



Asthma and Allergy
Foundation of America

**ASTHMA AND ALLERGY
FOUNDATION OF AMERICA
(National Headquarters)**

Financial Statements

For the Year Ended December 31, 2013

(With Summarized Financial Information for the Year Ended December 31, 2012)



**and
Report Thereon**





Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Asthma and Allergy Foundation of America
(National Headquarters)

Report on the Financial Statements

We have audited the accompanying financial statements of the Asthma and Allergy Foundation of America (National Headquarters) (the Foundation), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Asthma and Allergy Foundation of America as of December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Foundation's 2012 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated May 7, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012 is consistent, in all material respects, with the audited financial statements from which the audited financial statements it has been derived.

Raffa, P.C.

Raffa, P.C.

Washington, DC
June 10, 2014

ASTHMA AND ALLERGY FOUNDATION OF AMERICA
(National Headquarters)

STATEMENT OF FINANCIAL POSITION
December 31, 2013
(With Summarized Financial Information as of December 31, 2012)

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and cash equivalents	\$ 2,061,614	\$ 1,853,506
Investments	2,204,996	1,958,858
Grants and accounts receivable, net	255,522	229,973
Pledges receivable, net	95,290	48,891
Inventory	50,145	48,036
Prepaid expenses	21,990	29,378
Property and equipment, net	198,484	247,746
Deposit	<u>11,368</u>	<u>11,368</u>
TOTAL ASSETS	<u><u>\$ 4,899,409</u></u>	<u><u>\$ 4,427,756</u></u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 335,602	\$ 290,507
Deferred revenue	101,343	54,066
Deferred rent and lease incentives	<u>273,574</u>	<u>307,089</u>
TOTAL LIABILITIES	<u>710,519</u>	<u>651,662</u>
Net Assets		
Unrestricted	2,693,229	2,353,950
Temporarily restricted	1,335,661	1,262,144
Permanently restricted	<u>160,000</u>	<u>160,000</u>
TOTAL NET ASSETS	<u>4,188,890</u>	<u>3,776,094</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,899,409</u></u>	<u><u>\$ 4,427,756</u></u>

The accompanying notes are an integral part of these financial statements.

ASTHMA AND ALLERGY FOUNDATION OF AMERICA
(National Headquarters)

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2013
(With Summarized Financial Information for the Year Ended December 31, 2012)

	2013				2012
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
REVENUE AND SUPPORT					
Contributions, sponsorships, and grants	\$ 615,752	\$ 1,375,493	\$ -	\$ 1,991,245	\$ 1,944,101
Certification income	1,051,993	-	-	1,051,993	1,085,468
Investment income	236,307	23,136	-	259,443	184,581
Workplace giving	196,701	-	-	196,701	146,753
Contribution from KFA	72,128	98,146	-	170,274	-
Donated goods and services	154,640	-	-	154,640	115,315
Advertising	92,493	-	-	92,493	-
Other income	7,957	4,215	-	12,172	12,860
Chapter assessments	9,755	-	-	9,755	22,868
 Sales of materials	 13,405	 -	 -	 13,405	 7,808
Less: Cost of sales	(7,227)	-	-	(7,227)	(6,920)
Gross profit	6,178	-	-	6,178	888
Net assets released from restrictions:					
Satisfaction of program restrictions	1,427,473	(1,427,473)	-	-	-
 TOTAL REVENUE AND SUPPORT	 3,871,377	 73,517	 -	 3,944,894	 3,512,834
 EXPENSES					
Program Services:					
Public information	1,312,129	-	-	1,312,129	1,351,278
Family and patient services and professional education	678,278	-	-	678,278	345,287
Community and chapter outreach	450,499	-	-	450,499	502,684
Research	428,753	-	-	428,753	526,821
 Total Program Services	 2,869,659	 -	 -	 2,869,659	 2,726,070
Supporting Services:					
Management and general	534,048	-	-	534,048	498,703
Fundraising	128,391	-	-	128,391	135,032
 Total Supporting Services	 662,439	 -	 -	 662,439	 633,735
 TOTAL EXPENSES	 3,532,098	 -	 -	 3,532,098	 3,359,805
 CHANGE IN NET ASSETS	 339,279	 73,517	 -	 412,796	 153,029
 NET ASSETS, BEGINNING OF YEAR	 2,353,950	 1,262,144	 160,000	 3,776,094	 3,623,065
 NET ASSETS, END OF YEAR	 \$ 2,693,229	 \$ 1,335,661	 \$ 160,000	 \$ 4,188,890	 \$ 3,776,094

The accompanying notes are an integral part of these financial statements.

