

Osteopathic Founders Foundation

Independent Accountant's Review Report and Financial Statements

December 31, 2020

Osteopathic Founders Foundation
December 31, 2020

Contents

Independent Accountant's Review Report	1
 Financial Statements	
Statement of Financial Position.....	2
Statement of Activities	3
Statement of Functional Expenses.....	4
Statement of Cash Flows	5
Notes to Financial Statements	6

Independent Accountant's Review Report

Board of Directors
Osteopathic Founders Foundation
Tulsa, Oklahoma

We have reviewed the accompanying financial statements of Osteopathic Founders Foundation (the Foundation), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the Foundation's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Tulsa, Oklahoma
July 29, 2021

Osteopathic Founders Foundation
Statement of Financial Position
December 31, 2020

Assets

Cash and cash equivalents	\$ 132,105
Investments	21,306,028
Other assets	16,874
Furniture and equipment, net	787
Investments held in trusts	<u>430,498</u>
Total assets	<u><u>\$ 21,886,292</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 2,336
Accrued liabilities	117,102
Pledges payable	154,000
Unitrust liabilities payable	205,340
Funds held for others	21,022
Deferred compensation	<u>214,219</u>
Total liabilities	<u>714,019</u>

Net Assets

Without donor restrictions	
Undesignated	16,408,875
Designated by the Board for endowment	<u>1,932,075</u>
Net assets without donor restrictions	18,340,950
With donor restrictions	<u>2,831,323</u>
Total net assets	<u>21,172,273</u>
Total liabilities and net assets	<u><u>\$ 21,886,292</u></u>

Osteopathic Founders Foundation
Statement of Activities
Year Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contributions and grants	\$ 184,612	\$ -	\$ 184,612
Special events	135,025	-	135,025
Program and other income	88,644	-	88,644
Interest and dividend income, net	252,021	40,020	292,041
Net realized and unrealized gains on investments	1,258,577	280,995	1,539,572
Net assets released from restrictions	61,684	(61,684)	-
Total revenue and support	1,980,563	259,331	2,239,894
Expenses			
Program services			
Grants, scholarships, and other	264,285	-	264,285
Emergency cardiovascular care	156,204	-	156,204
Continuing medical education	122,630	-	122,630
Total program services	543,119	-	543,119
Support services			
Management and general	134,873	-	134,873
Fundraising	213,650	-	213,650
Total support services	348,523	-	348,523
Total expenses	891,642	-	891,642
Change in Net Assets	1,088,921	259,331	1,348,252
Net Assets, Beginning of Year	17,252,029	2,571,992	19,824,021
Net Assets, End of Year	\$ 18,340,950	\$ 2,831,323	\$ 21,172,273

Osteopathic Founders Foundation
Statement of Functional Expenses
Year Ended December 31, 2020

	Grants, Scholarships, and Other	Emergency Cardiovascular Care	Continuing Medical Education	Management and General	Fundraising	Total
Bank fees	\$ 489	\$ 1,490	\$ 244	\$ -	\$ 1,482	\$ 3,705
Contract and outside services	1,312	1,369	15,193	846	18,455	37,175
Depreciation	518	2,128	518	311	207	3,682
Events	-	-	-	520	109,861	110,381
Grants and scholarships	152,490	-	-	-	-	152,490
Insurance	-	2,573	464	3,533	-	6,570
Legal and professional fees	-	-	-	20,929	2,325	23,254
Miscellaneous	1,662	14,152	25,102	16,619	296	57,831
Printing and postage	-	52	976	2,435	6,450	9,913
Rent	16,829	35,889	16,829	10,097	29,204	108,848
Salaries and employee benefits	90,579	92,129	60,386	60,386	45,289	348,769
Supplies	-	5,759	1,150	2,044	-	8,953
Unitrust distributions	-	-	-	16,595	-	16,595
Travel	406	663	1,768	558	81	3,476
	<u>\$ 264,285</u>	<u>\$ 156,204</u>	<u>\$ 122,630</u>	<u>\$ 134,873</u>	<u>\$ 213,650</u>	<u>\$ 891,642</u>
Percentage of total expenses	29.6%	17.5%	13.8%	15.1%	24.0%	100.0%

