

**Alpha Omega Alpha Honor
Medical Society**

Financial Statements

August 31, 2020 and 2019

(With Independent Auditor's Report Thereon)

Kundinger, Corder & Engle, P.C.

Certified Public Accountants

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 statements of financial position as of August 31, 2020 and 2019, and the related statements of activities, functional expenses, 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 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, 2020 and 2019, 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.

Kundinger, Corder & Engle, P.C.

February 17, 2021

Alpha Omega Alpha Honor Medical Society
Statements of Financial Position
August 31, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents	\$ 75,471	47,794
Investments (note 3)	22,224,409	20,344,498
Prepaid expenses and other assets	14,715	27,217
Total assets	\$ 22,314,595	20,419,509
Liabilities and net assets		
Accounts payable and accrued expenses	\$ 108,868	117,142
Fellowships, grants and awards payable (note 4)	374,730	359,911
Paycheck Protection Program loan (note 5)	82,516	-
Deferred lifetime dues	8,743,330	8,495,175
Total liabilities	9,309,444	8,972,228
Net assets		
Without donor restrictions	12,879,169	11,325,533
With donor restrictions (note 6)	125,982	121,748
Total net assets	13,005,151	11,447,281
Commitments and contingency (notes 7 through 9)		
Total liabilities and net assets	\$ 22,314,595	20,419,509

See the accompanying notes to the financial statements.

Alpha Omega Alpha Honor Medical Society
Statement of Activities
Year Ended August 31, 2020

	Without donor restrictions	With donor restrictions	Total
Operating revenue and support			
Member dues	\$ 1,675,937	–	1,675,937
Insignia and other	174,528	–	174,528
Contributions	185,206	–	185,206
Net assets released from restrictions (note 6)	4,500	(4,500)	–
Total operating revenue and support	<u>2,040,171</u>	<u>(4,500)</u>	<u>2,035,671</u>
Operating expenses			
Program expenses			
<i>The Pharos</i>	549,418	–	549,418
Student awards	380,263	–	380,263
Leadership program	176,932	–	176,932
Chapter development and other	147,659	–	147,659
Visiting professorships	31,572	–	31,572
Insignia	162,837	–	162,837
Distinguished teacher awards	87,701	–	87,701
Professionalism awards	65,173	–	65,173
Total program expenses	<u>1,601,555</u>	<u>–</u>	<u>1,601,555</u>
Supporting services			
Management and general	542,360	–	542,360
Solicitations	83,297	–	83,297
Total supporting services	<u>625,657</u>	<u>–</u>	<u>625,657</u>
Total operating expenses	<u>2,227,212</u>	<u>–</u>	<u>2,227,212</u>
Change in net assets from operating activities	(187,041)	(4,500)	(191,541)
Nonoperating activities			
Investment return, net (note 3)	1,740,677	8,734	1,749,411
Change in net assets	1,553,636	4,234	1,557,870
Net assets at beginning of year	<u>11,325,533</u>	<u>121,748</u>	<u>11,447,281</u>
Net assets at end of year	<u>\$ 12,879,169</u>	<u>125,982</u>	<u>13,005,151</u>

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 6)	(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 Functional Expenses
Year Ended August 31, 2020

	<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	Total
Salaries, benefits, and taxes \$	313,645	78,091	85,745	97,819	9,539	12,954	25,401	48,697	671,891	262,334	–	262,334	934,225
Solicitations	–	–	–	–	–	–	–	–	–	–	83,297	83,297	83,297
Merchandise	–	–	–	–	–	147,363	–	–	147,363	–	–	–	147,363
Program support	199,423	290,567	83,185	34,335	19,982	–	60,249	10,667	698,408	–	–	–	698,408
Travel	–	–	–	–	–	–	–	–	–	2,030	–	2,030	2,030
Occupancy	23,928	7,639	5,267	10,207	1,350	1,659	1,350	3,824	55,224	22,569	–	22,569	77,793
Fees for service	–	–	–	–	–	–	–	–	–	42,880	–	42,880	42,880
Bank and other fees	–	–	–	–	–	–	–	–	–	77,729	–	77,729	77,729
Office expenses	12,422	3,966	2,735	5,298	701	861	701	1,985	28,669	5,800	–	5,800	34,469
Board expense	–	–	–	–	–	–	–	–	–	67,102	–	67,102	67,102
Technology upgrades	–	–	–	–	–	–	–	–	–	52,847	–	52,847	52,847
Insurance	–	–	–	–	–	–	–	–	–	6,632	–	6,632	6,632
Professional fees	–	–	–	–	–	–	–	–	–	2,437	–	2,437	2,437
Total functional expenses	<u>549,418</u>	<u>380,263</u>	<u>176,932</u>	<u>147,659</u>	<u>31,572</u>	<u>162,837</u>	<u>87,701</u>	<u>65,173</u>	<u>1,601,555</u>	<u>542,360</u>	<u>83,297</u>	<u>625,657</u>	<u>2,227,212</u>

See the accompanying notes to the financial statements.

