

**Audited Consolidated Financial Statements  
and Supplementary Information**

**PULMONARY HYPERTENSION  
ASSOCIATION, INC. and AFFILIATE**

*December 31, 2016*

# Pulmonary Hypertension Association, Inc. and Affiliate

## Contents

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<b><i>Independent Auditor's Report on the Consolidated Financial Statements</i></b>	1 - 2
<b><i>Financial Statements</i></b>	
Consolidated statements of financial position	3
Consolidated statements of activities	4
Consolidated statements of functional expenses	5 - 6
Consolidated statements of cash flows	7
Notes to the consolidated financial statements	8 - 17
<b><i>Supplementary Information</i></b>	
Independent auditor's report on the supplementary information	18
Consolidating statement of financial position	19
Consolidating statement of activities	20



# Independent Auditor’s Report on the Consolidated Financial Statements

To the Board of Trustees  
Pulmonary Hypertension Association, Inc. and Affiliate

We have audited the accompanying consolidated financial statements of Pulmonary Hypertension Association, Inc. and Affiliate (collectively, the Association), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

## Management’s Responsibility for the Consolidated Financial Statements

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

## Auditor’s Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

## Opinion

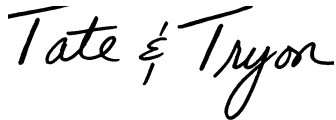
In our opinion, the 2016 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pulmonary Hypertension Association, Inc. and Affiliate as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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### **Restatement of the Prior Period Consolidated Financial Statements**

The financial statements of the Association as of December 31, 2015, were audited by other auditors whose report, dated August 21, 2016, expressed an unmodified opinion on those statements. As discussed in Note I to the consolidated financial statements, the Association has restated its December 31, 2015 financial statements to reflect the impact of recognizing certain advertising revenues in the period earned. The other auditors reported on the financial statements before the restatement.

As part of our audit of the 2016 financial statements, we also audited the adjustments to the 2015 financial statements that effectuated the restatement discussed in Note I. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the Association's 2015 financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2015 financial statements as a whole.



Washington, DC  
October 19, 2017

# Pulmonary Hypertension Association, Inc. and Affiliate

## Consolidated Statements of Financial Position

<i>December 31,</i>	2016	(as restated) 2015
<b>Assets</b>		
Cash and cash equivalents	\$ 3,104,830	\$ 2,300,191
Other receivables	16,313	51,000
Contributions receivable	827,934	3,342,578
Prepaid expenses and other assets	127,611	134,635
Investments	12,360,021	11,627,532
Property and equipment, net	148,991	172,758
<b>Total assets</b>	<b>\$ 16,585,700</b>	<b>\$ 17,628,694</b>
 <b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable	\$ 367,354	\$ 279,046
Accrued expenses	299,496	80,165
Grants payable	1,435,947	865,947
Deferred revenue	288,000	55,500
Deferred rent	131,145	153,717
Total liabilities	2,521,942	1,434,375
Net assets		
Unrestricted net assets	4,704,144	5,380,443
Temporarily restricted	7,054,982	8,609,244
Permanently restricted	2,304,632	2,204,632
Total net assets	14,063,758	16,194,319
<b>Total liabilities and assets</b>	<b>\$ 16,585,700</b>	<b>\$ 17,628,694</b>

See notes to the consolidated financial statements.

