

AMERICAN OSTEOPATHIC FOUNDATION
FINANCIAL STATEMENTS
DECEMBER 31, 2022

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT.....	3-4
-----------------------------------	-----

FINANCIAL STATEMENTS

Statements of Financial Position	5
Statements of Activities and Changes in Net Assets	6
Statements of Functional Expenses.....	7-8
Statements of Cash Flows	9
Notes to Financial Statements.....	10-26



INDEPENDENT AUDITORS' REPORT

Board of Directors
American Osteopathic Foundation
Chicago, Illinois

Opinion

We have audited the accompanying financial statements of AMERICAN OSTEOPATHIC FOUNDATION (a nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AMERICAN OSTEOPATHIC FOUNDATION as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of AMERICAN OSTEOPATHIC FOUNDATION and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, AMERICAN OSTEOPATHIC FOUNDATION changed its method of accounting for leases in 2022 as required by the provisions of FASB Accounting Standards Update ASC 842. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about AMERICAN OSTEOPATHIC FOUNDATION's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 AMERICAN OSTEOPATHIC FOUNDATION's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about AMERICAN OSTEOPATHIC FOUNDATION's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Ward & Davis LLP

April 21, 2023

STATEMENTS OF FINANCIAL POSITION

As of December 31	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 857,442	\$ 739,693
Investments, at Fair Value	14,317,308	17,565,304
Contributions Receivable	116,364	121,530
Merchandise Inventory	3,660	—
Other Receivables	7,777	1,526
Prepaid Expenses	32,001	21,404
Total Current Assets	<u>15,334,552</u>	<u>18,449,457</u>
NONCURRENT ASSETS		
Contributions Receivable, Long-Term	742,536	805,085
Property and Equipment, net	5,740	10,824
Operating Lease Right-of-Use Asset, net	85,220	—
Total Noncurrent Assets	<u>833,496</u>	<u>815,909</u>
	<u>\$ 16,168,048</u>	<u>\$ 19,265,366</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Portion of Operating Lease Liability	\$ 71,090	\$ —
Accounts Payable	28,685	21,302
Grants and Scholarships Payable	58,750	56,560
Accrued Expenses	62,838	48,324
Due to American Osteopathic Association (AOA)	51,587	57,511
Deferred Rent	—	2,520
Total Current Liabilities	<u>272,950</u>	<u>186,217</u>
LONG-TERM LIABILITIES		
Deferred Rent	—	4,761
Operating Lease Liability, net	18,526	—
Total Long-Term Liabilities	<u>18,526</u>	<u>4,761</u>
Total Liabilities	<u>291,476</u>	<u>190,978</u>
NET ASSETS		
Without Donor Restrictions	1,038,559	1,505,138
Without Donor Restrictions - Board-Designated	9,671,904	12,034,109
With Donor Restrictions - Time and Purpose	3,340,746	4,078,919
With Donor Restrictions - In Perpetuity	1,825,363	1,456,222
Total Net Assets	<u>15,876,572</u>	<u>19,074,388</u>
	<u>\$ 16,168,048</u>	<u>\$ 19,265,366</u>

AMERICAN OSTEOPATHIC FOUNDATION								
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS								
For the Years Ended December 31	2022				2021			
	Without Donor Restrictions	With Donor Restrictions Time and Purpose Restrictions	In Perpetuity	Total	Without Donor Restrictions	With Donor Restrictions Time and Purpose Restrictions	In Perpetuity	Total
REVENUE								
Support Revenue								
Contributions and Grants	\$ 450,377	\$ 229,356	\$ 212,916	\$ 892,649	\$ 395,508	\$ 383,986	\$ 891,447	\$ 1,670,941
Special Event Revenue	547,500	3,060	156,225	706,785	436,477		49,125	485,602
Special Event In-Kind Contributions	27,343			27,343	43,259			43,259
Donated Services and In-Kind Contributions	7,005			7,005	8,112			8,112
Total Support Revenue	<u>1,032,225</u>	<u>232,416</u>	<u>369,141</u>	<u>1,633,782</u>	<u>883,356</u>	<u>383,986</u>	<u>940,572</u>	<u>2,207,914</u>
Program Service Fees	<u>20,150</u>			<u>20,150</u>				<u>—</u>
Other Revenues and Gains (Losses)								
Grant Refunds	9,448			9,448				—
Investment Income (Loss), net of Fees	(2,050,506)	(697,490)		(2,747,996)	1,306,306	415,418		1,721,724
Product Sales,								
net of Cost of Sales of \$2,278 and \$-0-	2,144			2,144				—
Other Revenue	177			177	217			217
Payroll Protection Program Loan								
and Interest Forgiveness				—	236,846			236,846
Total Other Revenue and Gains (Losses)	<u>(2,038,737)</u>	<u>(697,490)</u>		<u>(2,736,227)</u>	<u>1,543,369</u>	<u>415,418</u>		<u>1,958,787</u>
Total Support, Other Revenue								
and Gains (Losses)	<u>(986,362)</u>	<u>(465,074)</u>	<u>369,141</u>	<u>(1,082,295)</u>	<u>2,426,725</u>	<u>799,404</u>	<u>940,572</u>	<u>4,166,701</u>
NET ASSETS RELEASED FROM RESTRICTION								
Satisfaction of Restrictions	<u>273,099</u>	<u>(273,099)</u>		<u>—</u>	<u>253,603</u>	<u>(253,603)</u>		<u>—</u>
EXPENSES								
Program Services	977,594			977,594	803,152			803,152
Management and General	520,378			520,378	447,963			447,963
Fundraising								
Direct Expenses for Special Event	171,088			171,088	43,788			43,788
Other Fundraising	446,461			446,461	431,105			431,105
Total Expenses	<u>2,115,521</u>			<u>2,115,521</u>	<u>1,726,008</u>			<u>1,726,008</u>
CHANGE IN NET ASSETS	(2,828,784)	(738,173)	369,141	(3,197,816)	954,320	545,801	940,572	2,440,693
Net Assets, Beginning of Year	13,539,247	4,078,919	1,456,222	19,074,388	12,584,927	3,533,118	515,650	16,633,695
NET ASSETS, ENDING	\$ 10,710,463	\$ 3,340,746	\$ 1,825,363	\$ 15,876,572	\$ 13,539,247	\$ 4,078,919	\$ 1,456,222	\$ 19,074,388

STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2022

	Program Services	Supporting Services		Direct Expenses for Special Event	Total
		Management and General	Fundraising		
Salaries	\$ 361,091	\$ 279,996	\$ 199,659	\$	\$ 840,746
Payroll Taxes	25,545	19,808	14,125		59,478
Benefits	46,453	40,966	31,356		118,775
Bank, Credit Card and Processing Fees		747	26,297		27,044
Depreciation and Amortization	3,252	544	1,288		5,084
Special Event Food and Entertainment				136,242	136,242
Filing Fees		9,129			9,129
Equipment Rentals	13,796			4,513	18,309
Grants, Scholarships and Awards	365,607				365,607
Information Technology and Website	35,531	26,687	38,244		100,462
Insurance	1,206	2,242	795	3,064	7,307
Donor Recruitment, Cultivation and Promotion			2,163		2,163
Occupancy	35,624	22,778	20,413		78,815
Office Expenses and Supplies	4,012	7,552	53,900		65,464
Professional Services	51,120	33,713	28,277		113,110
Temporary Labor		2,021	13,930		15,951
Travel and Meetings	34,129	72,555	15,713	27,269	149,666
Miscellaneous Expenses	228	1,640	301		2,169
	\$ 977,594	\$ 520,378	\$ 446,461	\$ 171,088	\$ 2,115,521

See accompanying notes.

STATEMENTS OF FUNCTIONAL EXPENSES (Continued)

For the Year Ended December 31, 2021

	Program Services	Supporting Services		Direct Expenses for Special Event	Total
		Management and General	Fundraising		
Salaries	\$ 270,697	\$ 251,820	\$ 175,876	\$	\$ 698,393
Payroll Taxes	18,851	17,535	12,246		48,632
Benefits	42,944	42,834	34,500		120,278
Bank, Credit Card and Processing Fees		933	24,255		25,188
Depreciation and Amortization	4,133	616	1,603		6,352
Special Event Food and Entertainment				16,500	16,500
Filing Fees		9,148			9,148
Grants, Scholarships and Awards	339,447				339,447
Information Technology and Website	42,373	26,754	39,888		109,015
Insurance	1,513	2,214	2,831		6,558
Interest		3,466			3,466
Donor Recruitment, Cultivation and Promotion			23,278		23,278
Occupancy	32,992	25,750	21,727		80,469
Office Expenses and Supplies	2,968	8,087	13,316	20,279	44,650
Professional Services	41,804	42,111	77,739	7,009	168,663
Temporary Labor		2,881			2,881
Travel and Meetings	5,430	13,589	3,846		22,865
Miscellaneous Expenses		225			225
	\$ 803,152	\$ 447,963	\$ 431,105	\$ 43,788	\$ 1,726,008

See accompanying notes.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
PROVIDED BY OPERATING ACTIVITIES		
Change in Net Assets	<u>\$ (3,197,816)</u>	<u>\$ 2,440,693</u>
Adjustments to Reconcile Change in Net Assets to		
Net Cash Used by Operating Activities		
Depreciation and Amortization	5,084	6,352
Amortization of Operating Lease Right-of-Use Asset	5,693	—
PPP Loan and Interest Forgiveness	—	(236,846)
Noncash PPP Interest Expense	—	1,159
Net Realized and Unrealized (Gains) Losses on Investments	3,035,736	(1,404,754)
Changes in Assets and Liabilities:		
(Increase) Decrease in Contributions Receivable	67,715	(871,215)
Increase in Merchandise Inventory	(3,660)	—
(Increase) Decrease in Other Receivables	(6,251)	163
(Increase) Decrease in Prepaid Expenses	(10,597)	13,555
Increase in Operating Lease Right-of-Use Asset	(90,913)	—
Increase in Accounts Payable	7,383	7,633
Increase in Grants and Scholarships Payable	2,190	10,510
Increase (Decrease) in Accrued Expenses	14,514	(1,313)
Decrease in Due to		
American Osteopathic Association (AOA)	(5,924)	(57,715)
Increase in Operating Lease Liability	89,616	—
Decrease in Deferred Rent	(7,281)	(1,293)
Total Adjustments	<u>3,103,305</u>	<u>(2,533,764)</u>
Net Cash Used by Operating Activities	<u>(94,511)</u>	<u>(93,071)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	—	(9,600)
Purchases of Investments	(245,000)	(13,172,720)
Proceeds from Sales of Investments	779,892	13,726,413
Change in Uninvested Cash in Investment Portfolio	—	162,948
Reinvested Dividends and Interest	(322,632)	(282,129)
Net Cash Provided by Investing Activities	<u>212,260</u>	<u>424,912</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Paycheck Protection Program Loan	—	127,150
Repayment of Economic Injury Disaster Loan	—	(150,000)
Net Cash Used by Financing Activities	<u>—</u>	<u>(22,850)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	117,749	308,991
Cash and Cash Equivalents, Beginning	739,693	430,702
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 857,442</u>	<u>\$ 739,693</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid for Interest	<u><u>\$ —</u></u>	<u><u>\$ 2,996</u></u>

