

Respiratory Health Association

Financial Report
June 30, 2018

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RSM US LLP

Independent Auditor's Report

To the Board of Directors
Respiratory Health Association

Report on the Financial Statements

We have audited the accompanying financial statements of Respiratory Health Association (the Association) which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Association'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 Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Association's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 27, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

Chicago, Illinois
December 18, 2018

Respiratory Health Association

Statement of Financial Position June 30, 2018 (With Comparative Totals for 2017)

	2018	2017
Assets		
Cash	\$ 94,715	\$ 1,484
Investments	1,772,920	1,863,480
Pledges receivable	74,511	-
Accounts receivable, net	135,028	83,403
Prepaid expenses and deposits	74,517	45,540
Beneficial interest in irrevocable trust	1,429,962	1,424,997
Property and equipment, net	541,690	334,713
Total assets	\$ 4,123,343	\$ 3,753,617
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 111,257	\$ 115,207
Accrued pension	826,691	1,017,842
Advance fees and grants	46,227	80,579
Line of credit borrowing	600,000	-
	1,584,175	1,213,628
Net assets:		
Unrestricted	51,525	153,768
Temporarily restricted	617,681	621,224
Permanently restricted	1,869,962	1,764,997
	2,539,168	2,539,989
Total liabilities and net assets	\$ 4,123,343	\$ 3,753,617

See notes to financial statements.

Respiratory Health Association

Statement of Activities

Year Ended June 30, 2018 (With Comparative Totals for 2017)

	2018			Total	2017
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Public support and revenue:					
Contributions and donations:					
Individual/major gifts and campaigns	\$ 364,791	\$ 287,037	\$ 100,000	\$ 751,828	\$ 680,940
Distributions of investment income					
from beneficial interest in					
irrevocable trust	82,648	-	-	82,648	82,648
Foundation gifts	53,950	25,000	-	78,950	94,350
Corporate gifts	69,795	-	-	69,795	44,464
Direct mail	16,363	-	-	16,363	16,561
Workplace giving	3,615	-	-	3,615	3,858
Bequests	4,430	-	-	4,430	74,400
Memorials	-	-	-	-	17,953
Net assets released from restrictions	336,197	(336,197)	-	-	-
	931,789	(24,160)	100,000	1,007,629	1,015,174
Special events:					
Special events	1,317,120	-	-	1,317,120	1,447,541
Special events - direct expenses	(602,218)	-	-	(602,218)	(630,783)
	714,902	-	-	714,902	816,758
Revenue:					
Government grants	264,058	-	-	264,058	389,455
Foundation grants	77,250	-	-	77,250	97,857
Corporate grants	102,984	-	-	102,984	132,137
Rental income	211,256	-	-	211,256	200,723
Program fees and revenue	43,235	-	-	43,235	34,351
Interest and dividends	35,459	-	-	35,459	39,044
Other revenue	38,983	-	-	38,983	47,063
	773,225	-	-	773,225	940,630
Total public support and revenue	2,419,916	(24,160)	100,000	2,495,756	2,772,562
Expenses:					
Program services	2,255,202	-	-	2,255,202	2,286,383
Supporting services	549,732	-	-	549,732	567,805
	2,804,934	-	-	2,804,934	2,854,188
Decrease in net assets from operations	(385,018)	(24,160)	100,000	(309,178)	(81,626)

(Continued)

Respiratory Health Association

Statement of Activities (Continued)

Year Ended June 30, 2018 (With Comparative Totals for 2017)

	2018			Total	2017
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Nonoperating activities:					
Net realized and unrealized gain on investments	\$ 91,624	20,617	\$ -	\$ 112,241	\$ 182,372
Increase in value of beneficial interest in irrevocable trust	-	-	4,965	4,965	68,245
Adjustment to pension liability	191,151	-	-	191,151	258,572
	<u>282,775</u>	<u>20,617</u>	<u>4,965</u>	308,357	<u>509,189</u>
Increase (decrease) in net assets	(102,243)	(3,543)	104,965	(821)	427,563
Net assets:					
Beginning of year	<u>153,768</u>	<u>621,224</u>	<u>1,764,997</u>	2,539,989	<u>2,112,426</u>
End of year	<u>\$ 51,525</u>	<u>\$ 617,681</u>	<u>\$ 1,869,962</u>	\$ 2,539,168	<u>\$ 2,539,989</u>

See notes to financial statements.