Osteopathic Founders Foundation
Statement of Cash Flows
Year Ended December 31, 2020

Operating Activities	
Change in net assets	\$ 1,348,252
Items not requiring (providing) cash	
Depreciation	3,682
Loss on beneficial interest in charitable remainder trusts	52,620
Net realized and unrealized gains on investments	(1,539,572)
Gain on forgiveness of PPP loan	(46,200)
Changes in	
Pledges payable and unitrust liabilities payable	(55,961)
Accounts payable and accrued liabilities	(14,591)
Other assets	9,070
Proceeds from PPP loan	<u>46,200</u>
Net cash used in operating activities	<u>(196,500)</u>
Investing Activities	
Proceeds from sales of investments	7,637,921
Purchase of investments	(7,516,657)
Purchase of property and equipment	<u>(1,704)</u>
Net cash provided by investing activities	<u>119,560</u>
Decrease in Cash and Cash Equivalents	(76,940)
Cash and Cash Equivalents, Beginning of Year	<u>209,045</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 132,105</u></u>

Osteopathic Founders Foundation

Notes to Financial Statements

December 31, 2020

Note 1: Summary of Significant Accounting Policies

Nature of Operations

Osteopathic Founders Foundation (the Foundation) was established in March 1943 as a tax-exempt charitable organization under Section 501(c)(3) of the Internal Revenue Code. The mission of the Foundation is to promote general health, welfare, and education in Tulsa, Oklahoma, and the surrounding northeast Oklahoma communities through activities related to osteopathic health care. The Foundation earns revenues from contributions and grants from members and the community, special events, and income from investments.

Use of Estimates

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

Cash and Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents.

Uninvested cash and cash equivalents included in investment accounts, including endowments, are not considered to be cash and cash equivalents.

At December 31, 2020, the Foundation had no cash accounts that exceeded federally insured limits.

Investments and Investment Return

The Foundation measures securities, other than investments that qualify for the equity method of accounting, at fair value. Investments in private equity funds are recorded at net asset value (NAV), as a practical expedient, to determine fair value of the investments.

Investment return includes dividend, interest, and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expenses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the accompanying statement of activities as with or without donor restrictions based upon the existence and nature of any donor- or legally imposed restrictions.

Osteopathic Founders Foundation

Notes to Financial Statements

December 31, 2020

Furniture and Equipment

Furniture and equipment acquisitions more than \$300 are stated at cost less accumulated depreciation. Accumulated depreciation was \$273,853 at December 31, 2020. Depreciation is charged to expense using the straight-line method over estimated useful lives from 3 to 20 years.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment.

Net assets with donor restrictions are subject to donor-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.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statement of activities as net assets released from restrictions. Gifts having donor stipulations that are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions.

Other Assets

Other assets are comprised of receivables arising from realized investment income that has been earned but not yet collected and prepaid expenses. Management believes all receivables reported in the accompanying statement of financial position to be fully collectible. Amounts determined to be uncollectible are charged to expense as that determination is made.

In-Kind Contributions

In addition to receiving cash contributions, the Foundation receives in-kind contributions from various donors for an annual fundraising event. It is the policy of the Foundation to record the estimated fair value of certain in-kind donations as an expense in its financial statements and similarly increase contribution revenue by a like amount. During the year ended December 31, 2020, the Foundation received approximately \$10,000 from in-kind donations.

Osteopathic Founders Foundation

Notes to Financial Statements

December 31, 2020

Income Taxes

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

The Foundation files tax returns in the U.S. federal jurisdiction.

Pledges Payable

The Foundation issues pledges to organizations who further the mission of the Foundation throughout the year. At the time funds are approved by the board and organizations are notified, the Foundation will record the corresponding liability. Pledges payable for the year ended December 31, 2020, were \$154,000.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the accompanying statement of activities. The accompanying statement of functional expenses presents the natural classification detail of expenses by function. Certain costs have been allocated among the program, management and general, and fundraising categories based on management's estimate of each employee's daily job functions and other methods.

Long-Lived Asset Impairment

The Foundation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the year ended December 31, 2020.

