

**Audited Financial Statements
and Supplementary Information**

**ASTHMA AND ALLERGY FOUNDATION
OF AMERICA**

December 31, 2016

Asthma and Allergy Foundation of America

Contents

<i>Independent Auditor's Report on the Financial Statements</i>	1
<i>Financial Statements</i>	
Statement of financial position	2
Statement of activities	3
Statement of functional expenses	4
Statement of cash flows	5
Notes to the financial statements	6 - 13



Independent Auditor's Report on the Financial Statements

To the Board of Directors
Asthma and Allergy Foundation of America

We have audited the accompanying financial statements of Asthma and Allergy Foundation of America (the Foundation), which comprise the statement of financial position as of December 31, 2016, the related statements of activities 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 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 Foundation'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 Foundation'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 2016 financial statements referred to above present fairly, in all material respects, the financial position of Asthma and Allergy Foundation of America as of December 31, 2016, 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.

Washington, DC
May 15, 2017

Asthma and Allergy Foundation of America

Statement of Financial Position

December 31, 2016

Assets	
Cash and cash equivalents	\$ 2,274,178
Investments	2,390,399
Grants and accounts receivable, net	302,440
Pledges receivable, net	95,499
Inventory	42,846
Prepaid expenses	90,886
Property and equipment, net	127,234
Deposit	28,916
Total assets	\$ 5,352,398

Liabilities and Net Assets	
Liabilities	
Accounts payable and accrued expenses	\$ 482,671
Deferred revenue	953,820
Deferred rent and lease incentives	145,318
Total liabilities	1,581,809
Net assets	
Unrestricted	2,858,798
Temporarily restricted	751,791
Permanently restricted	160,000
Total net assets	3,770,589
Total liabilities and net assets	\$ 5,352,398

Asthma and Allergy Foundation of America

Statement of Activities

Year Ended December 31, 2016

Unrestricted activities

Revenue and support	
Contributions, sponsorships and grants	\$ 1,277,204
Certification income	1,066,786
Donated goods and services	508,458
Workplace giving	147,320
Advertising	123,247
Investment income	112,645
Other income	2,351
Net assets released from restrictions	1,550,426
Total revenue and support	4,788,437
Expense	
Program services	
Public information	1,096,591
Research	1,168,765
Community and chapter outreach	951,067
Family & patient services and professional education	251,983
Total program services	3,468,406
Supporting services	
Management and general	1,312,578
Fundraising	213,738
Total supporting services	1,526,316
Total expense	4,994,722
Change in unrestricted net assets	(206,285)
Temporarily restricted activities	
Contributions, sponsorships and grants	1,001,000
Investment income	8,884
Net assets released from restrictions	(1,550,426)
Change in temporarily net assets	(540,542)
Change in net assets	(746,827)
Net assets, beginning of year	4,517,416
Net assets, end of year	\$ 3,770,589

See notes to the financial statements.

Asthma and Allergy Foundation of America

Statement of Functional Expenses For the Year Ended December 31, 2016

	Program Services					Supporting Services			
	Public Information	Research	Community and Chapter Outreach	Family & Patient Services and Professional Education	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Purchased services	\$ 384,501	\$ 652,411	\$ 388,928	\$ 57,566	\$ 1,483,406	\$ 497,900	\$ 48,190	\$ 546,090	\$ 2,029,496
Salaries	351,372	333,517	353,395	90,783	1,129,067	468,506	82,113	550,619	1,679,686
Employee benefits	96,379	91,495	96,932	24,878	309,684	128,490	22,528	151,018	460,702
Facilities	51,051	48,433	53,200	13,183	165,867	68,036	11,924	79,960	245,827
Other	52,252	10,447	28,500	2,743	93,942	98,139	26,659	124,798	218,740
Meetings and travel	98,373	18,164	5,528	12,211	134,276	29,265	4,594	33,859	168,135
Printing and supplies	16,998	10,464	16,359	48,974	92,795	15,698	14,293	29,991	122,786
Mail and delivery	45,665	3,834	5,707	1,645	56,851	6,544	3,437	9,981	66,832
Grants and assistance	-	-	2,518	-	2,518	-	-	-	2,518
	\$ 1,096,591	\$ 1,168,765	\$ 951,067	\$ 251,983	\$ 3,468,406	\$ 1,312,578	\$ 213,738	\$ 1,526,316	\$ 4,994,722

See notes to the financial statements.

