

# Respiratory Health Association

Financial Statements

Year Ended June 30, 2020



**WIPFLI**

## **Independent Auditor's Report**

To the Board of Directors  
Respiratory Health Association  
Chicago, Illinois

### **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, 2020 and the related statements of activities and change in net assets, 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; 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. 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Respiratory Health Association as of June 30, 2020 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

## **Report on Summarized Comparative Information**

We have previously audited the Association's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 23, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Wipfli LLP*

Wipfli LLP  
November 13, 2020  
Palatine, Illinois

# Respiratory Health Association

## Statement of Financial Position (With Comparative Totals for 2019)

<i>As of June 30,</i>	2020	2019
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 92,595	\$ 63,589
Investments	1,440,411	1,492,327
Pledges receivable	49,650	81,514
Accounts receivable	93,597	189,847
Prepaid expenses and deposits	-	51,001
<b>Total current assets</b>	<b>1,676,253</b>	<b>1,878,278</b>
Property and equipment	2,528,852	2,415,667
Less: accumulated depreciation	1,977,082	1,923,534
<b>Net property and equipment</b>	<b>551,770</b>	<b>492,133</b>
Beneficial interest in irrevocable trust	1,378,953	1,420,182
<b>Total Assets</b>	<b>\$ 3,606,976</b>	<b>\$ 3,790,593</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 92,751	\$ 70,900
Refundable advance liability	135,619	151,263
Line of credit borrowing	-	525,000
<b>Total current liabilities</b>	<b>228,370</b>	<b>747,163</b>
<b>Noncurrent Liabilities</b>		
Unfunded pension liability	766,784	819,151
Note payable - Paycheck Protection Program	347,851	-
<b>Total noncurrent liabilities</b>	<b>1,114,635</b>	<b>819,151</b>
<b>Total liabilities</b>	<b>1,343,005</b>	<b>1,566,314</b>
<b>Net Assets (Deficiency)</b>		
Without donor restrictions	(567,314)	(539,586)
With donor restrictions	2,831,285	2,763,865
<b>Total net assets</b>	<b>2,263,971</b>	<b>2,224,279</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 3,606,976</b>	<b>\$ 3,790,593</b>

See accompanying notes to financial statements.

# Respiratory Health Association

## Statement of Activities and Change in Net Assets

### (With Comparative Totals for 2019)

Years Ended June 30,	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	
<b>Public Support and Revenue:</b>				
Contributions and donations:				
Individual/major gifts and campaigns	\$ 339,434	\$ 215,447	\$ 554,881	\$ 645,506
Distributions of investment income from beneficial interest in irrevocable trust	82,648	-	82,648	82,648
Foundation gifts	53,935	-	53,935	58,000
Foundation grants	271,440	-	271,440	-
Corporate gifts	72,919	-	72,919	49,526
Corporate grants	38,876	-	38,876	-
Government grants	124,674	-	124,674	-
Direct mail	22,148	-	22,148	16,133
Workplace giving	2,286	-	2,286	4,028
Bequests	20,000	-	20,000	-
Net assets released from restrictions	95,000	(95,000)	-	-
	1,123,360	120,447	1,243,807	855,841
Special events				
Special events	1,434,367	-	1,434,367	1,410,417
Special events - direct expenses	(613,850)	-	(613,850)	(676,863)
	820,517	-	820,517	733,554
Revenue:				
Government grants	339,225	-	339,225	222,672
Foundation grants	-	-	-	38,000
Corporate grants	25,415	-	25,415	117,692
Rental income	223,566	-	223,566	216,686
Program fees	43,391	-	43,391	44,507
In-kind services	19,200	-	19,200	-
Interest and dividends, net	19,628	-	19,628	20,197
Other	49,473	-	49,473	83,140
	719,898	-	719,898	742,894
Total public support and revenue	2,663,775	120,447	2,784,222	2,332,289
Expenses				
Program services	2,161,885	-	2,161,885	2,014,778
Supporting services	552,523	-	552,523	658,251
Total expenses	2,714,408	-	2,714,408	2,673,029
Change in net assets from operations	(50,633)	120,447	69,814	(340,740)

**Respiratory Health Association**  
**Statement of Activities and Change in Net Assets (Continued)**  
**(With Comparative Totals for 2019)**

