

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

CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED DECEMBER 31, 2019
WITH COMPARATIVE TOTALS FOR 2018**

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, 2019, 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, 2019, 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 generally accepted accounting principles from Accounting Standards Update (ASU) 2018-08, *Contributions Received and Contributions Made* and ASC 606 *Revenue from Contracts with Customers*. The change in accounting principles has been applied retrospectively to the prior period presented. Our opinion is not modified with respect to this matter.

Other Matter

We have previously audited the Academy's 2018 consolidated financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated June 26, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Certified Public Accountants

December 2, 2020
Wilmington, Delaware

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019 WITH COMPARATIVE TOTALS FOR 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 18,959	\$ 42,280
Accounts receivable	19,170	35,756
Investments - unrestricted	440,310	393,171
Total current assets	<u>478,439</u>	<u>471,207</u>
PROPERTY AND EQUIPMENT		
Net of accumulated depreciation	<u>281,311</u>	<u>294,473</u>
OTHER ASSETS		
Student loans receivable - net of allowance for doubtful accounts	318,615	311,388
Charitable trusts - supporting organizations	5,604,727	4,897,218
Investments - temporarily restricted	1,755,426	1,460,751
Collections - archives	-	-
Total other assets	<u>7,678,768</u>	<u>6,669,357</u>
Total Assets	<u><u>\$ 8,438,518</u></u>	<u><u>\$ 7,435,037</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 24,205	\$ 7,291
Total current liabilities	<u>24,205</u>	<u>7,291</u>
NET ASSETS		
Without Donor Restrictions		
Operating	52,713	25,405
Property and equipment, net	281,311	294,473
	<u>334,024</u>	<u>319,878</u>
With Donor Restrictions	<u>8,080,289</u>	<u>7,107,868</u>
	<u>8,414,313</u>	<u>7,427,746</u>
Total Liabilities and Net Assets	<u><u>\$ 8,438,518</u></u>	<u><u>\$ 7,435,037</u></u>

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2019 WITH COMPARATIVE TOTALS FOR 2018

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2019	2018
REVENUE AND OTHER SUPPORT				
Contributions	\$ 10,121	\$ 15,000	\$ 25,121	\$ 43,015
Membership dues	823	-	823	6,010
Conference income	89,141	-	89,141	77,319
Contract services	43,144	-	43,144	18,649
Grant income	-	-	-	23,675
Sublet income	6,451	-	6,451	7,190
Student loan interest	-	6,089	6,089	9,407
Investment return, net	92,139	1,259,247	1,351,386	(418,134)
Net assets released from restrictions	307,915	(307,915)	-	-
Total revenues and other support	549,734	972,421	1,522,155	(232,869)
EXPENSES				
Programs	473,826	-	473,826	429,053
Management and general	48,033	-	48,033	47,074
Fundraising	13,729	-	13,729	12,073
Total expenses	535,588	-	535,588	488,200
CHANGE IN NET ASSETS	14,146	972,421	986,567	(721,069)
NET ASSETS, BEGINNING OF YEAR	319,878	7,107,868	7,427,746	8,148,815
NET ASSETS, END OF YEAR	<u>\$ 334,024</u>	<u>\$ 8,080,289</u>	<u>\$ 8,414,313</u>	<u>\$ 7,427,746</u>

See accompanying notes

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019 WITH COMPARATIVE TOTALS FOR 2018

	2019						2018
	Program Services						
	Community Education & Resources	Student Financial Aid	Total Programs	Management and General	Fundraising	Total	Summarized Total
Salaries	\$ 194,990	\$ 10,263	\$ 205,253	\$ 31,765	\$ 7,330	\$ 244,348	\$ 233,518
Employee benefits	34,423	1,812	36,235	5,608	1,294	43,137	40,814
Payroll taxes	14,267	751	15,018	2,324	537	17,879	17,137
Total salaries and related expenses	243,680	12,826	256,506	39,697	9,161	305,364	291,469
Archivist expenses	17,865	-	17,865	-	-	17,865	14,120
Bad debt expense	17,732	-	17,732	-	-	17,732	-
Bank and credit card fees	1,618	585	2,203	-	-	2,203	6,523
Conference expenses	25,883	-	25,883	-	4,568	30,451	22,191
Depreciation	13,162	-	13,162	-	-	13,162	10,982
Dues and publications	1,069	-	1,069	-	-	1,069	524
Equipment lease	-	-	-	-	-	-	3,153
Information technology	11,264	-	11,264	-	-	11,264	11,005
Insurance	5,030	-	5,030	1,677	-	6,707	4,521
Marketing and outreach	1,177	-	1,177	-	-	1,177	177
Office lease expense	21,675	-	21,675	2,408	-	24,083	32,409
Office supplies	12,815	-	12,815	-	-	12,815	8,651
Postage	165	-	165	-	-	165	288
DPHA	7,863	-	7,863	-	-	7,863	5,138
Professional fees	31,309	(150)	31,159	2,456	-	33,615	48,090
Program support	45,319	-	45,319	-	-	45,319	17,739
Telephone expense	1,795	-	1,795	1,795	-	3,590	4,805
Training and education	245	-	245	-	-	245	3,482
Travel expense	899	-	899	-	-	899	2,933
Total expenses	\$ 460,565	\$ 13,261	\$ 473,826	\$ 48,033	\$ 13,729	\$ 535,588	\$ 488,200

