
AMERICAN LUNG ASSOCIATION

FINANCIAL STATEMENTS

JUNE 30, 2023



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Board of Directors
American Lung Association
Chicago, Illinois

Opinion

We have audited the financial statements of American Lung Association (the Association), a not-for-profit organization, which comprise the statement of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Association as of June 30, 2023 and 2022, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis For Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditors' Responsibilities For The Audit Of The Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis Of Matter: Change In Accounting Principle

As discussed in Note 12 to the financial statements, as of July 1, 2022, the Association has adopted Accounting Standards Codification Topic 842, *Leases*. Our opinion is not modified with respect to the matter.

Responsibilities Of Management For The Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities For The Audit Of The Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required By *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2024 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

RubinBrown LLP

January 11, 2024

AMERICAN LUNG ASSOCIATION
STATEMENT OF FINANCIAL POSITION

Assets

	June 30,	
	2023	2022
Assets		
Cash and cash equivalents	\$ 17,723,896	\$ 27,358,501
Receivables:		
Accounts and grants receivable, net	18,912,971	17,309,277
Notes receivable	637	10,687
Prepaid expenses and other assets:		
Prepaid expenses	1,430,158	1,593,444
Inventories	90,095	121,536
Investments	130,530,477	121,271,137
Other assets	965,485	964,094
Land, buildings and equipment, net	10,693,763	11,037,770
Right-of-use assets	4,286,831	—
Beneficial interest in gift annuities	1,244,900	1,226,812
Beneficial interest in charitable and perpetual trusts	35,480,326	34,155,858
Total Assets	\$ 221,359,539	\$ 215,049,116

Liabilities And Net Assets

Liabilities

Accounts payable and accrued expenses:		
Accounts payable - general	\$ 13,316,160	\$ 12,591,730
Accounts payable - awards and grants	13,598,538	12,257,372
Deferred revenue	471,939	499,687
Unearned grant advances	7,140,068	10,947,627
Note payable	—	1,781,745
Amounts held on behalf of others	1,093,269	1,148,660
Accrued pension and postretirement plan liabilities	5,826,182	8,799,532
Gift annuities obligations	824,311	893,806
Lease liabilities	4,671,453	—
Other liabilities	18,988	465,432
Total Liabilities	46,960,908	49,385,591

Net Assets

Without donor restrictions	126,807,362	121,282,464
With donor restrictions:		
Perpetual in nature	41,196,328	38,905,037
Purpose and time restrictions	6,394,941	5,476,024
	47,591,269	44,381,061
Total Net Assets	174,398,631	165,663,525
Total Liabilities And Net Assets	\$ 221,359,539	\$ 215,049,116

AMERICAN LUNG ASSOCIATION

STATEMENT OF ACTIVITIES For The Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue			
Public Support:			
Direct mail	\$ 15,177,386	\$ —	\$ 15,177,386
Contributions	10,071,208	341,698	10,412,906
Contributed media, services and materials	68,397,479	—	68,397,479
Bequests and trust income	18,583,813	1,632,797	20,216,610
Special events	15,206,345	—	15,206,345
Less: Direct donor benefits	(3,022,304)	—	(3,022,304)
Total Public Support	124,413,927	1,974,495	126,388,422
Other Revenue:			
Corporate support	8,862,089	—	8,862,089
Foundation support	3,976,611	159,934	4,136,545
Government grants	30,465,862	—	30,465,862
Interest and dividends, net	4,264,313	221,171	4,485,484
Research co-funding	1,727,266	—	1,727,266
Program service fees	1,423,446	8,000	1,431,446
Other	642,228	—	642,228
Loss on sale of land, buildings and equipment	(9,238)	—	(9,238)
Total Other Revenue	51,352,577	389,105	51,741,682
Net assets released from restrictions	1,055,369	(1,055,369)	—
Total Revenue	176,821,873	1,308,231	178,130,104
Expenses			
Program services	165,482,424	—	165,482,424
Supporting services	15,703,923	—	15,703,923
Total Expenses	181,186,347	—	181,186,347
Changes In Net Assets From			
Operating Activities	(4,364,474)	1,308,231	(3,056,243)
Other Changes			
Net realized losses on investments	(1,249,090)	(66,673)	(1,315,763)
Net unrealized gains on investments	8,627,870	513,305	9,141,175
Change in fair value of beneficial interest in trusts and other	975	1,455,345	1,456,320
Change in value of split-interest agreements	(2,416)	—	(2,416)
Change in value of equity method investments	2,554,103	—	2,554,103
Other pension and postretirement plan changes	(42,070)	—	(42,070)
Total Other Changes	9,889,372	1,901,977	11,791,349
Change In Net Assets	5,524,898	3,210,208	8,735,106
Net Assets - Beginning Of Year	121,282,464	44,381,061	165,663,525
Net Assets - End Of Year	\$ 126,807,362	\$ 47,591,269	\$ 174,398,631

AMERICAN LUNG ASSOCIATION

STATEMENT OF ACTIVITIES For The Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue			
Public Support:			
Direct mail	\$ 17,821,403	\$ —	\$ 17,821,403
Contributions	11,433,498	722,616	12,156,114
Contributed media, services and materials	36,278,271	—	36,278,271
Bequests and trust income	17,951,005	657,000	18,608,005
Special events	15,328,642	—	15,328,642
Less: Direct donor benefits	(3,048,500)	—	(3,048,500)
Total Public Support	95,764,319	1,379,616	97,143,935
Other Revenue:			
Corporate support	11,215,165	—	11,215,165
Foundation support	3,571,443	24,000	3,595,443
Government grants	40,800,448	—	40,800,448
Interest and dividends, net	4,682,663	286,705	4,969,368
Research co-funding	1,295,198	—	1,295,198
Program service fees	1,147,580	—	1,147,580
Other	466,311	—	466,311
Gain on sale of land, buildings and equipment	243,149	—	243,149
Total Other Revenue	63,421,957	310,705	63,732,662
Net assets released from restrictions	228,064	(228,064)	—
Total Revenue	159,414,340	1,462,257	160,876,597
Expenses			
Program services	123,664,905	—	123,664,905
Supporting services	14,306,940	—	14,306,940
Total Expenses	137,971,845	—	137,971,845
Changes In Net Assets From			
Operating Activities	21,442,495	1,462,257	22,904,752
Other Changes			
Net realized gain on investments	4,297,704	263,775	4,561,479
Net unrealized losses on investments	(24,658,156)	(1,520,566)	(26,178,722)
Change in fair value of beneficial interest in trusts and other	97,450	(5,946,594)	(5,849,144)
Change in value of split-interest agreements	(162,165)	—	(162,165)
Change in value of equity method investments	(162,511)	—	(162,511)
Other pension and postretirement plan changes	2,111,095	—	2,111,095
Total Other Changes	(18,476,583)	(7,203,385)	(25,679,968)
Change In Net Assets	2,965,912	(5,741,128)	(2,775,216)
Net Assets - Beginning Of Year	118,316,552	50,122,189	168,438,741
Net Assets - End Of Year	\$ 121,282,464	\$ 44,381,061	\$ 165,663,525