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

	<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	Total
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
Solicitations	–	–	–	–	–	–	–	–	–	–	83,779	83,779	83,779
Merchandise	–	–	–	–	–	157,573	–	–	157,573	–	–	–	157,573
Program support	241,423	282,898	111,503	105,529	144,689	–	64,166	24,075	974,283	–	–	–	974,283
Travel	–	–	–	–	–	–	–	–	–	6,362	–	6,362	6,362
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
Fees for service	–	–	–	–	–	–	–	–	–	31,963	–	31,963	31,963
Bank and other fees	–	–	–	–	–	–	–	–	–	69,205	–	69,205	69,205
Office expenses	8,993	2,849	2,781	5,201	1,394	857	563	2,141	24,780	10,894	–	10,894	35,674
Board expense	–	–	–	–	–	–	–	–	–	44,501	–	44,501	44,501
Technology upgrades	–	–	–	–	–	–	–	–	–	59,201	–	59,201	59,201
Insurance	–	–	–	–	–	–	–	–	–	7,273	–	7,273	7,273
Professional fees	–	–	–	–	–	–	–	–	–	2,955	–	2,955	2,955
Other	–	–	–	–	–	–	–	–	–	17,916	–	17,916	17,916
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>

See the accompanying notes to the financial statements.

Alpha Omega Alpha Honor Medical Society
Statements of Cash Flows
Years Ended August 31, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Change in net assets	\$ 1,557,870	(693,617)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net realized and unrealized (gains) losses on investments	(1,411,787)	576,732
Amortization of lifetime dues	(427,482)	(396,994)
Receipts of lifetime dues	675,638	761,375
Change in operating assets and liabilities		
Prepaid expenses and other assets	12,502	(4,311)
Accounts payable and accrued expenses	6,545	(20,698)
Net cash provided by operating activities	<u>413,286</u>	<u>222,487</u>
Cash flows from investing activities		
Purchase of investments	(643,124)	(585,170)
Proceeds from sale of investments	175,000	400,000
Net cash used in investing activities	<u>(468,125)</u>	<u>(185,170)</u>
Cash flows from financing activities		
Proceeds from Paycheck Protection Program loan	82,516	-
Net cash provided in financing activities	<u>82,516</u>	<u>-</u>
Increase in cash and cash equivalents	27,677	37,317
Cash and cash equivalents, beginning of year	<u>47,794</u>	<u>10,477</u>
Cash and cash equivalents, end of year	<u>\$ 75,471</u>	<u>47,794</u>

See the accompanying notes to the financial statements.

Alpha Omega Alpha Honor Medical Society

Notes to Financial Statements

August 31, 2020 and 2019

(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(h). 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) Revenue Recognition

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.

Revenue from Contracts with Customers

Memberships payments are received in advance of providing the service and reported as deferred revenue until earned. Management has determined memberships have no contribution element and benefits are received equally over the membership period, which is one year. Therefore, revenue is recognized as it is earned, which is equally over the period of membership. 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. Revenue is recognized for insignia and other sales at the time of the sale.

(j) 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.

(k) 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

(l) 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 2020.

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, 2017.

(m) Subsequent Events

Management has evaluated subsequent events through February 17, 2021, the date the financial statements were available to be issued.

(n) New Accounting Pronouncements

Effective September 1, 2019, AΩA adopted Accounting Standard Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The provisions of ASU No. 2018-08 have been implemented in the accompanying financial statements under a modified prospective method. The adoption of this ASU did not significantly impact AΩA's statements of activities or statements of financial position.

Effective September 1, 2019, AΩA adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using the modified retrospective method. The update supersedes the revenue recognition requirements in *Revenue Recognition (Topic 605)* and requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of Topic 606 did not significantly impact AΩA's statements of activities or statements of financial position; therefore, no cumulative adjustment to beginning net assets was required as a result of adoption.

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:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 75,471	47,794
Operating investments	<u>22,098,427</u>	<u>20,222,750</u>
Financial assets available to meet cash expenditures over the next twelve months	\$ <u>22,173,898</u>	<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 \$125,982 and \$121,748 at August 31, 2020 and 2019, respectively, 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 6. 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>2020</u>	<u>2019</u>
Short-term and money market funds	\$ 548,081	306,168
Equity Funds		
Domestic	5,086,491	9,823,395
International	9,837,334	3,880,510
Bond Funds		
Domestic	6,752,503	5,861,407
International	<u>—</u>	<u>473,018</u>
	\$ <u>22,224,409</u>	<u>20,344,498</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.