<i>Years Ended June 30,</i>	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	
Nonoperating activities:				
Net realized and unrealized gain (loss) on investment	(29,462)	(11,798)	(41,260)	28,091
Change in value of beneficial interest in irrevocable trust	-	(41,229)	(41,229)	(9,780)
Adjustment to pension liability	52,367	-	52,367	7,540
	22,905	(53,027)	(30,122)	25,851
Change in net assets	(27,728)	67,420	39,692	(314,889)
Net assets (deficiency), beginning of year	(539,586)	2,763,865	2,224,279	2,539,168
Net assets (deficiency), end of year	\$ (567,314)	\$2,831,285	\$2,263,971	\$2,224,279

See accompanying notes to financial statements.

# Respiratory Health Association

## Statement of Functional Expenses

### (With Comparative Totals for 2019)

	Program Services							Total
	Tobacco Control	Asthma	Chronic Obstructive Pulmonary Disease	Research	Environmental Health	Other Lung Disease		
<i>Year Ended June 30, 2020</i>								
Salaries	\$ 227,570	\$ 456,516	\$ 217,495	\$ 29,224	\$ 218,584	\$ 38,783	\$ 1,188,172	
Employee benefits and payroll taxes	45,799	100,556	43,439	5,628	48,637	7,141	251,200	
Professional services and fees	26,505	54,367	19,124	227	44,691	5,290	150,204	
Building insurance and occupancy	35,374	35,475	28,985	7,076	20,839	13,291	141,040	
Telephone	5,324	5,339	4,362	1,065	3,926	2,000	22,016	
Travel and local transportation	4,706	11,825	9,001	-	2,343	331	28,206	
Meetings and conferences	5,733	3,779	14,696	-	1,731	873	26,812	
Office and cleaning supplies	1,616	11,969	420	48	483	108	14,644	
Program supplies	7,690	7,962	3,403	59	263	606	19,983	
Printing, publications and audio visual	21,853	27,490	22,101	78	231	147	71,900	
Postage and shipping	1,703	1,658	3,375	142	419	267	7,564	
Media and promotional expense	66	1,038	116	13	39	13	1,285	
Awards, grants and professional education	-	-	-	95,000	-	-	95,000	
Support for other organizations	13,000	-	10,000	-	65,000	-	88,000	
Miscellaneous	2,439	3,508	2,113	-	1,584	-	9,644	
Depreciation	11,591	11,624	9,497	2,319	6,829	4,355	46,215	
<b>Total</b>	<b>\$ 410,969</b>	<b>\$ 733,106</b>	<b>\$ 388,127</b>	<b>\$ 140,879</b>	<b>\$ 415,599</b>	<b>\$ 73,205</b>	<b>\$ 2,161,885</b>	

**Respiratory Health Association**  
**Statement of Functional Expenses (Continued)**  
**(With Comparative Totals for 2019)**

<i>Year Ended June 30, 2020</i>	Supporting Services			2020 Total	2019
	Fundraising	Management and General	Total		
Salaries	\$ 173,486	\$ 121,601	\$ 295,087	\$ 1,483,259	\$ 1,478,123
Employee benefits and payroll taxes	31,058	25,861	56,919	308,119	294,696
Professional services and fees	11,258	116,554	127,812	278,016	239,650
Building insurance and occupancy	11,090	11,298	22,388	163,428	179,008
Telephone	1,669	4,237	5,906	27,922	26,450
Travel and local transportation	5,847	3,818	9,665	37,871	15,420
Meetings and conferences	2,761	1,557	4,318	31,130	85,551
Office and cleaning supplies	9,967	75	10,042	24,686	27,637
Program supplies	189	260	449	20,432	11,554
Printing, publications and audio visual	122	215	337	72,237	53,466
Postage and shipping	2,821	248	3,069	10,633	10,887
Media and promotional expense	228	645	873	2,158	9,910
Awards, grants and professional education	-	-	-	95,000	86,000
Support for other organizations	-	400	400	88,400	46,165
Miscellaneous	2,281	5,643	7,924	17,568	57,956
Depreciation	3,634	3,700	7,334	53,549	50,556
<b>Total</b>	<b>\$ 256,411</b>	<b>\$ 296,112</b>	<b>\$ 552,523</b>	<b>\$ 2,714,408</b>	<b>\$ 2,673,029</b>

See accompanying notes to financial statements.