Respiratory Health Association

**Statement of Functional Expenses
Year Ended June 30, 2018**

	Program Services						Total
	Tobacco Control	Asthma	Chronic Obstructive Pulmonary Disease	Research	Environmental Health	Other Lung Disease	
Salaries	\$ 353,737	\$ 280,733	\$ 214,511	\$ 50,585	\$ 220,296	\$ 97,720	\$ 1,217,582
Employee benefits and payroll taxes	83,553	66,412	50,638	11,930	52,065	23,032	287,630
Professional services and fees	47,135	116,750	31,467	27,034	28,333	16,463	267,182
Building insurance and occupancy	33,960	37,596	23,128	19,811	21,925	12,079	148,499
Telephone	3,212	4,955	2,592	2,195	2,871	1,337	17,162
Travel and local transportation	1,528	22,923	10,842	(120)	2,126	(15)	37,284
Meetings and conferences	1,353	2,415	16,316	7	7	4	20,102
Office and cleaning supplies	12,331	5,477	2,554	1,408	1,647	817	24,234
Program supplies	31,066	55	385	14	16	509	32,045
Printing, publications and audio visual	35,700	13,888	9,443	111	152	67	59,361
Postage and shipping	1,077	1,023	5,147	317	336	209	8,109
Media and promotional expense	774	1,108	779	559	631	353	4,204
Awards, grants and professional education	-	-	-	65,000	-	-	65,000
Support of other organizations	-	4,160	-	-	5,000	12,791	21,951
Miscellaneous	2,593	4,623	1,887	1,679	2,109	1,016	13,907
Depreciation	6,356	8,141	4,996	4,333	4,484	2,640	30,950
	<u>\$ 614,375</u>	<u>\$ 570,259</u>	<u>\$ 374,685</u>	<u>\$ 184,863</u>	<u>\$ 341,998</u>	<u>\$ 169,022</u>	<u>\$ 2,255,202</u>

(Continued)

Respiratory Health Association

**Statement of Functional Expenses (Continued)
Year Ended June 30, 2018 (With Comparative Totals for 2017)**

	Supporting Services			Total	
	Fundraising	Management and General	Total	2018	2017
Salaries	\$ 118,433	\$ 208,171	\$ 326,604	\$ 1,544,186	\$ 1,376,025
Employee benefits and payroll taxes	27,880	49,196	77,076	364,706	338,195
Professional services and fees	29,984	20,676	50,660	317,842	391,042
Building insurance and occupancy	24,184	20,861	45,045	193,544	248,163
Telephone	2,227	2,545	4,772	21,934	22,169
Travel and local transportation	561	1,993	2,554	39,838	40,339
Meetings and conferences	7,832	5,022	12,854	32,956	37,779
Office and cleaning supplies	4,940	3,127	8,067	32,301	47,079
Program supplies	3,164	14	3,178	35,223	16,870
Printing, publications and audio visual	225	96	321	59,682	33,488
Postage and shipping	1,875	227	2,102	10,211	15,345
Media and promotional expense	-	-	-	4,204	2,125
Awards, grants and professional education	-	-	-	65,000	154,078
Support of other organizations	-	-	-	21,951	68,675
Miscellaneous	4,836	3,393	8,229	22,136	21,725
Depreciation	4,435	3,835	8,270	39,220	41,091
	\$ 230,576	\$ 319,156	\$ 549,732	\$ 2,804,934	\$ 2,854,188

See notes to financial statements.

Respiratory Health Association

Statement of Cash Flows

Year Ended June 30, 2018 (With Comparative Totals for 2017)