AMERICAN LUNG ASSOCIATION
STATEMENT OF FUNCTIONAL EXPENSES
For The Year Ended June 30, 2023

	Program Services					Supporting Services			
	Lung Cancer, Asthma, COPD And Lung Disease	Research	Advocacy And Environment	Tobacco Control	Total Program Services	Management And General	Fundraising	Total Supporting Services	Total Expenses
Salaries	\$ 9,796,646	\$ 3,298,519	\$ 7,789,012	\$ 10,565,215	\$ 31,449,392	\$ 977,195	\$ 4,348,138	\$ 5,325,333	\$ 36,774,725
Payroll taxes and benefits	2,510,684	835,565	2,029,933	2,810,697	8,186,879	248,307	1,127,468	1,375,775	9,562,654
Total Compensation	12,307,330	4,134,084	9,818,945	13,375,912	39,636,271	1,225,502	5,475,606	6,701,108	46,337,379
Award and grants, net	—	13,632,659	—	—	13,632,659	—	—	—	13,632,659
Program consulting	5,692,079	275,132	5,906,274	9,920,413	21,793,898	—	—	—	21,793,898
Professional fees	3,315,988	687,345	1,011,917	2,948,778	7,964,028	348,058	1,031,087	1,379,145	9,343,173
Media and advertising	381,307	270,708	250,225	217,725	1,119,965	3,630	328,279	331,909	1,451,874
In-kind media	32,751,704	30,897	35,197	35,210,759	68,028,557	—	51,993	51,993	68,080,550
Occupancy	852,235	208,942	580,602	685,016	2,326,795	620,487	416,569	1,037,056	3,363,851
Office supplies and equipment	429,630	227,060	232,010	431,415	1,320,115	98,172	242,960	341,132	1,661,247
Printing	32,212	19,702	23,002	23,515	98,431	1,201	32,010	33,211	131,642
Postage and shipping	29,807	13,428	21,091	23,941	88,267	2,978	28,990	31,968	120,235
Travel and entertainment	302,941	115,339	338,836	290,903	1,048,019	43,095	74,471	117,566	1,165,585
Conferences	48,267	39,219	24,240	16,014	127,740	27,665	9,713	37,378	165,118
Miscellaneous	177,830	62,550	109,714	146,032	496,126	468,787	184,793	653,580	1,149,706
Direct mail - materials and professional fees	4,220,512	2,429,992	511,577	639,472	7,801,553	639,472	4,348,405	4,987,877	12,789,430
Total Functional Expenses Before Direct Donor Benefits	60,541,842	22,147,057	18,863,630	63,929,895	165,482,424	3,479,047	12,224,876	15,703,923	181,186,347
Percentage of total	34%	12%	10%	35%	91%	2%	7%	9%	100%
Direct Donor Benefits									
Site rental/food/entertainment	—	—	—	—	—	—	—	3,022,304	3,022,304
Total Functional Expenses And Direct Donor Benefits	\$ 60,541,842	\$ 22,147,057	\$ 18,863,630	\$ 63,929,895	\$ 165,482,424	\$ 3,479,047	\$ 12,224,876	\$ 18,726,227	\$ 184,208,651

AMERICAN LUNG ASSOCIATION
STATEMENT OF FUNCTIONAL EXPENSES
For The Year Ended June 30, 2022

	Program Services					Supporting Services				Total Expenses
	Lung Cancer, Asthma, COPD And Lung Disease	Research	Advocacy And Environment	Tobacco Control	Total Program Services	Management And General	Fundraising	Total Supporting Services		
Salaries	\$ 8,359,754	\$ 2,967,603	\$ 7,150,724	\$ 9,934,889	\$ 28,412,970	\$ 865,908	\$ 3,980,600	\$ 4,846,508	\$ 33,259,478	
Payroll taxes and benefits	2,137,378	748,848	1,866,573	2,647,702	7,400,501	238,984	1,027,040	1,266,024	8,666,525	
Total Compensation	10,497,132	3,716,451	9,017,297	12,582,591	35,813,471	1,104,892	5,007,640	6,112,532	41,926,003	
Award and grants, net	—	13,235,010	—	—	13,235,010	—	—	—	13,235,010	
Program consulting	3,744,691	55,219	6,469,602	9,016,554	19,286,066	—	—	—	19,286,066	
Professional fees	2,501,279	521,983	723,152	1,904,022	5,650,436	281,942	874,146	1,156,088	6,806,524	
Media and advertising	264,057	202,812	192,013	162,133	821,015	197	258,234	258,431	1,079,446	
In-kind media	12,891,082	40,001	38,612	22,895,535	35,865,230	—	52,623	52,623	35,917,853	
Occupancy	947,535	236,307	625,135	763,106	2,572,083	612,637	505,216	1,117,853	3,689,936	
Office supplies and equipment	434,121	208,807	274,763	443,758	1,361,449	120,127	296,436	416,563	1,778,012	
Printing	25,223	13,791	20,299	18,667	77,980	1,222	37,309	38,531	116,511	
Postage and shipping	32,965	12,865	22,752	26,629	95,211	4,405	32,908	37,313	132,524	
Travel and entertainment	139,981	37,304	95,920	237,036	510,241	4,387	50,581	54,968	565,209	
Conferences	22,851	22,145	11,024	8,025	64,045	7,969	5,698	13,667	77,712	
Miscellaneous	142,026	62,512	97,569	130,602	432,709	29,238	189,481	218,719	651,428	
Direct mail - materials and professional fees	4,321,268	2,414,827	508,384	635,480	7,879,959	635,480	4,194,172	4,829,652	12,709,611	
Total Functional Expenses Before Direct Donor Benefits	35,964,211	20,780,034	18,096,522	48,824,138	123,664,905	2,802,496	11,504,444	14,306,940	137,971,845	
Percentage of total	26%	15%	13%	36%	90%	2%	8%	10%	100%	
Direct Donor Benefits										
Site rental/food/entertainment	—	—	—	—	—	—	—	3,048,500	3,048,500	
Total Functional Expenses And Direct Donor Benefits	\$ 35,964,211	\$ 20,780,034	\$ 18,096,522	\$ 48,824,138	\$ 123,664,905	\$ 2,802,496	\$ 11,504,444	\$ 17,355,440	\$ 141,020,345	