# Respiratory Health Association

## Statement of Cash Flows

(With Comparative Totals for 2019)

Years Ended June 30,	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 39,692	\$ (314,889)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	53,549	50,556
Net realized and unrealized gain (loss) on investments	41,260	(28,091)
Change in value of beneficial interest in irrevocable trust	41,229	9,780
Receipt of in-kind stock contributions	(253,504)	(145,100)
Proceeds from contributions restricted for capital improvements	(130,701)	(276,617)
Changes in operating assets and liabilities:		
Pledges receivable	31,864	(7,003)
Accounts receivable	96,250	(54,819)
Prepaid expenses and deposits	51,001	23,517
Accounts payable and accrued expenses	21,851	(40,357)
Unfunded pension liability	(52,367)	(7,540)
Refundable advance liability	(15,644)	105,036
Net cash used in operating activities	(75,520)	(685,527)
Cash flows from investing activities:		
Purchases of property and equipment	(113,186)	(1,000)
Purchase of investments	(196,437)	(163,691)
Sale of investments	460,597	617,475
Net cash provided by investing activities	150,974	452,784
Cash flows from financing activities:		
Repayment of line of credit	(625,000)	(500,000)
Proceeds from line of credit	100,000	425,000
Proceeds from note payable - Paycheck Protection Program	347,851	-
Proceeds from contributions restricted for capital improvements	130,701	276,617
Net cash provided (used) by financing activities	(46,448)	201,617
Change in cash	29,006	(31,126)
Cash at beginning of year	63,589	94,715
Cash at end of year	\$ 92,595	\$ 63,589
<b>Supplemental cash flow information:</b>		
Cash paid during the year for interest	\$ 10,563	\$ 28,880

See accompanying notes to financial statements.

# Respiratory Health Association

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies

#### Nature of Operations

Respiratory Health Association (the Association) is a nonprofit organization which, since 1906, has been dedicated to community lung health. 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.

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

#### Basis of Accounting

The financial statements of the Association have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States (GAAP).

#### Basis of Presentation

Financial statement presentation follows GAAP for financial presentation of not-for-profit organizations. Such principles provide that the Association is required to report information regarding its financial position and activities according to two classes of net assets. A definition and description of each class follows:

**Net Assets Without Donor Restriction** - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Net assets without donor restrictions may be designated for specific purposes by the board of directors.

**Net Assets With Donor Restriction** - Net assets subject to donor- or certain grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other explicit donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are reclassified when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

#### Concentration of Credit Risk

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.

# Respiratory Health Association

## Notes to Financial Statements

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### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Pledges Receivable**

Pledges receivable consist of amounts unconditionally pledged but not received. Unconditional pledges to give are recorded as receivables in the year pledged. Conditional pledges to give are recognized only when the conditions on which they depend are substantially met. Pledges to give whose eventual uses are restricted by the donors are recorded as increases in net assets with donor restrictions. Unrestricted pledges to be collected in future periods are also recorded as an increase to net assets with donor restrictions and reclassified to net assets without donor restrictions when received, unless the donor's intention is to support current-period activities.

Management individually reviews all past due pledge receivable balances and estimates the portion, if any, of the balance that will not be collected. The carrying amounts of pledges are reduced by allowances that reflect management's estimate of uncollectible amounts. There is no allowance for uncollectible pledges at June 30, 2020.

#### **Accounts Receivable**

Accounts receivable consist of amounts due under government grants, other grants and various amounts for special events and other activities. Accounts receivable are net of 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. As of June 30, 2020, there was no allowance for doubtful accounts.

#### **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 gift.

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.

# Respiratory Health Association

## Notes to Financial Statements

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### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Investments** (Continued)

Investment income, gains and losses, and any investment-related expenses are recorded as changes in net assets without donor restrictions in the statement of activities unless their use is temporarily or permanently restricted by explicit donor stipulations or law.

#### **Property and Equipment**

Property and equipment is 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.

#### **Long-Lived Assets**

The Association reviews its long-lived assets periodically to determine potential impairment by comparing the carrying value of those assets with the estimated future undiscounted cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future undiscounted cash flows be less than the carrying value, the Association would recognize an impairment loss at that time. No impairment loss was recognized in 2020.