# Pulmonary Hypertension Association, Inc. and Affiliate

## Consolidated Statements of Activities

<b>Year Ended December 31,</b>	2016				2015 (as restated)			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support								
Contributions & grants	\$ 4,619,172	\$ 2,846,341	\$ 50,000	\$ 7,515,513	\$ 5,011,808	\$ 9,400	\$ 50,000	\$ 5,071,208
Contributions - research	-	803,569		803,569	-	4,798,446		4,798,446
Advertising revenues	606,417			606,417	366,417			366,417
Investment income	331,517	262,599		594,116	107,637	18,812		126,449
Conference	266,597			266,597	64,300			64,300
Other income	240,082			240,082	265,645			265,645
Membership dues	145,358			145,358	278,565			278,565
Merchandise sales	58,245			58,245	30,464			30,464
Releases from restrictions	5,466,771	(5,466,771)		-	4,355,041	(4,355,041)		-
Transfer to permanently restricted	(50,000)	-	50,000	-	(279,157)		279,157	-
Total revenue and support	11,684,159	(1,554,262)	100,000	10,229,897	10,200,720	471,617	329,157	11,001,494
Expense								-
Program services	8,694,916	-	-	8,694,916	7,642,653	-	-	7,642,653
Management and general	2,220,269	-	-	2,220,269	1,127,578	-	-	1,127,578
Fund raising	1,445,273	-	-	1,445,273	2,276,369	-	-	2,276,369
Total expense	12,360,458	-	-	12,360,458	11,046,600	-	-	11,046,600
<b>Change in net assets</b>	(676,299)	(1,554,262)	100,000	(2,130,561)	(845,880)	471,617	329,157	(45,106)
Net assets, beginning of year, as restated	5,380,443	8,609,244	2,204,632	16,194,319	6,226,323	8,137,627	1,875,475	16,239,425
<b>Total net assets, end of year</b>	<b>\$ 4,704,144</b>	<b>\$ 7,054,982</b>	<b>\$ 2,304,632</b>	<b>\$ 14,063,758</b>	<b>\$ 5,380,443</b>	<b>\$ 8,609,244</b>	<b>\$ 2,204,632</b>	<b>\$ 16,194,319</b>

See notes to the consolidated financial statements.

# Pulmonary Hypertension Association, Inc. and Affiliate

## Consolidated Statements of Functional Expenses Year Ended December 31, 2016

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>
Salaries	\$ 1,838,670	\$ 1,248,435	\$ 486,762	\$ 3,573,867
Professional fees	2,474,468	180,937	119,323	2,774,728
Conference meals, lodging and travel	1,155,917	51,965	1,367	1,209,249
Research grants and expenses	1,085,700	-	-	1,085,700
Special events	359,388	-	486,944	846,332
Employee related expenses	345,511	240,435	91,469	677,415
Copying and printing	377,816	4,457	32,381	414,654
Office rent	240,471	95,166	65,554	401,191
Travel	220,829	51,565	50,827	323,221
Bank and credit card fees	32,000	107,440	69,561	209,001
Miscellaneous	134,841	30,675	1,258	166,774
Advertising and marketing	143,051	-	2,518	145,569
Postage	97,369	15,582	20,277	133,228
Information technology	49,534	41,495	1,804	92,833
Taxes	62,480	-	-	62,480
Depreciation	-	54,942	-	54,942
Lobbying	47,555	-	-	47,555
Insurance	-	33,815	-	33,815
Supplies	12,979	13,777	4,125	30,881
Telephone	9,693	13,340	7,619	30,652
Training	-	17,453	-	17,453
Equipment	2,417	7,449	2,314	12,180
Dues	3,123	4,722	1,170	9,015
Repairs and maintenance	1,104	6,619	-	7,723
	<b>\$ 8,694,916</b>	<b>\$ 2,220,269</b>	<b>\$ 1,445,273</b>	<b>\$ 12,360,458</b>

See notes to the consolidated financial statements.

