

Respiratory Health Association

Financial Statements

Year Ended June 30, 2021



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, 2021, 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, 2021, 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 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 13, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Wipfli LLP

October 29, 2021
Lincolnshire, Illinois

Respiratory Health Association

Statement of Financial Position (With Comparative Totals for 2020)

<i>June 30,</i>	2021	2020
Assets		
Current assets:		
Cash	\$ 83,801	\$ 92,595
Investments	1,794,140	1,440,411
Pledges receivable	12,624	49,650
Accounts receivable	164,744	93,597
Other receivable	95,000	-
Prepaid expenses and deposits	11,510	-
Total current assets	2,161,819	1,676,253
Property and equipment	2,539,041	2,528,852
Less: accumulated depreciation	2,040,734	1,977,082
Net property and equipment	498,307	551,770
Beneficial interest in irrevocable trust	1,583,135	1,378,953
Total assets	\$ 4,243,261	\$ 3,606,976
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 120,141	\$ 92,751
Refundable advance liability	126,297	135,619
Total current liabilities	246,438	228,370
Noncurrent liabilities:		
Unfunded pension liability	784,765	766,784
Note payable - Paycheck Protection Program	347,851	347,851
Total noncurrent liabilities	1,132,616	1,114,635
Total liabilities	1,379,054	1,343,005
Net assets (deficiency):		
Without donor restrictions	(266,866)	(567,314)
With donor restrictions	3,131,073	2,831,285
Total net assets	2,864,207	2,263,971
Total liabilities and net assets	\$ 4,243,261	\$ 3,606,976

See accompanying notes to financial statements.

Respiratory Health Association

Statement of Activities and Change in Net Assets

(With Comparative Totals for 2020)

Years Ended June 30,	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	
Public support and revenue:				
Contributions and donations:				
Individual/major gifts and campaigns	\$ 392,169	\$ 90,808	\$ 482,977	\$ 554,881
Distributions of investment income from beneficial interest in irrevocable trust	82,648	-	82,648	82,648
Foundation gifts	35,051	-	35,051	53,935
Foundation grants	185,746	-	185,746	271,440
Corporate gifts	34,760	-	34,760	72,919
Corporate grants	10,000	-	10,000	38,876
Government grants	256,687	-	256,687	124,674
Direct mail	24,304	-	24,304	22,148
Workplace giving	5,053	-	5,053	2,286
Bequests	20,000	-	20,000	20,000
Net assets released from restrictions	105,003	(105,003)	-	-
	1,151,421	(14,195)	1,137,226	1,243,807
Special events:				
Special events	784,770	-	784,770	1,434,367
Special events - Direct expenses	(416,500)	-	(416,500)	(613,850)
	368,270	-	368,270	820,517
Revenue:				
Government grants	52,824	-	52,824	339,225
Corporate grants	10,000	-	10,000	25,415
Rental income	230,845	-	230,845	223,566
Program fees	65,358	-	65,358	43,391
In-kind services	-	-	-	19,200
Interest and dividends, net	14,078	-	14,078	19,628
Other	36,535	-	36,535	49,473
	409,640	-	409,640	719,898
Total public support and revenue	1,929,331	(14,195)	1,915,136	2,784,222
Expenses:				
Program services	1,789,710	-	1,789,710	2,161,885
Supporting services	533,893	-	533,893	552,523
Total expenses	2,323,603	-	2,323,603	2,714,408
Change in net assets from operations	(394,272)	(14,195)	(408,467)	69,814

Respiratory Health Association
Statement of Activities and Change in Net Assets (Continued)
(With Comparative Totals for 2020)

<i>Years Ended June 30,</i>	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	
Nonoperating activities:				
Net realized and unrealized gain (loss) on investment	\$ 269,850	\$ 109,801	\$ 379,651	\$ (41,260)
Change in value of beneficial interest in irrevocable trust	-	204,182	204,182	(41,229)
PPP note payable forgiveness	347,851	-	347,851	-
Employee retention tax credit	95,000	-	95,000	-
Adjustment to pension liability	(17,981)	-	(17,981)	52,367
	<u>694,720</u>	<u>313,983</u>	<u>1,008,703</u>	<u>(30,122)</u>
Change in net assets	300,448	299,788	600,236	39,692
Net assets (deficiency), beginning of year	(567,314)	2,831,285	2,263,971	2,224,279
Net assets (deficiency), end of year	<u>\$ (266,866)</u>	<u>\$3,131,073</u>	<u>\$2,864,207</u>	<u>\$2,263,971</u>

See accompanying notes to financial statements.

