

**DELAWARE ACADEMY OF MEDICINE, INC.
& SUPPORTING ORGANIZATIONS**

CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED DECEMBER 31, 2018
WITH COMPARATIVE TOTALS FOR 2017**

WITH INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Delaware Academy of Medicine, Inc.
& Supporting Organizations
Newark, Delaware

We have audited the accompanying consolidated statement of financial position of the Delaware Academy of Medicine, Inc. & Supporting Organizations ("the Academy") as of December 31, 2018, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Delaware Academy of Medicine, Inc. & Supporting Organizations as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in the notes to the consolidated financial statements, the Academy adopted the new accounting guidance required by Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU requirements changed its classification of net assets and enhanced its disclosures about net assets, expenses, and liquidity. The change in accounting principles has been applied retrospectively to the prior period information presented. Our opinion is not modified with respect to this matter.

Other Matter

We have previously audited the Academy's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 8, 2018. In our opinion, except as discussed in Note 17, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Certified Public Accountants

June 26, 2019
Wilmington, Delaware

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 WITH COMPARATIVE TOTALS FOR 2017

Assets	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 42,280	\$ 52,029
Accounts receivable	35,756	24,653
Prepaid expenses	-	2,611
Investments - unrestricted	393,171	524,426
Total current assets	<u>471,207</u>	<u>603,719</u>
PROPERTY AND EQUIPMENT		
Net of accumulated depreciation	<u>294,473</u>	<u>275,888</u>
OTHER ASSETS		
Student loans receivable - net of allowance for doubtful accounts	311,388	378,576
Charitable trusts - supporting organizations	4,897,218	5,438,067
Investments - temporarily restricted	1,460,751	1,464,879
Collections - archives	-	-
Total other assets	<u>6,669,357</u>	<u>7,281,522</u>
Total Assets	<u><u>\$ 7,435,037</u></u>	<u><u>\$ 8,161,129</u></u>
Liabilities and Net Assets		
CURRENT LIABILITIES		
Accounts payable	\$ 7,291	\$ 12,314
Total liabilities	<u>7,291</u>	<u>12,314</u>
NET ASSETS		
Without Donor Restrictions		
Operating	25,405	103,234
Property and equipment, net	294,473	275,888
	<u>319,878</u>	<u>379,122</u>
With Donor Restrictions	<u>7,107,868</u>	<u>7,769,693</u>
	<u>7,427,746</u>	<u>8,148,815</u>
Total Liabilities and Net Assets	<u><u>\$ 7,435,037</u></u>	<u><u>\$ 8,161,129</u></u>

See accompanying notes

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2018 WITH COMPARATIVE TOTALS FOR 2017

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2018	2017
REVENUE AND OTHER SUPPORT				
Contributions	\$ 43,015	\$ -	\$ 43,015	\$ 8,036
Membership dues	6,010	-	6,010	3,845
Conference income	77,319	-	77,319	54,456
Contract services	11,149	-	11,149	-
Grant income	11,175	20,000	31,175	109,515
Sublet income	7,190	-	7,190	7,001
Student loan interest	-	9,407	9,407	11,783
Investment income, net	5,816	88,359	94,175	55,936
Realized gain on sale of investments	38,979	339,576	378,555	131,077
Unrealized gain on investments	(36,514)	(854,350)	(890,864)	921,868
Net assets released from restrictions	264,817	(264,817)	-	-
Total revenues and other support	428,956	(661,825)	(232,869)	1,303,517
EXPENSES				
Programs	429,053	-	429,053	406,022
Management and general	47,074	-	47,074	44,230
Fundraising	12,073	-	12,073	12,124
Total expenses	488,200	-	488,200	462,376
CHANGE IN NET ASSETS	(59,244)	(661,825)	(721,069)	841,141
NET ASSETS, BEGINNING OF YEAR, as restated	379,122	7,769,693	8,148,815	7,307,674
NET ASSETS, END OF YEAR	<u>\$ 319,878</u>	<u>\$ 7,107,868</u>	<u>\$ 7,427,746</u>	<u>\$ 8,148,815</u>

See accompanying notes

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018 WITH COMPARATIVE TOTALS FOR 2017