# Pulmonary Hypertension Association, Inc. and Affiliate

## Consolidated Statements of Functional Expenses Year Ended December 31, 2015

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>
Salaries	\$ 1,724,264	\$ 352,842	\$ 1,390,013	\$ 3,467,119
Professional fees	2,066,613	144,320	18,562	2,229,495
Research grants and expenses	1,080,394	-	-	1,080,394
Special events	690,725	35,693	349,579	1,075,997
Employee related expenses	337,179	74,928	271,816	683,923
Conference meals, lodging and travel	456,819	19,241	1,879	477,939
Office rent	274,673	82,200	84,301	441,174
Copying and printing	394,815	2,450	15,339	412,604
Travel	238,567	53,635	96,580	388,782
Bank and credit card fees	-	188,704	-	188,704
Postage	92,471	13,631	21,304	127,406
Information technology	51,039	58,594	1,638	111,271
Depreciation	40,201	18,257	-	58,458
Advertising and marketing	51,108	40	466	51,614
Miscellaneous	67,887	(18,310)	-	49,577
Lobbying	48,489	-	-	48,489
Supplies	15,217	15,932	8,873	40,022
Telephone	4,539	14,464	14,002	33,005
Equipment	4,018	23,912	274	28,204
Insurance	-	24,403	-	24,403
Dues	3,635	6,924	1,743	12,302
Training	-	9,512	-	9,512
Repairs and maintenance	-	6,206	-	6,206
	<b>\$ 7,642,653</b>	<b>\$ 1,127,578</b>	<b>\$ 2,276,369</b>	<b>\$ 11,046,600</b>

See notes to the consolidated financial statements.



# Pulmonary Hypertension Association, Inc. and Affiliate

## Consolidated Statements of Cash Flows

<i>Year Ended December 31,</i>	2016	(as restated) 2015
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (2,130,561)	\$ (45,106)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	54,942	58,458
Net (gain) loss on investments	(383,327)	76,903
Changes in assets and liabilities:		
Contributions receivable	2,514,644	(2,418,200)
Other receivables	34,687	239,250
Prepaid expenses and other assets	7,024	44,808
Restricted cash	-	140,615
Accounts payable	88,308	196,127
Accrued expenses	219,331	(223,566)
Deferred revenue	232,500	55,500
Deferred rent	(22,572)	(1,183)
Grants payable	570,000	21,447
Total adjustments	3,315,537	(1,809,841)
Net cash provided by (used in) operating activities	1,184,976	(1,854,947)
<b>Cash Flows From Investing Activities</b>		
Purchases of equipment and leasehold improvements	(31,175)	(205,238)
Proceeds from the sale of investments	945,621	9,602,288
Purchases of investments	(1,294,783)	(9,799,244)
Net cash used in investing activities	(380,337)	(402,194)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>804,639</b>	<b>(2,257,141)</b>
Cash and cash equivalents, beginning of year	2,300,191	4,557,332
<b>Cash and cash equivalents, end of year</b>	<b>\$ 3,104,830</b>	<b>\$ 2,300,191</b>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Donated Securities	\$ 10,817	\$ -

# Pulmonary Hypertension Association, Inc. and Affiliate

## Notes to the Consolidated Financial Statements

### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Pulmonary Hypertension Association, Inc. (PHA), a Florida nonprofit organization, provides fellowship and educational support to pulmonary hypertension patients, their families, physicians, researchers and the public at large.

Pulmonary Hypertension Care Centers (PHCC), an affiliate of Pulmonary Hypertension Association, Inc., was created as a separate entity during 2015 to establish a program for accreditation centers with special expertise in pulmonary hypertension, particularly pulmonary arterial hypertension, to raise overall quality of care and outcomes in patients with this life-threatening disease. PHA and PHCC are consolidated in the accompanying consolidated financial statements and are collectively referred to as the Association.

Principles of consolidation: The consolidated financial statements include the accounts of PHA and PHCC (collectively, the Association). Significant intra-entity accounts and transactions have been eliminated in consolidation.

Income tax status: PHA is exempt from the payment of income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code and has been classified by the Internal Revenue Service as other than a private foundation under Section 509(a)(1). PHA is subject to Federal and state income tax on unrelated business income (UBI). During 2017, PHA concluded that it is liable for unrelated business income tax (UBIT) related to net income earned from certain advertising revenue streams. These items were not previously reported as taxable UBI. Thus, PHA will be filing income tax returns for the years ended December 31, 2014, 2015, and 2016. A total liability of \$62,480, consisting of income taxes of \$44,245 and interest & penalties of \$18,235, has been accrued as of December 31, 2016.