Change in Accounting Principle

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, that replaces existing revenue recognition guidance. The new standard requires companies to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the considerations to which the entity expects to be entitled in exchange for those goods or services. In addition, Topic 606 requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

Osteopathic Founders Foundation
Notes to Financial Statements
December 31, 2020

The majority of the Foundation’s revenue was determined to not be in the scope of Topic 606 and, therefore, the adoption of this standard did not change the timing of or disclosures related to revenue recognition.

Note 2: Investments

Investments (including investments held in trusts) consist of the following at December 31, 2020:

Mutual funds	
U.S. equity funds	\$ 5,364,445
International equity funds	1,666,025
International fixed income funds	1,915,323
Bond funds	115,889
Emerging markets	295,184
Global	4,649,733
Alternative investments	4,173,166
Common stocks	2,523,216
Money market funds	<u>1,033,545</u>
	<u><u>\$ 21,736,526</u></u>

The Foundation includes its money market and cash accounts, which are held by financial advisors and available for the purchase of long-term securities, with investments in the accompanying statement of financial position.

Note 3: Fair Value Measurements and Disclosures

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets
- Level 3** Unobservable inputs supported by little or no market activity and significant to the fair value of the assets

Osteopathic Founders Foundation
Notes to Financial Statements
December 31, 2020

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2020:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 1,033,545	\$ 1,033,545	\$ -	\$ -
Common stocks	2,523,216	2,523,216	-	-
Mutual funds				
U.S. equity funds	5,364,445	5,364,445	-	-
International equity funds	1,666,025	1,666,025	-	-
International fixed income funds	1,915,323	1,915,323	-	-
Bond funds	115,889	115,889	-	-
Emerging markets	295,184	295,184	-	-
Global	4,649,733	4,649,733	-	-
	17,563,360	\$ 17,563,360	\$ -	\$ -
Investments measured at NAV (a)	4,173,166			
	<u>\$ 21,736,526</u>			

- (a) Certain investments that were measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the accompanying statement of financial position.

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2020.

Investments

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of investments with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced

Osteopathic Founders Foundation
Notes to Financial Statements
December 31, 2020

market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections, and cash flows. Such investments are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the valuation hierarchy.

Alternative Investments

The Foundation values its alternative investments at fair value, which approximates the Foundation's pro rata interest in the net assets of the underlying alternative investments. Alternative investments are made up primarily of private equity funds that invest in underlying funds. The estimated fair values of the alternative investments are based on the underlying funds, which may include securities that do not have readily determinable values. Because of the inherent uncertainty of valuation, the estimated fair values of the alternative investments described above may differ significantly from values that would have been used had a ready market existed for the investments and differences could be material.

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Alliance Bernstein Multi-Manager				
Alternative Fund (a)	\$ 2,881,273	\$ -	None	None
Blackstone REIT (b)	\$ 1,291,893	\$ -	None	None

Underlying strategies of the above investments are as follows:

- (a) Statutory trusts, formed as a close-ended fund, invest primarily in portfolio funds of unaffiliated portfolio managers. These investments cannot be redeemed until a repurchase offer has been initiated by the fund's board of trustees.
- (b) Blackstone Real Estate Investment Trust, Inc., is a non-traded real estate investment trust (REIT) investing in primarily stabilized commercial real estate properties. These investments cannot be redeemed until a repurchase request has been submitted and approved by the fund's board of trustees.

Osteopathic Founders Foundation
Notes to Financial Statements
December 31, 2020

Note 4: Net Assets

Net Assets with Donor Restrictions

Net assets with donor restrictions at December 31, 2020, are restricted for the following purposes or periods:

Subject to the passage of time	
Beneficial interest in charitable trusts held by others	<u>\$ 225,158</u>
Endowments	
Subject to appropriation and expenditure when a specified event occurs	
Restricted by donors for	
Medical education scholarships	492,448
Community support grants	<u>1,147,737</u>
	1,640,185
Investments to be held in perpetuity, the income is expendable	<u>965,980</u>
Total endowments	<u>2,606,165</u>
	<u><u>\$ 2,831,323</u></u>

Net assets with donor restrictions are available for the support of medical education scholarships and grants and medical education provided to the community. Substantially all restrictions can be met upon actions of the Foundation in accordance with donor stipulation. Net assets with donor restrictions include an endowment fund maintained by the Foundation in perpetuity. The income from the assets not restricted by donors can be used to support the Foundation's general activities.

