International	4,141,935	3,960,238
Bond Funds		
Domestic	5,560,871	4,709,433
International	<u>446,878</u>	<u>341,474</u>
	<u>\$ 20,736,061</u>	<u>\$ 19,046,106</u>

AΩA has adopted investment and spending policies approved by the Board of Directors consistent with UPMIFA to ensure support of 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 as of 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 measures its investments relative to a three-level hierarchy that prioritizes the inputs used for determination of fair value. The three-level hierarchy categorizes financial instruments from most liquid to illiquid. AΩA defines fair value as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. All of AΩA's investments have readily available fair values and, thus, are liquid and are classified as Level I [highest] investments.

Alpha Omega Alpha Honor Medical Society

Notes to Financial Statements

4. Permanently Restricted Net Assets

Permanently restricted net assets at August 31, 2018 and 2017 consist of the following: the deHarter fund in the amount of \$70,000 established in 2014 to support AΩA's Visiting Professorship program at the University of Wisconsin, and a fund totaling \$45,325 to issue a recurring Moser Editorial award. These funds are invested under AΩA's investment program as described in Note 3. The value of those contributions must be maintained in perpetuity. Income on the endowment assets are temporarily restricted until appropriated.

5. Member Dues

Annual dues are paid by the members of AΩA upon receipt of dues notices and 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.

6. Commitments

Office Leases:

AΩA signed a five-year lease beginning July 2014 for its office space in Menlo Park, California. In addition, AΩA pays its pro rata share of direct operating costs for the facility. In September 2017, AΩA signed a five-year lease beginning September 2017 for its office space in Aurora, Colorado. In addition, AΩA pays its pro rata share of direct operating costs for the facility. Rent expense under the leases, including direct costs, was \$228,000 in 2018 (\$157,000 in 2017).

Alpha Omega Alpha Honor Medical Society
Notes to Financial Statements

6. Commitments (continued)

Aggregate future minimum rental payments required under these lease agreements is as follows:

Years Ending August 31:	CA Rent	CO Rent	Annual Rents
2019	\$ 104,000	\$ 60,000	\$ 164,000
2020		62,000	62,000
2021		64,000	64,000
2022		66,000	66,000
	\$ 104,000	\$ 252,000	\$ 356,000

AΩA entered into a sublease agreement beginning June 2017 for the space in Menlo Park, California with an unaffiliated organization. The sublease agreement is set to expire simultaneous with the master lease in June 2019. In addition, AΩA will receive the pro rata share of direct operating costs for the facility. Rental income under the sublease, including direct costs, of \$152,000 was recorded as a reduction of rent expense for 2018 (\$32,000 in 2017).

Aggregate future minimum rental payments to be received under the sublease at year ending August 31, 2019 will be \$99,000.

Employee Retirement Plan:

AΩA has a defined contribution retirement 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. Employee pension expense was \$41,000 in 2018 (\$52,000 in 2017).

7. Subsequent Events

Subsequent events have been evaluated through the date of the accompanying independent auditors' report, which is the date the financial statements were approved by AΩA and available to be issued.