ASTHMA AND ALLERGY FOUNDATION OF AMERICA
(National Headquarters)

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2013
(With Summarized Financial Information for the Year Ended December 31, 2012)

	Program Services					Supporting Services				
	Public Information	Family and Services and Professional Education	Community and Chapter Outreach	Research	Total Program Services	Management and General	Fundraising	Total Supporting Services	2013 Total	2012 Total
Salaries	\$ 326,572	\$ 277,036	\$ 200,588	\$ 66,547	\$ 870,743	\$ 237,931	\$ 57,124	\$ 295,055	\$ 1,165,798	\$ 1,066,732
Professional services	615,588	160,744	76,171	152,869	1,005,372	90,093	27,084	117,177	1,122,549	1,199,886
Employee benefits	127,396	108,072	78,250	25,960	339,678	92,817	22,284	115,101	454,779	434,763
Research grants and assistance	-	-	-	140,000	140,000	-	-	-	140,000	120,000
Printing and supplies	93,897	17,020	392	2,912	114,221	3,498	5,826	9,324	123,545	90,665
Other	18,669	12,523	19,483	1,024	51,699	44,617	1,166	45,783	97,482	89,226
Meetings and travel	15,640	22,651	10,396	24,171	72,858	5,054	846	5,900	78,758	57,716
Chapter grants and assistance	-	1,500	20,000	-	21,500	-	-	-	21,500	8,500
General office expenses:										
Allocated general	73,245	62,134	44,988	14,925	195,292	53,364	12,812	66,176	261,468	233,210
Mail and delivery	39,007	6,143	231	345	45,726	3,022	1,249	4,271	49,997	51,466
General office	2,115	10,455	-	-	12,570	3,652	-	3,652	16,222	7,641
TOTAL	\$ 1,312,129	\$ 678,278	\$ 450,499	\$ 428,753	\$ 2,869,659	\$ 534,048	\$ 128,391	\$ 662,439	\$ 3,532,098	\$ 3,359,805

The accompanying notes are an integral part of these financial statements.

ASTHMA AND ALLERGY FOUNDATION OF AMERICA
(National Headquarters)

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2013
(With Summarized Financial Information for the Year Ended December 31, 2012)
Increase (Decrease) in Cash

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 412,796	\$ 153,029
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	38,190	52,769
Loss on disposal of fixed assets	17,211	-
Bad debt expense	(17,598)	(19,576)
Unrealized gains on investments	(96,446)	(149,656)
Realized losses (gains) on investments	(101,766)	13,857
Changes in assets and liabilities:		
Grants and accounts receivable	(25,549)	271,913
Pledges receivable	(28,801)	54,477
Inventory	(2,109)	2,060
Prepaid expenses	7,388	5,443
Accounts payable and accrued expenses	45,095	85,214
Deferred revenue	47,277	(25,937)
Deferred rent and lease incentives	<u>(33,515)</u>	<u>(29,126)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>262,173</u>	<u>414,467</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	916,372	1,038,762
Purchases of investments	(964,298)	(1,074,946)
Purchases and contribution of property and equipment	<u>(6,139)</u>	<u>(20,774)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(54,065)</u>	<u>(56,958)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	208,108	357,509
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,853,506</u>	<u>1,495,997</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 2,061,614</u></u>	<u><u>\$ 1,853,506</u></u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of KFA:		
Fair value of assets acquired	\$ 187,432	\$ -
Liabilities assumed	<u>(17,158)</u>	<u>-</u>
Contributions received in acquisition of KFA	<u><u>\$ 170,274</u></u>	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

ASTHMA AND ALLERGY FOUNDATION OF AMERICA
(National Headquarters)

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2013

1. Organization and Summary of Significant Accounting Policies

Organization

The Asthma and Allergy Foundation of America (National Headquarters) (the Foundation) is a not-for-profit organization founded in 1953 as a national voluntary health organization providing programs of patient services, public awareness and education, research grants, community services and information, and referrals. The accompanying financial statements of the Foundation include the operations of the national headquarters only and do not include the activities of its affiliated chapters.