Asthma and Allergy Foundation of America

Statement of Cash Flows

Year Ended December 31, 2016

Cash flows from operating activities	
Change in net assets	\$ (746,827)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	48,605
Bad debt expense	24,913
Realized and unrealized gain on investments, net	(62,082)
Changes in assets and liabilities:	
Grants and accounts receivable	169,334
Pledges receivable	(9,063)
Inventory	224
Prepaid expenses	(50,173)
Deposits	(5,848)
Accounts payable and accrued expenses	133,114
Deferred revenue	430,194
Deferred rent and lease incentives	(47,509)
Total adjustments	631,709
Net cash used in operating activities	(115,118)
Cash flows from investing activities	
Proceeds from sales of investments	652,259
Purchases of investments	(691,473)
Purchases of furniture and equipment	(47,074)
Net cash used in investing activities	(86,288)
Net decrease in cash and cash equivalents	(201,406)
Cash and cash equivalents, beginning of year	2,475,584
Cash and cash equivalents, end of year	\$ 2,274,178
Supplemental disclosure of cash flow information:	
Cash paid during the year for income taxes	\$ 1,557

Asthma and Allergy Foundation of America

Notes to the Financial Statements

A. 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.

Income tax status: The Foundation is exempt from the payment of income taxes on its exempt activities other than net unrelated business income under Section 501(c)(3) of the Internal Revenue Code. The Foundation received unrelated business income from advertising revenue that is subject to unrelated business income tax.

Basis of accounting: The financial statements have been prepared on the accrual basis of accounting. Accordingly, revenue is recognized when earned and expense when the obligation is incurred.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents: For financial statement purposes, the Foundation considers cash and cash equivalents to be cash and certificates of deposit with an initial maturity of three months or less.

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: Property and equipment purchases over \$1,000 are capitalized at cost. Depreciation is calculated using the straight-line method over estimated useful lives of three to ten years. Leasehold improvements are recorded at cost and are amortized using the straight-line method over the life of the lease.

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.

Asthma and Allergy Foundation of America

Notes to the Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net assets: The Foundation's net assets are reported as follows:

- Unrestricted: Unrestricted net assets represent the portion of expendable funds that are available for support of the Foundation's operations.
- Temporarily restricted: Temporarily restricted net assets are restricted by donors for various projects or specific time periods.
- Permanently: 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.

Donated goods and services: Donated goods and services represent the value of donated 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 management and general expenses in the accompanying statement of activities.

Functional allocation of expenses: The costs of providing various programs and administrative activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Subsequent events: Subsequent events have been evaluated through May 15, 2017, which is the day the financial statements were available to be issued.

B. CONCENTRATIONS

Credit risk: The Foundation maintains demand deposits with commercial banks. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. federal government. The uninsured portions of these accounts are backed solely by the assets of the underlying institution. As such, the failure of an underlying institution could result in financial loss to the Foundation.

Market value risk: The Foundation also invests in a professionally managed portfolio of mutual funds. Such investments are exposed to market and credit risks and may be subject to fluctuations in fair value. As a result, the investment balances reported in the accompanying financial statements may not be reflective of the portfolio's value during subsequent periods.

Asthma and Allergy Foundation of America

Notes to the Financial Statements

C. INVESTMENTS

In accordance with generally accepted accounting principles, the Foundation uses the following prioritized input levels to measure fair value of investments. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets, such as stock quotes.

Level 2 – Inputs other than Level 1 inputs that are directly or indirectly observable in the marketplace, such as yield curves or other market data.

Level 3 – Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability including assumptions about risk, such as bid/ask spreads and liquidity discounts.

Investments recorded at fair value and classified within Level 1 include mutual funds, the fair values for which were based on quoted prices for identical assets in active markets.

Investments recorded at cost include a money market fund. Investments at cost are not required to be classified within the levels of the fair value hierarchy. Investments consisted of the following as of December 31, 2016:

Investments, at fair value	
Mutual funds - fixed income	\$ 1,109,848
Mutual funds - equities	<u>1,258,482</u>
	2,368,330
Investments, at cost	
Money market funds	<u>22,069</u>
	<u>\$ 2,390,399</u>

Investment income consists of the following for the year ended December 31, 2016:

Interest and dividends	\$ 59,447
Realized and unrealized gain on investments, net	<u>62,082</u>
	<u>\$ 121,529</u>

Asthma and Allergy Foundation of America

Notes to the Financial Statements

D. GRANTS AND ACCOUNTS RECEIVABLE

Grants and accounts receivable are presented at the gross amount due to the Foundation less an allowance for doubtful accounts.

Management periodically reviews the status of all grants and accounts receivable balances for collectability. Each receivable balance is assessed based on management's knowledge of the customer, the Foundation's relationship with the customer, and the age of the receivable balance. As a result of these reviews, the Foundation has established an allowance for doubtful accounts representing an estimate of the accounts receivables that may not be collected.