	2018	2017
Cash flows from operating activities:		
Decrease in net assets	\$ (821)	\$ 427,563
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation	39,220	41,091
Net realized and unrealized gain on investments	(112,241)	(182,372)
Increase in value of beneficial interest in irrevocable trust	(4,965)	(68,245)
Proceeds from contributions restricted for capital improvements	(74,511)	-
Proceeds from contributions restricted for permanent endowment	(100,000)	(100,000)
Changes in:		
Pledge receivable	(74,511)	-
Accounts receivable	(51,625)	78,658
Prepaid expenses and deposits	(28,977)	(2,225)
Accounts payable and accrued expenses	(3,950)	(32,771)
Accrued pension	(191,151)	(258,572)
Advance fees and grants	(34,352)	(78,903)
Net cash used in operating activities	(637,884)	(175,776)
Cash flows from investing activities:		
Additions to property and equipment	(246,197)	(2,601)
Purchases of investments	(746,893)	(348,151)
Sales of investments	949,694	746,941
Net cash (used in) provided by investing activities	(43,396)	396,189
Cash flows from financing activities:		
Repayment of line of credit	-	(400,000)
Proceeds from line of credit	600,000	-
Proceeds from contributions restricted for capital improvements	74,511	-
Proceeds from contributions restricted for permanent endowment	100,000	100,000
Net cash provided by (used in) financing activities	774,511	(300,000)
Increase (decrease) in cash	93,231	(79,587)
Cash:		
Beginning of year	1,484	81,071
End of year	\$ 94,715	\$ 1,484
Supplemental disclosure of cash flow information:		
Interest paid	\$ 11,078	\$ 11,187

See notes to financial statements.

Respiratory Health Association

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Respiratory Health Association (the Association) is a nonprofit organization which, since 1906, has been dedicated to community lung health primarily in the Chicago, Illinois metropolitan area. Its mission is to prevent lung disease, promote clean air and help people live better through education, research and policy change. Currently, the Association addresses asthma, COPD (chronic obstructive pulmonary disease), lung cancer, tobacco control and air quality, among other issues.

Prior to 2013, the Association was registered in Illinois under the name Respiratory Health Association of Metropolitan Chicago. In 2013, the Association shortened its name to Respiratory Health Association. It remains registered to also conduct its affairs under the name Respiratory Health Association of Metropolitan Chicago.

The Association started a capital improvement campaign in 2017. The purpose of the campaign is to raise funds for major building renovations, including a roof replacement, at the Association's corporate offices in Chicago.

The Association is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law.

Estimates: In preparing financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), management makes estimates and assumptions affecting the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Basis of presentation: The Association maintains its financial accounts in accordance with the principles and practices of fund accounting, the procedure by which resources for various purposes are classified for accounting purposes in accordance with the Association's activities or objectives. For financial reporting purposes, net assets and related activities are classified as unrestricted, temporarily restricted and permanently restricted based on the existence or absence of donor-imposed restrictions.

Unrestricted net assets are available for support of the Association's operations and are not subject to donor-imposed restrictions. Temporarily restricted net assets are donor-imposed restrictions that may or will be met either by actions of the Association or the passage of time. Temporarily restricted net assets are released and reclassified to unrestricted net assets when restrictions have been met. Releases of restrictions in 2018 includes \$246,197 of capital contributions restricted for capital improvements. Permanently restricted net assets reflect the Association's beneficial interest in an irrevocable trust and an endowment fund. Distributions from investment income from the trust have been reflected in unrestricted revenue, and changes in the value of the beneficial interest have been reflected in permanently restricted net assets.

Revenue recognition: Contributions received with donor-imposed temporary restrictions are recorded as temporarily restricted revenue, unless satisfaction of restrictions occurs in the same year as revenue recognition, in which case the contributions are recorded as unrestricted revenue.

Contributions and memorials are recorded as revenue in the period received. Bequests are recorded as revenue upon receiving notification that the estate has been declared valid and the intention to give has become unconditional. Revenue from government and other grant and contract agreements is recognized as it is earned through expenditure or service delivery in accordance with the agreement. Special events revenue is included in the period the events take place.

Respiratory Health Association

Notes to Financial Statements

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

Donated materials and in-kind contributions: Donated materials and other noncash donations are recorded as contributions at their estimated fair values on the date received. The Association did not receive any noncash donations in 2018. Many individuals volunteer their time and perform a variety of tasks that assist the Association with its programs and administration, but these donated services are not reflected in the financial statements because they do not meet the requirements for inclusion.

Cash: The Association maintains its cash balances in bank accounts which, at times, may exceed federally insured limits. The Association has not experienced any losses in such accounts and management believes the Association is not exposed to any significant credit risk on cash.

Pledges receivable: Pledges receivable consist of amounts unconditionally pledged but not received. An allowance for receivables is provided based upon management's judgement including such factors such as prior collection history, type of contribution and nature of fundraising activity. Management considers the receivables recorded at June 30, 2018, to be fully collectible.