On November 30, 2012, with the unanimous consent of the Board of Directors, the Foundation entered into an agreement to merge with the Kids With Food Allergies Foundation (KFA), a not-for-profit corporation. This merger was approved by the New York state regulatory authorities and became effective July 22, 2013. Pursuant to the merger agreement, KFA's net assets of \$170,274 were contributed to the Foundation, the Foundation became the surviving corporation, and KFA ceased to exist. After the merger, KFA activities were combined with the Foundation.

Basis of Accounting

The financial statements of the Foundation are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Consequently, revenue is recognized when earned and expenses are recognized when the obligations are incurred.

Cash and Cash Equivalents

Cash consists of cash held in a checking account and a certificate of deposit. The Foundation considers certificates of deposit purchased with an initial maturity of three months or less to be cash equivalents.

Investments

Investments consist of domestic bond and equity funds, international equity and bond funds, and money market funds, which are stated at fair value, as determined by market prices.

Inventory

Inventory, consisting primarily of publications, is recorded at the lower of cost or market value using the first-in, first-out method of accounting.

Property and Equipment and Related Depreciation and Amortization

Computer equipment and furniture and fixtures are carried at cost and are depreciated using the straight-line method over the assets' estimated useful lives of three to ten years. It is the Foundation's policy to capitalize such expenditures that exceed \$1,000. Leasehold improvements are recorded at cost and amortized using the straight-line method over the life

ASTHMA AND ALLERGY FOUNDATION OF AMERICA
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NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2013

1. Organization and Summary of Significant Accounting Policies (continued)

Property and Equipment and Related Depreciation and Amortization (continued)

of the lease. Upon the retirement or disposal of the assets, the cost and accumulated depreciation or amortization are eliminated from the accounts and the resulting gain or loss is included in revenue and support or expenses in the accompanying statement of activities.

Classification of Net Assets

The Foundation's net assets are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of the Foundation's operations.
- Temporarily restricted net assets are restricted by donors for various projects or specific time periods.
- Permanently restricted net assets represent the Foundation's endowment fund, which requires the principal to be invested in perpetuity and the income to be used for the purpose designated by the donor. Permanently restricted net assets consist of resources contributed to the National Research Endowment Program, which was established in 1983 for the purpose of supporting research by physician-scientists in the field of allergy and immunology.

Revenue Recognition

The Foundation reports contributions and grants of cash and other assets available for general operations as unrestricted revenue and support. The Foundation reports contributions and grants of cash and other assets as temporarily restricted if they are received with donor stipulations that limit the use of the donated funds or assets for a particular purpose or to specific periods. Conditional promises to give are not included as support until such time as the conditions are substantially met. Such revenue is recorded as contributions sponsorships and grants in the accompanying statement of activities. When a stipulated time restriction ends or purpose restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions.

Certification income is recognized as revenue over the applicable period of the contract. Accordingly, certification revenue paid in advance of the certification period is reported as deferred revenue in the accompanying statement of financial position.

Contributions to the Combined Federal Campaign are recorded as workplace giving revenue when pledges are made. An allowance for uncollectible pledges is calculated based on the Foundation's history of past collections and deducted from gross pledges receivable.

ASTHMA AND ALLERGY FOUNDATION OF AMERICA
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NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2013

1. Organization and Summary of Significant Accounting Policies (continued)

Donated Goods and Services

Donated goods and services represent the value of donated advertising and pro bono legal assistance. Donations are recorded based on their fair value at the date of donation and are included in the Family and Patient Services programs and in general and administrative expenses in the accompanying statement of activities.

