# *AMERICAN LUNG ASSOCIATION*

*FINANCIAL STATEMENTS*

*JUNE 30, 2024*

# Contents

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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, 2024 and 2023, 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, 2024 and 2023, 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.

***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 10, 2025 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 10, 2025

# AMERICAN LUNG ASSOCIATION

## STATEMENT OF FINANCIAL POSITION

### Assets

| | June 30, 2024 | June 30, 2023 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | **$ 14,012,617** | $ 17,723,896 |
| Receivables: | | |
| Accounts and grants receivable, net | **15,873,955** | 18,912,971 |
| Notes receivable | **—** | 637 |
| Prepaid expenses and other assets: | | |
| Prepaid expenses | **1,359,781** | 1,430,158 |
| Inventories | **69,333** | 90,095 |
| Investments | **141,572,465** | 130,530,477 |
| Other assets | **962,985** | 965,485 |
| Land, buildings and equipment, net | **8,792,576** | 10,693,763 |
| Right-of-use assets | **4,284,020** | 4,286,831 |
| Beneficial interest in gift annuities | **1,171,264** | 1,244,900 |
| Beneficial interest in charitable and perpetual trusts | **37,593,920** | 35,480,326 |
| **Total Assets** | **$ 225,692,916** | $ 221,359,539 |

### Liabilities And Net Assets

| | 2024 | 2023 |
|---|---|---|
| **Liabilities** | | |
| Accounts payable and accrued expenses: | | |
| Accounts payable - general | **$ 12,028,062** | $ 13,316,160 |
| Accounts payable - awards and grants | **12,728,843** | 13,598,538 |
| Deferred revenue | **369,491** | 471,939 |
| Unearned grant advances | **7,519,525** | 7,140,068 |
| Amounts held on behalf of others | **1,099,850** | 1,093,269 |
| Accrued pension and postretirement plan liabilities | **5,340,091** | 5,826,182 |
| Gift annuities obligations | **709,590** | 824,311 |
| Lease liabilities | **4,596,514** | 4,671,453 |
| Other liabilities | **18,351** | 18,988 |
| **Total Liabilities** | **44,410,317** | 46,960,908 |
| **Net Assets** | | |
| Without donor restrictions | **128,984,881** | 126,807,362 |
| With donor restrictions: | | |
| Perpetual in nature | **43,775,887** | 41,196,328 |
| Purpose and time restrictions | **8,521,831** | 6,394,941 |
| | **52,297,718** | 47,591,269 |
| **Total Net Assets** | **181,282,599** | 174,398,631 |
| **Total Liabilities And Net Assets** | **$ 225,692,916** | $ 221,359,539 |