Osteopathic Founders Foundation
Notes to Financial Statements
December 31, 2020

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Distributions (proceeds are not restricted by donors)	
Beneficial interest in charitable trusts held by others	<u>\$ 16,595</u>
Satisfaction of purpose restrictions	
Medical education scholarships	25,759
Community support grants	<u>19,330</u>
	<u>45,089</u>
	<u><u>\$ 61,684</u></u>

Note 5: Beneficial Interest in Trusts

The Foundation is the beneficiary under three charitable remainder unitrusts (Trusts 1, 2, and 3) that are administered by the Foundation. Under the terms of the trusts, the Foundation has an irrevocable right to the principal and income from the trusts upon the death of the survivor recipient. For the life of the survivor recipient, the Foundation is to pay 8% of the fair market value of the trusts, valued as of the first day of each taxable year. Payments of the unitrust amounts may only be made from income, and any deficiencies will be accrued and paid in years where there is excess income over the 8% unitrust amounts.

Balances of all trust assets and liabilities at December 31, 2020, are reflected in the accompanying financial statements as follows:

	<u>Trust 1</u>	<u>Trust 2</u>	<u>Trust 3</u>	<u>Total</u>
Fair market value of trust assets	\$ 171,691	\$ 171,693	\$ 87,114	\$ 430,498
Future liability for unitrust distributions	<u>98,160</u>	<u>71,549</u>	<u>35,631</u>	<u>205,340</u>
Remaining beneficial interest	<u>\$ 73,531</u>	<u>\$ 100,144</u>	<u>\$ 51,483</u>	<u>\$ 225,158</u>

During the year ended December 31, 2020, the Foundation paid approximately \$17,000 in distributions to unitrust beneficiaries from current year investment income.

Osteopathic Founders Foundation

Notes to Financial Statements

December 31, 2020

Note 6: Deferred Compensation Plan

In 2001, the Foundation adopted a nonqualified executive deferred compensation plan (the Plan). The Plan allows the participant to defer bonus compensation through contributions to the Plan. The Plan provides benefits upon death, retirement, or termination of employment. Benefits are limited to the amounts contributed to the Plan. Vesting of bonus compensation awarded prior to August 15, 2013, occurs at 10% per year from ages 60 to 64 with the remainder vesting at age 65. Bonus compensation awarded after August 15, 2013, becomes fully vested five years after the date the bonus compensation is awarded by the Board of Directors of the Foundation. The Foundation has set aside funds for the payment of this liability of \$214,219 that are included in investments in the accompanying statement of financial position. No expenses were recognized regarding the Plan for the year ended December 31, 2020.

Note 7: Endowment

The Foundation's endowment consists of four individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's governing body has interpreted the *Oklahoma Prudent Management of Institutional Funds Act* (SPMIFA) as requiring 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 classifies as net assets with donor restrictions (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 donor-restricted endowment funds is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies of the Foundation

Osteopathic Founders Foundation
Notes to Financial Statements
December 31, 2020

The composition of net assets by type of endowment fund at December 31, 2020, was:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 965,980	\$ 965,980
Accumulated investment gains	-	492,448	492,448
Term endowment	-	1,147,737	1,147,737
Board-designated endowment funds	<u>1,932,075</u>	<u>-</u>	<u>1,932,075</u>
Total endowment funds	<u>\$ 1,932,075</u>	<u>\$ 2,606,165</u>	<u>\$ 4,538,240</u>

Changes in endowment net assets for the year ended December 31, 2020, were:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 1,711,212	\$ 2,328,375	\$ 4,039,587
Investment return	267,727	322,879	590,606
Distributions	<u>(46,864)</u>	<u>(45,089)</u>	<u>(91,953)</u>
Endowment net assets, end of year	<u>\$ 1,932,075</u>	<u>\$ 2,606,165</u>	<u>\$ 4,538,240</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Foundation is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. In accordance with GAAP, deficiencies of this nature are reported in net assets with donor restrictions. There were no deficiencies at December 31, 2020.