	2018						2017
	Program Services						
	Community Education & Resources	Student Financial Aid	Total Programs	Management and General	Fundraising	Total	Summarized Total
Salaries	\$ 186,347	\$ 9,808	\$ 196,155	\$ 30,357	\$ 7,006	\$ 233,518	\$ 238,938
Employee benefits	32,570	1,714	34,284	5,306	1,224	40,814	35,665
Payroll taxes	13,675	720	14,395	2,228	514	17,137	17,328
Total salaries and related expenses	232,592	12,242	244,834	37,891	8,744	291,469	291,931
Archivist expenses	14,120	-	14,120	-	-	14,120	5,859
Bank and credit card fees	1,619	4,904	6,523	-	-	6,523	2,304
Conference expenses	18,862	-	18,862	-	3,329	22,191	22,447
Depreciation	10,982	-	10,982	-	-	10,982	10,531
Dues and publications	524	-	524	-	-	524	1,441
Equipment lease	3,153	-	3,153	-	-	3,153	5,828
Information technology	11,005	-	11,005	-	-	11,005	10,812
Insurance	3,391	-	3,391	1,130	-	4,521	8,561
Marketing and outreach	177	-	177	-	-	177	1,894
Office lease expense	29,168	-	29,168	3,241	-	32,409	30,460
Office supplies	8,651	-	8,651	-	-	8,651	3,383
Postage	288	-	288	-	-	288	905
DPHA	5,138	-	5,138	-	-	5,138	2,605
Professional fees	45,680	-	45,680	2,410	-	48,090	43,549
Program support	17,739	-	17,739	-	-	17,739	14,817
Telephone expense	2,403	-	2,403	2,402	-	4,805	2,187
Training and education	3,482	-	3,482	-	-	3,482	1,034
Travel expense	2,933	-	2,933	-	-	2,933	1,828
Total expenses	\$ 411,907	\$ 17,146	\$ 429,053	\$ 47,074	\$ 12,073	\$ 488,200	\$ 462,376

See accompanying notes

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2018 WITH COMPARATIVE TOTALS FOR 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (721,069)	\$ 841,141
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	10,982	10,531
Realized gain on investments	(378,555)	(131,077)
Unrealized (gain) loss on investments	890,864	(921,868)
Investment fees netted with income	16,344	19,166
Change in current assets and liabilities:		
(Increase) decrease in accounts receivable	(11,103)	24,687
Decrease in prepaid expenses	2,611	189
Decrease in accounts payable	(5,023)	(9,219)
Net cash used in operating activities	<u>(194,949)</u>	<u>(166,450)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Issuance of new student loans	(77,000)	(60,000)
Collections on student loans	144,188	117,212
Purchase of equipment	(29,567)	(1,131)
Purchase of investments	(281,837)	(160,858)
Proceeds from sale of investments	429,416	312,225
Net cash provided by investing activities	<u>185,200</u>	<u>207,448</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(9,749)	40,998
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>52,029</u>	<u>11,031</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 42,280</u></u>	<u><u>\$ 52,029</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ -</u>	<u>\$ -</u>
Cash paid during the year for taxes	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 - ORGANIZATION

Delaware Academy of Medicine, Inc. & Supporting Organizations (the “Academy”) is a not-for-profit organization founded in 1930 for the purpose of enhancing the well-being of the community through medical education and the promotion of public health. The Academy serves as the trusted source of high quality medical information and education in the state. In November 2013, the Academy was granted affiliate status by the American Public Health Association, allowing the Academy and its members to work more efficiently in the spheres of public health and engage with hospitals, health systems, and state agencies for education and programs.

The Academy’s major programs include:

Community Education & Resources

Navigating the constantly changing health care landscape can be a challenge for patients. In this environment, offering credible, unbiased, and reliable medical education becomes paramount. The Academy offers *Mini-Medical School* programs, which are a free six-week lecture series offered for adults of all ages and high school students to learn about important trends in medicine and health. Faculty will provide in-depth lectures on important issues and advances in medicine and research. Participants can ask questions after each lecture. There are no tests or grades and no previous medical training is required. The Academy also organizes the Medical Lecture Series held at the Osher Academy of Life Long Learning, University of Delaware for spring and fall semester.

The Academy is also a partner with the Christiana Care Health System for the Chronic Kidney Disease study; partner with the Delaware Stroke Initiative for their annual clinical stroke conference as well as consumer focused offerings; partner with the Delaware Division of Public Health and Social Services for the Delaware Medical Orders for Scope of Treatment (“DMOST”) end of life education program.