Respiratory Health Association
Statement of Functional Expenses
(With Comparative Totals for 2020)

	Program Services						Total
	Tobacco Control	Asthma	Chronic Obstructive Pulmonary Disease	Research	Environmental Health	Other Lung Disease	
<i>Year Ended June 30, 2021</i>							
Salaries	\$ 249,273	\$ 267,835	\$ 203,325	\$ 23,432	\$ 180,893	\$ 44,634	\$ 969,392
Employee benefits and payroll taxes	52,018	56,322	40,976	4,293	40,116	8,873	202,598
Professional services and fees	20,816	58,615	11,511	305	53,695	5,103	150,045
Building insurance and occupancy	33,840	33,939	27,605	6,903	19,660	12,965	134,912
Telephone	5,314	9,890	4,335	1,084	3,812	2,036	26,471
Travel and local transportation	898	2,997	898	-	449	224	5,466
Meetings and conferences	77	261	77	-	39	49	503
Office and cleaning supplies	537	7,774	369	75	213	148	9,116
Program supplies	9,318	19,393	69	410	49	140	29,379
Printing, publications, and audio visual	18,468	17,362	36,616	158	450	297	73,351
Postage and shipping	1,954	1,977	5,444	99	226	165	9,865
Media and promotional expense	87	187	272	17	54	17	634
Awards, grants, and professional education	-	-	-	105,000	-	-	105,000
Support for other organizations	5,000	3,000	5,500	-	-	-	13,500
Miscellaneous	1,153	766	520	-	814	-	3,253
Depreciation	14,102	14,144	11,505	2,877	8,194	5,403	56,225
Total	\$ 412,855	\$ 494,462	\$ 349,022	\$ 144,653	\$ 308,664	\$ 80,054	\$ 1,789,710

Respiratory Health Association
Statement of Functional Expenses (Continued)
(With Comparative Totals for 2020)

<i>Year Ended June 30, 2021</i>	Supporting Services			2021 Total	2020
	Fundraising	Management and General	Total		
Salaries	\$ 142,660	\$ 169,656	\$ 312,316	\$ 1,281,708	\$ 1,483,259
Employee benefits and payroll taxes	26,137	26,232	52,369	254,967	308,119
Professional services and fees	15,302	100,538	115,840	265,885	278,016
Building insurance and occupancy	9,480	8,340	17,820	152,732	163,428
Telephone	1,489	1,310	2,799	29,270	27,922
Travel and local transportation	673	469	1,142	6,608	37,871
Meetings and conferences	722	39	761	1,264	31,130
Office and cleaning supplies	10,289	90	10,379	19,495	24,686
Program supplies	24	20	44	29,423	20,432
Printing, publications, and audio visual	629	190	819	74,170	72,237
Postage and shipping	4,265	92	4,357	14,222	10,633
Media and promotional expense	993	199	1,192	1,826	2,158
Awards, grants, and professional education	-	-	-	105,000	95,000
Support for other organizations	-	-	-	13,500	88,400
Miscellaneous	920	5,709	6,629	9,882	17,568
Depreciation	3,950	3,476	7,426	63,651	53,549
Total	\$ 217,533	\$ 316,360	\$ 533,893	\$ 2,323,603	\$ 2,714,408

See accompanying notes to financial statements.

