

**Audited Financial Statements
and Supplementary Information**

**ASTHMA AND ALLERGY FOUNDATION
OF AMERICA**

December 31, 2017

Asthma and Allergy Foundation of America

Contents

<i>Independent Auditor's Report on the Financial Statements</i>	1
<i>Financial Statements</i>	
Statements of financial position	2
Statements of activities	3
Statement of functional expenses - 2017	4
Statement of functional expenses - 2016	5
Statements of cash flows	6
Notes to the financial statements	7 - 15

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 statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years 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

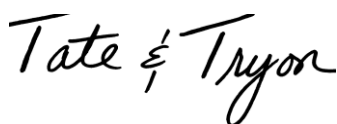
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about 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 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



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Asthma and Allergy Foundation of America

Statements of Financial Position

December 31,	2017	2016
Assets		
Cash and cash equivalents	\$ 700,263	\$ 2,274,178
Investments	2,671,084	2,390,399
Grants and accounts receivable, net	614,283	302,440
Pledges receivable, net	121,765	95,499
Inventory	22,978	42,846
Prepaid expenses	168,758	90,886
Property and equipment, net	87,960	127,234
Deposit	34,422	28,916
Total assets	\$ 4,421,513	\$ 5,352,398
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 359,296	\$ 482,671
Deferred revenue	607,896	953,820
Deferred rent and lease incentives	92,862	145,318
Total liabilities	1,060,054	1,581,809
Net assets		
Unrestricted	2,220,242	2,858,798
Temporarily restricted	981,217	751,791
Permanently restricted	160,000	160,000
Total net assets	3,361,459	3,770,589
Total liabilities and net assets	\$ 4,421,513	\$ 5,352,398

See notes to the financial statements.

Asthma and Allergy Foundation of America

Statements of Activities

<i>Year Ended December 31,</i>	2017	2016
Unrestricted activities		
Revenue and support		
Contributions, sponsorships and grants	\$ 1,221,082	\$ 1,277,204
Certification income	1,217,905	1,066,786
Donated goods and services	509,778	508,458
Workplace giving	137,960	147,320
Advertising	35,250	123,247
Investment income	293,635	112,645
Other income	4,528	2,351
Net assets released from restrictions	806,777	1,550,426
Total revenue and support	4,226,915	4,788,437
Expense		
Program services		
Public information	1,055,271	1,096,591
Research	947,819	1,168,765
Community and chapter outreach	940,859	951,067
Family & patient services and professional education	273,366	251,983
Total program services	3,217,315	3,468,406
Supporting services		
Management and general	1,162,616	1,312,578
Fundraising	485,540	213,738
Total supporting services	1,648,156	1,526,316
Total expense	4,865,471	4,994,722
Change in unrestricted net assets	(638,556)	(206,285)
Temporarily restricted activities		
Contributions, sponsorships and grants	1,014,000	1,001,000
Investment income	22,203	8,884
Net assets released from restrictions	(806,777)	(1,550,426)
Change in temporarily net assets	229,426	(540,542)
Change in net assets	(409,130)	(746,827)
Net assets, beginning of year	3,770,589	4,517,416
Net assets, end of year	\$ 3,361,459	\$ 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, 2017

	Program Services					Supporting Services			Total
	Public Information	Research	Community and Chapter Outreach	Family & Patient Services and Professional Education	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Purchased services	\$ 323,523	\$ 563,178	\$ 304,835	\$ 40,934	\$ 1,232,470	\$ 550,442	\$ 92,765	\$ 643,207	\$ 1,875,677
Salaries	346,424	229,044	372,616	124,587	1,072,671	357,655	206,424	564,079	1,636,750
Employee benefits	107,235	67,242	120,171	36,848	331,496	93,166	82,097	175,263	506,759
Facilities	64,836	40,875	74,528	21,546	201,785	73,948	49,029	122,977	324,762
Other	79,578	23,081	49,606	6,900	159,165	52,164	22,131	74,295	233,460
Meetings and travel	110,251	21,959	9,514	7,832	149,556	30,065	25,600	55,665	205,221
Printing and supplies	23,424	2,440	9,589	34,719	70,172	5,176	7,494	12,670	82,842
	\$ 1,055,271	\$ 947,819	\$ 940,859	\$ 273,366	\$ 3,217,315	\$ 1,162,616	\$ 485,540	\$ 1,648,156	\$ 4,865,471

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			Total
	Public Information	Research	Community and Chapter Outreach	Family & Patient Services and Professional Education	Total Program Services	Management and General	Fundraising	Total Supporting Services	
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	31,018	2,743	96,460	98,139	26,659	124,798	221,258
Meetings and travel	98,373	18,164	5,528	12,211	134,276	29,265	4,594	33,859	168,135
Printing and supplies	62,663	14,298	22,066	50,619	149,646	22,242	17,730	39,972	189,618
	\$ 1,096,591	\$ 1,168,765	\$ 951,067	\$ 251,983	\$ 3,468,406	\$ 1,312,578	\$ 213,738	\$ 1,526,316	\$ 4,994,722