# AMERICAN LUNG ASSOCIATION

## STATEMENT OF ACTIVITIES
## For The Year Ended June 30, 2024

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| **Revenue** | | | |
| Public Support: | | | |
| Direct mail | $ 13,947,991 | $ — | $ 13,947,991 |
| Contributions | 7,937,014 | 312,780 | 8,249,794 |
| Contributed media, services and materials | 45,834,892 | — | 45,834,892 |
| Bequests and trust income | 15,352,563 | 2,648,668 | 18,001,231 |
| Special events | 16,101,837 | — | 16,101,837 |
| Less: Direct donor benefits | (3,370,451) | — | (3,370,451) |
| Total Public Support | 95,803,846 | 2,961,448 | 98,765,294 |
| Other Revenue: | | | |
| Corporate support | 8,284,983 | 19,232 | 8,304,215 |
| Foundation support | 3,309,407 | 80,000 | 3,389,407 |
| Government grants | 32,097,825 | — | 32,097,825 |
| Interest and dividends, net | 4,910,489 | 203,561 | 5,114,050 |
| Research co-funding | 1,813,450 | — | 1,813,450 |
| Program service fees | 1,450,516 | — | 1,450,516 |
| Other | 606,592 | — | 606,592 |
| Gain on sale of land, buildings and equipment | 1,285,311 | — | 1,285,311 |
| Total Other Revenue | 53,758,573 | 302,793 | 54,061,366 |
| Net assets released from restrictions | 1,353,967 | (1,353,967) | — |
| **Total Revenue** | 150,916,386 | 1,910,274 | 152,826,660 |
| **Expenses** | | | |
| Program services | 143,930,520 | — | 143,930,520 |
| Supporting services | 15,539,041 | — | 15,539,041 |
| **Total Expenses** | 159,469,561 | — | 159,469,561 |
| **Changes In Net Assets From Operating Activities** | (8,553,175) | 1,910,274 | (6,642,901) |
| **Other Changes** | | | |
| Net realized gains on investments | 560,484 | 13,160 | 573,644 |
| Net unrealized gains on investments | 10,255,571 | 541,643 | 10,797,214 |
| Change in fair value of beneficial interest in trusts and other | 339,355 | 2,241,372 | 2,580,727 |
| Change in value of split-interest agreements | 138,395 | — | 138,395 |
| Other pension and postretirement plan changes | (563,111) | — | (563,111) |
| **Total Other Changes** | 10,730,694 | 2,796,175 | 13,526,869 |
| **Change In Net Assets** | 2,177,519 | 4,706,449 | 6,883,968 |
| **Net Assets - Beginning Of Year** | 126,807,362 | 47,591,269 | 174,398,631 |
| **Net Assets - End Of Year** | $ 128,984,881 | $ 52,297,718 | $ 181,282,599 |

# 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 FUNCTIONAL EXPENSES
## For The Year Ended June 30, 2024

| | 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 | $ 10,661,266 | $ 3,614,194 | $ 8,496,293 | $ 11,044,188 | $ 33,815,941 | $ 1,030,546 | $ 4,763,671 | $ 5,794,217 | $ 39,610,158 |
| Payroll taxes and benefits | 2,754,187 | 927,552 | 2,249,240 | 2,998,132 | 8,929,111 | 272,531 | 1,261,338 | 1,533,869 | 10,462,980 |
| Total Compensation | 13,415,453 | 4,541,746 | 10,745,533 | 14,042,320 | 42,745,052 | 1,303,077 | 6,025,009 | 7,328,086 | 50,073,138 |
| Award and grants, net | — | 12,784,781 | — | — | 12,784,781 | — | — | — | 12,784,781 |
| Program consulting | 5,006,267 | 272,927 | 7,754,827 | 9,748,584 | 22,782,605 | — | — | — | 22,782,605 |
| Professional fees | 2,853,223 | 754,324 | 952,235 | 2,209,823 | 6,769,605 | 685,737 | 936,179 | 1,621,916 | 8,391,521 |
| Media and advertising | 348,658 | 272,680 | 250,307 | 212,537 | 1,084,182 | — | 350,824 | 350,824 | 1,435,006 |
| In-kind media | 26,478,775 | 21,700 | 15,875 | 18,808,133 | 45,324,483 | — | 17,841 | 17,841 | 45,342,324 |
| Occupancy | 870,124 | 210,449 | 562,562 | 716,413 | 2,359,548 | 627,297 | 386,628 | 1,013,925 | 3,373,473 |
| Office supplies and equipment | 420,649 | 159,441 | 233,725 | 392,595 | 1,206,410 | 114,943 | 246,032 | 360,975 | 1,567,385 |
| Printing | 27,990 | 17,506 | 20,919 | 20,936 | 87,351 | 876 | 39,603 | 40,479 | 127,830 |
| Postage and shipping | 26,386 | 12,106 | 17,716 | 21,110 | 77,318 | 2,353 | 26,342 | 28,695 | 106,013 |
| Travel and entertainment | 340,049 | 172,984 | 336,397 | 319,099 | 1,168,529 | 28,184 | 93,629 | 121,813 | 1,290,342 |
| Conferences | 95,986 | 59,383 | 48,591 | 43,688 | 247,648 | 26,298 | 25,105 | 51,403 | 299,051 |
| Miscellaneous | 153,571 | 60,705 | 100,606 | 117,821 | 432,703 | 27,802 | 189,184 | 216,986 | 649,689 |
| Direct mail - materials and professional fees | 3,711,313 | 2,136,816 | 449,856 | 562,320 | 6,860,305 | 449,856 | 3,936,242 | 4,386,098 | 11,246,403 |
| **Total Functional Expenses Before Direct Donor Benefits** | 53,748,444 | 21,477,548 | 21,489,149 | 47,215,379 | 143,930,520 | 3,266,423 | 12,272,618 | 15,539,041 | 159,469,561 |
| Percentage of total | 34% | 13% | 13% | 30% | 90% | 2% | 8% | 10% | 100% |
| **Direct Donor Benefits** | | | | | | | | | |
| Site rental/food/entertainment | — | — | — | — | — | — | 3,370,451 | 3,370,451 | 3,370,451 |
| **Total Functional Expenses And Direct Donor Benefits** | $ 53,748,444 | $ 21,477,548 | $ 21,489,149 | $ 47,215,379 | $ 143,930,520 | $ 3,266,423 | $ 15,643,069 | $ 18,909,492 | $ 162,840,012 |