NOTES TO FINANCIAL STATEMENTS

NATURE OF ORGANIZATION

The mission of the American Osteopathic Foundation (the Foundation) is to support programs and services that promote osteopathic medicine and enhance patient centered care. Contributions to the Foundation benefit thousands of osteopathic medical professionals through grants, scholarships, and awards to students, physicians, researchers, and osteopathic programs.

The purposes for which the Foundation is organized are to create, endow, and bestow scholarships, grants and awards to support people, programs and services that promote osteopathic medicine in the areas of education, community service, international humanitarian outreach, osteopathic recognition awards, and research. The Foundation will devote the property, real or personal, tangible or intangible, which it may receive either by gift, bequest, device, or as it may otherwise acquire to exclusively charitable, educational, scientific, literary, and research purposes; and do all things necessary to accomplish said general and specific purposes. No part of the earnings of the Foundation shall inure to the benefit of any member or individual, nor shall the Foundation engage in, nor any of its funds or property be used for, lobbying or otherwise attempting to influence legislation.

The Student Osteopathic Medical Foundation (SOMAF) desired to terminate its existing tax-exempt status as a supporting organization of the Student Osteopathic Medical Association and have the Foundation act as its fiscal sponsor for the purpose of managing its existing funds, soliciting and receiving gifts, overseeing administrative functions, and distributing grants in accordance with the mission and advice of the SOMAF's board of directors. The Foundation's board of directors determined that the SOMAF's purposes align with the Foundation's mission and furthers its charitable goals and tax-exempt purposes and, therefore, entered into a Fiscal Sponsorship Agreement commencing June 1, 2021. The SOMAF was dissolved as an Illinois not-for-profit corporation and filed its final tax return for the fiscal year ended May 31, 2021, and the Foundation adopted the assumed name of Student Osteopathic Medical Association Foundation.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements and notes are representations of management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to nonprofit organizations and have been consistently applied in the preparation of the financial statements.

BASIS OF PRESENTATION

Financial statement preparation follows the requirements of the Financial Accounting Standards Board (the FASB) Codification for "Financial Statements of Not-for-Profit Organizations". Under the standards, the Foundation is required to report information regarding its financial position and activities into two classes of net assets: without donor restrictions and with donor restrictions.

Without donor restrictions - Net assets that are not subject to donor-imposed stipulations plus those resources for which temporarily donor-imposed stipulations have been satisfied. Net assets without donor restrictions may be designated primarily for awards and scholarships by action of the Board of Directors.

NOTES TO FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**BASIS OF PRESENTATION (Continued)**

With donor restrictions - Net assets that are subject to donor-imposed stipulations that may or will be met either by actions of the Foundation (purpose restrictions) and/or the passage of time (time restrictions). As the restrictions are satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the accompanying financial statements as net assets released from restriction. In addition, certain net assets are stipulated by donors to be maintained in perpetuity as endowment funds. Investment income, including realized and unrealized gains and losses, are classified as time restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset are limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions.

USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP 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 revenue and expenses during the reporting period. Actual results may differ from those estimates.

INVESTMENTS

The Foundation follows the provisions of the FASB Codification for accounting for investments held by not-for-profit organizations. This standard requires investments in marketable securities be accounted for at fair value. Fair value is based on quoted market prices. Realized gains and losses are the differences between the proceeds received and the cost of investments sold and unrealized gains and losses are the differences between the fair value and the cost of investments and are included in investment income.

MERCHANDISE INVENTORY

Inventories are valued at the lower of cost or net realizable value using the first-in first-out (FIFO) method. At December 31, 2022, inventories consist of various apparel items. The proceeds and costs of inventory sales are included in product sales on the statements of activities and changes in net assets.

PROPERTY AND EQUIPMENT

Property and equipment purchases of \$3,000 or more are recorded at cost. Depreciation and amortization is calculated on the straight-line method over the estimated useful lives of the assets ranging from 3 years to 5 years. Major renewals and betterments, which extend the useful life of an asset, are capitalized while routine maintenance and repairs are expensed as incurred.

NOTES TO FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**FUNCTIONAL ALLOCATION OF EXPENSES**

The costs of providing the program and support services have been reported on a functional basis in the statements of activities and changes in net assets. Expenses are charged directly to programs, management and general, or fundraising categories based upon specific identification where possible. Accordingly, certain costs have been allocated among the programs and supporting services benefited, based on direct charges or appropriate methods determined by management. These methods include allocation of personnel and any other costs deemed to be related to time and efforts expended by employees on the different functional categories and allocation of occupancy and related costs using space utilization percentages occupied by the various functions.

REVENUE RECOGNITION

A substantial portion of the Foundation's revenue consists of contributions. Contributions with donor restrictions, for which the restriction is satisfied in the same year as received, are recorded as restricted revenue with a corresponding amount released from restriction. The Foundation recognizes unconditional promises to give measured at fair value in accordance with donor restrictions in the period the commitment for support is obtained. Conditional promises to give are recorded when the required conditions have been met.