See accompanying notes

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2019 WITH COMPARATIVE TOTALS FOR 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 986,567	\$ (721,069)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	13,162	10,982
Realized gain on investments	(360,386)	(378,555)
Unrealized (gain) loss on investments	(898,269)	890,864
Investment fees netted with income	19,125	16,344
Bad debt expense	17,732	-
Change in current assets and liabilities:		
(Increase) decrease in accounts receivable	(1,146)	(11,103)
Decrease in prepaid expenses	-	2,611
Increase (decrease) in accounts payable	16,914	(5,023)
Net cash used in operating activities	<u>(206,301)</u>	<u>(194,949)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Issuance of new student loans	(66,000)	(77,000)
Collections on student loans	58,773	144,188
Purchase of equipment	-	(29,567)
Purchase of investments	(2,992,579)	(281,837)
Proceeds from sale of investments	3,182,786	429,416
Net cash provided by investing activities	<u>182,980</u>	<u>185,200</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(23,321)	(9,749)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>42,280</u>	<u>52,029</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 18,959</u></u>	<u><u>\$ 42,280</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Cash paid during the year for taxes	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

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. During 2019, funding for the DMOST program was lost and the contract was not renewed.

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, 2019

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.

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.

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.

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation (Continued)

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.

Concentrations of Credit Risk

Cash deposits are maintained in multiple financial institutions within the Academy's operating area. These financial institutions are monitored by management to minimize its credit risk. The Federal Deposit Insurance Corporation insures bank accounts up to \$250,000 per depositor. At times, account balances may exceed federally insured limits. Management considers the risk of loss to be remote.

The Academy extends credit to medical students from Delaware. Loans receivable are periodically reviewed by management; an allowance for doubtful accounts is established, if required.

Other financial instruments that potentially subject the Academy to concentrations of credit risk consist principally of investments. Investments generally consist of mutual funds, equities, and exchange-traded funds. The degree and concentrations of credit risk varies by type of investment. Management continually monitors the financial strength of the institutions and the quality of its investments to minimize risk.

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.

Accounts Receivable

Accounts receivable consist primarily of noninterest-bearing amounts due for management services, conferences, and training programs, and are recorded at net realizable value. Bad debts are provided for on the allowance method based on historical experience and management's evaluation of outstanding receivables at the end of each year. The allowance for doubtful accounts as of December 31, 2019 and 2018 was \$0. Bad debt expense was \$17,732 and \$0 for the years ended December 31, 2019 and 2018, respectively.

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 or revenues 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 \$5,000. 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

Donated Property and Equipment

Donations of marketable securities, property and equipment, and other non-cash donations are recorded as revenue 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.

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

The Academy uses net asset value (NAV) per share, or its equivalent, such as member units or an ownership interest in partners' capital, as a practical expedient to estimate the fair values of certain hedge funds, private equity funds, funds of funds, or limited partnerships, which do not have readily determinable fair values. Investments that are measured at fair value using NAV per share as a practical expedient are not classified in the fair value hierarchy.

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.

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and Revenue Recognition

Contributions

The Academy reports gifts of cash and other assets 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 and are reported in the statement of activities and changes in net assets as net assets released from restrictions.

Contract Services

The Academy engages in contracts with other organizations to provide assistance on projects and to provide bookkeeping support. Revenues from contracts are recognized when services are performed or in various stages of completion based on contract terms.

Conference Income

The Academy hosts a yearly conference for medical professionals. In addition, the Academy coordinates several smaller conferences throughout the year. Revenue is recognized in the period in which the event takes place. Revenue received in advance is deferred until the time of the event.

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, 2019 and 2018 were \$1,177 and \$177, 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.

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

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, 2018, from which the summarized information was derived.

Change in Accounting Principle

The Academy has adopted the new account guidance required by generally accepted accounting principles issues in Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The implementation of this guidance resulted in no changes in the way the Academy recognizes contribution and grant revenue.