# 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 | 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 | $ 15,247,180 | $ 18,726,227 | $ 184,208,651 |

# AMERICAN LUNG ASSOCIATION

## STATEMENT OF CASH FLOWS

| | For The Years Ended June 30, 2024 | 2023 |
|---|---|---|
| **Cash Flows From Operating Activities** | | |
| Changes in net assets | **$ 6,883,968** | $ 8,735,106 |
| Adjustments to reconcile changes in net assets to net cash from operating activities: | | |
| Depreciation and amortization | **388,602** | 387,983 |
| Forgiveness of notes receivable | **637** | 10,050 |
| (Gain) loss on sale of land, buildings and equipment | **(1,285,311)** | 9,238 |
| Net realized and unrealized gains on investments | **(11,370,858)** | (7,825,412) |
| Distribution of assets held in trusts | **454,959** | 123,618 |
| Contributions restricted for donor-restricted endowment | **(56,000)** | (5,300) |
| Change in fair value of beneficial interest in trusts and other | **(2,568,553)** | (1,448,086) |
| Change in fair value of beneficial interest in gift annuities | **73,636** | (18,088) |
| Change in valuation of investment in LLC | — | 625,587 |
| Changes in assets and liabilities: | | |
| Receivables | **3,039,016** | (1,603,694) |
| Prepaid expenses | **70,377** | 163,286 |
| Inventories | **20,762** | 31,441 |
| Other assets | **2,500** | (1,391) |
| Accounts payable - general | **(1,288,098)** | 724,430 |
| Accounts payable - awards and grants payable | **(869,695)** | 1,341,166 |
| Deferred revenue | **(102,448)** | (27,748) |
| Unearned grant advances | **379,457** | (3,807,559) |
| Amounts held on behalf of others | **6,581** | (55,391) |
| Accrued pension and postretirement plan liabilities | **(486,091)** | (2,973,350) |
| Gift annuities obligations | **(114,721)** | (69,495) |
| Other liabilities | **(637)** | (446,444) |
| Right of use assets and lease liabilities | **(72,128)** | 384,622 |
| **Net Cash Used In Operating Activities** | **(6,894,045)** | (5,745,431) |
| **Cash Flows From Investing Activities** | | |
| Purchase of investments | **(25,715,889)** | (11,734,214) |
| Sale of investments | **29,704,131** | 9,345,721 |
| Purchase of property and equipment | **(98,681)** | (66,582) |
| Proceeds from sale of land, buildings and equipment | **2,896,577** | 13,368 |
| **Net Cash Provided By (Used In) Investing Activities** | **6,786,138** | (2,441,707) |
| **Cash Flows From Financing Activities** | | |
| Proceeds from contributions restricted for donor-restricted endowment | **56,000** | 5,300 |
| Repayments from note payable | — | (1,781,745) |
| **Net Cash Provided By (Used In) Financing Activities** | **56,000** | (1,776,445) |
| **Change In Cash And Cash Equivalents** | **(51,907)** | (9,963,583) |
| **Cash And Cash Equivalents - Beginning Of Year** | **24,996,993** | 34,960,576 |
| **Cash And Cash Equivalents - End Of Year** | **$ 24,945,086** | $ 24,996,993 |
| **Cash And Cash Equivalents Are Included Within The Following Captions On The Statement Of Financial Position** | | |
| Cash and cash equivalents | **$ 14,012,617** | $ 17,723,896 |
| Investments | **10,932,469** | 7,273,097 |
| | **$ 24,945,086** | $ 24,996,993 |