#### **Rental Income**

The Association recognizes revenue related to the operating lease described in Note 11 in accordance with ASC 840. The Association reports rental income for financial statement purposes on the accrual basis.

#### **Grant Revenue**

The Association's grant awards are contributions which are evaluated for conditions and recognized as revenue when conditions in the award are satisfied. Unconditional awards are recognized as revenue when the award is received. Amounts received in which conditions have not been met are reported as a refundable advance liability.

#### **Contributions**

Contributions are recognized when an unconditional promise to give or notification is received. Contributions received are recorded as without donor restrictions or with donor restrictions, depending on the existence and nature of any donor restrictions. Contributions with donor restrictions where restrictions are met in the same year as received are reported as without donor restrictions. Special event registration fees and sponsorship revenue is included in the period the event takes place.

# Respiratory Health Association

## Notes to Financial Statements

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### **Note 1: Summary of 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 received \$253,504 of in-kind stock contributions during the year ended June 30, 2020, which is included in individual/major gifts and campaigns on the statement of activities and change in net assets. The Association receives various consumable supplies to support its events and programs, but these amounts are not reflected in the financial statements as they are immaterial. In addition, 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.

#### **Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The Association charges direct expenses directly to each category. Occupancy, maintenance and related costs are allocated based on square footage. Salaries and other related costs are allocated based on time and effort.

#### **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 or liabilities identified or recorded during the period covered by these financial statements.

#### **Use of Estimates**

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

# Respiratory Health Association

## Notes to Financial Statements

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### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Change in Accounting Principle**

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*. The amendments in this update assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and determining whether a contribution transaction is conditional. The Association adopted this guidance as of January 1, 2019, under a modified prospective basis with no effect on its net assets.

#### **New Accounting Pronouncements**

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU, as amended, provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services, guidance on accounting for certain contract costs, and new disclosures. The new standard supersedes current revenue recognition requirements in FASB ASC Topic 605, Revenue Recognition, and most industry-specific guidance. When adopted, the amendments in the ASU must be applied using one of two retrospective methods. ASU No. 2014-09 is effective for nonpublic entities for annual periods beginning after December 15, 2020. The Association is currently evaluating the impact of the provisions of ASC 606.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The amendments in this ASU revise the accounting related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for substantially all leases with lease terms in excess of twelve months. The new lease guidance also simplifies the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. The amendments in this ASU are effective for fiscal years beginning after December 15, 2021, and are to be applied through a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Early adoption is permitted. The Association continues to evaluate the effect that the implementation of this ASU will have on its financial statements and related disclosures.

#### **Subsequent Events**

The Association has evaluated events and transactions for potential recognition or disclosure in the financial statements through November 13, 2020, which is the date the financial statements were available to be issued.

#### **Comparative data**

The financial statements include certain prior year summarized comparative information in total, but not by change in net assets or functional expense category. This information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States.

# Respiratory Health Association

## Notes to Financial Statements

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### Note 2: Liquidity and Availability of Financial Resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

*Year Ended June 30, 2020*

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Cash	\$ 92,595
Investments	1,440,411
Pledges receivable	49,650
Accounts receivable	93,597
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Total financial assets	1,676,253
Less: net assets with donor restrictions	(1,027,315)
Less: endowment investments (restricted in perpetuity)	(440,000)
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Financial assets available to meet cash needs for general expenditures within one year	\$ 208,938

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The Association has a goal to maintain cash on hand to meet daily operating expenses. The Association has an informal policy to structure its cash to be available as its general expenditures, liabilities, and other obligations come due. The Association utilizes line of credit borrowing, which is monitored on an ongoing basis.

### Note 3: 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 3: 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, 2020, there were no such transfers.

