

Asthma and Allergy Foundation of America

Financial Report
December 31, 2019

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RSM US LLP

Independent Auditor's Report

Board of Directors
Asthma and Allergy Foundation of America

Report on the Financial Statements

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, 2019, 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 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, 2019, 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.

Other Matter

The financial statements of the Foundation, as of and for the year ended December 31, 2018, were audited by other auditors whose report dated September 12, 2019, expressed an unmodified opinion on those statements.

Emphasis of Matter

As discussed in Note 11 to the financial statements, in 2019 the Foundation adopted new accounting guidance, Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)* using the modified retrospective transition method. Our opinion is not modified with respect to this matter.

RSM US LLP

Washington, D.C.
August 28, 2020

Asthma and Allergy Foundation of America

Statements of Financial Position
December 31, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	\$ 750,633	\$ 287,360
Investments	2,250,169	2,033,656
Accounts receivable, net	225,009	293,250
Grants receivable, net	192,116	940,289
Contributions receivable, net	-	73,152
Prepaid expenses and other assets	131,543	134,006
Property and equipment, net	88,890	46,252
Investment held to fund deferred compensation	31,511	-
Deposit	19,054	34,422
	<u>3,688,925</u>	<u>3,842,387</u>
Total assets	\$ 3,688,925	\$ 3,842,387
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 872,555	\$ 527,972
Deferred revenue	25,000	440,917
Refundable advances	250,000	-
Deferred compensation obligation	31,511	-
Deferred rent	84,682	35,325
	<u>1,263,748</u>	<u>1,004,214</u>
Total liabilities	1,263,748	1,004,214
Commitments and contingencies (Note 10)		
Net assets:		
Without donor restrictions	1,550,687	1,675,031
With donor restrictions	874,490	1,163,142
	<u>2,425,177</u>	<u>2,838,173</u>
Total net assets	2,425,177	2,838,173
	<u>3,688,925</u>	<u>3,842,387</u>
Total liabilities and net assets	\$ 3,688,925	\$ 3,842,387

See notes to financial statements.

Asthma and Allergy Foundation of America

Statements of Activities
Years Ended December 31, 2019 and 2018

	2019	2018
Activities without donor restrictions:		
Revenue and support:		
Certification	\$ 1,311,371	\$ 1,338,946
Contributions, sponsorships and grants	1,099,590	1,343,715
Investment income (loss)	403,855	(112,493)
Donated goods and services	272,652	353,646
Workplace giving	46,607	44,903
Other income	24,091	2,536
Net assets released from restrictions	1,866,146	1,100,444
Total revenue and support	5,024,312	4,071,697
Expenses:		
Program services:		
Public information	1,886,903	1,479,911
Research	1,127,689	674,453
Family and patient services and professional education	457,609	505,323
Community and chapter outreach	415,966	538,147
Total program services	3,888,167	3,197,834
Supporting services:		
Management and general	1,148,179	995,848
Fundraising	518,940	423,226
Total supporting services	1,667,119	1,419,074
Total expenses	5,555,286	4,616,908
Change in net assets without donor restrictions	(530,974)	(545,211)
Activities with donor restrictions:		
Contributions, sponsorships and grants	1,547,550	1,133,149
Investment income (loss)	29,944	(10,780)
Net assets released from restrictions	(1,866,146)	(1,100,444)
Change in net assets with donor restrictions	(288,652)	21,925
Change in net assets	(819,626)	(523,286)
Net assets:		
Beginning	2,838,173	3,361,459
Cumulative effect of adoption of ASC 2014-09 (Note 11)	406,630	-
Ending	\$ 2,425,177	\$ 2,838,173

See notes to financial statements.