Fair Value Measurements

In accordance with the accounting standards for fair value measurements for those assets and liabilities that are measured at fair value on a recurring basis, as of and for the year ended December 31, 2013, the Foundation has categorized its applicable financial instruments into a required fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Applicable financial assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Foundation has the ability to access.

Level 2 – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

As of and for the year ended December 31, 2013, only the Foundation's investments, as described in Note 2 of these financial statements, were measured at fair value on a recurring basis and subject to the disclosure requirements of the fair value measurements disclosure topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services based on direct labor costs.

ASTHMA AND ALLERGY FOUNDATION OF AMERICA
(National Headquarters)

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2013

1. Organization and Summary of Significant Accounting Policies (continued)

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Investments

As of December 31, 2013, the Foundation has valued all of its investments using quoted market prices in active markets for identical assets (Level 1, as described in Note 1 to the financial statements). As of December 31, 2013, the Foundation's investments consisted of the following:

Domestic bond funds:	
Short-term	\$ 474,487
Mortgages	204,288
Intermediate	147,338
Short duration	73,901
High yield	<u>58,715</u>
Total Domestic Bond Funds	<u>958,729</u>
Domestic equity funds:	
Large cap core fund	251,328
Large cap growth fund	210,849
Large cap value fund	206,047
Small-medium cap core funds	132,338
Small cap core funds	<u>89,868</u>
Total Domestic Equity Funds	<u>890,430</u>
International equity funds	251,017
International bond funds	61,929
Money market funds	<u>42,891</u>
Total Investments	<u><u>\$ 2,204,996</u></u>

Domestic and international bond and equity funds and money market funds are valued using Level 1 inputs as quoted prices are available in active markets.

Investment income is summarized as follows for the year ended December 31, 2013:

Interest and dividends	\$ 63,231
Unrealized gains	94,446
Realized gains	<u>101,766</u>
Total Investment Income	<u><u>\$ 259,443</u></u>

Continued

ASTHMA AND ALLERGY FOUNDATION OF AMERICA
(National Headquarters)

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2013

3. Grants and Accounts Receivable

As of December 31, 2013, grants and accounts receivable, net of allowance for doubtful accounts, are all due within one year and are composed of the following:

Grants and accounts receivable	\$ 270,704
Less: Allowance for doubtful accounts	<u>(15,182)</u>
Total Grants and Accounts Receivable, Net	<u><u>\$ 255,522</u></u>

4. Pledges Receivable

As of December 31, 2013, all pledges receivable are due within one year and consist of the following:

Pledges receivable	\$ 177,208
Less: Allowance for doubtful accounts	<u>(81,918)</u>
Total Pledges Receivable, Net	<u><u>\$ 95,290</u></u>

5. Property and Equipment

The Foundation held the following property and equipment as of December 31, 2013:

Leasehold improvements	\$ 326,993
Computer equipment	65,708
Furniture and fixtures	<u>47,343</u>
Total Property and Equipment	440,044
Less: Accumulated Depreciation and Amortization	<u>(241,560)</u>
Property and Equipment, Net	<u><u>\$ 198,484</u></u>

Depreciation and amortization expense totaled \$38,190 for the year ended December 31, 2013.

6. Concentration of Credit Risk

Concentration of Credit Risk

The Foundation maintains its cash with a certain commercial financial institution, which aggregate balance, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) insured limit of \$250,000 per depositor per institution. As of December 31, 2013, the Foundation had \$2,008,585 in an interest-bearing checking account, which exceeded the maximum limit insured by the FDIC by approximately \$1,565,000. The Foundation monitors the creditworthiness of this institution and has not experienced any credit losses on its cash.