Alpha Omega Alpha Honor Medical Society

Notes to Financial Statements, Continued

(3) Investments, Continued

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

	<u>2020</u>	<u>2019</u>
Net realized and unrealized gains (losses)	\$ 1,411,787	(576,732)
Interest and dividends	420,644	419,748
Less investment fees	<u>(83,020)</u>	<u>(84,579)</u>
Net investment return	\$ <u>1,749,411</u>	<u>(241,563)</u>

The following table summarizes AQA's investments by the fair value hierarchy levels as of August 31, 2020:

	<u>Fair Value</u>	Assets Measured at			
		<u>NAV (a)</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term fund and money market funds	\$ 548,081	344,373	203,708	-	-
Mutual funds	<u>21,676,328</u>	<u>-</u>	<u>21,676,328</u>	<u>-</u>	<u>-</u>
Total	\$ <u>22,224,409</u>	<u>344,373</u>	<u>21,880,036</u>	<u>-</u>	<u>-</u>

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

	<u>Fair Value</u>	Assets Measured at			
		<u>NAV (a)</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Short-term fund and money market funds	\$ 306,168	218,261	87,907	-	-
Mutual funds	<u>20,038,330</u>	<u>-</u>	<u>20,038,330</u>	<u>-</u>	<u>-</u>
Total	\$ <u>20,344,498</u>	<u>218,261</u>	<u>20,126,237</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, 2020 and 2019, AQA has no unfunded commitments to the fund.

(4) Fellowships, Grants, and Awards Payable

At August 31, 2020 and 2019, fellowships, grants and awards payable total \$374,730 and \$359,911, respectively, and consist of approved but unpaid second- and third-year awards for various AQA programs, including Student Research, Post Graduate, and Medical Student Leadership awards.

Alpha Omega Alpha Honor Medical Society

Notes to Financial Statements, Continued

(5) Paycheck Protection Program Loan

In June 2020, AΩA received a \$82,516 loan under the U.S. Small Business Administration's (SBA) Paycheck Protection Program (PPP) authorized under the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act). Under the program, this loan may be partially or fully forgiven if certain eligibility requirements are met, including that 60% of the loan must be spent on payroll. The loan is being treated as a refundable advance of a conditional contribution until such time that the loan has been explicitly forgiven by the SBA. At such time that the loan is forgiven, the conditions will be considered met and AΩA will recognize contribution revenue in the amount of the loan forgiveness.

In the case that the loan is not forgiven in its entirety, the outstanding balance is payable in equal amounts required to fully amortize the principal amount outstanding on the note by the maturity date of May 30, 2022. The loan is unsecured, and interest is charged at 1% per annum.

(6) Endowment Funds

At August 31, net assets with donor restrictions are comprised of AΩA's endowment funds which consist of the following:

	<u>2020</u>	<u>2019</u>
Endowments subject to spending policy and appropriation		
Gifts restricted in perpetuity	\$ 115,325	115,325
Unexpended endowment earnings	<u>10,657</u>	<u>6,423</u>
Total net assets with donor restrictions	\$ <u>125,982</u>	<u>121,748</u>

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

	<u>2020</u>	<u>2019</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 AΩA's Visiting Professorship program at the University of Wisconsin. The de Harter Fund will be invested according to AΩA's Investment policy. Up to 4% of the average annual investment return will available for annual distributions. AΩA has agreed to match the annual yield of the gift up to 4% of \$30,000 in the AΩA investment pool.

The Moser Fund was established to issue a recurring Moser Editorial award. The funds are invested under AΩA's investment program described in note 3. At August 31, 2020 and 2019, net assets maintained in perpetuity related to the Moser Fund consist of original contributions plus accumulated earnings and appreciation.

Alpha Omega Alpha Honor Medical Society

Notes to Financial Statements, Continued

(6) Endowment Funds, Continued

AΩA 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, AΩA 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 AΩA's Board in a manner consistent with the standard of prudence prescribed by UPMIFA.

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 2020 and 2019:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
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	<u>(8,567)</u>	<u>8,567</u>	<u>–</u>
Endowment net assets at August 31, 2019	–	121,748	121,748
Investment return, net	–	8,734	8,734
Endowment assets appropriated for expenditure	<u>–</u>	<u>(4,500)</u>	<u>(4,500)</u>
Endowment net assets at August 31, 2020	<u>\$ –</u>	<u>125,982</u>	<u>125,982</u>

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.

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Notes to Financial Statements, Continued

(6) Endowment Funds, Continued

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.

(7) Operating Leases

AΩA leases office space under non-cancelable operating leases that expires over the next two years. Future minimum lease payments at August 31, 2020 are as follows:

2021	\$ 79,195
2022	<u>81,562</u>
	<u>\$ 160,757</u>

Rent expense incurred for the years ended August 31, 2020 and 2019 was \$77,792 and \$202,732, respectively.

(8) 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, 2020 and 2019 was \$69,289 and \$59,639, respectively.

(9) Impact of COVID-19

The COVID-19 pandemic has caused business disruption and economic uncertainties in numerous sectors of the economy. The related financial impact and duration cannot be reasonably estimated at this time. As a precautionary safeguard, AΩA applied for a Paycheck Protection Program loan (see note 5). Management and the Board of Directors continue to monitor and evaluate the situation as it evolves.