Professional Services

The Academy encourages scientific research, public health education and intervention, and professional excellence. As a member benefit, membership includes high-quality medical education programs which often offers the opportunity to earn the appropriate CME.

Student Financial Aid

The Academy’s Student Financial Aid program was established in 1961 to help promote the study of medicine and dentistry. Since that time, nearly 1,200 students have received more than \$1.85 million in loans. These funds are made available through special endowments of the Academy, which have been restricted for this specific purpose.

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1 – ORGANIZATION (CONTINUED)

History and Archives

Since 1930, the Delaware Academy of Medicine has been collecting materials to preserve the history of medicine, dentistry, nursing, and the health professions in Delaware. This collection has grown into the Delaware Academy of Medicine Archive of History of Medicine and Dentistry (the “Archive”). The Archive now holds books, and journals, medical and dental instruments, furniture, photographs, records of Delaware medical societies, including the Academy itself, personal papers of and biographical information about members of the Delaware medical community, and paintings, sculptures, and other art works.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The consolidated financial statements of the Academy are prepared on the accrual basis of accounting. In accordance with the accrual basis of accounting, revenue is recognized when earned and expenditures are recognized when incurred.

Financial Statement Presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Academy considers all unrestricted highly liquid investments with an original maturity of three months or less to be cash equivalents. Money market funds held by the trustee in trust accounts are not considered cash or cash equivalents for financial statement purposes.

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables - Grants and Other

Grants receivable consists primarily of contracts and reimbursements. Due to the nature of the receivables, they are all considered to be collectible within one year, and therefore, no allowance for uncollectible accounts has been established.

Receivables - Student Loans

Receivables for student loans made are recorded as loans are issued and allowances are provided for amounts estimated to be uncollectible. On an annual basis, management reviews the adequacy of the allowance and makes adjustments as needed.

Promises to Give

Unconditional promises to give are recognized as revenue or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Property and Equipment

Property and equipment with an estimated useful life in excess of one year are recorded at cost, if purchased, and at fair market value, if donated. The Academy follows the practice of capitalizing all expenses for property and equipment in excess of \$1,000. Maintenance, repairs and minor renewals are charged directly to expense as incurred. Additions and betterments to property and equipment are capitalized.

When assets are disposed of, the related cost and accumulated depreciation thereon are removed from the accounts, and any resulting gain or loss is included in the consolidated statements of activities and changes in net assets. Property and equipment is depreciated over its estimated useful life as follows:

Furniture	5 – 10 years
Equipment and improvements	5 – 10 years
Leasehold improvements	40 years

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Assets

Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair values at the date of donation. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose.

Donated Property and Equipment

Donations of property and equipment are recorded as revenue and capitalized at their estimated fair value at the date of donation. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose.

Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as revenue with donor restrictions.

Donated Services

No amounts have been reflected in the consolidated financial statements for donated services. However, individuals volunteer their time and perform a variety of tasks that assist the Academy with specific assistance programs. No amounts have been reflected in the consolidated financial statements for these donated services since the volunteers' time does not meet the criteria for recognition under the generally accepted accounting principles.

Fair Value Hierarchy

FASB ASC 820-10 establishes a fair value hierarchy and specifies that a valuation technique used to measure fair value shall maximize the use of observable inputs and minimize the value of unobservable inputs. The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The hierarchy consists of three broad levels:

Level 1 - Observable inputs such as quoted market prices in active markets for identical assets or liabilities.

Level 2 - Observable market-based inputs or unobservable inputs that are corroborated by market data, or prices in markets that are not considered active.

Level 3 - Unobservable inputs for which there is little or no market data, which require the use of the reporting entity's own assumptions.

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Collectibles

The Archive collections, which were acquired through contributions since the Academy's inception, are not recognized as assets on the consolidated statements of financial position. Contributed collection items are not reflected on the consolidated financial statements. Proceeds from sales or insurance recoveries are reflected as increases in the appropriate net asset classes.

Contributions, Support and Revenue

Revenue and other support are reported as increases in net assets without donor restriction unless the use of the related assets is limited by donor-imposed restrictions. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as releases from net assets with donor restriction to net assets without donor restriction. Expenses are reported as decreases in net assets without donor restriction. Restrictions on gifts of long-lived assets and cash restricted for the acquisition of long-lived assets expire when the assets are placed in service. Gains and losses on investments are reported as increases or decreases within the net asset class to which they relate.