PHCC is organized as a corporation and is in the process of filing for tax exemption under Section 501(c)(3) of the Internal Revenue Code.

Basis of accounting: The consolidated financial statements of the Association have been prepared on the accrual basis of accounting. Accordingly, revenue is recognized when earned and expense when the obligation is incurred.

Use of estimates: Preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents: The Association considers all cash balances and highly liquid investments and certificates of deposit with an original maturity of three months or less to be cash equivalents.

Contributions receivable: All contributions receivable are due within one year, and all amounts are considered fully collectible. Consequently, no provision for uncollectible promises has been made.

Membership dues revenue: Membership dues revenue consists primarily of contributions. Thus, the revenue is recognized in the period received.

Contributions: Contributions are recognized when unconditionally promised to, or received by, the Association. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Within temporarily restricted net assets, amounts are reclassified to unrestricted net assets when the time restriction expires or when the purpose restriction is met. Temporarily restricted contributions whose restrictions are released within the same period are recorded as unrestricted contributions.

# Pulmonary Hypertension Association, Inc. and Affiliate

## Notes to the Consolidated Financial Statements

### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Investments: Investments are stated at their fair values in the statements of financial position.

Property and equipment: Equipment and leasehold improvements are stated at cost except for donated equipment which is recorded at fair value at the date of gift. Depreciation is provided over the estimated useful lives of the assets on a straight-line basis.

Deferred revenue: Deferred revenue consists of advertising revenue received in advance of the period in which it is to be earned.

Net assets: For financial statement purposes, net assets consist of the following:

Unrestricted: Unrestricted net assets include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by board designation.

Temporarily restricted: Temporarily restricted net assets include those net assets whose use by the Association has been donor restricted by specified time or purpose limitations. See Note E for details regarding temporarily restricted net assets.

Permanently restricted: Permanently restricted net assets are to be maintained in perpetuity by the Association. See Note E for details regarding permanently restricted net assets.

Functional allocation of expenses: The costs of providing programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Subsequent events: Subsequent events have been evaluated through October 19, 2017, which is the date the consolidated financial statements were available to be issued.

### B. RISKS AND CONCENTRATIONS

Credit risk: The Association maintains its cash at a financial institution which at times may exceed the federally insured limits per the U.S. federal government. The uninsured portions of cash are backed solely by the assets of the underlying financial institution. Therefore, the failure of an underlying institution could result in financial loss to the Association.

Market value risk: The Association invests funds in various equity and fixed income securities. Such investments are exposed to market and credit risks, such as fluctuations in fair value. As a result, the investment balances reported in the accompanying consolidated financial statements may not be reflective of the portfolio's value during subsequent periods.

Revenues concentration: Approximately 64% of the Association's total revenues were provided by five donors during the year ended December 31, 2016. Contribution revenues from these five donors represents approximately 59% of the Association's revenues for the year ended December 31, 2015. As a result, declines in these contributions could have a significant impact on the Association's financial position.

# Pulmonary Hypertension Association, Inc. and Affiliate

## Notes to the Consolidated Financial Statements

### C. INVESTMENTS

In accordance with accounting principles generally accepted in the United States of America, the Association uses the following prioritized input levels to measure fair values of investments recorded at fair value. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 - Quoted prices for similar assets or liabilities, or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data. Level 2 includes investments valued at quoted prices adjusted for legal or contractual restrictions specific to the security.

Level 3 - Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk such as bid/ask spreads and liquidity discounts.