AMERICAN LUNG ASSOCIATION

STATEMENT OF CASH FLOWS

	For The Years Ended June 30,	
	2023	2022
Cash Flows From Operating Activities		
Changes in net assets	\$ 8,735,106	\$ (2,775,216)
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Depreciation and amortization	387,983	351,157
Forgiveness of notes receivable	10,050	295,883
(Gain) loss on sale of land, buildings and equipment	9,238	(243,149)
Net realized and unrealized (gains) losses on investments	(7,825,412)	21,617,243
Distribution of assets held in trusts	123,618	134,586
Change in fair value of beneficial interest in trusts and other	(1,448,086)	5,814,803
Change in fair value of beneficial interest in gift annuities	(18,088)	263,333
Change in valuation of investment in LLC	625,587	162,511
Changes in assets and liabilities:		
Receivables	(1,603,694)	(6,663,212)
Prepaid expenses	163,286	(625,330)
Inventories	31,441	(70,160)
Other assets	(1,391)	104,684
Accounts payable - general	724,430	1,562,548
Accounts payable - awards and grants payable	1,341,166	(179,562)
Deferred revenue	(27,748)	(195,011)
Unearned grant advances	(3,807,559)	(4,281,188)
Paycheck Protection Program refundable grant advance	—	(8,028,215)
Amounts held on behalf of others	(55,391)	(86,303)
Accrued pension and postretirement plan liabilities	(2,973,350)	(5,152,573)
Gift annuities obligations	(69,495)	(101,168)
Other liabilities	(446,444)	(309,764)
Right of use assets and lease liabilities	384,622	—
Net Cash Provided By (Used In) Operating Activities	(5,740,131)	1,595,897
Cash Flows From Investing Activities		
Purchase of investments	(11,734,214)	(29,802,651)
Sale of investments	9,345,721	18,454,625
Purchase of property and equipment	(66,582)	(2,023,656)
Proceeds from sale of property and equipment	13,368	697,944
Net Cash Used In Investing Activities	(2,441,707)	(12,673,738)
Cash Flows Provided By (Used In) Financing Activities		
Proceeds (repayments) from note payable	(1,781,745)	1,781,745
Change In Cash And Cash Equivalents	(9,963,583)	(9,296,096)
Cash And Cash Equivalents - Beginning Of Year	34,960,576	44,256,672
Cash And Cash Equivalents - End Of Year	\$ 24,996,993	\$ 34,960,576
Cash And Cash Equivalents Are Included Within The Following Captions On The Statement Of Financial Position		
Cash and cash equivalents	\$ 17,723,896	\$ 27,358,501
Investments	7,273,097	7,602,075
	\$ 24,996,993	\$ 34,960,576

AMERICAN LUNG ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 And 2022

1. Nature Of Business

American Lung Association (the Association) is a not-for-profit voluntary health organization incorporated in the State of Maine. The mission of the Association is to prevent lung disease and promote lung health. The Association sponsors education, services, and advocacy related to asthma and other lung diseases, tobacco control, and indoor and outdoor air quality. Programs include education and public information programs about indoor and outdoor environmental and air quality issues, community and school programs about tobacco control, asthma and comprehensive health education, smoking cessation and prevention programs for teens and adults, asthma camps, support groups for children and adults with lung diseases, conferences and public information. The Association also provides grants and awards for research and for the training of researchers. The Association has an advocacy function to promote awareness in the above areas by the appropriate government agencies in order to assist them in achieving better health and environmental conditions for the public. The Association is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

2. Summary Of Significant Accounting Policies

Basis Of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP).

Net assets are classified based on the existence or absence of donor-imposed restrictions. The following is a description of each class:

Without Donor Restrictions

Net assets available for use in general operations and not subject to donor restrictions.

AMERICAN LUNG ASSOCIATION

Notes To Financial Statements (*Continued*)

With Donor Restrictions

Net assets subject to donor-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 donor-imposed restrictions are perpetual in nature, where the donor stipulates the resources be maintained in perpetuity. Generally, the donors of these assets permit the Association to use all or part of the income earned on related investments for general or specified purposes. Donor-imposed restrictions are released 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. The Association has adopted the policy of reporting net assets released from restrictions upon completion of the donor purpose restriction, regardless of whether the related cash has been received.

Operations

Revenues received and expenses incurred in conducting the programs and services of the Association are presented in the financial statements as operating activities. Nonoperating results include investment income return, change in value of beneficial interest in trusts and split-interest agreements, change in value of equity method investments and other pension and postretirement plan changes.

Use Of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates include the determination of allowances for doubtful accounts; the pension and life insurance benefit obligations; the fair values assigned to certain financial instruments, in-kind contributions, the useful lives assigned to property and equipment, lease terms and the allocation of functional expenses. Actual results could differ from those estimates.

Cash Equivalents

Cash equivalents include highly liquid investments, including money market funds with original maturities of three months or less at the date of purchase. The Association has classified any cash or money market accounts held by external investment managers as investments as these funds are not intended for current operations.

AMERICAN LUNG ASSOCIATION

Notes To Financial Statements (*Continued*)

Receivables And Allowances For Doubtful Accounts

Receivables are primarily related to grants and program service contracts. The Association provides an allowance for uncollectible accounts based upon prior experience and management's assessment of the collectability of specific accounts. Receivables are reflected on the accompanying Statement of Financial Position net of allowance for doubtful accounts of \$20,000 as of June 30, 2023 and 2022.

Land, Buildings And Equipment

Land, buildings, and equipment are recorded at fair value at the date of receipt, and expenditures for land, buildings and equipment in excess of \$5,000 are capitalized and stated at cost, less accumulated depreciation.

Depreciation is computed using the straight-line method over the estimated useful lives (5-40 years for buildings and improvements; 3 years for computer hardware and software; 3-15 years for furniture, fixtures and equipment; and 3-5 years for vehicles). Leasehold improvements are amortized over the shorter of the life of the lease or estimated life of the asset.

Leases

On July 1, 2022, the Association utilized the modified retrospective approach to adopt the provisions of Accounting Standards Codification (ASC) Topic 842, *Leases*, which includes a number of optional practical expedients that entities may elect to apply. The Association has elected certain practical expedients, including the use of hindsight in determining the lease term at transition and in assessing impairment of an entity's right-of-use (ROU) assets and the package of practical expedients to not reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs. The Association has also elected the practical expedient not to assess whether existing leases that were not previously accounted for as leases under ASC Topic 840 are or contain a lease under ASC 842. The initial adoption of ASC 842 did not result in a cumulative adjustment to net assets. Results for 2023 are presented under ASC 842, while the prior period financial statements have not been adjusted and continue to be presented under ASC 840, the accounting standard in effect at that time.

AMERICAN LUNG ASSOCIATION

Notes To Financial Statements (*Continued*)

As further described in Note 12, the Association maintains leases of office space across the United States. Lease ROU assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the earlier of the date of initial adoption of ASC 842 or lease commencement date. The ROU assets represent the lease liability, plus any lease payments made at or before the commencement date, less any lease incentives received. The Association's leases generally have terms of one to ten years. The Association does not record ROU assets or lease liabilities for leases with an initial expected lease term of 12 months or less. For operating leases, lease expense for minimum lease payments is recognized on a straight-line basis over the term of the lease.