Respiratory Health Association

Statement of Cash Flows

(With Comparative Totals for 2020)

Years Ended June 30,	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 600,236	\$ 39,692
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	63,651	53,549
Net realized and unrealized (gain) loss on investments	(379,651)	41,260
Change in value of beneficial interest in irrevocable trust	(204,182)	41,229
Receipt of in-kind stock contributions	(96,425)	(253,504)
Proceeds from contributions restricted for capital improvements	(12,356)	(130,701)
Forgiveness of PPP note payable	(347,851)	-
Changes in operating assets and liabilities:		
Pledges receivable	37,026	31,864
Accounts and other receivable	(166,147)	96,250
Prepaid expenses and deposits	(11,510)	51,001
Accounts payable and accrued expenses	27,390	21,851
Unfunded pension liability	17,981	(52,367)
Refundable advance liability	(9,322)	(15,644)
Net cash used in operating activities	(481,160)	(75,520)
Cash flows from investing activities:		
Purchases of property and equipment	(10,188)	(113,186)
Purchase of investments	(250,400)	(196,437)
Sale of investments	372,747	460,597
Net cash provided by investing activities	112,159	150,974
Cash flows from financing activities:		
Repayment of line of credit	(375,000)	(625,000)
Proceeds from line of credit	375,000	100,000
Proceeds from note payable - Paycheck Protection Program	347,851	347,851
Proceeds from contributions restricted for capital improvements	12,356	130,701
Net cash provided (used) by financing activities	360,207	(46,448)
Change in cash	(8,794)	29,006
Cash at beginning of year	92,595	63,589
Cash at end of year	\$ 83,801	\$ 92,595
Supplemental cash flow information:		
Cash paid during the year for interest	\$ 2,601	\$ 10,563
Non cash financing activities - Forgiveness of PPP note payable	347,851	-

See accompanying notes to financial statements.

Respiratory Health Association

Notes to Financial Statements

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

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, 2021.

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, 2021, 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

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 five to 15 years for building improvements, five to seven years for furniture and fixtures, five 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 2021.

Rental Income

The Association recognizes revenue related to the operating lease described in Note 12 in accordance with ASC 840. The Association reports rental income for financial statement purposes on the accrual basis.

Grant Revenue

Grants are either recorded as contributions or exchange transactions based on criteria contained in the grant award.

Grant Awards That Are Contributions - Grants awards that are contributions 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.

Grant Awards That Are Exchange Transactions - Exchange transactions are those in which the resource provider or grantor receives a commensurate value in exchange for goods or services transferred. Revenue is recognized when control of the promised goods or services is transferred to the customer (grantor) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Amounts received in excess of recognized revenue are reflected as a contract liability.

Respiratory Health Association

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

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 Events

The Association records special event registration fees and sponsorship revenue equal to the fair value of direct benefits provided to donors for the exchange portion and contribution income from excess received. The exchange portion of special event registration fees and sponsorship revenue received in advance is recorded as deferred revenue and recognized at the point in time when the event occurs.

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 \$96,425 of in-kind stock contributions during the year ended June 30, 2021, 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.

Respiratory Health Association

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

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.

Change in Accounting Principles

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Association adopted this guidance effective July 1, 2020, as it felt it was the most faithful depiction of the timing of revenue reasonably expected to be collected in exchange for goods or services. The Association applied Topic 606 on a modified retrospective basis. There was no change to reported revenue, retained earnings, or the change in retained earnings for the period presented.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurements*. The amendments in this ASU are intended to improve the effectiveness of disclosures about fair value measurements required under Accounting Standards Codification (ASC) 820. The ASU removes certain disclosures and modifies others. The Association has applied the amendments in this ASU on a retrospective basis. There was no change in opening balances of net assets and no prior period results were restated.

Respiratory Health Association

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncement

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 October 29, 2021, 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.

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:

As of June 30, 2021

Cash	\$ 83,801
Investments	1,794,140
Pledges receivable	12,624
Accounts receivable	164,744
Other receivable	95,000
<hr/>	
Total financial assets	2,150,309
Less: Net assets with donor restrictions	(1,107,938)
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	\$ 602,371

Respiratory Health Association

Notes to Financial Statements

Note 2: Liquidity and Availability of Financial Resources (Continued)

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.