The Foundation's contributions receivable is composed primarily of contributions committed from various donors for use in the Foundation's activities. The Foundation has not recorded a provision for doubtful accounts since it is the opinion of management that those receivables are fully collectible.

The arrangements to which the revenue recognition standard would be applicable are special event revenues, program service fees, and product sales.

Special event revenue includes registration fees or ticket sales, sponsorships and sales of auction items and the amount equal to the cost of direct benefits to donors is recognized at the point in time the event occurs, or the auction items are sold. The remainder is appropriately recognized as contribution revenue when received. Based on the Foundation's evaluation of its special events contracts with customers, the timing and amount of revenues recognized is consistent with how revenues were previously recognized.

Program service fees consist of one contract to assist in the outreach and recruitment of patients for participation in a medical application study. The performance obligations include continued medical education session hosting, a film coordination, editing and production, and other promotional activities. The revenue under the contract is earned ratably over the six-month term of the agreement. All performance obligations were met during the year ended December 31, 2022 when the revenue was recognized. Payment was required within 30 days of invoice, upon entering into the agreement.

Product sales are recognized as revenue at the time the product is shipped, or otherwise delivered to the customer. Payment is due at the point of sale.

NOTES TO FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**IN-KIND DONATIONS AND VOLUNTEER SUPPORT**

Donated services are recognized as revenue at their estimated fair value when they create or enhance nonfinancial assets or they require specialized skills which would need to be purchased if they were not donated. During the years ended December 31, 2022 and 2021, the Foundation recognized donated accounting services of \$6,000 and \$6,180, respectively. These services are valued based on prevailing hourly rates donated in the Foundation's principal market for the same kind of professional services. These amounts are reflected in the statements of activities and changes in net assets as donated services and in-kind contributions and as professional services expense in the statements of functional expenses. During the years ended December 31, 2022 and 2021, the Foundation also received donated media for special events of \$8,994 and \$7,009, respectively. These donations were recognized at estimated fair value based on quotes from media vendors in the Foundation's principal market. All of the above donations were utilized in the Foundation's supporting activities and special events.

Donated rent abatements consist of waived operating costs and real estate taxes that the lessor charges to the Foundation as part of its lease totaling \$1,005 and \$1,932 for the years ended December 31, 2022 and 2021, respectively.

The rent abatements were valued using the actual, pro-rata operating costs attributable to the Foundation, and forgiven by the lessor. The rent abatements were utilized by the supporting services of the Foundation and are allocated as part of occupancy expense in the statements of functional expenses.

The Foundation also receives items to be sold at its annual auction. These items are monetized and recorded in special event in-kind contributions on the statements of activities and changes in net assets. Donated auction items are valued at the gross selling price received at the Foundation's special event and totaled \$18,349 and \$36,250 for the years ended December 31, 2022 and 2021, respectively.

There were no donor imposed restrictions associated with any of the in-kind donations received for the years ended December 31, 2022 and 2021.

A number of unpaid volunteers and members of the Board of Directors donate their time to ensure success of the Foundation's activities. The value of these services is not reflected in these financial statements since they do not meet the criteria for recognition under the FASB Codification topic related to accounting for contributions received and made.

TAX STATUS

The Foundation is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3) and is similarly classified by the State of Illinois. GAAP require management to evaluate tax positions taken by the Foundation and recognize a tax liability if the Foundation has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities.

NOTES TO FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**NEW ACCOUNTING STANDARDS AND LEASES**

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes existing guidance for accounting for leases under *Topic 840, Leases*. The FASB subsequently issued additional ASUs, which further amend and clarify Topic 842. The most significant change in the new leasing guidance is the requirement to recognize right-of-use (ROU) assets and lease liabilities for operating and financing leases on the statements of financial position.

The Foundation elected to adopt these ASUs effective January 1, 2022 using the modified retrospective effective method, and utilized all of the available practical expedients. The adoption has a material impact on the Foundation's statements of financial position but no significant impact on the statements of activities and changes in net assets. The most significant impact was the recognition of a ROU asset and an operating lease liability. Adoption of the standard resulted in an increase in operating lease ROU asset of \$151,708 and an increase in operating lease liability of \$155,389 at January 1, 2022.

The Foundation determines if an arrangement is a lease or contains a lease at the inception of the contract. The Foundation's operating lease is presented under the captions operating lease ROU asset, current portion of operating lease liability, and long-term portion of operating lease liability.

ROU assets represent the Foundation's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As the Foundation's lease agreement did not provide an implicit rate, in determining the present value of lease payments, management used an incremental borrowing rate based on the information available at the commencement date obtained from a financial institution. The operating lease ROU asset also includes any lease payments made and excludes lease incentives.

The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Foundation will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term and reported in occupancy expense on the statements of functional expenses. The difference between actual lease payments and the straight-line of lease expense, as well as any tenant allowances, were reported as deferred rent on the statements of financial position. As of the adoption date of the lease ASUs, deferred rent is no longer reported on the statements of financial position.

The lease agreements do not contain any material residual value guarantees or material restrictive covenants.