The lease terms utilized in determining ROU assets and lease liabilities include the noncancellable portion of the underlying leases along with renewal periods, only if it is reasonably certain that the option will be exercised. When determining if a renewal option is reasonably certain of being exercised, the factors considered, include but are not limited to, the cost of moving to another location, the cost of disruption of operations, the purpose or location of the lease asset and the terms associated with extending the lease. The office space leases include various renewal options, varying from one to five years. The Association has not included these renewal periods in the term when determining the ROU asset and lease liability as management is not reasonably certain if such renewal will be exercised. Accordingly, only the initial term is included in the lease term when calculating the ROU asset and lease liability with respect to the office space leases. The Association has not included any termination penalties in its lease payments, nor shortened any lease terms related to options to terminate a lease.

As most leases do not provide an implicit discount rate, the Association has made an election available to not-for-profit companies that allows the use of the risk-free rate at the initial adoption date of ASC 842 to determine the present value of the lease payments.

The Association's operating leases may contain fixed rent escalations over the lease term, and the Association recognizes expense for these leases on a straight-line basis over the lease term of the respective ROU asset. The Association recognizes the related lease expense on a straight-line basis and records the difference between the recognized lease expense and amounts payable under the lease as part of the ROU asset.

The Association does not separate non-lease components of a contract from the lease components to which they relate for all classes of lease assets.

Investments And Related Income

The Association carries its investments at fair value with the related gains and losses included in the Statement of Activities. The fair value of equity securities, debt securities, and mutual funds with readily determinable fair values approximates quoted market prices. All investment income is reported as without donor restrictions unless otherwise restricted by the donor. All appreciation/depreciation earned on investments is reported as a change in net assets without donor restrictions unless otherwise restricted by the donor. Investment income is reported in net assets without donor restrictions when the restrictions are met in the same reporting period as the investment income is recognized. Interest and dividend income from the Association's investments are included in operating activities on the Statement of Activities as those investments are used for the Association's daily cash management activities. All other investment return is considered nonoperating. Investment income is reported net of external and direct internal investment expenses.

Direct Mail, Contributions, Bequests And Trust Income

All unconditional monetary gifts collected through direct mail, online contributions, special events, bequests and trusts are recorded when received. All contributions are considered available for the general programs of the Association, unless specifically restricted by the donor. The Association reports monetary gifts as donor restricted support if they are received with donor stipulations that limit their use or are subject to time restrictions. A donor restriction expires when a stipulated time restriction ends or when a purpose restriction is accomplished. Upon expiration of the restriction, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized.

Grants

A portion of the Association's grant revenue is derived from cost-reimbursable federal, state and private grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Association has incurred expenditures in compliance with specific grant provisions. Amounts received prior to incurring qualifying expenditures are reported as unearned grant advances in the Statement of Financial Position.

AMERICAN LUNG ASSOCIATION

Notes To Financial Statements (*Continued*)

The Association received cost-reimbursable grants of \$7,123,533 and \$10,928,542 that have not been recognized at June 30, 2023 and 2022, respectively, because qualifying expenditures have not yet been incurred. As of June 30, 2023 and 2022, the Association had conditional grant awards of \$26,842,139 and \$32,309,571, respectively. These awards are conditional upon incurring allowable expenditures under the grants. At June 30, 2023 and 2022, accounts and grants receivable, net in the statement of financial position include \$11,833,605 and \$9,434,358, respectively, of qualifying expenditures that have been incurred but not yet paid.

Grant revenue is classified as income without donor restrictions unless the use of the income is limited by donor restrictions. If a restriction is fulfilled in the same time period in which the grant is received, the grant revenue is reported as net assets without donor restrictions.

Revenue Recognition

The Association recognizes revenue from exchange transactions in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, as amended. ASU No. 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition.

The Association records the following exchange transaction revenue in its Statement of Activities for the years ended June 30, 2023 and 2022:

Special Events And Program Service Fees

The Association records special events revenue equal to the fair value of direct benefit to donors, and contribution income for the excess received at the point in time which is when the event takes place. Program service fees results in registration fees paid for events and activities and from event exhibitors. Revenue for such activities is recognized at a point in time when the event occurs. Any amounts received prior to the event date are recorded as deferred revenue. The special events and program service fee revenue from contracts with customers as described above does not include variable consideration estimated by the Association. The timing of revenue recognition, billings and cash collections results in billed accounts receivable on the statement of financial position. Accounts receivable related to contracts from customers was \$614,153 \$775,044, and \$466,232 at June 30, 2023, 2022 and 2021, respectively. Contract liabilities recorded as deferred revenue were \$467,017, \$466,163 and \$466,003 as of June 30, 2023, 2022 and 2021, respectively.

AMERICAN LUNG ASSOCIATION

Notes To Financial Statements (*Continued*)

Licensing Fees And Royalties

The Association receives licensing fees from corporations who become part of the American Lung Association Health Partners (Health Partners) program, under either educational partner agreements or license agreements. Health Partners pay fees for use of the American Lung Association logo and approved informational content under strict usage terms that require the Association's approvals on all of the corporate partners' marketing materials. The term of these agreements typically range from one to three years. Fees are paid either annually, semiannually or quarterly depending on the terms of the respective contract.

In certain affinity contracts, royalties are derived from fees paid and reported to the Association by the corporate partner on a quarterly basis based on the number of applications, renewals, the volume of charges or some other formula based on activity generated by the program.

The Association records revenue from licensing fees and royalties as increases to net assets without donor restrictions to the extent the earnings process is complete based on the performance obligations. Revenue is earned ratably over the period of the agreements. Receivables are expected to be collected within one year and are recorded at net realizable value. Licensing fees and royalties are reported as corporate support revenue on the Statement of Activities.

Disaggregated revenue from contracts with customers is recognized as follows:

	<u>2023</u>	<u>2022</u>
Special event revenue and program services - point in time	\$ 1,603,123	\$ 3,761,645
<u>Licensing fee and royalties - over time</u>	<u>1,899,330</u>	<u>3,304,069</u>
	<u>\$ 3,502,453</u>	<u>\$ 7,065,714</u>

There were no significant judgements involved in the methodology used by the Association to recognize revenue from contracts with customers.

Contributed Media, Services And Materials

The Association recognizes advertising costs when incurred. The Association received \$68,080,550 and \$35,917,853 of billboard, print, and TV and radio advertisement space during the years ended June 30, 2023 and 2022, respectively. The value of such contributed media, based upon information provided by third-party media services of the price charged for similar services, is reflected on the Statement of Activities as contributed media, services and materials and on the Statement of Functional Expenses as in-kind media.

AMERICAN LUNG ASSOCIATION

Notes To Financial Statements (*Continued*)

The Association recognizes contributions of services if such services (a) create or enhance nonfinancial assets, or (b) require specialized skills, and are provided by individuals possessing those skills and would typically need to be purchased if not contributed. Contributed services recognized related to consulting work using current rates for similar services was \$203,570 and \$173,567 for the years ended June 30, 2023 and 2022, respectively. The Association also recognizes contributions of materials and facility space at their estimated fair value at the date of donation based on the current price for similar materials or the estimated fair value of similar rental listings. Donated materials and facility space was \$113,359 and \$186,851 for the years ended June 30, 2023 and 2022, respectively.