The Academy adopted the new accounting guidance issued in Accounting Standards Codification (ASC) Section 606, *Revenues from Contracts with Customers*. This guidance establishes a new contract revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, and expands disclosures about revenue. In accordance with the provisions of the ASC, the Academy recognizes contract service revenue in the period when the service is provided. Revenue recognition practices were not affected by the new standard.

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

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	\$ 18,959
Accounts receivable	19,170
Investments - unrestricted	440,310
	<u>\$ 478,439</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>2019</u>	<u>2018</u>
Furniture and equipment	\$ 132,512	\$ 132,512
Leasehold improvements	380,194	380,194
Total	512,706	512,706
Less: accumulated depreciation	231,395	218,233
Property and equipment, net	<u>\$ 281,311</u>	<u>\$ 294,473</u>

Depreciation expense during the years ended December 31, 2019 and 2018 was \$13,162 and \$10,982, respectively.

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.

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 5 – INVESTMENTS (CONTINUED)

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	2019 Fair Market Value	2018 Fair Market Value
Delaware Academy of Medicine:		
Money Market Funds	\$ 24,675	\$ 29,588
Equities and Other	1,659,869	1,309,398
Fixed Income	511,192	514,936
Total Investments:	<u>\$ 2,195,736</u>	<u>\$ 1,853,922</u>
Investments:		
Without donor restrictions	\$ 440,310	\$ 393,171
With donor restrictions	1,755,426	1,460,751
Total Investments:	<u>\$ 2,195,736</u>	<u>\$ 1,853,922</u>

The Trust's investments consist of investments that are restricted in purpose by the donor. The investments are managed by the Trustee, Brown Advisory, in compliance with the Trust agreements and restrictions placed upon the funds by the trustors.

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, except where noted, as defined by FASB ASC 820-10.

Description	2019 Fair Market Value	2018 Fair Market Value
Carpenter Trust:		
Money Market Funds	\$ 216,921	\$ 85,664
U.S. Treasury Notes	-	150,061
Total Investments:	<u>\$ 216,921</u>	<u>\$ 235,725</u>
Preston Trust:		
Money Market Funds	\$ 70,299	\$ 61,355
Equities and Other	4,037,870	3,625,637
Fixed Income	1,224,340	950,743
Private Equities (NAV)	55,297	23,758
Total Investments:	<u>\$ 5,387,806</u>	<u>\$ 4,661,493</u>

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 5 – INVESTMENTS (CONTINUED)

Investments in certain entities that are measured at fair value using NAV per share as a practical expedient are as follows at December 31, 2019 and 2018:

	<u>Number of Investments</u>	<u>Net Asset Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
<u>December 31, 2019</u>					
Private equity funds	1	\$ 16,940	\$ 82,334	Illiquid	None
Real estate funds	1	38,357	61,109	Illiquid	None
		<u>\$ 55,297</u>	<u>\$ 143,443</u>		
<u>December 31, 2018</u>					
Real estate funds	1	<u>\$ 23,758</u>	<u>\$ 76,242</u>	Illiquid	None

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.

	<u>2019</u>	<u>2018</u>
Student loans receivable	\$ 341,551	\$ 334,324
Allowance for bad debts	(22,936)	(22,936)
Student loans receivable - net	<u>\$ 318,615</u>	<u>\$ 311,388</u>
Interest income	<u>\$ 6,089</u>	<u>\$ 9,407</u>

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 7 – SUPPORTING ORGANIZATIONS

The Delaware Academy of Medicine is supported by the Carpenter Trust for the Delaware Academy of Medicine (the, “Carpenter Trust”) and the Preston Charitable Trust for the Delaware Academy of Medicine (the, “Preston Trust”). The Trusts exist to support the operations of the Delaware Academy of Medicine and both Trusts have been determined to be Type I Supporting Organizations under IRC Section 509(a)(3). The Trusts and the Delaware Academy of Medicine 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 Delaware Academy of Medicine'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 statement of financial position. As of December 31, the Academy owed the Trusts as follows:

	<u>2019</u>	<u>2018</u>
Amounts due to the Trusts from the Academy student loan program:		
Carpenter Trust	\$ 290,119	\$ 265,665
Preston Trust	16,268	37,846
Total due to the trusts	<u>\$ 306,387</u>	<u>\$ 303,511</u>