## 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, 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.

***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 pension and life insurance benefit obligations, in-kind contributions, 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.

### 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, 2024 and 2023.

### 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

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 Accounting Standards Codification (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 organizations that allows the use of the risk-free rate at the earlier of the initial adoption date of ASC 842 or the lease commencement date 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.

The Association received cost-reimbursable grant receipts of $7,517,375 and $7,123,533 that have not been recognized at June 30, 2024 and 2023, respectively, because qualifying expenditures have not yet been incurred. As of June 30, 2024 and 2023, the Association had conditional grant awards of $33,130,714 and $26,842,139, respectively. These awards are conditional upon incurring allowable expenditures under the grants. At June 30, 2024 and 2023, accounts and grants receivable, net in the Statement of Financial Position include $14,256,404 and $11,833,605, 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 contacts 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, 2024 and 2023:

***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 a 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 $658,248, $614,153, and $775,044 at June 30, 2024, 2023 and 2022, respectively. Contract liabilities recorded as deferred revenue were $360,565, $466,163 and $466,003 as of June 30, 2024, 2023 and 2022, respectively.

### *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 Association's 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:

| | **2024** | 2023 |
|---|---|---|
| Special event revenue and program services - point in time | **$ 1,556,114** | $ 1,603,123 |
| Licensing fee and royalties - over time | **1,256,480** | 1,899,330 |
| | **$ 2,812,594** | $ 3,502,453 |

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 $45,342,324 and $68,080,550 of billboard, print, and TV and radio advertisement space during the years ended June 30, 2024 and 2023, 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.

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 $405,323 and $203,570 for the years ended June 30, 2024 and 2023, 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 $87,245 and $113,359 for the years ended June 30, 2024 and 2023, 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, 2024 and 2023, 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.

### 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, 2024 and 2023, the Association's cash accounts exceeded federally insured limits by $14,285,405 and $20,037,267, respectively. The Association's cash and investment accounts are placed with high credit quality financial institutions and accordingly, the Association does not expect nonperformance.

### New Accounting Standard Implementation

As of July 1, 2023, the Association adopted ASC Topic 326, *Financial Instruments – Credit Losses*, using the modified-retrospective approach. The standard replaces the previous incurred loss model and requires entities to record an estimate of expected losses on financial assets for the remaining estimated life of the asset. The estimate includes consideration of historical expense, current conditions, and reasonable and supportable forecasts. The adoption did not have a material impact on the Association's financial statements.

## 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 2024 or 2023. 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, 2024 and 2023, $637 and $10,050, respectively, of the notes receivable was forgiven.