All donated services and assets were utilized by the Association's programs and supporting services. There were no donor-imposed restrictions associated with the donated assets.

Research Awards And Grants

The Association makes awards and grants for research and for the training of researchers. The Association's funding for research is derived from a portion of its overall revenue and contractual agreements with affiliates restricted to the Association's Airways Clinical Research Centers (ACRC) Network. The ACRC Network consists of over 35 airways clinical research centers throughout the United States. Additional funding is provided through investment earnings on endowments and by corporate and foundation grants. Recipients are required to meet certain qualifications and to provide accountability to the Association for funds disbursed. The liability and related expense for awards and grants are recognized at the time of award and notification to, and acceptance by, the recipient. Outstanding awards and grant commitments at June 30, 2023 and 2022, are all payable within two years.

Functional Allocation Of Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, payroll taxes and benefits, occupancy, office supplies and equipment, printing, postage and shipping, travel and conferences, which are allocated on the basis of estimates of time and effort. Direct mail - materials and professional fees are allocated on the basis of the direct response mailing of solicitation materials.

AMERICAN LUNG ASSOCIATION

Notes To Financial Statements (*Continued*)

Income Taxes

The Association is designated as a non-profit organization and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. It has been classified as an organization that is not a private foundation. Therefore, charitable contributions are tax deductible.

Concentrations Of Credit Risk

Cash, cash equivalents and investments are exposed to various risks, such as interest rate, market and credit risks. To minimize such risks, the Association has diversified investment portfolios managed by independent investment managers in a variety of asset classes. The Association regularly evaluates its investments including performance thereof. Due to inherent risks and potential volatility in investment valuations, the amounts reported on the accompanying financial statements can vary substantially from year to year. The Association maintains its cash and cash equivalents in various bank deposit accounts, which, at times may exceed federally insured limits. At June 30, 2023 and 2022, the Association's cash accounts exceeded federally insured limits by \$20,037,267 and \$26,914,003, respectively. The Association's cash and investment accounts were placed with high credit quality financial institutions and accordingly, the Association does not expect nonperformance.

Subsequent Events

The Association evaluated subsequent events through the date of the Independent Auditors' Report, which was the date that these financial statements were available for issuance.

3. Notes Receivable

The Association received several grants to provide gas stations with funding to provide E-85 fueling. The funds were advanced to the gas stations upon completion of the project and the Association executed a note agreement with each station. No amounts were advanced in 2023 or 2022. The notes are forgivable over a two to five-year period, providing the E-85 fueling capacity remains intact. For the years ended June 30, 2023 and 2022, \$10,050 and \$295,883, respectively, of the notes receivable was forgiven.

AMERICAN LUNG ASSOCIATION

Notes To Financial Statements (*Continued*)

4. Land, Buildings And Equipment, Net

Land, buildings and equipment, net, consists of the following:

	<u>2023</u>	<u>2022</u>
Land	\$ 2,582,203	\$ 2,582,203
Buildings and improvements	14,536,948	14,499,820
Computer hardware and software	351,583	351,583
Furniture, fixtures and equipment	3,371,570	3,365,502
Vehicles	88,644	88,644
Leasehold improvements	455,278	455,278
	<u>21,386,226</u>	<u>21,343,030</u>
Less: Accumulated depreciation	<u>10,692,463</u>	<u>10,305,260</u>
	<u>\$ 10,693,763</u>	<u>\$ 11,037,770</u>

Depreciation expense for the years ended June 30, 2023 and 2022 totaled \$387,983 and \$351,157, respectively, which is included in occupancy on the Statement of Functional Expenses.

5. Fair Value Measurements

GAAP establishes a framework for measuring fair value. That framework uses a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. GAAP requires the Association to maximize the use of observable inputs when measuring fair value. The hierarchy describes three levels of inputs, which are as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in inactive markets; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Significant unobservable inputs.

AMERICAN LUNG ASSOCIATION

Notes To Financial Statements (*Continued*)

In many cases, a valuation technique used to measure fair value includes inputs from more than one level of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy. The categorization of an investment within the hierarchy reflects the relative ability to observe the fair value measure and does not necessarily correspond to the perceived risk of that investment.

If an investment that is measured using net asset value (NAV) has a readily determinable fair value (that is, it can be traded at the measurement date at its published NAV), it is included in Level 1 of the hierarchy. Otherwise, investments measured using NAVs are not included in Level 1, 2, or 3, but are separately reported.

During 2023 and 2022, there were no changes in the methods or assumptions utilized to derive the fair value of the Association's assets.

Valuation Techniques

Following is a description of the valuation techniques used for assets and liabilities measured at fair value on a recurring basis. There have been no changes to the techniques used during the years ended June 30, 2023 and 2022.

Common Stock: Valued at the closing quoted price in an active market.

Mutual Funds, Exchange-traded and Closed-end Funds and Real Estate Investment Trusts: Valued at the NAV of shares on the last trading day of the fiscal year.

United States Government Securities: United States Treasury notes and bonds in which the Association invests are usually "off the run" on the measurement date. Thus, they are valued by a pricing service using a model that incorporates market observable data such as reported sales of similar securities, broker quotes, yields, bids, offers, and reference data. United States Treasury notes and bonds that are "on the run" are measured at quoted prices in active markets for the same security.

United States Agency Bonds: Valued by a pricing service using a model that incorporates market observable data such as reported sales of similar securities, broker quotes, yields, bids, offers, and reference data.

AMERICAN LUNG ASSOCIATION

Notes To Financial Statements (Continued)

Corporate Bonds: The investment grade corporate bonds held by the Association generally do not trade in active markets on the measurement date. Therefore, corporate bonds are valued using inputs including yields currently available on comparable securities of issuers with similar credit ratings, recent market price quotations (where observable), bond spreads, and fundamental data relating to the issuer.

Beneficial Interest in Charitable Trusts and Gift Annuities: Valued using the fair value of the assets held in the trust reported by the trustee as of June 30, 2023 and 2022. The Association considers the measurement of its beneficial interest in charitable trusts and gift annuities to be a Level 2 measurement within the hierarchy because the measurement is based on the unadjusted fair value of trust assets reported by the trustee and the Association will receive those assets in a future period.

Beneficial Interest in Perpetual Trusts: Valued using the fair value of the assets held in the trust reported by the trustee as of June 30, 2023 and 2022. The Association considers the measurement of its beneficial interest in perpetual trusts to be a Level 3 measurement within the hierarchy because even though that measurement is based on the unadjusted fair value of trust assets reported by the trustee, the Association will never receive those assets or have the ability to direct the trustee to redeem them.