Accounts receivable: Accounts receivable consist of amounts due under government grants, other grants and various amounts for special events and other activities. Accounts receivable at June 30, 2018, are net of a \$500 allowance for doubtful accounts, determined based on historical experience and analysis of specific accounts. Uncollectible accounts are written off in the year they are deemed to be worthless.

Investments: Investments consist of equities, fixed income securities and cash held at broker and are held in custody at (and managed by) Sanford C. Bernstein & Co., LLC. Investments are presented in the financial statements at fair value in accordance with GAAP. Investments in securities traded on a national securities exchange, or reported on the NASDAQ national market, are stated at the last reported sales price on the day of valuation (Level 1); other securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are stated at the last quoted bid price (Level 2). Investments in registered investment companies are carried at fair value, as determined by the Association's management based on information provided by the custodian. In determining fair value, management utilizes the valuation reflected on the financial statements of the registered investment companies and on the respective custodian's monthly reporting of valuations. The registered investment companies value securities and other financial instruments at market prices on a daily basis, based on the net asset value of the registered investment company, and shares can be redeemed on a daily basis. Contributions of marketable securities are recorded at fair value at the date of the gifts.

The fair value of the beneficial interest in irrevocable trust is determined based upon the Association's proportional interest in the fair value of the trust assets. The underlying trust assets are either readily marketable and have fair values which are determined by obtaining quoted market prices in active markets, or are determined by the trust using information provided by the related investment managers. The beneficial interest in irrevocable trust is classified as Level 3.

Investment income, gains and losses, and any investment-related expenses are recorded as changes in unrestricted net assets in the statement of activities unless their use is temporarily or permanently restricted by explicit donor stipulations or law.

Respiratory Health Association

Notes to Financial Statements

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

Property and equipment: Property and equipment are stated at cost, except for donated assets, which are recorded at fair value at the time of receipt. Additions and improvements to existing property and equipment over a monetary threshold are capitalized, while general maintenance and repairs are charged to expense. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from 5 to 15 years for building improvements, 5 to 7 years for furniture and fixtures, 5 years for automobiles and trucks, and 40 years for the building.

Advance fees and grants: Grants received in advance and not fully expended are recorded on the statement of financial position as a liability, advance fees and grants.

Expenses: The Association classifies its expenses into their functional categories. Expenses directly identified with a functional area are charged to that area and, where expenses affect more than one area, they are allocated to the respective areas on the basis of estimates made by management.

Income taxes: The Association is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law. Accordingly, no provision for such taxes has been recognized in these financial statements.

Accounting standards on accounting for uncertainty in income taxes address the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Association may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Association and various positions related to the potential sources of unrelated business income tax (UBIT). The tax benefits recognized in the financial statements from any such position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The Association has reviewed the tax positions for the open tax years (current and prior three tax years) and has concluded that no provision for income tax is required in the financial statements. There were no unrecognized tax benefits identified or recorded as liabilities during the period covered by these financial statements.

Comparative data: The financial statements include certain prior year summarized comparative information in total, but not by net asset class. This information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, this information should be read in conjunction with the Association's financial statements for fiscal year 2017, from which the summarized information was derived.

Recent accounting pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The standard will be effective for the Association in the fiscal year ending June 30, 2020.

Respiratory Health Association

Notes to Financial Statements

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

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 statement of financial position for all leases with terms longer than twelve 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 Association in the fiscal year ending June 30, 2021.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Key elements of the ASU include a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. The new standard is effective for the Association in the fiscal year ending June 30, 2019.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides guidance surrounding the categorization of certain transactions as contributions or exchange transactions. It further clarifies when contributions should be deemed conditional. The new standard will be effective for the Association in the fiscal year ending June 30, 2020.

The Association is currently evaluating the impact of the adoption of these standards on its financial statements.

Subsequent events: The Association has evaluated subsequent events for potential recognition and/or disclosure through December 18, 2018, the date the financial statements were available to be issued.

Reclassification: Certain amounts reported in 2017 financial statements may have been reclassified to conform to the 2018 presentation without affecting previously reported net assets or net income (loss).

Note 2. Investments and Fair Value Measurements

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under GAAP as assumptions market participants would use in pricing an asset or a liability. The three levels of the fair value hierarchy are described below:

Level 1. Unadjusted quoted prices for identical assets or liabilities in active markets that the reporting entity has the ability to access at the measurement date. The type of investments included in Level 1 include listed equities and mutual funds.