Advertising Costs

Advertising costs are generally charged as expense to the appropriate program when incurred. Amounts incurred for program marketing for the years ended December 31, 2018 and 2017 were \$177 and \$1,894, respectively.

Income Tax Status

The Academy is a non-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, and has been classified as an organization that is not a private foundation under Section 509(a)(2). It is primarily a publicly supported organization and contributions made to the Academy qualify as a deductible charitable contribution under Section 170(b)(1)(A). The Academy's income tax status is a privilege, which can be revoked by the IRS.

Principles of Consolidation

The financial statements of Delaware Academy of Medicine, Inc. have been consolidated with its supporting organizations (see Note 7) and presented as Delaware Academy of Medicine, Inc. & Supporting Organizations. All intercompany accounts and transactions which appear in the records of both Delaware Academy of Medicine, Inc. and its supporting organizations are eliminated in the consolidation.

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Management Estimates

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

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and changes in net assets and of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Comparative Consolidated Financial Statements

The consolidated financial statements include certain prior-year summarized comparative information, which has been reported in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Academy's consolidated financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Change in Accounting Principle

The Academy has adopted the new accounting guidance required by generally accepted accounting principles from Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This adoption has changed its classification of net assets and enhanced its disclosures about net assets, expenses, and liquidity. The change in accounting principle has been applied retrospectively to the prior period presented.

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 3 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	\$	42,280
Accounts receivable		35,756
Investments - unrestricted		393,171
	\$	<u>471,207</u>

The Academy's endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is limited to the specific purpose of providing financial aid, in the form of loans, to Delaware residents studying in the field of medicine and dentistry, and assistance with operational expenses. Donor-restricted endowment funds are not available for general expenditures.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31:

	<u>2018</u>	<u>2017</u>
Furniture and equipment	\$ 132,512	\$ 102,945
Leasehold improvements	<u>380,194</u>	<u>380,194</u>
Total	512,706	483,139
Less: accumulated depreciation	<u>218,233</u>	<u>207,251</u>
Property and equipment, net	<u>\$ 294,473</u>	<u>\$ 275,888</u>

Depreciation expense during the years ended December 31, 2018 and 2017 was \$10,982 and \$10,531, respectively.

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 5 – INVESTMENTS

The Academy's investments consist of investments that are available for general operations and investments that are restricted in purpose by the donor. The investments are managed by independent investment advisors, Brown Advisory, in compliance with established board investment policies and restrictions placed upon the funds by donors.

The following investments are recognized and disclosed at their fair market value in the consolidated statements of financial position. The fair market value of these investments is based on quoted market prices for identical investments in an active market. All are considered Level 1 as defined by FASB ASC 820-10.

Description	2018		2017	
	Cost	Fair Market Value	Cost	Fair Market Value
Money Market Funds	\$ 29,588	\$ 29,588	\$ 28,673	\$ 28,673
Equities and Other	1,086,998	1,309,398	1,052,267	1,408,334
Fixed Income	531,608	514,936	552,220	552,298
Total Investments:	<u>\$ 1,648,194</u>	<u>\$ 1,853,922</u>	<u>\$ 1,633,160</u>	<u>\$ 1,989,305</u>
Investments:				
Without donor restrictions		\$ 393,171		\$ 524,426
With donor restrictions		1,460,751		1,464,879
Total Investments:		<u>\$ 1,853,922</u>		<u>\$ 1,989,305</u>

NOTE 6 – STUDENT LOANS

The Academy's student financial aid committee reviews applicants, determines the number of loans and amount of loans to issue each year to students pursuing a medical degree. The committee also determines the interest rate, which cannot exceed the prime rate + 5%, but will vary slightly based on the years of repayment selected by the borrower and the year the loan was issued.

The committee reviews the program regularly and considers the allowance for doubtful accounts reasonable.

	2018	2017
Student loans receivable	\$ 334,324	\$ 401,512
Allowance for bad debts	(22,936)	(22,936)
Student loans receivable - net	<u>\$ 311,388</u>	<u>\$ 378,576</u>
Interest income	<u>\$ 9,407</u>	<u>\$ 11,783</u>

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 7 – SUPPORTING ORGANIZATIONS

The Academy is supported by the Carpenter Trust for the Delaware Academy of Medicine (Carpenter Trust) and the Preston Charitable Trust for the Delaware Academy of Medicine (Preston Trust). The Trusts exist to support the operations of the Academy and both Trusts have been determined to be Type I Supporting Organizations under IRC Section 509(a)(3). The Trusts and the Academy are under common control, accordingly the financial statements of these organizations have been consolidated.