Recurring Measurements

Assets and liabilities measured at fair value on a recurring basis are as follows:

	2023			Total
	Level 1	Level 2	Level 3	
Assets				
Investments:				
Mutual funds	\$ 122,828,526	\$ —	\$ —	\$ 122,828,526
Exchange-traded and closed-end funds	125,572	—	—	125,572
United States Agency bonds	—	384	—	384
Corporate bonds	—	117,858	—	117,858
Cash and cash equivalents*				7,273,097
Assets held at Community Foundations**				185,040
Total investments	\$ 122,954,098	\$ 118,242	\$ —	\$ 130,530,477
Other Assets:				
Beneficial interest in charitable and perpetual trusts	\$ —	\$ 1,845,202	\$ 33,635,124	\$ 35,480,326
Beneficial interest in gift annuities	—	1,244,900	—	1,244,900
Total other assets	\$ —	\$ 3,090,102	\$ 33,635,124	\$ 36,725,226

* Cash and cash equivalents are recorded at cost and are not based on Level 1, 2, or 3 inputs.

** Reported at NAV

AMERICAN LUNG ASSOCIATION

Notes To Financial Statements (Continued)

	2022			Total
	Level 1	Level 2	Level 3	
Assets				
Investments:				
Mutual funds	\$ 112,524,292	\$ —	\$ —	\$ 112,524,292
Exchange-traded and closed-end funds	108,495	—	—	108,495
United States Agency bonds	—	438	—	438
Corporate bonds	—	233,444	—	233,444
Cash and cash equivalents*				7,602,075
Other investments (cost)*				625,587
Assets held at Community Foundations**				176,806
Total investments	\$ 112,632,787	\$ 233,882	\$ —	\$ 121,271,137
Other Assets:				
Beneficial interest in charitable and perpetual trusts	\$ —	\$ 1,787,630	\$ 32,368,228	\$ 34,155,858
Beneficial interest in gift annuities	—	1,226,812	—	1,226,812
Total other assets	\$ —	\$ 3,014,442	\$ 32,368,228	\$ 35,382,670

* Cash and cash equivalents and other investments are recorded at cost and are not based on Level 1, 2, or 3 inputs.

** Reported at NAV

The following table presents a reconciliation of Level 3 assets measured at fair value on a recurring basis for the years ended June 30, 2023 and 2022.

	Beneficial Interest In Charitable And Perpetual Trusts	
	2023	2022
Balance, beginning of the year	\$ 32,368,228	\$ 37,818,083
Total gains (losses) included in change in net assets	1,266,896	(5,449,855)
Balance, end of the year	\$ 33,635,124	\$ 32,368,228

6. Charitable Trusts, Perpetual Trusts And Gift Annuities

The Association is a beneficiary of charitable and perpetual trusts administered by independent organizations. Under the terms of the trusts, the Association has irrevocable rights to receive portions of the income earned on the trust assets. Portions of income earned on the perpetual trusts is earned in perpetuity. The Association's beneficial interest in charitable and perpetual trusts, at fair value, totaled \$34,779,043 and \$33,495,896 at June 30, 2023 and 2022, respectively.

AMERICAN LUNG ASSOCIATION

Notes To Financial Statements (*Continued*)

The Association is the beneficiary of charitable remainder unit trusts, which are held by independent organizations. Upon the death of the donors, the Association will receive a portion of the remaining assets in the trust. The value at June 30, 2023 and 2022 was \$701,283 and \$659,962, respectively.

The Association also has charitable gift annuity arrangements in which donors have contributed assets to the Association in exchange for a promise to pay a fixed amount for a specified period of time back to the donor. Gift annuity obligations represent the present value of future cash flows expected to be paid by the Association to the donors under these arrangements. Assets held for the gift annuities at June 30, 2023 and 2022 are \$1,244,900 and \$1,226,812, respectively.

Gift annuity liabilities of \$824,311 and \$893,806 at June 30, 2023 and 2022, respectively, are reported as their own line on the Statement of Financial Position.

7. Note Payable

The Association has margin account borrowings available with its investment broker. As of June 30, 2023, no balance was outstanding on the margin loan. As of June 30, 2022, the Association had margin borrowings of \$1,781,745. The margin borrowing bears interest at 2% as of June 30, 2023 and 2022. Investments and cash held at the investment broker serve as collateral on the margin borrowings.

8. Defined Benefit Pension Plan

The Association has a noncontributory defined benefit pension plan (Retirement Plan D) comprising substantially all of its employees after one year of service. Benefits paid to retirees are based on their age at retirement, years of credited service and average compensation. The Association's Board of Directors voted to freeze this plan effective July 1, 2011. The Association uses a June 30 measurement date for the Retirement Plan D.

All of Retirement Plan D's investments are in a trust that was established for the investment of assets of the American Lung Association Retirement Plan D. The assets of the trust are held by First State Trust Company.

AMERICAN LUNG ASSOCIATION

Notes To Financial Statements (Continued)

Information as of and for the years ended June 30, 2023 and 2022, regarding the Association's Retirement Plan D follows:

	<u>2023</u>	<u>2022</u>
Change in benefit obligation:		
Benefit obligation - beginning of year	\$ 39,465,909	\$ 51,442,124
Interest cost	1,868,947	1,475,219
Actuarial gain	(759,254)	(8,939,742)
Settlements	—	(2,743,310)
Benefits paid	(3,189,431)	(1,768,382)
	<u>\$ 37,386,171</u>	<u>\$ 39,465,909</u>
Change in plan assets:		
Fair value of plan assets - beginning of year	\$ 30,725,088	\$ 37,555,208
Actual return on plan assets	1,067,623	(5,353,428)
Employer contributions	3,000,000	3,035,000
Settlements	—	(2,743,310)
Benefits paid	(3,189,431)	(1,768,382)
	<u>\$ 31,603,280</u>	<u>\$ 30,725,088</u>
Funded status - end of year	<u>\$ (5,782,891)</u>	<u>\$ (8,740,821)</u>

Amounts that have not yet been recognized as a component of net periodic benefit cost, but are included in net assets without donor restrictions, consist of net actuarial loss of \$18,282,557 and \$18,888,594 as of June 30, 2023 and 2022, respectively. The estimated net loss that will be amortized from changes in net assets without donor restrictions into net periodic benefit cost during the fiscal year ending June 30, 2024 is \$540,667.