The following table summarizes the Association's investments accounted for at fair value as of June 30, 2020, using the fair value hierarchy:

	Fair Value of Assets as of June 30, 2020					Total
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valued Using Net Asset Value (a)		
Equities:						
U.S. stocks	\$ 647,163	\$ -	\$ -	\$ -		\$ 647,163
Mutual funds:						
U.S. and global fixed income	299,414	-	-	-		299,414
U.S. and global securities	54,245	-	-	-		54,245
Emerging markets securities	18,481	-	-	-		18,481
Registered investment companies	-	-	-	417,179		417,179
	<u>\$ 1,019,303</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 417,179</u>	<u>\$</u>	<u>1,436,482</u>
Cash held by broker						3,929
Total investments						<u>\$ 1,440,411</u>
Beneficial interest in irrevocable trust	\$ -	\$ -	\$ 1,378,953	\$ -		<u>\$ 1,378,953</u>

# Respiratory Health Association

## Notes to Financial Statements

### Note 3: Investments and Fair Value Measurements (Continued)

(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.

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

	Beneficial Interest in Irrevocable Trust
Balance as of July 1, 2019	\$ 1,420,182
Decrease in value	(41,229)
Total	\$ 1,378,953

Returns on the Association's investments were as follows for the year ended June 30, 2020:

Interest and dividend income	\$ 28,641
Net realized gain on sale of investments	10,327
Net unrealized loss on sale of investments	(51,587)
Change in value of beneficial interest in irrevocable trust	(41,229)
Investment expense	(9,013)
Total	\$ (62,861)

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.

# Respiratory Health Association

## Notes to Financial Statements

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### Note 4: Property and Equipment

A summary of net property and equipment is as follows as of June 30, 2020:

Land	\$	230,155
Building and improvements		1,475,143
Furniture and equipment		723,572
Automobiles		99,982
		<hr/>
		2,528,852
Accumulated depreciation		(1,977,082)
		<hr/>
Total	\$	551,770

Depreciation expense for the year ended June 30, 2020 was \$53,549.

### Note 5: 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 independent trustees. The trust's assets are to be held in perpetuity. The Association's interest in the trust is carried 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 \$1,378,953 at June 30, 2020, is reported in the financial statements as beneficial interest in irrevocable trust. At June 30, 2020, the trust's assets are comprised of an investment mix of 43% percent cash equivalents and fixed income, 52% percent equities and 5% percent alternative assets. The Association expects to receive distributions of its share of annual income. Distributions during 2020 were \$82,648, which are reported as distributions of investment income from beneficial interest in irrevocable trust in the statement of activities.

### Note 6: Line of Credit

The Association had 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 and are collateralized by some of the Association's investments held at Bernstein. The maximum borrowing was 50 percent of the fair value of the Association's investments held at Bernstein. As of February 6, 2020, this line of credit was closed.

During the year, the Association entered into a line of credit agreement with First American Bank. Borrowings under the line bear interest at a rate of one month LIBOR plus 2 percent and are collateralized by substantially all of the Association's assets and property. The maximum borrowings under the line of credit is \$1,050,000 and is due January 1, 2021.

Interest expense for the year ended June 30, 2020 was \$10,563.

# Respiratory Health Association

## Notes to Financial Statements

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### Note 7: Note Payable - Payroll Protection Program

On April 28, 2020, the Association received \$347,851 under the Paycheck Protection Program ("PPP") with First American Bank. The note payable bears interest at a rate of 1% and requires full payment of principal and interest on April 27, 2022. If certain criteria are met, all or a portion of the loan may be forgiven. As of the date of the issuance of the financial statements, the loan forgiveness criteria have not been finalized, and no determination of forgiveness can be made.

### Note 8: 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 determines a discretionary amount (based on various factors). Contributions may be made 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 2020, \$13,661 of matching contributions and \$18,810 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).

The following is a summary of plan information as provided by consulting actuaries:

	2020
Projected benefit obligation	\$ 3,352,176
Plan assets at market value	2,585,392
Unfunded pension liability	(766,784)
Employer contributions	(100,000)
Benefits paid	\$ (161,516)
Accumulated benefit obligation	3,352,176

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

# Respiratory Health Association

## Notes to Financial Statements

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### Note 8: Retirement Plans (Continued)

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	\$	130,050
Expected return on assets		(148,926)
Amortization of unrecognized net loss		106,790
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Total	\$	87,914
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Expected contributions to the plan for fiscal 2021 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, 2020, 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 (76 percent), loans (23 percent) and other investments (less than 1 percent) at June 30, 2020.

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. 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.

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

*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.