Level 2. Inputs other than quoted prices with Level 1 that are observable for the asset or liability, either directly or indirectly; and fair value is determined through the use of models or other valuation methodologies.

Level 3. Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability.

Respiratory Health Association

Notes to Financial Statements

Note 2. Investments and Fair Value Measurements (Continued)

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including, for example, the type of security, whether the security is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the security. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Association's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The Association assesses the level of the investments at each measurement date. Transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer. For the year ended June 30, 2018, there were no such transfers.

The following table summarizes the Association's investments accounted for at fair value as of June 30, 2018, using the fair value hierarchy of GAAP:

	Fair Value Measurement Using				Valued Using Net Asset Value (a)	Total
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)			
Equities:						
U.S. stocks	\$ 780,385	\$ -	\$ -	\$ -	\$ 780,385	
Mutual funds:						
U.S. and global fixed income	359,885	-	-	-	359,885	
U.S. and global securities	75,596	-	-	-	75,596	
Emerging markets securities	22,443	-	-	-	22,443	
Registered investment companies	-	-	-	532,908	532,908	
	<u>\$ 1,238,309</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 532,908</u>	<u>1,771,217</u>	
				Cash held by broker	1,703	
				Total investments	<u>\$ 1,772,920</u>	
Beneficial interest in irrevocable trust	\$ -	\$ -	\$ 1,429,962	\$ -	\$ 1,429,962	

(a) Certain investments that are measured at fair value using net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in the tables above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

Respiratory Health Association

Notes to Financial Statements

Note 2. Investments and Fair Value Measurements (Continued)

The following table presents a reconciliation of the activity for the Level 3 investments:

	<u>Beneficial Interest in Irrevocable Trust</u>
Balance, July 1, 2017	\$ 1,424,997
Purchases	-
Sales	-
Increase in value	<u>4,965</u>
Balance, June 30, 2018	<u><u>\$ 1,429,962</u></u>

Returns on the Association's investments were as follows for the year ended June 30, 2018:

Interest and dividend income	\$ 35,459
Net realized gain on sale of investments	87,689
Net unrealized gain on investments	<u>29,517</u>
	<u><u>\$ 152,665</u></u>

Investments are exposed to various risks such as interest rate, market and credit risks. It is reasonably possible that changes in values of investments will occur in the near term and that such changes could materially affect the amounts reported.

Note 3. Property and Equipment

Property and equipment were as follows at June 30, 2018:

Land	\$ 230,155
Building and improvements	1,460,845
Furniture and equipment	623,685
Automobiles	<u>99,982</u>
	2,414,667
Accumulated depreciation	<u>(1,872,977)</u>
	<u><u>\$ 541,690</u></u>

Depreciation expense for 2018 was \$39,220.

Respiratory Health Association

Notes to Financial Statements

Note 4. Beneficial Interest in Irrevocable Trust

The Association is a beneficiary of the Mary L. and John Medlock Charitable Trust, of which there are other beneficiaries and there are independent trustees. The trust's assets are to be held in perpetuity. The Association's interest in the trust is carried by the Association at fair value, based on the monthly reporting provided by the trustee. The trustee values securities at market prices, when possible, or at fair value determined by the trustee when no market value is determinable. The fair value of the Association's interest in the trust, which amounted to \$1,429,962 at June 30, 2018, is reported in the financial statements as beneficial interest in an irrevocable trust. At June 30, 2018, the trust's assets are comprised of an investment mix of 32 percent cash equivalents and fixed income, 58 percent equities and 10 percent alternative assets. The Association expects to receive distributions of its share of annual income. Distributions during 2018 were \$82,648, which are reported as distributions of investment income from beneficial interest in irrevocable trust in the statement of activities.

Note 5. Line of Credit

The Association has a line of credit available from Sanford C. Bernstein & Co., LLC (Bernstein). Borrowings under the line bear interest at a rate of LIBOR plus 1.50 percent (4.26 percent at June 30, 2018) and are collateralized by some of the Association's investments held at Bernstein. The beginning balance was \$0, the Association borrowed an additional \$600,000 during the year, and no amounts were repaid; \$600,000 was outstanding at year-end. The maximum borrowing amount, which is 50 percent of the fair value of the Association's investments held at Bernstein, was \$886,460 as of June 30, 2018.