Asthma and Allergy Foundation of America

Statement of Functional Expenses
Year Ended December 31, 2019

	Program Services					Supporting Services			
	Public Information	Research	Family and Patient Services and Professional Education	Community and Chapter Outreach	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Purchased services	\$ 717,390	\$ 312,029	\$ 82,976	\$ 30,435	\$ 1,142,830	\$ 551,040	\$ 32,177	\$ 583,217	\$ 1,726,047
Salaries	554,917	206,751	183,129	220,602	1,165,399	268,127	278,136	546,263	1,711,662
Employee benefits	210,266	75,954	65,511	77,748	429,479	107,233	98,278	205,511	634,990
Meetings and travel	75,263	231,733	23,595	11,194	341,785	40,724	14,550	55,274	397,059
Other	175,906	35,935	26,501	31,718	270,060	94,474	19,949	114,423	384,483
Facilities	118,435	40,671	44,321	40,689	244,116	74,452	54,286	128,738	372,854
Grants and assistance	-	220,000	-	-	220,000	3,709	-	3,709	223,709
Printing and supplies	26,974	3,429	26,696	2,360	59,459	4,844	9,221	14,065	73,524
Mail and delivery	7,752	1,187	4,880	1,220	15,039	3,576	12,343	15,919	30,958
	\$ 1,886,903	\$ 1,127,689	\$ 457,609	\$ 415,966	\$ 3,888,167	\$ 1,148,179	\$ 518,940	\$ 1,667,119	\$ 5,555,286

See notes to financial statements.

Asthma and Allergy Foundation of America

Statement of Functional Expenses
Year Ended December 31, 2018

	Program Services					Supporting Services			
	Public Information	Research	Family and Patient Services and Professional Education	Community and Chapter Outreach	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total
Purchased services	\$ 405,309	\$ 243,875	\$ 60,636	\$ 56,772	\$ 766,592	\$ 405,579	\$ 41,751	\$ 447,330	\$ 1,213,922
Salaries	509,692	220,919	231,318	242,690	1,204,619	318,744	200,549	519,293	1,723,912
Employee benefits	149,878	62,211	71,710	98,571	382,370	145,253	73,339	218,592	600,962
Meetings and travel	159,729	28,075	24,639	18,917	231,360	36,390	32,812	69,202	300,562
Other	113,519	48,793	21,469	56,067	239,848	41,504	28,679	70,183	310,031
Facilities	104,784	40,236	48,490	59,734	253,244	44,294	43,193	87,487	340,731
Printing and supplies	22,565	20,187	36,579	3,674	83,005	1,646	849	2,495	85,500
Mail and delivery	14,435	10,157	10,482	1,722	36,796	2,438	2,054	4,492	41,288
	<u>\$ 1,479,911</u>	<u>\$ 674,453</u>	<u>\$ 505,323</u>	<u>\$ 538,147</u>	<u>\$ 3,197,834</u>	<u>\$ 995,848</u>	<u>\$ 423,226</u>	<u>\$ 1,419,074</u>	<u>\$ 4,616,908</u>

See notes to financial statements.

Asthma and Allergy Foundation of America

Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ (819,626)	\$ (523,286)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	34,223	47,782
Bad debt expense	106,348	4,000
Realized and unrealized (gain) loss on investments, net	(364,486)	189,422
Cumulative effect of adoption of ASC 2014-09	406,630	-
Changes in assets and liabilities:		
(Increase) decrease:		
Accounts receivable	6,541	826
Grants receivable	748,173	(624,082)
Contributions receivable	28,504	48,613
Prepaid expenses and other assets	2,463	57,730
Deposits	15,368	-
Increase (decrease):		
Accounts payable and accrued expenses	344,583	168,676
Deferred revenue	(415,917)	(166,979)
Refundable advances	250,000	-
Deferred rent	1,023	(57,537)
Net cash provided by (used in) operating activities	343,827	(854,835)
Cash flows from investing activities:		
Proceeds from sales of investments	397,401	1,296,980
Purchases of investments	(249,428)	(848,974)
Purchases of furniture and equipment	(28,527)	(6,074)
Net cash provided by investing activities	119,446	441,932
Net increase (decrease) in cash and cash equivalents	463,273	(412,903)
Cash and cash equivalents:		
Beginning	287,360	700,263
Ending	\$ 750,633	\$ 287,360
Supplemental disclosure of noncash investing and financing transactions:		
Equipment acquired via tenant improvement allowance	\$ 48,334	\$ -

See notes to financial statements.