NOTES TO FINANCIAL STATEMENTS

NOTE 2—LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position date, are comprised of the following at December 31:

	<u>2022</u>	<u>2021</u>
Cash	\$ 857,442	\$ 739,693
Investments.....	14,317,308	17,565,304
Contributions Receivable	858,900	926,615
Other Receivables	7,777	1,526
Less: Net Assets Without Donor Restrictions - Board-Designated .	(9,671,904)	(12,034,109)
Less: Net Assets With Donor Restrictions	<u>(5,166,109)</u>	<u>(5,535,141)</u>
	<u>\$ 1,203,414</u>	<u>\$ 1,663,888</u>

Net assets with donor restrictions in perpetuity were subtracted in the above chart as these assets are included in the Foundation's investment portfolio. Additionally, contributions receivable – long-term were included as they also are included in net assets with donor restriction due to their purpose or implied time restriction. Although the Foundation does not intend to spend their board-designated net assets of \$9,671,904 for operating purposes, these amounts could be made available if necessary. As part of its liquidity management plan, the Foundation attempts to maintain sufficient cash to meet current operating needs.

NOTE 3—CONCENTRATIONS OF CREDIT RISK

The Foundation maintains cash with one financial institution, which, at times, may exceed federally insured limits. The Foundation maintains its accounts in a financial institution with high credit standings and has not experienced any losses in such accounts. Thus, management believes the Foundation is not exposed to any significant credit risk on cash.

The Foundation's investments are exposed to various risks such as interest rate, credit and overall market volatility. Due to these risk factors, it is reasonably possible that changes in the fair value of investments will occur in the near term and materially affect the amounts reported in the financial statements.

Credit risk associated with contributions receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from grantors and sponsors supportive of the Foundation's mission.

NOTES TO FINANCIAL STATEMENTS

NOTE 4—INVESTMENTS

Investments at December 31 consisted of the following:

	<u>2022</u>	<u>2021</u>
Mutual Funds:		
Equity Funds		
Stock Market	\$ 5,987,879	\$ 7,537,515
International Stock Market.....	<u>2,462,158</u>	<u>2,910,300</u>
Total Equity Funds.....	<u>8,450,037</u>	<u>10,447,815</u>
Fixed Income Funds		
Federal Money Market Fund	90,927	557,030
Fixed Income Blend	2,465,953	2,800,094
Short-Term	1,000,610	1,098,181
Immediate Term.....	1,445,469	1,676,514
Intermediate Term International Fund	<u>864,312</u>	<u>985,670</u>
Total Fixed Income Funds.....	<u>5,867,271</u>	<u>7,117,489</u>
Total Investments at Fair Value	<u>\$ 14,317,308</u>	<u>\$ 17,565,304</u>
Investment earnings for the years ended December 31:		
Interest and Dividend Income	\$ 322,632	\$ 367,023
Net Realized Gains	32,839	553,944
Net Unrealized Gains (Losses)	(3,068,575)	850,810
Less: Investment Fees	<u>(34,892)</u>	<u>(50,053)</u>
Total.....	<u>\$ (2,747,996)</u>	<u>\$ 1,721,724</u>

NOTE 5—FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The FASB Codification provides a framework for measuring fair value using a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

NOTES TO FINANCIAL STATEMENTS

NOTE 5—FAIR VALUE MEASUREMENTS (Continued)

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2022 and 2021.

Level 1 Fair Value Measurements

Mutual funds are valued at their market values, which are determined daily and are quoted on a national exchange. All Foundation investments are measured at Level 1.

Level 2 Fair Value Measurements

The Foundation has no Level 2 fair value measurements.

Level 3 Fair Value Measurements

The Foundation has no Level 3 fair value measurements.

NOTE 6—CONTRIBUTIONS RECEIVABLE

Contributions receivable represent unconditional promises to give and consist of amounts receivable at December 31:

	<u>2022</u>	<u>2021</u>
Less than One Year	\$ 116,364	\$ 121,530
One to Five Years	451,500	412,715
More than Five Years	<u>345,000</u>	<u>460,000</u>
	912,864	994,245
Less: Discount to Net Present Value	<u>53,964</u>	<u>67,630</u>
Net Pledges Receivable	858,900	926,615
Less Current Portion	<u>116,364</u>	<u>121,530</u>
Long-Term Portion	\$ <u>742,536</u>	\$ <u>805,085</u>

The discount rate used in determining the net present value of unconditional promises to give was 1.55% for each of the years ended December 31, 2022 and 2021. Management believes amounts are fully collectible at December 31, 2022 and 2021, and that no allowance for uncollectible accounts is necessary.

NOTES TO FINANCIAL STATEMENTS

NOTE 7—CONDITIONAL GRANTS PAYABLE

The Foundation has made the following conditional promises to give, totaling \$49,029, for which the expense and obligation are not recorded, since the underlying conditions have not been met by the grantees as of December 31, 2022:

A conditional promise to fund a co-branded grant of \$10,000 was made in the year ended December 31, 2020 for each of the next two years conditional on the co-sponsoring organization contributing matching funds by the end of May each year, in \$5,000 increments. The grant was renewed for a third year in 2021 through 2023. The payment schedule and grant conditions for the second and third years were each modified and a total of \$2,500 remains conditional as of December 31, 2022 in addition to the third year amount of \$10,000.

A \$49,304 co-funded research grant, of which the Foundation is responsible for half of the award was committed in 2020. As of December 31, 2022, \$25,000 was paid by the other grantor and \$9,860 was paid and recognized as an expense by the Foundation when the conditions were met in 2021, thus \$14,791 of the Foundation's share of the award is still conditional on the achievement of certain milestones at December 31, 2022. The grantee had until March, 2021 to complete, which has been extended multiple times to February 3, 2023 when the final payment of \$8,358 was made, leaving \$6,433 as unexpended.