## 4. Land, Buildings And Equipment, Net

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

| | 2024 | 2023 |
|---|---|---|
| Land | $ **2,490,989** | $ 2,582,203 |
| Buildings and improvements | **12,161,164** | 14,536,948 |
| Computer hardware and software | **351,583** | 351,583 |
| Furniture, fixtures and equipment | **3,197,833** | 3,371,570 |
| Vehicles | **88,644** | 88,644 |
| Leasehold improvements | **455,278** | 455,278 |
| | **18,745,491** | 21,386,226 |
| Less: Accumulated depreciation | **9,952,915** | 10,692,463 |
| | $ **8,792,576** | $ 10,693,763 |

Depreciation expense for the years ended June 30, 2024 and 2023 totaled $388,602 and $387,983, 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.

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 2024 and 2023, 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, 2024 and 2023.

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

***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.

***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, 2024 and 2023. 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, 2024 and 2023. 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:

| 2024 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Investments: | | | | |
| Mutual funds | $ 130,207,556 | $ — | $ — | $ 130,207,556 |
| Exchange-traded and closed-end funds | 147,152 | — | — | 147,152 |
| United States Agency bonds | — | 316 | — | 316 |
| Corporate bonds | — | 87,759 | — | 87,759 |
| Cash and cash equivalents* | | | | 10,932,469 |
| Assets held at Community Foundations** | | | | 197,213 |
| Total investments | $ 130,354,708 | $ 88,075 | $ — | $ 141,572,465 |
| Other Assets: | | | | |
| Beneficial interest in charitable and perpetual trusts | $ — | $ 1,615,578 | $ 35,978,342 | $ 37,593,920 |
| Beneficial interest in gift annuities | — | 1,171,264 | — | 1,171,264 |
| Total other assets | $ — | $ 2,786,842 | $ 35,978,342 | $ 38,765,184 |

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

| 2023 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **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 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, 2024 and 2023.

| | Beneficial Interest In Charitable And Perpetual Trusts | |
|---|---|---|
| | **2024** | 2023 |
| Balance, beginning of the year | **$ 33,635,124** | $ 32,368,228 |
| Total gains included in change in net assets | **2,343,218** | 1,266,896 |
| Balance, end of the year | **$ 35,978,342** | $ 33,635,124 |

## 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 $37,231,638 and $34,779,043 at June 30, 2024 and 2023, respectively.
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, 2024 and 2023 was $362,282 and $701,283, 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, 2024 and 2023 are $1,171,264 and $1,244,900, respectively.

Gift annuity liabilities of $709,590 and $824,311 at June 30, 2024 and 2023, 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, 2024 and 2023, no balance was outstanding on the margin loan and no borrowings were made from the margin loan during 2024 or 2023. Any margin borrowing bears interest at 2% as of June 30, 2024 and 2023. 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 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.

Information as of and for the years ended June 30, 2024 and 2023, regarding the Association's Retirement Plan D follows:

| | **2024** | 2023 |
|---|---|---|
| Change in benefit obligation: | | |
| Benefit obligation - beginning of year | **$ 37,386,171** | $ 39,465,909 |
| Interest cost | **1,935,728** | 1,868,947 |
| Actuarial (gain)loss | **554,891** | (759,254) |
| Benefits paid | **(2,186,776)** | (3,189,431) |
| Benefit obligation - end of year | **$ 37,690,014** | $ 37,386,171 |
| Change in plan assets: | | |
| Fair value of plan assets - beginning of year | **$ 31,603,280** | $ 30,725,088 |
| Actual return on plan assets | **1,927,508** | 1,067,623 |
| Employer contributions | **1,040,750** | 3,000,000 |
| Benefits paid | **(2,186,776)** | (3,189,431) |
| Fair value of plan assets - end of year | **$ 32,384,762** | $ 31,603,280 |
| Funded status - end of year | **$ (5,305,252)** | $ (5,782,891) |

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 $18,144,113 and $18,282,557 as of June 30, 2024 and 2023, 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, 2025 is $549,088.