Asthma and Allergy Foundation of America

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of Activities: The Asthma and Allergy Foundation of America (National Headquarters) (the Foundation) is a nonprofit 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 and has been classified as a publicly supported organization, not a private foundation. The Foundation does not have any significant sources of unrelated business income.

Basis of accounting: The accompanying financial statements are presented in accordance with the accrual basis of accounting. As such, revenues are recognized when they are earned, and expenses are recognized when the underlying obligations are incurred.

Basis of presentation: The Foundation is required to report information regarding its financial position and activities according to two classifications of net assets: net assets without donor restrictions and net assets with donor restrictions.

Without donor restrictions: Net assets without donor restrictions represent the portion of expendable funds that are available for support of the Foundation's operations.

With donor restrictions: Net assets with donor restrictions are restricted by donors for various projects or specific time periods. Net assets with donor restrictions also includes an 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.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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.

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.

Investments: Investments with readily determinable fair values are reflected at fair market value. To adjust the carrying value of these investments, the change in fair market value is charged or credited to current operations net of related fees.

The Foundation invests in various 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 Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Accounts receivable: Accounts receivable consist of amounts due from customers related to the certification program. 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 believes all accounts receivable to be collectible. As a result, the Foundation does not believe an allowance for doubtful accounts is necessary.

Grants receivable: Grants receivable consist of unconditional promises to give from various donors. All such amounts are due within one year. Thus, grants 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 believes all grants receivable to be collectible. As a result, the Foundation does not believe an allowance for doubtful accounts is necessary.

Contributions receivable: The Foundation's contributions receivable balance consists of amounts due from the Combined Federal Campaign (CFC). Substantially all contributions receivable were due within one year. As a result of these reviews, the Foundation has established an allowance for doubtful contributions representing an estimate of the contributions receivable that may not be collected. As of December 31, 2019 and 2018, contributions receivable are presented net of an allowance for doubtful accounts of \$54,529 and \$9,881, respectively.

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.

Deferred rent: The Foundation recognizes rent expense on a straight-line basis over the life of the lease. The accumulated difference between the straight-line rent expense recognized and cash payments made is presented as deferred rent.

Certification revenue: Revenue from contracts with customers is derived primarily from certification activities. As described further in Note 5, certification activities consist of payments from companies in order to participate in the *asthma & allergy friendly*[®] certification program. Certification revenue is recognized at the point in time the use of the license is granted.

There are no rights of return or refunds for the Foundation's revenue from contracts with customers. Payments are due upon receipt of the invoice. The Foundation did not have any impairment or credit losses on any receivables or contract assets arising from contracts with customers. There are also no incremental costs of obtaining a contract and no significant financing components.

Economic factors driven by consumer confidence, employment, inflation, and other world events impact the timing and level of cash received and revenue recognized by the Foundation. Periods of economic downturn resulting from any of the above factors may result in declines in future cash flows and recognized revenue of the Foundation.

Asthma and Allergy Foundation of America

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Contributions: Unconditional contributions are recorded as support with or without donor restrictions depending upon the existence and/or nature of donor restrictions. Support that is restricted by donors is reported as an increase in net assets with donor restrictions and then reclassified to net assets without donor restrictions when the restriction expires. Contributions with donor restrictions that are received and expended in the same period are classified within net assets without donor restrictions. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Assets received in connection with conditional promises are reported as refundable advances until such time the conditions are substantially met. At December 31, 2019, refundable advances consisted of sponsorship payments related to certain events that are to be held subsequent to 2019.

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. Salaries and benefits are allocated based on estimates of the percentage of the employee time spent on relevant activities. Overhead costs, which include occupancy and administrative expenses, are allocated based on direct salaries charged to each function.