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, 2021, there were no such transfers.

Respiratory Health Association

Notes to Financial Statements

Note 3: Investments and Fair Value Measurements (Continued)

The following table summarizes the Association's investments accounted for at fair value as of June 30, 2021, using the fair value hierarchy:

	Fair Value of Assets as of June 30, 2021					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	\$ 805,668	\$ -	\$ -	\$ -	\$ -	805,668
Mutual funds:						
U.S. and global fixed income	342,946	-	-	-	-	342,946
U.S. and global securities	70,575	-	-	-	-	70,575
Emerging markets securities	23,370	-	-	-	-	23,370
Registered investment companies	-	-	-	547,735	-	547,735
	<u>\$ 1,242,559</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 547,735</u>	<u>\$ -</u>	<u>1,790,294</u>
Cash held by broker						<u>3,846</u>
Total investments						<u>\$ 1,794,140</u>
Beneficial interest in irrevocable trust	\$ -	\$ -	\$ 1,583,135	\$ -	\$ -	<u>1,583,135</u>

(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 3: Investments and Fair Value Measurements (Continued)

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

	Beneficial Interest in Irrevocable Trust
Balance as of July 1 2020:	\$ 1,378,953
Increase in value	204,182
Total	\$ 1,583,135

Returns on the Association's investments were as follows for the year ended June 30, 2021:

Interest and dividend income	\$ 24,896
Net realized gain on sale of investments	47,448
Net unrealized gain on sale of investments	332,203
Change in value of beneficial interest in irrevocable trust	204,182
Investment expense	(10,818)
Total	\$ 597,911

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 4: Property and Equipment

A summary of net property and equipment is as follows as of June 30, 2021:

Land	\$ 230,155
Building and improvements	1,477,403
Furniture and equipment	731,501
Automobiles	99,982
	2,539,041
Accumulated depreciation	(2,040,734)
Total	\$ 498,307

Depreciation expense for the year ended June 30, 2021, was \$63,651.

Respiratory Health Association

Notes to Financial Statements

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 \$1,583,135 at June 30, 2021, is reported in the financial statements as beneficial interest in irrevocable trust. At June 30, 2021, the trust's assets are comprised of an investment mix of 54 percent cash equivalents and fixed income, 18 percent equities and 28 percent alternative assets. The Association expects to receive distributions of its share of annual income. Distributions during 2021 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 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 two 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 was renewed on January 1, 2021. The line of credit is due January 1, 2022. There was no balance outstanding on the line of credit at June 30, 2021.

Interest expense for the year ended June 30, 2021, was \$2,601.

Note 7: Notes Payable - Paycheck Protection Program

As of June 30, 2021, the Association had an outstanding loan of \$347,851 from the Small Business Administration's (SBA) Paycheck Protection Program (PPP), as a result of legislation passed to assist businesses in navigating the Coronavirus pandemic. This was their second PPP loan. Under the terms of the original loan agreement, the loan bears interest at a rate of 1% with monthly payments of principal and interest commencing either the date the SBA remits the borrower's loan forgiveness amount to the lender or, if the borrower does not apply for loan forgiveness, 10 months after the end of the borrower's loan forgiveness covered period and extending for a five-year term. If certain criteria are met, the SBA may forgive all or a portion of the loan.

While the Association believes based upon current information all or substantially all of the loan and accrued interest will be forgiven under the program, under generally accepted accounting principles, any forgiveness is not recognized until a formal forgiveness determination is made by the SBA.

On April 28, 2020, the Association received \$347,851 under the PPP with First American Bank, its first PPP loan. On June 9, 2021, the Association received notification of full forgiveness. The forgiveness is included as nonoperating activities in the statement of activities and change in net assets.

Respiratory Health Association

Notes to Financial Statements

Note 8: Employee Retention Tax Credit

The Company filed for an employee retention tax credit related to 2021 allowable expenses. Other revenue of \$95,000 is included on the statements of activities and change in net assets with a corresponding other receivable on the statement of financial position. The Association has determined the credit and filed the payroll tax returns to claim it.