ASTHMA AND ALLERGY FOUNDATION OF AMERICA
(National Headquarters)

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2013

7. Temporarily Restricted Net Assets

Net assets were released from donor-imposed restrictions by incurring expenses that satisfied restricted purposes. For the year ended December 31, 2013, net assets released from restrictions were as follows:

Satisfaction of purpose restrictions:	
Research	\$ 672,448
Public information	486,357
Community and chapter outreach	197,230
Family and patient services and professional education	15,770
KFA outreach programs	<u>55,668</u>
Total	<u>\$ 1,427,473</u>

Temporarily restricted net assets were available for the following purposes at December 31, 2013:

Research	\$ 359,621
Community and chapter outreach	326,703
Family and patient services and professional education	250,604
Endowment fund for research	185,506
Public information	123,706
KFA outreach programs	<u>89,521</u>
Total	<u>\$ 1,335,661</u>

8. Endowment Fund

The Foundation has a donor-restricted endowment fund established for the purpose of supporting research by physician-scientists in the field of allergy and immunology. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted the New York Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets; (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

ASTHMA AND ALLERGY FOUNDATION OF AMERICA
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NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2013

8. Endowment Fund (continued)

Interpretation of Relevant Law (continued)

fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Fund with Deficiencies

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies reported as of December 31, 2013.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for donor-specified periods, as well as board-designated funds. Given the relationship between risk and return, a fundamental step in determining the investment policy for the endowment fund is the determination of an appropriate risk tolerance. After taking into consideration such factors as corporate financial stability, uncertainty of cash flows in and out of the endowment fund over the long term, and capital market volatility, the Board of Directors believes that a moderate risk strategy is prudent. Under this policy, as approved by the Board of Directors, the goal is to have stable returns over the long term, with a reduced potential of negative returns in any given year. The Foundation expects its endowment fund, over time, to provide an annual average rate of return of approximately 4%. Actual returns in any given year may vary from this amount.

ASTHMA AND ALLERGY FOUNDATION OF AMERICA
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NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2013

8. Endowment Fund (continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives with prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

At year-end, the Foundation has a policy of distributing 4% of the moving average of the past 12 quarters' closing market value of the endowment investment. In establishing this policy, the Foundation considered the long-term expected return of its endowment. Accordingly, over the long term, the organization expects the current spending policy to allow its endowment fund to grow 4% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

The Foundation's endowment net asset composition by fund type was as follows as of December 31, 2013:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Fund	\$ 185,506	\$ 160,000	\$ 345,506

Changes in endowment net assets were as follows for the year ended December 31, 2013:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 168,770	\$ 160,000	\$ 328,770
Investment returns:			
Interest and dividends	5,204	-	5,204
Net appreciation (realized and unrealized)	18,692	-	18,692
Management fees	(760)	-	(760)
Total Investment Returns	23,136	-	23,136
Amounts appropriated for expenditure	(6,400)	-	(6,400)
Endowment Net Assets, End of Year	\$ 185,506	\$ 160,000	\$ 345,506

Continued

ASTHMA AND ALLERGY FOUNDATION OF AMERICA
(National Headquarters)

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2013

8. Endowment Fund (continued)

Permanently Restricted Net Assets

The portion of the perpetual endowment fund that is required to be retained permanently, either by explicit donor stipulation or by UPMIFA:

National Research Endowment Program	\$ <u>160,000</u>
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Temporarily Restricted Net Assets

The portion of the perpetual endowment fund that is subject to a restriction under UPMIFA:

With Purpose Restrictions	\$ <u>185,506</u>
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9. Contribution of Kids with Food Allergies Foundation (KFA)

Effective July 22, 2013, pursuant to the merger agreement, KFA's net assets of \$170,274 were contributed to the Foundation, the Foundation became the surviving corporation, and KFA ceased to exist. After the merger, KFA activities were combined with the Foundation.

The fair value of the net assets contributed on July 22, 2013, were as follows:

Cash	\$ 146,964
Accounts receivables	32,526
Pledges receivable	3,154
Prepaid expenses	1,333
Property and equipment, net	3,455
Liabilities	<u>(17,158)</u>
Total Net Asset Contribution	\$ <u>170,274</u>

The net assets contributed comprised of unrestricted net assets of \$72,128 and temporarily restricted net assets of \$98,146, restricted for KFA's outreach programs.