Recent accounting pronouncements adopted: The FASB issued the Accounting Standards Update (ASU) 2014-09 (as amended), *Revenue from Contracts with Customers* and ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The Foundation adopted the provisions of ASUs 2014-09 and 2018-08 during the year ended December 31, 2019.

ASU 2014-09 requires that the Foundation recognize the amount of revenue to which it expects to be entitled in exchange for the transfer of promised goods and services to customers. ASU 2014-09 replaces most existing revenue recognition guidance in U.S. GAAP. The ASU also requires expanded disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows from contracts from customers. The Foundation adopted the new standard, effective for the year ended December 31, 2019, using the modified retrospective transition method. Under the modified retrospective transition method, a cumulative effect adjustment is reflected in the opening balance of net assets as of the date of initial application. Prior periods are not adjusted to reflect the application of ASU 2014-09. In considering the impact of ASU 2014-09 on the financial statements, the Foundation applied it to all contracts as of January 1, 2019. As a result, a cumulative effect adjustment of \$406,630 was recorded as an increase to net assets as of January 1, 2019. See Note 11.

ASU 2018-08 clarifies requirements on how to determine reciprocal and non-reciprocal transactions. Reciprocal transactions generally follow the contract accounting standards under ASU 2014-09. Non-reciprocal transactions generally follow the contribution accounting standards. ASU 2018-08 also clarified and revised the definition of conditional contributions. The Foundation adopted the standard using the modified prospective method as permitted by ASU 2018-08. The adoption of ASU 2018-08 did not impact the Foundation's reported change in net assets. As allowed by ASU 2018-08, the Foundation will adopt the provisions of ASU 2018-08 for contributions made during the year ended December 31, 2020.

Asthma and Allergy Foundation of America

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Upcoming accounting pronouncements: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for the Foundation's year ending December 31, 2022. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Foundation anticipates adopting the new standard during the year ending December 31, 2022, and is currently evaluating the impact of the adoption of the new standard on the financial statements.

Reclassification: Certain accounts relating to the prior year have been reclassified to conform to the current year presentation with no effect on the previously reported change in net assets.

Note 2. Investments

Investments consisted of the following as of December 31, 2019 and 2018:

	2019	2018
Investments, at fair value:		
Mutual funds - equities:		
Large cap core funds	\$ 102,052	\$ 85,019
Large cap growth funds	438,770	352,467
Large cap value funds	359,994	321,397
Mid cap core funds	78,818	67,117
SMid cap core funds	108,463	88,048
Small cap core funds	122,496	110,366
Intl equity developed funds	234,648	213,565
Intl equity emerging funds	60,034	56,198
Mutual funds - fixed income:		
Money market funds	33,514	37,079
Bond funds	711,380	702,400
	<u>\$ 2,250,169</u>	<u>\$ 2,033,656</u>

Investment income (loss) consists of the following for the years ended December 31, 2019 and 2018:

	2019	2018
Interest and dividends	\$ 69,313	\$ 66,149
Realized and unrealized gain (loss) on investments, net of fees	364,486	(189,422)
	<u>\$ 433,799</u>	<u>\$ (123,273)</u>

Asthma and Allergy Foundation of America

Notes to Financial Statements

Note 3. Liquidity

The Foundation invests cash balances in excess of immediate liquidity needs in accordance with its investment policy. The following provides a summary of financial assets available for general expenditures within one year at December 31, 2019 and 2018:

	2019	2018
Cash and cash equivalents	\$ 750,633	\$ 287,360
Investments	2,250,169	2,033,656
Accounts receivable	225,009	293,250
Grants receivable	192,116	940,289
Pledges receivable	-	73,152
Subtotal financial assets	<u>3,417,927</u>	<u>3,627,707</u>
Less those unavailable for general expenditures within one year:		
Net assets with donor restrictions	<u>(874,490)</u>	<u>(1,163,142)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,543,437</u>	<u>\$ 2,464,565</u>

Note 4. Property and Equipment

Property and equipment consisted of the following at December 31, 2019 and 2018:

	2019	2018
Leasehold improvements	\$ 70,138	\$ 340,207
Computer equipment	75,154	62,781
Furniture and fixtures	53,203	53,203
	<u>198,495</u>	<u>456,191</u>
Less accumulated depreciation	<u>(109,605)</u>	<u>(409,939)</u>
	<u>\$ 88,890</u>	<u>\$ 46,252</u>

Note 5. Fair Value Measurements

In accordance with GAAP, 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.