The Carpenter Trust was established by the donor in order to provide funding for the Academy's medical student loan program. A portion of the Preston Trust is used for student loans. Upon repayment of the loans, the principal is due back to the Trusts. This receivable and related liability were eliminated during consolidation and, accordingly, do not appear on the consolidated statements of financial position. As of December 31, the Academy owed the Trusts as follows:

	<u>2018</u>	<u>2017</u>
Amounts due to the Trusts from the Academy student loan program:		
Carpenter Trust	\$ 265,665	\$ 304,387
Preston Trust	37,846	50,753
Total due to the trusts	<u>\$ 303,511</u>	<u>\$ 355,140</u>

The Preston Trust is also to be used to help fund the Academy's general operations and provides for a monthly transfer to the Academy's operating account. The amounts transferred to the Academy for the years ended December 31, 2018 and 2017 were \$235,915 and \$209,895, respectively. The income to the Academy and related expense of the Trust were eliminated during consolidation, and accordingly, do not appear on the consolidated statements of activities and changes in net assets.

The investment value within the Trusts (see Note 8) consisted of the following as of December 31:

	<u>2018</u>	<u>2017</u>
Fair market value of investments held by the Trusts:		
Carpenter Trust	\$ 235,725	\$ 195,714
Preston Trust	4,661,493	5,242,353
Total supporting organizations	<u>\$ 4,897,218</u>	<u>\$ 5,438,067</u>

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 8 –NET ASSETS

Net assets were restricted for the following purposes, as of December 31:

	<u>2018</u>	<u>2017 (Restated)</u>
Financial assistance to students in the study of medicine	\$ 673,285	\$ 677,651
DMOST program	47,904	75,086
Funds for the Lewis B. Flinn Library	398,637	412,030
Capital improvements	<u>787,313</u>	<u>811,719</u>
	1,907,139	1,976,486
Carpenter Trust for the benefit of the DE Academy of Medicine	501,390	500,101
Preston Charitable Trust for the Benefit of DE Academy of Medicine	<u>4,699,339</u>	<u>5,293,106</u>
Net assets with donor restrictions	<u><u>\$ 7,107,868</u></u>	<u><u>\$ 7,769,693</u></u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended December 31, 2018:

Distribution from Trust	\$ 216,635
Flinn for seminars	1,000
DMOST program	<u>47,182</u>
	<u><u>\$ 264,817</u></u>

NOTE 9 – ENDOWMENT ASSETS

The Academy's endowment consists of individual donor-restricted trusts established for various purposes. Net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Academy has interpreted the guidance issued by the Financial Accounting Standards Board (FASB) as requiring the preservation of the fair value of the original gift as of the date of the gift of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

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NOTE 9 – ENDOWMENT ASSETS (CONTINUED)

As a result of this interpretation, the Academy classifies the following as net assets with perpetual donor restrictions:

1. the original value of gifts donated to the permanent endowment;
2. the original value of subsequent gifts to the permanent endowment;
3. 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.

In accordance with the Delaware-enacted version of the Uniform Prudent Management of Institutional Funds Act, the Academy considers the following factors in making a determination to appropriate donor-restricted endowment funds:

1. the duration and preservation of the fund;
2. the Academy's mission and purpose supported by the donor-restricted endowment fund;
3. general economic conditions;
4. the possible effect of inflation and deflation;
5. the expected total return from income and the appreciation of investments;
6. the Academy's other resources; and,
7. the investment policies of the Academy.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the historical value of the gift. In accordance with FASB ASC 958-205, the fair value of invested assets assigned to the individual donor-restricted endowment net asset balances required to be maintained in perpetuity had no deficiencies at December 31, 2018 and 2017, respectively. Such deficiencies, if any, may result from unfavorable market fluctuations that occur after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

The Academy has adopted investment and spending policies for endowment and endowment-like 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 Academy must hold in perpetuity or for a donor-specified period(s) as well as Board-designated funds.