| | **2024** | 2023 |
|---|---|---|
| Components of net periodic benefit cost: | | |
| Interest cost | **$ 1,935,728** | $ 1,868,947 |
| Expected return on plan assets | **(1,774,840)** | (1,762,610) |
| Amortization of net actuarial loss | **540,667** | 541,770 |
| Net periodic benefit cost | **$ 701,555** | $ 648,107 |
| Benefit-related changes other than net periodic benefit cost: | | |
| Net actuarial (gain)loss arising during the year | **$ 402,223** | $ (64,267) |
| Amortization of net actuarial loss | **(540,667)** | (541,770) |
| Total benefit-related changes other than net periodic benefit cost | **$ (138,444)** | $ (606,037) |

The following is the weighted-average assumptions used to determine benefit obligations as of June 30, 2024 and 2023:

| | **2024** | 2023 |
|---|---|---|
| Discount rate | **5.50%** | 5.50% |
| 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, 2024 and 2023:

| | **2024** | 2023 |
|---|---|---|
| Discount rate | **5.50%** | 5.50% |
| Rate of compensation increase | **N/A** | N/A |
| Expected rate of return on plan assets | **6.00%** | 6.00% |

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.

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, 2024 and 2023 are as follows:

| | **Target Allocation** | **2024** | 2023 |
|---|---|---|---|
| Equity securities | 34.00% | **29.70%** | 38.90% |
| Debt securities | 58.00% | **61.90%** | 55.10% |
| Real estate and real assets | 6.00% | **6.00%** | 0.00% |
| Cash and cash equivalents | 2.00% | **2.40%** | 6.00% |
| | 100.00% | **100.00%** | 100.00% |

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

| | 2024 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Equity securities | $ 9,618,274 | $ — | $ — | $ 9,618,274 |
| Debt securities | — | 20,046,168 | — | 20,046,168 |
| Real estate and real assets | — | — | 1,943,086 | 1,943,086 |
| Cash and cash equivalents* | | | | 777,234 |
| | $ 9,618,274 | $ 20,046,168 | $ 1,943,086 | $ 32,384,762 |

| | 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 |

* 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.

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

| Year | Amount |
|---|---|
| 2025 | $ 5,089,436 |
| 2026 | 4,491,496 |
| 2027 | 3,558,003 |
| 2028 | 3,156,380 |
| 2029 | 2,885,687 |
| 2030 - 2034 | 12,925,941 |
| | $ 32,106,943 |

## 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 $1,433,188 and $1,406,218 for the matching contribution and $1,746,867 and $1,623.951 for discretionary contributions for the years ended June 30, 2024 and 2023, respectively.

## 10. Net Assets With Donor Restrictions

As of June 30, 2024 and 2023, the Association has net assets with donor restrictions as follows:

| | **2024** | 2023 |
|---|---|---|
| Research | **$ 570,558** | $ 506,074 |
| Programs | **7,353,558** | 4,966,135 |
| Time restrictions | **550,157** | 875,174 |
| Operations | **47,558** | 47,558 |
| Beneficial interest in charitable and perpetual trusts | **35,978,342** | 33,635,125 |
| Investments in Community Foundations | **148,672** | 147,444 |
| Endowment funds | **7,648,873** | 7,413,759 |
| | **$ 52,297,718** | $ 47,591,269 |

## 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.

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, 2024 and 2023 were as follows:

| | With Donor Restrictions | |
|---|---|---|
| | **2024** | 2023 |
| Original donor restricted gift amount and amounts required to be maintained in perpetuity by donor | **$ 7,648,873** | $ 7,413,759 |
| Accumulated investment gains | **1,700,819** | 1,690,804 |
| | **$ 9,349,692** | $ 9,104,563 |

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, 2024 and 2023:

| | With Donor Restrictions | |
|---|---|---|
| | **2024** | 2023 |
| Endowment net assets - beginning of year | **$ 9,104,563** | $ 7,970,231 |
| New gifts | **56,000** | 5,300 |
| Transfer per donor direction | **—** | 1,000,105 |
| Interest and dividends | **201,318** | 219,104 |
| Realized gains (losses), net | **13,162** | (66,674) |
| Unrealized gains, net | **520,061** | 496,228 |
| Legal settlement release (Note 15) | **—** | (406,270) |
| Appropriation for expenditure | **(545,412)** | (113,461) |
| Endowment net assets - end of year | **$ 9,349,692** | $ 9,104,563 |

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. No amounts fell below original endowment gifts during the year ended June 30, 2024.