Asthma and Allergy Foundation of America

Notes to Financial Statements

Note 5. Fair Value Measurement (Continued)

The deferred compensation liability was calculated based on amounts currently due under the deferred compensation agreement.

The following is a summary of input levels used to determine fair values, measured on a recurring basis, of the following items at December 31, 2019 and 2018:

2019	Total	Level 1	Level 2	Level 3
Assets:				
Investments, at fair value:				
Mutual funds - equities:				
Large cap core funds	\$ 102,052	\$ 102,052	\$ -	\$ -
Large cap growth funds	438,770	438,770	-	-
Large cap value funds	359,994	359,994	-	-
Mid cap core funds	78,818	78,818	-	-
SMid cap core funds	108,463	108,463	-	-
Small cap core funds	122,496	122,496	-	-
Intl equity developed funds	234,648	234,648	-	-
Intl equity emerging funds	60,034	60,034	-	-
Mutual funds - fixed income:				
Money market funds	33,514	33,514	-	-
Bond funds	711,380	711,380	-	-
Deferred compensation investments:				
Large cap mutual fund	31,511	31,511	-	-
	<u>\$ 2,281,680</u>	<u>\$ 2,281,680</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities:				
Deferred compensation obligation	\$ 31,511	\$ -	\$ 31,511	\$ -
2018				
Investments, at fair value:				
Mutual funds - equities:				
Large cap core funds	\$ 85,019	\$ 85,019	\$ -	\$ -
Large cap growth funds	352,467	352,467	-	-
Large cap value funds	321,397	321,397	-	-
Mid cap core funds	67,117	67,117	-	-
SMid cap core funds	88,048	88,048	-	-
Small cap core funds	110,366	110,366	-	-
Intl equity developed funds	213,565	213,565	-	-
Intl equity emerging funds	56,198	56,198	-	-
Mutual funds - fixed income:				
Money market funds	37,079	37,079	-	-
Bond funds	702,400	702,400	-	-
	<u>\$ 2,033,656</u>	<u>\$ 2,033,656</u>	<u>\$ -</u>	<u>\$ -</u>

Asthma and Allergy Foundation of America

Notes to Financial Statements

Note 6. 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, 2019 and 2018, the program generated gross revenue of \$2,619,178 and \$2,659,504, respectively. For the years ended December 31, 2019 and 2018, the Foundation's net share of the revenue totaled \$1,311,371 and \$1,338,946, respectively, and is reported in the statements of activities as certification revenue. As of December 31, 2019 and 2018, the Foundation owed ASL amounts due under this program of \$161,264 and \$104,994, respectively.

Note 7. Retirement Plans

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.

During 2018, the Foundation established a Section 457(b) deferred compensation plan for its CEO. Payments into the plan commenced in 2019. Under the Section 457(b) plan, the Foundation makes certain discretionary contributions into the plan on behalf of the participant, subject to IRC limitations. At December 31, 2019, the asset and obligation for the deferred compensation plan totaled \$31,511.

The Foundation's expenses related to the Plans totaled \$137,716 and \$86,097 for the years ended December 31, 2019 and 2018, respectively.