Asthma and Allergy Foundation of America

Statements of Cash Flows

<i>Year Ended December 31,</i>	2017	2016
Cash flows from operating activities		
Change in net assets	\$ (409,130)	\$ (746,827)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	49,462	48,605
Loss on disposal of property and equipment	48	-
Write-off of obsolete inventory	20,075	-
Bad debt expense	-	24,913
Realized and unrealized gain on investments, net	(234,296)	(62,082)
Changes in assets and liabilities:		
Grants and accounts receivable	(311,843)	169,334
Pledges receivable	(26,266)	(9,063)
Inventory	(207)	224
Prepaid expenses	(77,872)	(50,173)
Deposits	(5,506)	(5,848)
Accounts payable and accrued expenses	(123,375)	133,114
Deferred revenue	(345,924)	430,194
Deferred rent and lease incentives	(52,456)	(47,509)
Total adjustments	(1,108,160)	631,709
Net cash used in operating activities	(1,517,290)	(115,118)
Cash flows from investing activities		
Proceeds from sales of investments	1,419,415	652,259
Purchases of investments	(1,465,804)	(691,473)
Purchases of furniture and equipment	(10,236)	(47,074)
Net cash used in investing activities	(56,625)	(86,288)
Net decrease in cash and cash equivalents	(1,573,915)	(201,406)
Cash and cash equivalents, beginning of year	2,274,178	2,475,584
Cash and cash equivalents, end of year	\$ 700,263	\$ 2,274,178
Supplemental disclosure of cash flow information:		
Cash paid during the year for income taxes	\$ -	\$ 1,557

See notes to the financial statements.

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. The endowment fund consists 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 statements 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.

Reclassifications: Certain accounts relating to the year ended December 31, 2016 have been reclassified to conform to the current year presentation with no effect on previously reported net income. In particular, mail and delivery totaling \$66,832 and grants and assistance totaling \$2,518 have been reclassified to other expense on the schedule of functional expenses.

Subsequent events: Subsequent events have been evaluated through May 3, 2018, 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,:

	2017	2016
Investments, at fair value		
Mutual funds - fixed income	\$ 1,379,957	\$ 1,109,848
Mutual funds - equities	<u>1,253,104</u>	<u>1,258,482</u>
	2,633,061	2,368,330
Investments, at cost		
Money market funds	<u>38,023</u>	<u>22,069</u>
	<u>\$ 2,671,084</u>	<u>\$ 2,390,399</u>

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

	2017	2016
Interest and dividends	\$ 81,542	\$ 59,447
Realized and unrealized gain on investments, net	<u>234,296</u>	<u>62,082</u>
	<u>\$ 315,838</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,:

	2017	2016
Grants and accounts receivable	\$ 614,283	\$ 322,187
Less: allowance for doubtful accounts	<u>-</u>	<u>(19,747)</u>
	<u>\$ 614,283</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, 2017, substantially all pledges receivable were due within one year. Pledges receivable consisted of the following as of December 31,:

	2017	2016
Pledges receivable	\$ 137,547	\$ 116,665
Less: allowance for doubtful accounts	<u>(15,782)</u>	<u>(21,166)</u>
	<u>\$ 121,765</u>	<u>\$ 95,499</u>

F. PROPERTY AND EQUIPMENT

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

	2017	2016
Leasehold improvements	\$ 340,207	\$ 334,557
Computer equipment	56,706	70,126
Furniture and fixtures	<u>53,203</u>	<u>48,618</u>
	450,116	453,301
Less: accumulated depreciation	<u>(362,156)</u>	<u>(326,067)</u>
	<u>\$ 87,960</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 years ended December 31, 2017 and 2016, the program generated gross revenue of \$2,395,123 and \$2,183,012. For the years ended December 31, 2017 and 2016, the Foundation's share of the revenue totaled \$1,217,905 and \$1,066,786 and is reported in the statements of activities as certification income. As of December 31, 2017 and 2016, the Foundation owed ASL \$83,496 and \$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 \$54,780 and \$79,255 for the years ended December 31, 2017 and 2016.

I. TEMPORARILY RESTRICTED NET ASSETS

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

	2017	2016
Public information	\$ 333,964	\$ 284,522
Endowment fund for research	199,090	183,287
Community and chapter outreach	198,022	191,851
Family & patient services and professional education	131,362	89,657
Research	118,779	2,474
	<u>\$ 981,217</u>	<u>\$ 751,791</u>

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

	2017	2016
Public information	\$ 435,557	\$ 787,178
Community and chapter outreach	203,829	416,161
Family & patient services and professional education	152,295	170,157
Research	15,096	176,930
	<u>\$ 806,777</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, 2017 and 2016.

Asthma and Allergy Foundation of America

Notes to the Financial Statements

J. ENDOWMENT - CONTINUED

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 years ended December 31, 2017 and 2016, the endowment fund had a rate of return 6% and 3%, respectively.

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. 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, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment fund	\$ -	\$ 199,090	\$ 160,000	\$ 359,090

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

Asthma and Allergy Foundation of America

Notes to the Financial Statements

J. ENDOWMENT - CONTINUED

Changes in endowment net assets were as follows for the year ended December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 183,287	\$ 160,000	\$ 343,287
Investment return				
Interest and dividends		5,500		5,500
Net appreciation (realized and unrealized)		17,513		17,513
Investment fees		(810)		(810)
Total investment return	-	22,203	-	22,203
Appropriation of endowment assets for expenditure		(6,400)		(6,400)
Total endowment funds, end of year	\$ -	\$ 199,090	\$ 160,000	\$ 359,090

Changes in endowment net assets were as followed 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 appreciation (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

J. 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.

Asthma and Allergy Foundation of America

Notes to the Financial Statements

K. COMMITMENTS AND CONTINGENCIES - CONTINUED

In addition, the Foundation has a noncancelable operating lease for its office space in Fountainville, Pennsylvania, which is scheduled to expire on 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. The lease contains a five year renewal option. The renewal must be exercised at least 180 days prior to the expiration of the original lease term.

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

Year Ending December 31,	
2018	\$ 264,678
2019	195,447
2020	<u>23,022</u>
	<u>\$ 483,147</u>

Rent expense totaled \$188,145 and \$146,808 for the years ended December 31, 2017 and 2016, respectively.

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.

Employment agreement: In January 2018, the Foundation hired a new Chief Executive Officer. In certain circumstances, the Chief Executive Officer may be entitled to severance payments as stipulated by his employment agreement.