Note 6. Retirement Plans

The Association maintains a Section 403(b) plan for its employees. Employees are eligible to contribute to the 403(b) plan upon employment and anytime thereafter. The plan provides for a matching and discretionary contribution. The Association makes matching contributions based on the amount of employee contributions and the Association determines the discretionary amount (based on various factors). Contributions are made in the month following the calendar year to all active employees who have completed 1,000 hours of service and were employed by the Association at the end of the calendar year. In fiscal 2018, \$12,260 of matching contributions and \$21,371 of discretionary contributions were made.

The Association had a defined benefit pension plan covering full-time employees who are 21 years or older, who met certain eligibility requirements. Effective April 2007, the plan was frozen, and the Association is no longer making contributions to the plan except as necessary to fund the existing benefit obligation. In accordance with GAAP, the Association recognizes the underfunded position of its plan (the difference between the fair value of plan assets and the projected benefit obligation). Following is a summary of plan information as provided by consulting actuaries:

Projected benefit obligation	\$ 3,343,522
Plan assets at market value	2,516,831
Funded status	<u>\$ (826,691)</u>
Employer contributions	<u>\$ 100,000</u>
Benefits paid	<u>\$ 149,632</u>
Accumulated benefit obligation	<u>\$ 3,343,522</u>

Respiratory Health Association

Notes to Financial Statements

Note 6. Retirement Plans (Continued)

Weighted-average assumptions used to determine projected benefit obligation:

Discount rate	4.00 %
Expected long-term return on plan assets	6.00
Rate of compensation increase	N/A

Components of amounts recognized as changes in unrestricted net assets arising from the plan but not yet included in net periodic benefit expense (credit):

Interest cost	\$ 124,288
Expected return on assets	(146,799)
Amortization of unrecognized net loss	135,161
	<u>\$ 112,650</u>

Expected contributions to the plan for fiscal 2019 are \$100,000.

The Association's expected long-term return on plan assets assumption is based on a periodic review and modeling of the plan's asset allocation and liability structure over a long-term horizon. Expectations of returns for each asset class are the most important of the assumptions used in the review and modeling and are based on comprehensive reviews of historical data and economic/financial market theory. The expected long-term rate of return on assets was selected from within the reasonable range of rates determined by (a) historical real returns, net of inflation, for the asset classes covered by the investment policy and (b) projections of inflation over the long-term period during which benefits are payable to plan participants.

At June 30, 2018, the plan assets were invested in a group annuity contract issued by John Hancock Life Insurance Company. The plan invested in cash and short-term securities (less than 1 percent), common stocks (less than 1 percent), bonds (80 percent), loans (18 percent) and other investments (1 percent) at June 30, 2018.

The Association's investment policy includes various guidelines and procedures designed to ensure assets are invested in a manner necessary to meet expected future benefits earned by participants. The investment guidelines consider a broad range of economic conditions. The investment policy is periodically reviewed by the Association and a third-party fiduciary for investment matters. The policy is established and administered in a manner so as to comply at all times with applicable government regulations.

Fair Value Measurements:

Cash and short-term securities: Cash and short-term securities comprise cash, current operating accounts, overnight bank and term deposits, and fixed-income securities held for the purpose of meeting short-term cash commitments. Negative amounts represent margin borrowings in excess of cash and short-term securities held.

Respiratory Health Association

Notes to Financial Statements

Note 6. Retirement Plans (Continued)

Common stocks: Common stocks are stated at the last reported sales price on the day of valuations.

Bonds: Fair values for bonds, including corporate, U.S. Treasury and municipal securities, are based on quoted market prices when available. When market prices are not available, fair value is generally estimated using discounted cash flow analyses, incorporating current market inputs for similar financial instruments with comparable terms and credit quality (matrix pricing). The significant inputs into these models include, but are not limited to, yield curves, credit risks and spreads, measures of volatility and prepayment rates.