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NOTE 9 – ENDOWMENT ASSETS (CONTINUED)

Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to maintain the level of financial support currently provided while assuming a moderate level of investment risk. The Academy expects its endowment funds, over time, to provide an average rate of return in excess of the annual draw. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Academy 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 Academy targets a strategic asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

NOTE 10 – SUBLET INCOME

In order to reduce occupancy costs and encourage collaboration, the Academy sublets office space to other like-minded medical associations and organizations. Lease terms are for 12 months with renewable options. Leases call for a base annual rent of \$8.879 per square foot of office space, paid in monthly installments, with additional charges for phone, internet, and copier charges. Sublet income for the years ended December 31, 2018 and 2017 was \$7,190 and \$7,001, respectively.

NOTE 11 – DEFERRED COMPENSATION PLAN

The Academy offers a defined contribution plan created in accordance with Internal Revenue Code Section 403(b) and an employer sponsored non-qualified deferred compensation plan, where participation in the plan is optional. The Academy will contribute 4% of compensation for employees who meet the eligibility requirements. Accordingly, total expense charged to operations for the years ended December 31, 2018 and 2017 were \$9,341 and \$9,613 respectively.

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NOTE 12 – INVESTMENT INCOME

Investment income, gains, and losses for the Academy were recorded in the consolidated statements of activities and changes in net assets as follows for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Investment Income		
Bank account interest	\$ -	\$ 43
Dividends reinvested - Academy	27,258	18,242
Dividends reinvested - Trusts	83,259	56,817
Investment fees	(16,342)	(19,166)
Total investment income	<u>\$ 94,175</u>	<u>\$ 55,936</u>
Realized Gains		
Gains from sale of investments - Academy	\$ 52,917	\$ 25,722
Gains from sale of investments - Trusts	325,638	105,355
Total realized gains	<u>\$ 378,555</u>	<u>\$ 131,077</u>
Unrealized Gains (Losses)		
Changes in market value - Academy	\$ (138,623)	\$ 264,667
Changes in market value - Trusts	(752,241)	657,201
Total unrealized gains (losses)	<u>\$ (890,864)</u>	<u>\$ 921,868</u>

NOTE 13 – LEASE ARRANGEMENTS AS LESSEE

The Academy entered into a lease for office space at Christiana Hospital in November 2006 for a 10 year period with 4 renewable options. The lease was renewed on October 25, 2018, and is effective through 2026. The lease payments consist of base rent and an allocation of operating costs which is adjusted annually. Monthly base lease payments in 2018 were \$2,551 and total rent expense was \$32,409 and \$30,460 for the years ended December 31, 2018 and 2017, respectively.

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NOTE 14 – CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Academy to significant concentrations of credit risk are principally cash balances, marketable securities, major donors and student loan balances.

a. Cash Balances

The Academy, in the ordinary course of business, maintains cash balances in various financial institutions. The balances in all accounts held at each financial institution are added together, and any totals over the Federal Deposit Insurance Corporation (FDIC) limit of \$250,000 are considered uninsured. At times, balances may exceed insured limits; however, management does not feel it is exposed to any significant credit risk with respect to uninsured balances maintained at financial institutions.

b. Marketable Securities

The Academy maintains marketable securities with a brokerage firm located in the United States which is insured by the Securities Investor Protection Corporation (SIPC) up to \$500,000, which includes a \$250,000 limit for cash. At times, balances may exceed insured limits; however, management does not feel it is exposed to any significant credit risk with respect to uninsured balances maintained at the brokerage firm.

NOTE 15 – FUNCTIONALIZED EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated on the basis of estimated time and effort include salaries and wages, benefits, payroll taxes, professional services, occupancy, office, insurance, public relations, and travel.

NOTE 16 – COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are outstanding various commitments and contingencies in addition to the normal purchases of goods and services. The Academy does not anticipate losses as a result of these commitments and contingencies.

The Preston Trust has committed \$100,000 to a private equity investment. \$25,283 of this balance was funded as of December 31, 2018. The remaining commitment is expected to be called down over the next few years.

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NOTE 17 – PRIOR PERIOD ADJUSTMENT

The Academy has restated its financial statements as of and for the year ended December 31, 2017. Due to a clarification of trust provisions, the consolidated financial statements now reflect as net assets with donor restrictions amounts collected in prior years for interest received on student loans as well as principal on certain loans. Net assets without donor restrictions as of December 31, 2017 have been reduced by \$176,740 with a corresponding increase to net assets with donor restrictions. There was no change in total net assets as previously reported as a result of the adjustment.

NOTE 18 – SUBSEQUENT EVENTS

The Academy evaluated its December 31, 2018 consolidated financial statements for subsequent events through June 26, 2019, the date the consolidated financial statements were available to be issued.