	<u>2023</u>	<u>2022</u>
Components of net periodic benefit cost:		
Interest cost	\$ 1,868,947	\$ 1,475,219
Expected return on plan assets	(1,762,610)	(1,969,659)
Recognized loss due to settlements	—	1,312,963
Amortization of net actuarial loss	541,770	616,642
	<u>\$ 648,107</u>	<u>\$ 1,435,165</u>
Benefit-related changes other than net periodic benefit cost:		
Net actuarial loss arising during the year	\$ (64,267)	\$ (1,616,655)
Amortization of net actuarial loss	(541,770)	(1,929,605)
Total benefit-related changes other than net periodic benefit cost	<u>\$ (606,037)</u>	<u>\$ (3,546,260)</u>

AMERICAN LUNG ASSOCIATION

Notes To Financial Statements (*Continued*)

The following is the weighted-average assumptions used to determine benefit obligations as of June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Discount rate	5.50%	5.00%
Rate of compensation increase	N/A	N/A

The following are the weighted-average assumptions used to determine net periodic benefit cost for the years ended June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Discount rate	5.50%	3.00%
Rate of compensation increase	N/A	N/A
Expected rate of return on plan assets	6.00%	5.50%

The Association will timely satisfy the minimum required contributions for the next fiscal year. Funding requirements for subsequent years are uncertain and will significantly depend on whether the plan's actuary changes any assumptions used to calculate plan funding levels, the actual return on plan assets, changes in the employee groups covered by the plan, and any legislative or regulatory changes affecting plan funding requirements.

The expected rate of return on plan assets assumption represents the rate of return on plan assets reflecting the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the benefit obligation. The assumption has been determined by reflecting expectations regarding future rates of return for the investment portfolio, with consideration given to the distribution of investments by asset class and historical rates of return for each individual asset class.

The Association's investment strategy emphasizes total return; that is, the aggregate return from capital appreciation, dividend income, and interest income. Specifically, the primary objective in the investment management for the plan is income and growth - to achieve a balanced return of current income and appropriate growth of principal. The secondary objective in the investment management of assets is preservation of purchasing power after spending - to achieve returns in excess of the rate of inflation plus spending over the investment horizon in order to preserve the purchasing power of plan assets. Additional objectives for the Association are preservation of capital and minimization of costs.

AMERICAN LUNG ASSOCIATION

Notes To Financial Statements (Continued)

Risk control is an important element in the investment of plan assets and is achieved through a diversified target allocation and the prohibition of investing in derivative instruments, private placements, limited partnerships, and venture-capital investments. In addition, short selling and margin transactions are prohibited. Investments in companies that derive their revenue from the manufacture and sale of tobacco products are strictly prohibited.

The target allocation and actual allocation of plan assets as of June 30, 2023 and 2022 are as follows:

	Target Allocation	2023	2022
Equity securities	34.00%	38.90%	32.20%
Debt securities	58.00%	55.10%	59.90%
Real estate and real assets	6.00%	0.00%	6.20%
Cash and cash equivalents	2.00%	6.00%	1.70%
	100.00%	100.00%	100.00%

The fair value of plan assets by asset category are as follows:

	2023			
	Level 1	Level 2	Level 3	Total
Equity securities	\$ 12,293,676	\$ —	\$ —	\$ 12,293,676
Debt securities	—	17,413,407	—	17,413,407
Cash and cash equivalents*				1,896,197
	\$ 12,293,676	\$ 17,413,407	\$ —	\$ 31,603,280

	2022			
	Level 1	Level 2	Level 3	Total
Equity securities	\$ 9,893,479	\$ —	\$ —	\$ 9,893,479
Debt securities	—	18,404,328	—	18,404,328
Real estate and real assets	—	—	1,904,955	1,904,955
Cash and cash equivalents*				522,326
	\$ 9,893,479	\$ 18,404,328	\$ 1,904,955	\$ 30,725,088

* Cash and cash equivalents are recorded at cost and are not based on Level 1, 2, or 3 inputs.

See Note 5 for the valuation techniques and inputs used to value the equity and debt securities. The fair value of real estate and real assets is estimated based on quoted market prices, operating results, balance sheet stability, growth, dividend, dividend yield, and other business and market sector fundamentals.

AMERICAN LUNG ASSOCIATION

Notes To Financial Statements (Continued)

The following pension benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

<u>Year</u>	<u>Amount</u>
2024	\$ 4,445,971
2025	3,701,670
2026	3,987,800
2027	3,219,766
2028	2,889,619
2029 - 2033	13,102,500
	<u>\$ 31,347,326</u>

9. Retirement Plan

The Association currently sponsors multiple defined contribution employee retirement plans that match employee contributions. Some of the plans also allow for a discretionary contribution regardless of an employee's participation in the matching portion of the plan. All full-time employees and most part-time employees are eligible to participate based on date of hire. The Association's expense totaled \$1,406,218 and \$1,197,445 for the matching contribution and \$1,623,951 and \$1,404,794 for discretionary contributions for the years ended June 30, 2023 and 2022, respectively.

10. Net Assets With Donor Restrictions

As of June 30, 2023 and 2022, the Association has net assets with donor restrictions as follows:

	<u>2023</u>	<u>2022</u>
Research	\$ 506,074	\$ 1,179,420
Programs	4,966,135	3,423,509
Time restrictions	875,174	825,537
Operations	47,558	47,558
Beneficial interest in charitable and perpetual trusts	33,635,125	32,368,228
Investments in Community Foundations	147,444	146,699
Endowment funds	7,413,759	6,390,110
	<u>\$ 47,591,269</u>	<u>\$ 44,381,061</u>

11. Endowments

The Association's endowment program consists of donor-restricted endowment funds, and does not include any funds designated by the Board of Directors to function as endowments.

The Association follows the provisions of *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* of the Accounting Standards Codification. This standard provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and also requires additional disclosures about endowments for both donor-restricted funds and board-designated funds.

The Association has interpreted the relevant UPMIFA as requiring the preservation of the fair value of the original gift, as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as net assets with donor restrictions: (a) the original value of gifts donated to its permanent endowment, (b) the original value of subsequent gifts to its permanent endowment; and, (c) accumulations to its permanent endowment made in accordance with the direction of the applicable donor gift instrument, at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment funds that is not retained in perpetuity are subject to appropriation for expenditure by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the purpose, duration, and preservation of the endowment fund; expected total return of investments; general economic conditions; the possible effects of inflation and deflation; other resources of the Association; and, the investment policy of the Association.

Appropriations are determined annually by the Board of Directors in alignment with the specific donor agreements.

AMERICAN LUNG ASSOCIATION

Notes To Financial Statements (Continued)

To satisfy its long-term objectives, the Association relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Association targets a diverse asset allocation that places an emphasis on both equity and fixed income investments to achieve its long-term return objectives within prudent risk.