Loans: Fair values of fixed-rate mortgages and bank loans are determined by discounting the expected future cash flows at market interest rates for mortgages with similar remaining terms and credit risks. Fair values for the majority of variable-rate mortgages and bank loans are assumed to equal their carrying values since there are no fixed spreads. Where a variable-rate mortgage has a fixed spread above the benchmark rate, the mortgages are valued using current market spreads for equivalently rated borrowers. Fair values of private placements are based on valuation techniques and assumptions which reflect changes in interest rates and changes in the creditworthiness of individual borrowers which have occurred since the investments were originated. The assumptions are based primarily on market observable data. Fair values also reflect any applicable provision for credit loan losses. Leveraged leases are carried at values taking into account the present value of future cash flows from the net investment. Policy loans are carried at amortized cost. As policy loans are fully collateralized by their cash surrender values and can be repaid at any time, their carrying values approximate their fair values.

Other investments: Other investments include private equity and fixed income investments held primarily in power and infrastructure, oil and gas, and timber and agriculture sectors. Fair values of these investments are estimated based on best available information which is generally not market observable. This may include external appraisals as well as various valuation techniques used by external managers. The fair values of the Association pension plan assets at June 30, 2018, by asset category are as follows:

Asset Category	Quoted Prices			Total
	In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash and short-term securities	\$ 5,034	\$ -	\$ -	\$ 5,034
Common stocks	5,034	-	-	5,034
Bonds	-	2,013,464	-	2,013,464
Loans (a)	-	-	468,131	468,131
Other	-	-	25,168	25,168
Total	\$ 10,068	\$ 2,013,464	\$ 493,299	\$ 2,516,831

(a) Loans include mortgage loans, private placements, policy loans and bank loans.

Respiratory Health Association

Notes to Financial Statements

Note 6. Retirement Plans (Continued)

The benefits expected to be paid for the next 10 years are as follows:

2019	\$	190,518
2020		192,238
2021		203,454
2022		214,148
2023		213,273
2024-2028		1,023,385
	\$	<u>2,037,016</u>

Note 7. Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2018:

Pulmonary fibrosis research	\$	230,542
Lung cancer research		132,228
Chronic obstructive pulmonary disease research		29,077
Capital Improvement Campaign		225,834
	\$	<u>617,681</u>

Permanently restricted net assets are restricted as follows at June 30, 2018:

Beneficial interest in irrevocable perpetual trust invested in perpetuity by third-party trustees, the income from which is expendable to support any of the activities of the Association	\$	1,429,962
Endowment fund to be invested for perpetuity by the Association, of which \$10,000, or other amount as to be determined by the Association's board of directors, to be awarded annually for the support of chronic obstructive pulmonary disease research		440,000
	\$	<u>1,869,962</u>

Note 8. Endowment Funds

The Association's endowment consists of a permanently restricted endowment fund. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Respiratory Health Association

Notes to Financial Statements

Note 8. Endowment Funds (Continued)

Interpretation of Relevant Law

The Management of the Association has interpreted the Illinois 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 funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classified 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 in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate earnings on donor-restricted endowment funds:

- 1) The duration and preservation of the fund;
- 2) The purpose of the Association and the donor-restricted endowment fund;
- 3) General economic conditions;
- 4) The possible effect of inflation and deflation;
- 5) The expected total return from income and the appreciation of investments;
- 6) Other resources of the Association; and
- 7) The investment policies of the Association.

The changes in endowment net assets for the Association were as follows for the year ended June 30, 2018:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 23,460	\$ 340,000	\$ 363,460
Contributions	-	100,000	100,000
Net realized and change in unrealized gain	20,617	-	20,617
Appropriation for annual award	(15,000)	-	(15,000)
Endowment net assets, end of year	<u>\$ 29,077</u>	<u>\$ 440,000</u>	<u>\$ 469,077</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or Illinois UPMIFA requires the Association to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in temporarily restricted net assets to the extent accumulated gains are available to absorb such loss, or otherwise unrestricted net assets. There were no such deficiencies as of June 30, 2018.

Respiratory Health Association

Notes to Financial Statements

Note 8. Endowment Funds (Continued)

The Association has adopted investment and spending policies for endowment assets as follows:

Investment Policy

The investment policy of the Association is to achieve the highest rate of return possible within an acceptable range of risk and volatility.

The Association's Board of Directors has the responsibility to establish the policies that guide the specific investments of the endowment assets. The policies describe the degree of investment risk and diversification that the Board of Directors deems appropriate.

The endowment fund, as well as the Association's investments, are managed by Sanford C. Bernstein & Co., LLC. Please refer to Note 2 for the Association's current asset allocation.

Spending Policy

Distributions are authorized annually in accordance with the endowment fund agreement.