Another co-funded research grant in the amount of \$50,000, of which the Foundation is responsible for half of the award was committed in 2021. In the prior year, \$12,500 was paid by the other grantor and \$12,500 was paid and recognized as an expense by the Foundation as the conditions were met. At December 31, 2022, \$12,500 of the Foundation's share of the award is still conditional on the achievement of certain milestones, which the grantee has until the extended due date of August 31, 2023 to complete.

A co-funded grant of \$10,000 was committed on September 2, 2022 of which the Foundation is responsible for 25% of the award. At December 31, 2022, \$2,500 of the Foundation's share of the award is still conditional on the achievement of certain milestones, which the grantee has until August 31, 2023 to complete.

A co-funded grant of \$6,950 was committed on September 2, 2022 of which the Foundation is responsible for 25% of the award. At December 31, 2022, \$1,738 of the Foundation's share of the award is still conditional on the achievement of certain milestones, which the grantee has until August 31, 2023 to complete.

A co-funded grant of \$20,000 was committed on September 1, 2022 of which the Foundation is responsible for 25% of the award. At December 31, 2022, \$5,000 of the Foundation's share of the award is still conditional on the achievement of certain milestones, which the grantee has until August 31, 2023 to complete.

NOTES TO FINANCIAL STATEMENTS

NOTE 8—PAYROLL PROTECTION PROGRAM AND ECONOMIC IMPACT DISASTER LOANS

On April 12, 2020, the Foundation applied for and was awarded a Payroll Protection Program (PPP) loan from the U.S. Small Business Administration (SBA) of \$107,771. The loan accrues interest at a fixed rate of 1.00% per annum, but payments are not required to begin for six months after the funding of the loan. The loan matures on April 12, 2022. The Foundation is eligible for loan forgiveness up to 100% of the loan, upon meeting certain requirements to the extent of applicable payroll and other covered costs. The amount of loan forgiveness shall be calculated (and may be reduced) in accordance with the requirements of the PPP, including the provisions of Section 1106 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The loan is uncollateralized and is fully guaranteed by the Federal government. On March 23, 2021, the Foundation received notification that its PPP loan of \$107,771 and related accrued interest of \$992 were forgiven. Interest expense for the year ended December 31, 2021 was \$225.

On January 22, 2021, the Foundation applied for and was awarded a second PPP loan from the SBA of \$127,150. The loan accrues interest at a fixed rate of 1.00% per annum, but payments are not required to begin for six months after the funding of the loan. The loan matures on January 22, 2023. The Foundation is eligible for loan forgiveness up to 100% of the loan, upon meeting certain requirements to the extent of applicable payroll and other covered costs. The amount of loan forgiveness shall be calculated (and may be reduced) in accordance with the requirements of the PPP, including the provisions of Section 1106 of the CARES Act. The loan is uncollateralized and is fully guaranteed by the Federal government. On October 21, 2021, the Foundation received notification that its PPP loan of \$127,150 and related accrued interest of \$933 were forgiven.

As permitted under GAAP, the Foundation is treating the possible loan forgiveness as a gain contingency under ASC 450-30. Under this standard, the proceeds from the loan and any accrued interest thereof will remain reported as a liability on the statements of financial position until the federal agency lender legally forgives the loan.

On October 28, 2020, the Foundation applied for and was awarded an Economic Impact Disaster Loan (EIDL) loan from the SBA of \$150,000. The loan accrues interest at a fixed rate of 2.75% per annum, but payments and interest are not required to begin for twenty months after the funding of the loan. The loan matures on October 28, 2050. The loan is collateralized by the Foundation's business assets. The Foundation repaid the EIDL loan and accrued interest of \$2,996 in July 2021. Interest expense for the year ended December 31, 2021 was \$2,308.

Total interest expense on the these loans for the year ended December 31, 2021 was \$3,466.

NOTES TO FINANCIAL STATEMENTS

NOTE 9—BOARD-DESIGNATED NET ASSETS

As of December 31, the board of directors has designated certain net assets without donor restrictions as follows:

	<u>2022</u>	<u>2021</u>
Board-Designated Endowment Funds:		
Grants and Scholarships		
Education.....	\$ 2,145,108	\$ 2,676,043
Community Service Projects	66,557	79,569
Research.....	207,690	246,838
Industry Recognition.....	112,625	81,602
International	<u>969,150</u>	<u>1,172,828</u>
	3,501,130	4,256,880
Program.....	3,370	4,980
Osteopathic Enrichment Fund	<u>6,167,404</u>	<u>7,772,249</u>
Total.....	<u>\$ 9,671,904</u>	<u>\$ 12,034,109</u>

NOTE 10—NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31 are as follows:

	<u>2022</u>	<u>2021</u>
Purpose Restrictions:		
Grants and Scholarships		
Education.....	\$ 2,477,866	\$ 3,162,305
Community Service Projects	177,031	208,186
Research.....	275,923	315,229
Industry Recognition.....	<u>82,175</u>	<u>44,582</u>
	3,012,995	3,730,302
Student Osteopathic Medical Association Foundation	161,659	174,136
Education – Student Loans.....	126,654	127,839
AOF Disaster Relief.....	36,268	43,436
NOMA Health Fair Support	<u>3,170</u>	<u>3,206</u>
Total Purpose and Time Restricted Net Assets.....	<u>\$ 3,340,746</u>	<u>\$ 4,078,919</u>
Donor-Restricted Endowment – In Perpetuity	<u>\$ 1,825,363</u>	<u>\$ 1,456,222</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 10—NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Releases of net assets with donor restriction for the years ended December 31 are as follows:

	<u>2022</u>	<u>2021</u>
Purpose and Time Restrictions:		
Grants and Scholarships		
Education.....	\$ 153,185	\$ 111,664
Community Service Projects	30,469	21,170
Research.....	14,418	67,545
Industry Recognition.....	<u>28,652</u>	<u>31,737</u>
	226,724	232,116
Student Osteopathic Medical Association Foundation.....	44,749	19,881
Education – Student Loans.....	1,185	1,157
AOF Disaster Relief (Int'l)	405	403
NOMA Health Fair Support	<u>36</u>	<u>46</u>
Total Purpose and Time Restricted Net Assets.....	<u>\$ 273,099</u>	<u>\$ 253,603</u>

NOTE 11—DONOR-RESTRICTED AND BOARD-DESIGNATED ENDOWMENTS

The Foundation's endowment includes both, six donor-restricted endowment funds and nineteen funds designated by the board of directors to function as endowments. Net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Donor-restricted endowment funds are to provide grants and scholarships.

INTERPRETATION OF RELEVANT LAW

The board of directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (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, the Foundation retains in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent 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 fund that is not classified as net assets with donor restrictions - in perpetuity, is classified as net assets with donor restrictions - time and purpose, until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

NOTES TO FINANCIAL STATEMENTS

NOTE 11—DONOR-RESTRICTED AND BOARD-DESIGNATED ENDOWMENTS
(Continued)

Endowment net asset composition by type of fund as of December 31, 2022 is as follows:

	Without Donor Restrictions	<u>With Donor Restrictions</u>		Total Endowment Net Assets
		Time and Purpose	In Perpetuity	
Donor-Restricted Endowment Funds	\$ —	\$ 230,498	\$ 1,825,363	\$ 2,055,861
Board-Designated Endowment Funds	<u>9,671,904</u>	<u>—</u>	<u>—</u>	<u>9,671,904</u>
Total Endowment Net Assets	<u>\$ 9,671,904</u>	<u>\$ 230,498</u>	<u>\$ 1,825,363</u>	<u>\$ 11,727,765</u>

Changes in endowment net assets for the year ended December 31, 2022 are as follows:

	Without Donor Restrictions	<u>With Donor Restrictions</u>		Total Endowment Net Assets
		Time and Purpose	In Perpetuity	
Endowment Net Assets, Beginning of Year	\$ 12,034,109	\$ 428,184	\$ 1,456,222	\$ 13,918,515
Investment Return:				
Investment Income	185,690	16,926	—	202,616
Net Depreciation (Realized and Unrealized)	(2,029,260)	(180,056)	—	(2,209,316)
Contributions	—	14,596	369,141	383,737
Appropriation of Endowment Assets for Expenditure	<u>(518,635)</u>	<u>(49,152)</u>	<u>—</u>	<u>(567,787)</u>
Endowment Net Assets, End of Year	<u>\$ 9,671,904</u>	<u>\$ 230,498</u>	<u>\$ 1,825,363</u>	<u>\$ 11,727,765</u>

Endowment net asset composition by type of fund as of December 31, 2021 is as follows:

	Without Donor Restrictions	<u>With Donor Restrictions</u>		Total Endowment Net Assets
		Time and Purpose	In Perpetuity	
Donor-Restricted Endowment Funds	\$ —	\$ 428,184	\$ 1,456,222	\$ 1,884,406
Board-Designated Endowment Funds	<u>12,034,109</u>	<u>—</u>	<u>—</u>	<u>12,034,109</u>
Total Endowment Net Assets	<u>\$ 12,034,109</u>	<u>\$ 428,184</u>	<u>\$ 1,456,222</u>	<u>\$ 13,918,515</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 11—DONOR-RESTRICTED AND BOARD-DESIGNATED ENDOWMENTS
(Continued)

Changes in endowment net assets for the year ended December 31, 2021 are as follows:

	Without Donor Restrictions	<u>With Donor Restrictions</u>		Total Endowment Net Assets
		Time and Purpose	In Perpetuity	
Endowment Net Assets, Beginning of Year	\$ 11,135,648	\$ 268,900	\$ 515,650	\$ 11,920,198
Investment Return:				
Investment Income	214,728	16,606	—	231,334
Net Appreciation (Realized and Unrealized)	951,643	73,596	—	1,025,239
Contributions	—	106,517	940,572	1,047,089
Appropriation of Endowment Assets for Expenditure	<u>(267,910)</u>	<u>(37,435)</u>	<u>—</u>	<u>(305,345)</u>
Endowment Net Assets, End of Year	<u>\$ 12,034,109</u>	<u>\$ 428,184</u>	<u>\$ 1,456,222</u>	<u>\$ 13,918,515</u>

FUNDS WITH DEFICIENCIES

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2022 and 2021.