The following tables set forth by level, within the fair value hierarchy, the Association's assets at fair value as of December 31,:

	2016			
	Total	Level 1	Level 2	Level 3
Common stock	\$ 6,019,179	\$ 6,019,179		
Corporate and government bonds	2,912,713		2,912,713	
Mutual funds	1,742,255	1,742,255		
	10,674,147	<b>\$ 7,761,434</b>	<b>\$ 2,912,713</b>	<b>\$ -</b>
Money market funds*	1,685,874			
	<b>\$ 12,360,021</b>			
	2015			
	Total	Level 1	Level 2	Level 3
Common stock	7,221,943	7,221,943	-	-
Corporate and government bonds	1,442,426	-	1,442,426	-
Mutual funds	1,342,621	1,342,621	-	-
	10,006,990	<b>\$ 8,564,564</b>	<b>\$ 1,442,426</b>	<b>\$ -</b>
Certificates of deposit*	906,000			
Money market funds*	714,542			
	<b>\$ 11,627,532</b>			

\*Money market funds and certificates of deposit included in the investment portfolio are not subject to the provisions of fair value measurements as they are recorded at cost.

# Pulmonary Hypertension Association, Inc. and Affiliate

## Notes to the Consolidated Financial Statements

### C. INVESTMENTS - CONTINUED

The Association's investments in corporate and government bonds are calculated by the investment manager's pricing service based on the values of fixed income securities with similar characteristics.

Investment income is reported in the statement of activities as follows:

	<b>2016</b>	<b>2015</b>
Realized loss on investments	\$ (355)	\$ (146,641)
Interest and dividend income	210,789	203,352
Unrealized gain on investments	<u>383,682</u>	<u>69,738</u>
Total	<u><b>\$ 594,116</b></u>	<u><b>\$ 126,449</b></u>

### D. PROPERTY AND EQUIPMENT

Acquisitions of property and equipment greater than \$1,000 are recorded at cost. Depreciation of property and equipment is recorded over the estimated useful lives ranging from three to five years. Leasehold improvements are amortized over the lesser of the remaining lease term or the estimated useful lives of the improvements.

Fixed assets consisted of the following at December 31,:

	<b>2016</b>	<b>2015</b>
Equipment	\$ 434,584	\$ 231,860
Leasehold improvements	<u>42,649</u>	<u>214,198</u>
	477,233	446,058
Less: accumulated depreciation	<u>(328,242)</u>	<u>(273,300)</u>
Total	<u><b>\$ 148,991</b></u>	<u><b>\$ 172,758</b></u>

# Pulmonary Hypertension Association, Inc. and Affiliate

## Notes to the Consolidated Financial Statements

### E. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

The Association's investment funds consist of various individual funds established for a variety of purposes. The Association's funds include both donor-restricted amounts as well as amounts for operating purposes. As required under U.S. generally accepted accounting principles, net assets associated with the investment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

#### *Interpretation of Relevant Law*

The Association has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of a donor-restricted endowment fund, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as permanently restricted net assets (a) the original value of gifts donated to a permanent endowment, (b) the original value of subsequent gifts to a permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted funds: (1) duration and preservation of the fund; (2) purposes of the Association and the donor-restricted endowment fund; (3) general economic conditions (4) possible effect of inflation and deflation; (5) expected total return from income and the appreciation of investments; (6) other resources of the Association; and (7) investment policies of the Association.

In addition, the Association will follow the other UPMIFA rules for managing and investing endowment funds, including but not limited to the following additional factors: (1) the expected tax consequences, if any, of investment decisions or strategies; (2) the role that each investment or course of action plays within the overall investment portfolio of the fund; (3) the needs of the institution and the fund to make the distributions and to preserve capital; and (4) an asset's special relationship or special value, if any, to the charitable purposes of the Association.

#### Permanent Restrictions

The Association has received several contributions which must be invested in perpetuity, but for which the related earnings thereon are available to fund annual expenses.

In March of 2006, the Association entered into an agreement to establish the Barbara L. Smith Endowment Fund to provide scholarships for patients and caregivers to attend the Association's conferences and meetings. In February 2007, the Association entered into an agreement to establish the Oracle Endowment Fund to provide one Mentored Clinical Scientist Development Award. In March 2007, the Association entered into an agreement to establish the United Therapeutics Endowment Fund to provide financial support for the PHA Support Group Leadership Institute. In 2015, a separate permanently restricted fund for the Jeanine Hart – California Scholarship fund was established.