10. Provisional Indirect Cost Rates

The Foundation earned \$195,461 from cost reimbursable government grants during the year ended December 31, 2013. Such revenue is recorded as contributions, sponsorships and grants in the accompanying statement of activities. Billings under these grants are calculated using provisional rates that permit the recovery of indirect costs. These rates are subject to audit on an annual basis by the Foundation's cognizant agency. The audit results in the negotiation and determination of the final indirect cost rates, which may create a liability for

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For the Year Ended December 31, 2013

10. Provisional Indirect Cost Rates (continued)

indirect cost recovery billed in excess of the actual rates or may allow for additional billings for unbilled indirect costs. The Foundation has received final approval for its indirect cost rate proposal for the year ended December 31, 2012, and has received approval of its provisional rates through the year ended December 31, 2014.

11. Commitment

The Foundation entered into a noncancelable operating lease for its national headquarters' office space, which is scheduled to expire on July 31, 2019. Under the terms of the agreement, the Foundation is responsible for its proportionate share of real estate taxes and operating and maintenance costs and provides for annual rent increases over the term of the lease. The Foundation was also required to make a security deposit of \$11,368.

The Foundation also received a six month rent abatement at the lease's commencement date and a construction allowance totaling \$321,438. Under GAAP, all fixed rent increases are recognized on a straight-line basis over the term of the lease. The difference between this expense and the required lease payments is included in deferred rent and lease incentives in the accompanying statement of financial position. Additionally, the construction allowance of \$321,438 has been capitalized as leasehold improvements under property and equipment and is being amortized on a straight-line basis over the term of the lease. The leasehold improvements allowance has also been included in deferred rent and lease incentives in the accompanying statement of financial position and is recognized on a straight-line basis over the lease term.

KFA entered into a noncancelable operating lease for its office space in Fountainville, Pennsylvania, which is scheduled to expire on March 31, 2015. The Foundation did not cancel the lease when KFA was acquired in July 2013. Under the terms of the lease agreement, the Foundation is responsible for its operating and maintenance costs and provides for an annual rent increase on March 31, 2014, through its expiration.

Future minimum rental payments under the noncancelable operating leases are as follows:

For the Year Ending December 31,	
2014	\$ 171,864
2015	164,284
2016	164,961
2017	169,908
2018	174,988
Thereafter	<u>103,839</u>
Total	<u>\$ 949,844</u>

Rent expense totaled \$125,377 for the year ended December 31, 2013.

Continued

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NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2013

12. Pension Plan

The Foundation has a defined contribution plan (the Plan) for the benefit of its employees. Eligible employees begin participation in the Plan on the first day of the month following completion of a one-month period of service and the attainment of age 21. After the completion of one year of service, the Foundation matches an employee's contribution, dollar for dollar, up to 8% of the employee's salary, which is the maximum amount that the Foundation contributes. An employee may make contributions of up to 15% of his or her salary, or as limited by law. The Foundation's contribution to the Plan totaled \$74,610 for the year ended December 31, 2013.

13. Income Taxes

Under Section 501(c)(3) of the Internal Revenue Code, the Foundation is exempt from federal taxes on income other than net unrelated business income. The Foundation received unrelated business income from advertising revenue that is subject to unrelated business income tax. No provision for federal or state income taxes is required as of December 31, 2013, as the Foundation had no taxable net unrelated business income.

The Foundation adopted the authoritative guidance relating to accounting for uncertainty in income taxes included in ASC Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Foundation performed an evaluation of uncertain tax positions for the year ended December 31, 2013, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of December 31, 2013, the statute of limitations for tax years 2010 through 2012 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Foundation files tax returns. It is the Foundation's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of December 31, 2013, the Foundation had no accruals for interest and/or penalties.

14. Prior Year Summarized Financial Information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2012, from which the summarized information was derived.

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For the Year Ended December 31, 2013

15. Prior Period Adjustment

The December 31, 2012, financial statements have been restated to reflect donated goods and services revenue and expense totaling \$115,315 related to pro bono legal assistance. The prior period adjustment had no effect on the change of net assets for the year ended December 31, 2012.

16. Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through June 10, 2014, the date the financial statements were available to be issued. There were no subsequent events identified through June 10, 2014, required to be disclosed in these financial statements.