The Preston Trust is also to be used to help fund the Delaware Academy of Medicine's general operations and provides for a monthly transfer to the Delaware Academy of Medicine's operating account. The amounts transferred to the Delaware Academy of Medicine for the years ended December 31, 2019 and 2018 were \$209,808 and \$235,915, respectively. The income to the Delaware Academy of Medicine and related expense of the Trust were eliminated during consolidation, and accordingly, do not appear on the consolidated statement 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>2019</u>	<u>2018</u>
Fair market value of investments held by the Trusts:		
Carpenter Trust	\$ 216,921	\$ 235,725
Preston Trust	5,387,806	4,661,493
Total supporting organizations	<u>\$ 5,604,727</u>	<u>\$ 4,897,218</u>

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 8 –NET ASSETS

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

	<u>2019</u>	<u>2018</u>
Financial assistance to students in the study of medicine	\$ 740,332	\$ 673,285
DMOST program	-	47,904
Funds for the Lewis B. Flinn Library	457,035	398,637
Capital improvements	971,808	787,313
	<u>2,169,175</u>	<u>1,907,139</u>
Carpenter Trust for the benefit of the DE Academy of Medicine	507,040	501,390
Preston Charitable Trust for the Benefit of DE Academy of Medicine	5,404,074	4,699,339
	<u>5,404,074</u>	<u>4,699,339</u>
Net assets with donor restrictions	<u>\$ 8,080,289</u>	<u>\$ 7,107,868</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, 2019:

Distribution from Trust	\$ 210,011
Flinn for seminars	35,000
DJPH program	15,000
DMOST program	47,904
	<u>\$ 307,915</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.

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

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.

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. The Academy held no funds with perpetual donor restrictions at December 31, 2019 or 2018.

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.

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

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, 2019 and 2018 was \$6,451 and \$7,190, 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, 2019 and 2018 were \$9,472 and \$9,341 respectively.

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:

	2019	2018
Investment Income		
Dividends reinvested - DE Academy	\$ 21,625	\$ 27,258
Dividends reinvested - Trusts	90,230	83,259
Investment fees	(19,124)	(16,342)
Total investment income	<u>\$ 92,731</u>	<u>\$ 94,175</u>
Realized Gains		
Gains from sale of investments - DE Academy	\$ 24,468	\$ 52,917
Gains from sale of investments - Trusts	335,918	325,638
Total realized gains	<u>\$ 360,386</u>	<u>\$ 378,555</u>
Unrealized Gains (Losses)		
Changes in market value - DE Academy	\$ 389,737	\$ (138,623)
Changes in market value - Trusts	508,532	(752,241)
Total unrealized gains (losses)	<u>\$ 898,269</u>	<u>\$ (890,864)</u>

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 13 – LEASE COMMITMENT

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 with no further options to renew. The lease payments consist of base rent with a contracted increase of 2.5% per year. The lease agreement also includes an allocation of operating costs which increases annually based on actual expenses. The terms of the lease have been adjusted, as appropriate, for reduced square footage in use by the Academy. Total rent expense was \$24,083 and \$32,409 for the years ended December 31, 2019 and 2018, respectively.

Minimum lease rental commitments under this leasing agreement for the years ended December 31 are as follows:

2020	\$	24,109
2021		24,198
2022		24,288
2023		24,380
2024		24,475
Thereafter		49,245
Total	\$	<u>170,696</u>

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 believes the risk of loss to be remote.

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 believes the risk of loss to be remote.

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

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 Academy holds a significant portion of its assets in the financial markets. Changes in market prices may make a financial instrument more or less valuable. The Academy's carrying values for investments are not intended to reflect the amounts to be eventually realized upon sale at some future period.

The Preston Trust has committed \$200,000 to private equity investments. \$56,557 of this balance was funded as of December 31, 2019. The remaining commitment is expected to be called down over the next few years.

In light of the world-wide spread of the Coronavirus (COVID-19), the Academy has been affected by disruption of business and volatility in the markets, beginning in March of 2020. The long-term impact of this phenomenon is not known and cannot be reasonably estimated.

NOTE 17 – RECLASSIFICATIONS

Certain reclassifications have been made to the 2018 financial statement presentation in order to conform to the current year's presentation.

NOTE 18 – SUBSEQUENT EVENTS

The Academy evaluated its December 31, 2019 consolidated financial statements for subsequent events through December 2, 2020, the date the consolidated financial statements were available to be issued.

DELAWARE ACADEMY OF MEDICINE, INC. & SUPPORTING ORGANIZATIONS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 18 – SUBSEQUENT EVENTS (CONTINUED)

Subsequent to December 31, 2019, the Academy applied and was approved for a loan under the Paycheck Protection Program created as part of the relief efforts related to COVID-19 and administered by the Small Business Association. The Academy is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. Any portion of the loan not forgiven will accrue interest at 1% with a 5-year term. The loan is uncollateralized and is fully guaranteed by the Federal government.