Grants and accounts receivable consisted of the following at December 31, 2016:

Grants and accounts receivable	\$ 322,187
Less: allowance for doubtful accounts	<u>(19,747)</u>
	<u>\$ 302,440</u>

E. PLEDGES RECEIVABLE

The Foundation's pledges receivable balance consists of amounts due from the Combined Federal Campaign (CFC). As of December 31, 2016, substantially all pledges receivable were due within one year. Pledges receivable consisted of the following as of December 31, 2016:

Pledges receivable	\$ 116,665
Less: allowance for doubtful accounts	<u>(21,166)</u>
	<u>\$ 95,499</u>

F. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2016:

Leasehold improvements	\$ 334,557
Computer equipment	70,126
Furniture and fixtures	<u>48,618</u>
	453,301
Less: accumulated depreciation	<u>(326,067)</u>
	<u>\$ 127,234</u>

Asthma and Allergy Foundation of America

Notes to the Financial Statements

G. JOINT CERTIFICATION PROGRAM

During 2005, the Foundation entered into a joint certification program (the Program) with Allergy Standards Limited (ASL) to raise awareness of asthma and allergies. The term of this agreement ends in 2020, however, either party can terminate the agreement if certain conditions exist. Under the agreement, the Foundation and ASL shall be exclusive and equal partners in the Program, shall share the licensing and other revenues equally (except for certain application fees and testing costs), and shall be responsible equally for costs of running the Program. During the year ended December 31, 2016, the program generated gross revenue of \$2,183,012. For the year ended December 31, 2016, the Foundation's share of the revenue totaled \$1,066,786 and is reported in the statement of activities as certification income. As of December 31, 2016, the Foundation owed ASL \$153,436.

H. 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 his or her salary up to the annual statutory limits. The Foundation's contributions to the Plan totaled \$79,255 for the year ended December 31, 2016.

I. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2016:

Public information	\$	284,522
Community and chapter outreach		191,851
Endowment fund for research		183,287
Family & patient services and professional education		89,657
Research		2,474
		<u>2,474</u>
	\$	<u>751,791</u>

Net assets released from restrictions consisted of the following for the year ended December 31, 2016:

Public information	\$	787,178
Community and chapter outreach		416,161
Research		176,930
Family & patient services and professional education		170,157
		<u>170,157</u>
	\$	<u>1,550,426</u>

Asthma and Allergy Foundation of America

Notes to the Financial Statements

J. ENDOWMENT

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

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, 2016.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for 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. For the year ended December 31, 2016, the endowment fund had a 5% rate of return.

Asthma and Allergy Foundation of America

Notes to the Financial Statements

J. ENDOWMENT - 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 yearend, 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. 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, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment fund	\$ -	\$ 183,287	\$ 160,000	\$ 343,287

Changes in endowment net assets were as follows for the year ended December 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 180,803	\$ 160,000	\$ 340,803
Investment return				
Interest and dividends		4,596		4,596
Net depreciation (realized and unrealized)		5,164		5,164
Investment fees		(876)		(876)
Total investment return	-	8,884	-	8,884
Appropriation of endowment assets for expenditure		(6,400)		(6,400)
Total endowment funds, end of year	\$ -	\$ 183,287	\$ 160,000	\$ 343,287

Asthma and Allergy Foundation of America

Notes to the Financial Statements

K. COMMITMENTS AND CONTINGENCIES

Office leases: 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 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 amortized on a straight-line basis over the lease term.

In addition, the Foundation had a noncancelable operating lease for its office space in Fountainville, Pennsylvania, which was scheduled to expire on March 31, 2017. Under the terms of the lease agreement, the Foundation was responsible for its operating and maintenance costs and for an annual rent increases. Subsequent to the year ended December 31, 2016, the Foundation entered into a new noncancelable operating lease for its office space in Fountainville, Pennsylvania with a rent commencement date of April 1, 2017 and scheduled expiration date of March 31, 2020. Under the terms of the lease agreement, the Foundation is responsible for its operating and maintenance costs and for annual rent increases.

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

Year Ending December 31,	
2017	\$ 240,471
2018	264,678
2019	195,447
2020	23,022
	<hr/>
	\$ 723,618

Rent expense totaled \$146,808 for the year ended December 31, 2016.

Federal Grants: The Foundation participates in a number of federally assisted grant programs, which are subject to financial and compliance audits by the Federal agencies or their representatives. As such, there exists a contingent liability for potential questioned costs that may result from such an audit. Management does not anticipate any significant adjustments as a result of such an audit.