#### Temporary Restrictions

The Association has also received numerous gifts whose use is restricted to the funding of scholarships and research. In most cases, earnings on the related investments are similarly restricted.

# Pulmonary Hypertension Association, Inc. and Affiliate

## Notes to the Consolidated Financial Statements

### E. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS - CONTINUED

#### Investment Income Allocation

Earnings on long-term investments in marketable securities, including all interest, dividends, realized and unrealized gains and losses are allocated among the Association's restricted funds on a pro-rata basis.

As of December 31, 2016, balances in the Association's restricted funds, by net asset class, are as follows:

Fund	Permanently Restricted	Temporarily Restricted	Total
Research Fund	\$ -	\$ 3,672,833	\$ 3,672,833
PHCC	-	41,601	41,601
Rino Aldrighetti Leadership Award	-	17,380	17,380
Jeanine Hart - CA Scholarship	90,000	468	90,468
Joshua Griffis Scholarship Fund	-	1,064	1,064
J. Hendry Scholarship Fund	-	18,926	18,926
Dukart Fund	-	47,325	47,325
Scholarships	-	115,531	115,531
Mason Hoffman Fund	-	64,967	64,967
B. Smith Endowment	214,632	286	214,918
Oracle Endowment	1,000,000	200,759	1,200,759
United Therapeutics Endowment	1,000,000	589,248	1,589,248
Time restricted	-	2,284,594	2,284,594
	<b>\$ 2,304,632</b>	<b>\$ 7,054,982</b>	<b>\$ 9,359,614</b>

# Pulmonary Hypertension Association, Inc. and Affiliate

## Notes to the Consolidated Financial Statements

### E. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS - CONTINUED

As of December 31, 2015, balances in the Association's restricted funds, by net asset class, are as follows:

Fund	Permanently Restricted	Temporarily Restricted	Total
Research Fund	\$ -	\$ 3,632,958	\$ 3,632,958
Jeanine Hart - CA Scholarship	90,000	-	90,000
J. Hendry Scholarship Fund	-	12,029	12,029
Dukart Fund	-	27,682	27,682
Scholarships	-	186,835	186,835
Mason Hoffman Fund	-	49,284	49,284
B. Smith Endowment	114,632	4,111	118,743
Oracle Endowment	1,000,000	200,861	1,200,861
United Therapeutics Endowment	1,000,000	589,248	1,589,248
Time restricted	-	3,906,236	3,906,236
	<b>\$ 2,204,632</b>	<b>\$ 8,609,244</b>	<b>\$ 10,813,876</b>

Changes in endowment net assets consisted of the following for the years ended December 31, 2015 and 2016:

	Jeanine Hart CA Scholarship	B. Smith Endowment	Oracle Endowment	United Therapeutics Endowment	Total
Balance, December 31, 2014	\$ -	\$ 64,632	\$ 874,611	\$ 936,232	\$ 1,875,475
2015 investment income	-	24,924	(2,991)	(3,121)	18,812
2015 Endowments	90,000	50,000	-	-	140,000
Transfer from (to) temporarily restricted net assets	-	(24,924)	-	66,889	41,965
Transfer from unrestricted to restricted net assets	-	-	128,380	-	128,380
Balance, December 31, 2015	90,000	114,632	1,000,000	1,000,000	2,204,632
2016 investment income	3,668	62,397	62,397	134,137	262,599
2016 Endowments	-	100,000	-	-	100,000
Transfer to temporarily restricted net assets	(3,668)	(62,397)	(62,397)	(134,137)	(262,599)
Transfer from unrestricted to restricted net assets	-	-	-	-	-
Balance, December 31, 2016	<b>\$ 90,000</b>	<b>\$ 214,632</b>	<b>\$ 1,000,000</b>	<b>\$ 1,000,000</b>	<b>\$ 2,304,632</b>



# Pulmonary Hypertension Association, Inc. and Affiliate

## Notes to the Consolidated Financial Statements

### F. OPERATING LEASE

Office space: The Association has an operating lease for office space in Silver Spring, MD that expires in May 1, 2020. The lease contains certain incentives, which are reported in deferred rent in the consolidated statement of financial position and are amortized on a basis to achieve straight-line rent expense over the life of the lease. Total rent expense under the lease for the years ended December 31, 2016 and 2015 was \$401,191 and \$441,174, respectively.