Note 8. Net Assets With Donor Restrictions

Net assets with donor restrictions consisted of the following at December 31, 2019 and 2018:

	2019	2018
Endowment fund for research	\$ 371,854	\$ 348,310
Research	305,459	379,734
Community and chapter outreach	197,177	223,164
Family and patient services and professional education	-	138,153
Public information	-	73,781
	<u>\$ 874,490</u>	<u>\$ 1,163,142</u>

Asthma and Allergy Foundation of America

Notes to Financial Statements

Note 8. Net Assets With Donor Restrictions (Continued)

Net assets released from restrictions consisted of the following for the years ended December 31, 2019 and 2018:

	2019	2018
Research	\$ 1,119,275	\$ 144,047
Community and chapter outreach	403,537	463,808
Family and patient services and professional education	218,153	168,206
Public information	118,781	324,383
Endowment fund for research	6,400	-
	<u>\$ 1,866,146</u>	<u>\$ 1,100,444</u>

Note 9. 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 net assets with donor restrictions to be maintained in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment and (c) accumulations to the 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 in net assets with donor restriction to be maintained in perpetuity is classified as net assets with donor restrictions available for specified purpose 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, 2019 and 2018.

Asthma and Allergy Foundation of America

Notes to Financial Statements

Note 9. 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.

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 up to 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.

The Foundation's endowment net asset composition by fund type was as follows as of December 31, 2019:

	Available for Specified Purpose	Held in Perpetuity	Total
Donor-restricted endowment fund	\$ 211,854	\$ 160,000	\$ 371,854

The Foundation's endowment net asset composition by fund type was as follows as of December 31, 2018:

	Available for Specified Purpose	Held in Perpetuity	Total
Donor-restricted endowment fund	\$ 188,310	\$ 160,000	\$ 348,310

Asthma and Allergy Foundation of America

Notes to Financial Statements

Note 9. Endowment (Continued)

Changes in endowment net assets were as follows for the year ended December 31, 2019:

	Available for Specified Purpose	Held in Perpetuity	Total
Endowment net assets, beginning of year	\$ 188,310	\$ 160,000	\$ 348,310
Investment return:			
Interest and dividends	4,808	-	4,808
Net appreciation (realized and unrealized)	26,017	-	26,017
Investment fees	(881)	-	(881)
Total investment return	29,944	-	29,944
Appropriation of endowment assets for expenditure	(6,400)	-	(6,400)
Total endowment funds, end of year	<u>\$ 211,854</u>	<u>\$ 160,000</u>	<u>\$ 371,854</u>

Changes in endowment net assets were as followed for the year ended December 31, 2018:

	Available for Specified Purpose	Held in Perpetuity	Total
Endowment net assets, beginning of year	\$ 199,090	\$ 160,000	\$ 359,090
Investment return:			
Interest and dividends	4,714	-	4,714
Net depreciation (realized and unrealized)	(14,631)	-	(14,631)
Investment fees	(863)	-	(863)
Total investment return	(10,780)	-	(10,780)
Appropriation of endowment assets for expenditure	-	-	-
Total endowment funds, end of year	<u>\$ 188,310</u>	<u>\$ 160,000</u>	<u>\$ 348,310</u>

Note 10. Commitments and Contingencies

Line of credit: In October 2019, the Foundation obtained a line of credit of \$500,000 from a commercial bank. Under the terms of the line of credit, interest on the outstanding balance is calculated using the prime rate plus 0.50%. There were no draws or repayments on the line of credit during the year ended December 31, 2019.

Office leases: In May 2019, the Foundation entered into a new office lease for its national headquarters' office space, which expires October 2024. (Previously, the Foundation leased headquarters space at a different location under a lease that expired in July 2019.) Under the terms of the new 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. Under this lease, the Foundation will receive a three-month rent abatement at the lease's commencement date totaling \$39,546. The Foundation also received a tenant improvement allowance of \$48,334. The lease requires the Foundation to provide a security deposit in the form of a \$39,546 letter of credit in favor of the landlord. The Foundation obtained the letter of credit from a commercial bank in May 2019. The letter of credit is able to be renewed automatically for 12 month periods through February 2021.

Asthma and Allergy Foundation of America

Notes to Financial Statements

Note 10. Commitments and Contingencies (Continued)

In addition, the Foundation had a noncancelable operating lease for its office space in Fountainville, Pennsylvania, which expired on March 31, 2020.