# Respiratory Health Association

## Notes to Financial Statements

### Note 8: Retirement Plans (Continued)

*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, 2020, by asset category are as follows:

Asset Category	Fair Value of Assets as of June 30, 2020			
	Level 1	Level 2	Level 3	Total
Cash and short-term securities	\$ 2,585	\$ -	\$ -	\$ 2,585
Common stocks	2,585	-	-	2,585
Bonds	-	1,959,727	-	1,959,727
Loans (a)	-	-	604,982	604,982
Other	-	-	15,513	15,513
<b>Total</b>	<b>\$ 5,170</b>	<b>\$ 1,959,727</b>	<b>\$ 620,495</b>	<b>\$ 2,585,392</b>

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

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

	Loans	Other	Total
Balance as of July 1, 2019	\$ 519,010	\$ 22,785	\$ 541,795
Change in value	85,972	(7,272)	78,700
<b>Total</b>	<b>\$ 604,982</b>	<b>\$ 15,513</b>	<b>\$ 620,495</b>

# Respiratory Health Association

## Notes to Financial Statements

### Note 8: Retirement Plans (Continued)

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

2021	\$	224,100
2022		237,000
2023		233,000
2024		231,700
2025		226,600
2026-2030		1,088,300
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Total	\$	2,240,700

### Note 9: Net Assets with Donor Restriction

At June 30, 2020, net assets with donor restriction consisted of the following:

Subject to expenditure for specific purpose:		
Pulmonary fibrosis research	\$	180,542
Lung cancer research		213,621
Capital improvement campaign		633,152
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	\$	1,027,315
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Subject to spending policy and appropriation:		
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	\$	1,378,953
Endowment fund invested for perpetuity		425,017
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	\$	1,803,970
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Total net assets with donor restrictions	\$	2,831,285

### Note 10: Endowment Funds

The Association's endowment consists of an 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

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### Note 10: 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, when reviewing its donor-restricted endowment fund, the Association considers a fund to be underwater when the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Association has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

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.

Endowment net asset composition by type includes \$440,000 of the original donor restricted gift amount with a current value of \$425,017 required to be retained and \$0 subject to appropriation as of June 30, 2020.

Changes in endowment net assets were as follows for the year ended June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at beginning of year	\$ -	\$ 456,815	\$ 456,815
Net realized and change in unrealized gain	-	(11,798)	(11,798)
Appropriation for annual award	-	(20,000)	(20,000)
<b>Endowment net assets at end of year</b>	<b>\$ -</b>	<b>\$ 425,017</b>	<b>\$ 425,017</b>

# Respiratory Health Association

## Notes to Financial Statements

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### **Note 10: Endowment Funds** (Continued)

#### *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. A deficiency of this nature exists in the Association's endowment fund with an original value of \$440,000, and a deficiency of \$14,983 as of June 30, 2020. The deficiency resulted from unfavorable market fluctuations that occurred for donor-restricted endowment funds and continued appropriation for COPD research that was deemed prudent by the Board of Directors.

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 3 for the Association's current asset allocation.

#### *Spending Policy:*

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

### **Note 11: Lease Agreement**

The Association renewed an operating lease agreement in 2017 with an unrelated party for a portion of the space in the building owned by the Association. The lease expires on April 30, 2022 and includes base lease monthly payments ranging from \$17,474 to \$19,667.

# Respiratory Health Association

## Notes to Financial Statements

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### Note 11: Lease Agreement (Continued)

Future minimum lease payments to be received under this lease are as follows:

<i>Year Ended June 30,</i>	
2021	\$ 230,272
2022	196,667
<b>Total</b>	<b>\$ 426,939</b>

Base rental income for this lease was \$223,566 for the year ended June 30, 2020.

### Note 12: Business Conditions

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a “pandemic”. First identified in late 2019 and known now as COVID-19, the outbreak has impacted thousands of individuals worldwide. In response, many countries have implemented measures to combat the outbreak which have impacted global business operations. As of the date of issuance of the financial statements, the Association’s operations have not been significantly impacted, however, the Association continues to monitor the situation. No impairments were recorded as of the balance sheet date as no triggering events or changes in circumstances had occurred as of year-end; however, due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future. In addition, while the Association’s results of operations, cash flows and financial condition could be negatively impacted, the extent of the impact cannot be reasonably estimated at this time.