Endowment net assets as of June 30, 2023 and 2022 were as follows:

	With Donor Restrictions	
	2023	2022
Original donor restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 7,413,759	\$ 6,390,110
Accumulated investment gains	1,690,804	1,580,121
	<u>\$ 9,104,563</u>	<u>\$ 7,970,231</u>

The following table summarizes the changes in the Association's endowment net assets which consists of donor restricted net assets and excludes its beneficial interest in perpetual trusts for which the Association is not the trustee, and the changes in the endowment funds for the years then ended June 30, 2023 and 2022:

	With Donor Restrictions	
	2023	2022
Endowment net assets - beginning of year	\$ 7,970,231	\$ 9,016,928
New gifts	5,300	5,300
Transfer per donor direction	1,000,105	—
Interest and dividends	219,104	284,854
Realized gains (losses), net	(66,674)	263,776
Unrealized gains (losses), net	496,228	(1,500,965)
Legal settlement release (Note 15)	(406,270)	—
Appropriation for expenditure	(113,461)	(99,662)
Endowment net assets - end of year	<u>\$ 9,104,563</u>	<u>\$ 7,970,231</u>

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 state law requires the Association to retain as a fund or perpetual duration. Deficiencies of this nature are reported in net assets with donor restrictions. During the year ended June 30, 2023, \$7,413,759 of the endowment fund listed above fell below the original endowment gift of \$7,587,100 by \$173,341 as of June 30, 2023. During the year ended June 30, 2022, \$6,390,110 of the endowment fund listed above fell below the original endowment gift of \$7,009,795 by \$619,685 as of June 30, 2022.

12. Leases**Under ASC 842**

The Association has operating leases for office space that expire at various dates through December 2028. Some leases include options to renew or terminate the lease that can be exercised at the Association's discretion, which are not included in the calculation of the lease liability or ROU asset. Some leases also include escalating rents, which are reported as a reduction of the ROU asset as of June 30, 2023.

Rent expense under operating leases was \$1,703,622 in addition to variable lease costs of \$457,853 for the year ended June 30, 2023, which is included in occupancy on the Statement of Functional Expenses. The weighted-average remaining term for the operating leases is 3.38 years and the weighted-average discount rate is 2.71%.

The reconciliation of the undiscounted cash flows for each of the next five years and total remaining years of the lease liabilities recorded on the Statement of Financial Position is as follows:

<u>Year</u>	<u>Operating Leases</u>
2024	\$ 1,723,148
2025	1,283,048
2026	1,016,884
2027	687,792
2028	140,365
Thereafter	32,264
Total minimum lease payments	4,883,501
Less: Present value discount	(212,048)
Present value of future minimum lease payments	<u>\$ 4,671,453</u>

Under ASC 840

The Association has operating lease agreements for office space and equipment.

AMERICAN LUNG ASSOCIATION

Notes To Financial Statements (Continued)

At June 30, 2022, the minimum annual rental payments due related to all office leases are as follows:

<u>Year</u>	<u>Amount</u>
2023	\$ 1,641,460
2024	1,475,940
2025	1,028,274
2026	847,188
2027	635,496
Thereafter	76,622
	<u>\$ 5,704,980</u>

Total operating lease expense was \$2,128,190 for the year ended June 30, 2022, and was included in occupancy in the Statement of Functional Expenses.

13. Allocation Of Joint Costs

The Association conducts joint activities (activities benefiting multiple programs and/or supporting services) that include fundraising appeals. Those activities primarily include direct mail campaigns for the years ended June 30, 2023 and 2022. These costs were allocated as follows:

	<u>2023</u>	<u>2022</u>
Program	\$ 7,801,553	\$ 7,879,959
Management and general	639,472	635,480
Fundraising	4,348,405	4,194,172
	<u>\$ 12,789,430</u>	<u>\$ 12,709,611</u>

14. Liquidity And Availability Of Financial Assets

The Association regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Association has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities.

The Association receives significant contributions by donors and other funders, and considers contributions restricted for programs, which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The Association manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

AMERICAN LUNG ASSOCIATION

Notes To Financial Statements (*Continued*)

As of June 30, 2023 and 2022, financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 17,723,896	\$ 27,358,501
Investments	130,530,477	121,271,137
Accounts and grants receivable, net	18,912,971	17,309,277
Notes receivable	637	10,687
<u>Total financial assets</u>	<u>167,167,981</u>	<u>165,949,602</u>
Donor-imposed funds subject to purpose restrictions	(2,858,935)	(2,108,274)
Donor-imposed endowments	(9,104,563)	(7,970,231)
Perpetual trusts held with Community Foundations	(147,444)	(146,699)
Amounts invested in building partnerships	—	(625,587)
<u>Amounts held on behalf of others</u>	<u>(1,093,269)</u>	<u>(1,148,660)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 153,963,770</u>	<u>\$ 153,950,151</u>

15. Commitments And Contingencies

During fiscal year 2019, the Association was notified that Breathe California of Los Angeles County (a California not-for-profit organization) appealed a prior court ruling and Consent Judgment regarding ownership of bequests and gifts. As a result of the appeal, the First Appellate District court reversed the trial court's order as to the interpretation of the Consent Judgment and remanded for a determination as to whether this reversal has any effect on the initial Consent Judgment ruling regarding payment and ownership of bequests and gifts.

Breathe California of Los Angeles County is seeking \$1,500,000 of bequests and gift income, including interest, from the Association related to prior year bequests and gifts received by the Association and determined by the Consent Judgment to belong to the Association. Breathe California of Los Angeles County is also seeking collection of pro bono attorney fees from the Association.

AMERICAN LUNG ASSOCIATION

Notes To Financial Statements (*Continued*)

On August 7, 2019, a three-day trial commenced to determine the issue. As of June 30, 2022, the matter was being appealed by Breathe California of Los Angeles. The Association had accrued a liability for the \$1,500,000 claim for bequest and gift income and interest, which was included in the Accounts payable – general line on the Statement of Financial Position. The Association has not accrued for potential attorney fees as the amount was unknown.

During 2023, the appeal was settled in favor of Breathe California of Los Angeles County and the Association was ordered to pay an additional \$609,003 as part of the settlement, which increased the outstanding payable on the Statement of Financial Position. The settlement of \$2,109,003 was paid subsequent to year end. As a result of this settlement, prior year donor restricted endowment gifts of \$406,270 were released to be transferred to Breathe California of Los Angeles County.

16. Paycheck Protection Program

The Association applied for and was approved on March 31, 2021 for a second round loan under the Paycheck Protection Program (PPP) of the Consolidated Appropriations Act. The PPP Round 2 was a low-interest Small Business Administration (SBA) loan, which could be used to fund payroll costs, including benefits, mortgage interest, rent, worker protection costs related to COVID-19 and certain other specified expenses for operations. The Association was approved for a loan under this program in the amount of \$8,028,215 with an interest rate of 1% and a maturity date of March 31, 2026.

As of June 30, 2021, loan forgiveness requirements had not been met; however, management anticipated meeting the requirements of forgiveness within the eligible timeframe and under the requirements of the program. Therefore, the Association considered the loan to be substantively a conditional contribution by the SBA. Under the provisions of ASC 958-605, a conditional contribution is recognized as revenue when the condition or conditions are substantially met.

As of June 30, 2021, the conditions of the program had not been met and the Association had classified the amount as a refundable grant advance on the Statement of Financial Position.

During 2022, the Association received notification of full forgiveness from the SBA and thus has recognized this conditional contribution within government grants on the Statement of Activities.