In accordance with accounting principles generally accepted in the United States of America, the Foundation is recognizing rental expense related to the leases on a straight-line basis over the life of each lease. The deferred rent balance of \$84,682 and \$35,325 as of December 31, 2019 and 2018, respectively, shown in the accompanying statements of financial position represents the difference between each lease's accumulated expense and cash payments.

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

Years ending December 31:	
2020	\$ 184,370
2021	166,188
2022	171,174
2023	176,309
2024	151,035
	<u>\$ 849,076</u>

Rent expense totaled \$249,198 and \$211,318 for the years ended December 31, 2019 and 2018, 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: The Foundation has an employment agreement with its Chief Executive Officer, which expires December 2020. In certain circumstances, the Chief Executive Officer may be entitled to severance payments as stipulated by his employment agreement.

Note 11. Adoption of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*

During the year ended December 31, 2019, the Foundation adopted ASU 2014-09 using the modified retrospective approach. As a result, revenue recognition changed for certification revenue. Previously, certification revenue was recognized over the license period. Effective January 1, 2019, the Foundation has concluded that the performance obligation is satisfied upon the granting of the license under the new criteria of ASU 2014-09. Thus, revenue related to certification activities is now recognized at the point in time that the license is granted.

Asthma and Allergy Foundation of America

Notes to Financial Statements

Note 11. Adoption of ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (Continued)

The following presents the effect of the adoption of ASU 2014-09 on the statement of financial position as of January 1, 2019:

	January 1, 2019		
	December 31, 2018	Adoption of ASU 2014-09	January 1, 2019
Deferred revenue	\$ 440,917	\$ (406,630)	\$ 34,287
Total liabilities	1,004,214	(406,630)	597,584
Net assets without donor restrictions	1,675,031	406,630	2,081,661
Total net assets	2,838,173	406,630	3,244,803

The following presents the effect of the adoption of ASU 2014-09 on the statement of financial position as of December 31, 2019:

	December 31, 2019		
	As reported	Balances Without Adoption of ASU 2014-09	Effect of Change - Higher (Lower)
Deferred revenue	\$ 25,000	\$ 603,125	\$ (578,125)
Total liabilities	1,263,748	1,841,873	(578,125)
Net assets without donor restrictions	1,550,687	972,562	578,125
Total net assets	2,425,177	1,847,052	578,125

The following presents the effect of the adoption of ASU 2014-09 on the statement of activities for the year ended December 31, 2019:

	Year Ended December 31, 2019		
	As reported	Balances Without Adoption of ASU 2014-09	Effect of Change - Higher (Lower)
Certification revenue	\$ 1,311,371	\$ 1,213,329	\$ 98,042
Total revenue without donor restrictions	5,024,312	4,926,270	98,042
Public information expense	1,886,903	1,960,356	(73,453)
Total expenses	5,555,286	5,628,739	(73,453)
Change in net assets without donor restrictions	(530,974)	(702,469)	171,495
Change in net assets	(819,626)	(991,121)	171,495

Adoption of the ASU 2014-09 had no impact on total cash from or used in operating, financing, or investing activities on the statement of cash flows for the year ended December 31, 2019.

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Notes to Financial Statements

Note 12. Subsequent Events

Subsequent events have been evaluated through August 28, 2020, which is the day the financial statements were available to be issued.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a Public Health Emergency of International Concern and, on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Foundation operates. It is unknown how long these conditions will last and what the complete financial effect will be to the Foundation, to date, and it is reasonably possible that the Foundation is vulnerable to the risk of a near-term severe impact. As a result of the coronavirus pandemic, the Foundation postponed or canceled certain events.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to, among other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic. In May 2020, the Foundation received a \$352,219 loan through the Paycheck Protection Program (PPP) under the CARES Act. The Foundation anticipates that most, if not all, of the PPP loan will meet the requirements for forgiveness.