Investment and Spending Policies

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Foundation must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. Under the Foundation's policies, endowment assets are invested in a manner that is consistent with the total return or moderate portfolio theory methodologies.

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 current yield (investment income such as

Osteopathic Founders Foundation
Notes to Financial Statements
December 31, 2020

dividends and interest) and capital appreciation (both realized and unrealized). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Foundation has a policy (the spending policy) of appropriating for expenditure each year a rate of 5%, with an absolute maximum of 5% of the endowment fund's average market value as of the preceding five fiscal year-ends. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow comparable to the benchmarks outlined in the investment policy. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Note 8: Operating Lease

The Foundation leases its office space under an operating lease that expires on August 31, 2021. Total lease expense was approximately \$85,000 for the year ended December 31, 2020. Future minimum obligations under the Foundation's office lease are as follows:

2021	\$ 52,530
	<u>\$ 52,530</u>

Note 9: Postretirement Benefit Plan

Defined Contribution Plan

Effective October 1, 2012, the Foundation began contributing to a defined contribution pension plan covering all employees who receive at least \$5,000 in eligible compensation for the prior year and current year. The Foundation matches employee contributions dollar-for-dollar not to exceed 3% of eligible compensation or the applicable limit. The Foundation's expense related to matching contributions for the year ended December 31, 2020, was approximately \$6,800.

Osteopathic Founders Foundation
Notes to Financial Statements
December 31, 2020

Note 10: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2020, comprise the following:

Total financial assets	\$ 21,438,133
Donor-imposed restrictions	
Endowments	(2,606,165)
Internal designations	
Board-designated endowment	(1,932,075)
Financial assets available to meet cash needs for general expenditures within one year	\$ 16,899,893

The Foundation’s endowment funds consist of donor-restricted endowments and funds designated by the board as an endowment. Income from donor-restricted endowments is restricted for specific purposes with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The board-designated endowment of \$1,932,075 is subject to an annual spending rate of 5% as described in *Note 7*. Although the Foundation does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the Board’s annual budget approval and appropriation), these amounts could be made available if necessary.

The Foundation manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Foundation strives to maintain liquid financial assets sufficient to cover its general expenditures. Financial assets in excess of daily cash requirements are invested in money market accounts and other short-term investments.

Note 11: Paycheck Protection Program (PPP) Loan

On April 10, 2020, the Foundation received a PPP loan established by the *Coronavirus Aid, Relief, and Economic Security Act (CARES Act)* and elected to account for the funding as a conditional contribution by applying Accounting Standards Codification 958-605, *Revenue Recognition*. Revenue is recognized when conditions are met, which include meeting FTE and salary reduction requirements and incurring eligible expenditures. The Foundation recorded the cash inflow from the PPP loan as a deferred income liability.

Subsequent to initial recognition, the Foundation incurred qualifying costs in excess of the PPP loan amount and believes that all other terms and criteria of the program have been met. The Foundation, therefore, recognized the entire deferred income liability through earnings, presented

Osteopathic Founders Foundation

Notes to Financial Statements

December 31, 2020

as a credit in the accompanying statement of activities and included in the program and other income line on the accompanying statement of operations for the year ended December 31, 2020. The Foundation received formal approval of forgiveness of the entire balance of the loan on October 30, 2020.

PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration, or lender; as a result of such audit, adjustments could be required to the recognition of revenue.

Note 12: Future Change in Accounting Principle

Accounting for Leases

FASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the statement of financial position as both a right-of-use asset and a liability. The standard has two types of leases for statement of activities recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2021, and any interim periods within annual reporting periods that begin after December 15, 2022. The Foundation is evaluating the effect the standard will have on the financial statements; however, the standard is expected to have a material effect on the financial statements due to the recognition of additional assets and liabilities for operating leases.

Note 13: Subsequent Events

The Foundation has evaluated subsequent events through July 29, 2021, which is the date the financial statements were available to be issued.