## 12. Leases

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, 2024 and 2023.

Rent expense under operating leases was $1,923,670 and $1,703,622 in addition to variable lease costs of $363,198 and $457,853 for the years ended June 30, 2024 and 2023, respectively, which is included in occupancy on the Statement of Functional Expenses.

At June 30, 2024 and 2023, the weighted-average remaining term for the operating leases is 3.82 years and 3.38 years, respectively, and the weighted-average discount rate is 3.14% and 2.71%, respectively.

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:

| **Year** | **Operating Leases** |
|---|---|
| 2025 | $ 1,594,997 |
| 2026 | 1,316,629 |
| 2027 | 951,967 |
| 2028 | 378,085 |
| 2029 | 270,469 |
| Thereafter | 389,926 |
| **Total Minimum Lease Payments** | 4,902,073 |
| Less: Present value discount | (305,559) |
| Present value of future minimum lease payments | $ 4,596,514 |

## 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, 2024 and 2023. These costs were allocated as follows:

| | **2024** | 2023 |
|---|---|---|
| Program | **$ 6,860,305** | $ 7,801,553 |
| Management and general | **449,856** | 639,472 |
| Fundraising | **3,936,242** | 4,348,405 |
| | **$ 11,246,403** | $ 12,789,430 |

## 14. Liquidity And Availability Of Financial Assets

The Association regularly monitors liquidity required to meet is 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.

As of June 30, 2024 and 2023, 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:

| | **2024** | 2023 |
|---|---|---|
| Cash and cash equivalents | **$ 14,012,617** | $ 17,723,896 |
| Investments | **141,572,465** | 130,530,477 |
| Accounts and grants receivable, net | **15,873,955** | 18,912,971 |
| Notes receivable | **—** | 637 |
| Total financial assets | **171,459,037** | 167,167,981 |
| Donor-imposed funds subject to purpose restrictions | **(5,205,434)** | (2,858,935) |
| Donor-imposed endowments | **(9,349,692)** | (9,104,563) |
| Perpetual trusts held with Community Foundations | **(148,672)** | (147,444) |
| Amounts held on behalf of others | **(1,099,850)** | (1,093,269) |
| Financial assets available to meet cash needs for general expenditures within one year | **$ 155,655,389** | $ 153,963,770 |

## 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 had any effect on the initial Consent Judgment ruling regarding payment and ownership of bequests and gifts.

Breathe California of Los Angeles County sought $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 also sought collection of pro bono attorney fees from the Association.

During 2023, the appeal was settled in favor of Breathe California of Los Angeles County. The Association accrued the settlement payment during 2023 and paid the settlement during 2024.

During 2024, Breathe California of Los Angeles County filed a motion for attorney's fees and litigation expenses. The Association and Breathe California of Los Angeles County were unable to negotiate a settlement agreement. Mediation regarding the issue of the motion for attorney's fees is scheduled to begin in 2025. The Association has not accrued for any potential attorney's fees, as the amount is unknown.

## 16. Subsequent Events

On September 26, 2024, the Association completed the sale of its property located in St. Paul, Minnesota, for a total consideration of $2,375,000. The sale was finalized after June 30, 2024, and therefore, the financial impact of this transaction is not reflected in the accompanying financial statements. The Association recognized a gain of approximately $1,782,000 from this sale during 2025.

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.