RETURN OBJECTIVES AND RISK PARAMETERS

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period, as well as board-designated funds. Under these policies, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the respective benchmarks for the different asset classes provided for in the Foundation's investment policy. These asset classes include equities (large-cap value and growth U.S.-traded stocks, developed foreign market equities, and emerging market equities), and fixed-income investments (intermediate duration taxable bonds). The primary objective is to generate investment returns (interest, dividends, and capital gains) to fund the Foundation's programs. The target return is 4 percent over inflation annually, as measured by the Consumer Price Index over a market cycle (five to seven years). Actual returns in any given year may vary from this amount. The secondary objective is to preserve the present and future capital of the endowment over a complete market cycle and to generate a long-term rate of return in order to increase the purchasing power of the Foundation's assets.

NOTES TO FINANCIAL STATEMENTS

NOTE 11—DONOR-RESTRICTED AND BOARD-DESIGNATED ENDOWMENTS
(Continued)**STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES**

To satisfy its long-term rate-of-return objectives, the Foundation 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). The projected returns of the various asset classes are considered, along with the volatility of these returns and the downside risk associated with equities, REITs, fixed-income investments, and alternative investment hedgefunds.

SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE TO SPENDING POLICY

The Foundation has a policy of appropriating for distribution each year no greater than 5 percent of its endowment fund's average fair value over the prior 20 consecutive quarters immediately preceding the current fiscal year end. The first 1 percent of the distribution will be allocated to the general fund to assist with operating expenses and up to 4% may be distributed for program spending. Fund spending may, though, be outside of the above-mentioned expenditure amount as agreed to by the board. In establishing this policy, the Foundation considered the long-term expected return on its endowment, the objective of preservation of capital, and strategic spending objectives.

NOTE 12—EMPLOYEE BENEFIT PLAN

The Foundation's employees are covered under AOA's (American Osteopathic Association) 401(k) defined contribution plan (the "Plan"). The Plan covers substantially all employees, and participants can elect to have up to 100 percent of their salaries contributed to the Plan subject to IRS limitations. The Foundation contributes 4 percent of each participant's salary to the Plan on an annual basis, as well as matches 50 percent of the first 6 percent contributed by the participant. Plan contributions by the Foundation totaled \$47,120 and \$46,731 for the years ended December 31, 2022 and 2021, respectively.

NOTE 13—TRANSACTIONS WITH AFFILIATE

As of December 31, 2022 and 2021, the outstanding payable to AOA for administrative services provided during the years was \$75,660 and \$57,511, respectively. Administrative services provided by AOA included support services, postage, information technology, and other costs incurred on behalf of the Foundation. The reimbursement billings for such services for the years ended December 31, 2022 and 2021 was \$141,763 and \$138,817, respectively, including office rental from AOA (see Note 14). Contributions from AOA were \$95,060 for 2022 and \$77,913 for 2021. Additionally, AOA's payroll service processes the Foundation's payroll, which is paid out of AOA's bank account. The Foundation subsequently repays AOA and these repayments totaled \$1,004,485 and \$867,928 for 2022 and 2021, respectively.

NOTES TO FINANCIAL STATEMENTS

NOTE 14—LEASES

The Foundation entered into a 5-year lease agreement with AOA for office space located in Chicago, Illinois commencing April 1, 2019 and expiring March 31, 2024. The lease includes remodeling allowance of \$8,000 and calls for base rent payments of \$69,939 per annum with annual increases. The base monthly rentals range from \$5,828 to \$6,237 over the term of the lease.

Lease expense consists of a fixed base rent, plus a variable component, which includes operating expenses and real estate taxes.

The components of lease expense included in operating expenses are comprised of the following for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Fixed Lease Cost.....	\$ 74,029	\$ 72,393
Variable Operating Lease Expense	<u>4,237</u>	<u>7,313</u>
Total Operating Lease Cost (Rent).....	<u>\$ 78,266</u>	<u>\$ 79,706</u>

When the lease ASUs (*Topic 842*) were adopted on January 1, 2022, the lease ROU asset and liability were calculated utilizing the Foundation's incremental borrowing rate, which is a rate quoted by a financial institution for the Foundation to borrow on a collateralized basis over a similar term an amount equal to the remaining lease payments. This rate of 6% per annum was used in the calculations at January 1, 2022, in accordance with the Foundation's elected policy. As of December 31, 2022 the ROU assets and the lease liability balances are as follows:

Operating Lease Right-of-Use Asset	<u>\$ 85,220</u>
Operating Lease Liability	89,616
Less Current Portion	<u>71,090</u>
Long-Term Portion	<u>\$ 18,526</u>
Weighted-Average Remaining Lease Term (Years)	1.25
Weighted Average Discount Rate.....	6.00%

Cash Paid for Amounts Included in Measuring Operating
Lease Liability for the Year Ended December 31, 2022:

Operating Cash Flows from Operating Lease.....	<u>\$ 81,150</u>
--	------------------

Future minimum lease payments of the operating lease are as follows:

Year Ending December 31:

2023	\$ 74,540
2024	<u>18,712</u>
	93,252
Less: Discount to Net Present Value	<u>3,636</u>
Present Value of Lease Liability.....	<u>\$ 89,616</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 15—RELATED PARTY TRANSACTIONS

During the years ended December 31, 2022 and 2021, the Foundation received contributions from board members and board member foundations totaling \$193,520 and \$1,113,967, respectively.

NOTE 16—RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform with current year financial statement presentation without any impact to change in net assets and net assets.

NOTE 17—SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 21, 2023, the date which the financial statements were available for issue. Other than as previously disclosed elsewhere, there were no subsequent events which require disclosure.