Note 9: 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 2021, \$13,077 of matching contributions and \$10,964 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).

Additionally, during the year ended June 30, 2021, the Plan separated eleven participants currently receiving monthly benefits. The pension liability for these former participants was transferred to guaranteed benefits annuities. The Plan asset and liabilities amounts as of December 31, 2020, reflects the removal of the eleven participants.

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

	2021
Projected benefit obligation	\$ 1,690,565
Plan assets at market value	905,800
Unfunded pension liability	(784,765)
Employer contributions	(53,909)
Benefits paid	\$ (1,780,537)
Accumulated benefit obligation	1,690,565

Respiratory Health Association

Notes to Financial Statements

Note 9: 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	\$	68,244
Expected return on assets		(49,671)
Amortization of unrecognized net loss		56,182
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Total	\$	74,755

Expected contributions to the plan for fiscal 2022 are \$53,909.

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, 2021, the plan assets were invested with Sanford C. Bernstein & Co., LLC. The plan invested in cash and short-term securities (less than one percent), equity funds (19 percent), bond funds (61 percent), and other investments (20 percent) at June 30, 2021.

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.

Equity and bond funds: The equity and bond funds are valued using quotes from pricing vendors based on recent trading activity and other observable market data..

Respiratory Health Association

Notes to Financial Statements

Note 9: Retirement Plans (Continued)

Other investments: Other investments includes a diversified portfolio of securities and other financial instruments. 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, 2021, by asset category are as follows:

Asset Category	Fair Value of Assets as of June 30, 2021			
	Level 1	Level 2	Level 3	Total
Cash	\$ 245	\$ -	\$ -	\$ 245
Bond funds	550,076	-	-	550,076
Equity funds	174,486	-	-	174,486
Other	-	-	180,993	180,993
Total	\$ 724,807	\$ -	\$ 180,993	\$ 905,800

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

	Loans	Other	Total
Balance as of July 1, 2020	\$ 604,982	\$ 15,513	\$ 620,495
Sales	(604,982)	(15,513)	(620,495)
Purchases	-	180,993	180,993
Total	\$ -	\$ 180,993	\$ 180,993

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

2022	\$ 80,500
2023	81,900
2024	80,000
2025	84,100
2026	84,900
2026-2030	452,400
Total	\$ 863,800

Respiratory Health Association

Notes to Financial Statements

Note 10: Net Assets with Donor Restriction

At June 30, 2021, net assets with donor restriction consisted of the following:

Subject to expenditure for specific purpose:	
Pulmonary fibrosis research	\$ 155,542
Lung cancer research	232,073
Chronic obstructive pulmonary disease research	74,818
Capital improvement campaign	645,505
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	\$ 1,107,938
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	\$ 1,583,135
Endowment fund invested for perpetuity	440,000
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	2,023,135
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Total net assets with donor restrictions	\$ 3,131,073

Note 11: 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

Note 11: 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 \$514,818 required to be retained and \$0 subject to appropriation as of June 30, 2021.

Changes in endowment net assets were as follows for the year ended June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at beginning of year	\$ -	\$ 425,017	\$ 425,017
Net realized and change in unrealized gain	-	109,801	109,801
Appropriation for annual award	-	(20,000)	(20,000)
Endowment net assets at end of year	\$ -	\$ 514,818	\$ 514,818

Respiratory Health Association

Notes to Financial Statements

Note 11: 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.

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 12: Lease Agreement

The Association renewed an operating lease agreement in 2020 with an unrelated party for a portion of the space in the building owned by the Association. The lease expires on April 30, 2024, and includes base lease monthly payments ranging from \$17,474 to \$20,257.

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

Year Ended June 30,

2022	\$	237,181
2023		243,081
2024		202,567
Total		\$ 682,829

Base rental income for this lease was \$230,845 for the year ended June 30, 2021.

Respiratory Health Association

Notes to Financial Statements

Note 13: 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. 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.