Total future minimum payments under the operating lease are as follows:

#### For the Year Ending December 31,

2017	\$ 326,455
2018	336,252
2019	346,318
2020	<u>145,708</u>
Total	<u>\$ 1,154,733</u>

### G. GRANTS PAYABLE

The Association has made the following unconditional promises to give for research grants as of December 31, 2016 and 2015:

	2016	2015
Payable in less than one year	\$ 501,250	\$ 338,750
Payable in one to five years	<u>934,697</u>	<u>527,197</u>
Total	<u>\$ 1,435,947</u>	<u>\$ 865,947</u>

### H. SPECIAL EVENTS, CONFERENCE AND SYMPOSIUM

Revenue from special events is included in contributions on the statement of activities. Expenses from special events are specified on the statements of functional expenses. The special events revenues for the year ended December 31, 2015 included an additional two events, which have historically taken place during odd years. These events include the Philadelphia Hope for a Cure Gala and the Rochester Gala. During the year ended December 31, 2015, these two events combined to add approximately \$263,000 of additional revenues and approximately \$89,000 of additional expenses. Special event activity is as follows for the years ended December 31, 2016 and 2015:

	2016	2015
Revenue	\$ 1,477,522	\$ 2,089,335
Expenses	<u>(846,332)</u>	<u>(1,075,997)</u>
Total	<u>\$ 631,190</u>	<u>\$ 1,013,338</u>

# Pulmonary Hypertension Association, Inc. and Affiliate

## Notes to the Consolidated Financial Statements

### H. SPECIAL EVENTS, CONFERENCE AND SYMPOSIUM - CONTINUED

Revenues from the Conference and Symposium are included under contributions on the statement of activities. Expenses from the Conference and Symposium are included in "Conference meals, lodging and travel," and other individual categories on the statements of functional expenses. The Association holds its Conference during even numbered years and its semi-annual Symposium during odd numbered years. Conference years typically earn approximately \$1 million of additional revenues and expend approximately \$1 million of additional expenses over Symposium years. Conference/Symposium activity is as follows for the years ended December 31, 2016 and 2015:

	<b>2016 Conference</b>	<b>2015 Symposium</b>
Revenue	\$ 1,760,395	\$ 715,550
Expenses	<u>(1,306,263)</u>	<u>(279,281)</u>
Total	<u><b>\$ 454,132</b></u>	<u><b>\$ 436,269</b></u>

### I. RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS

For the year ended December 31, 2016, the Association undertook an analysis of the service components contained within its funders' grants and contracts. As a result, it was determined that certain of these items contained advertising revenue that would be more properly recognized when earned rather than when received or pledged. (These items had previously been recognized as components of contributions revenue.)

Thus, in order to provide consistency with the 2016 presentation, the Association has restated its 2015 financial statements to treat these advertising transactions in a similar manner. Therefore, the previously reported recognized revenue, receivables, and deferred revenue balances have been adjusted. A summary of the impact of these adjustments is as follows:

Net assets as of January 1, 2015, as previously reported	\$ 15,949,175
Increase in net assets due to restatement	<u>290,250</u>
Net assets as of January 1, 2015, as restated	<u><b>\$ 16,239,425</b></u>
Change in net assets as previously reported for the year ended December 31, 2015	\$ 273,644
Decrease in change in net assets due to restatement	<u>(318,750)</u>
Change in net assets for the year ended December 31, 2015, as restated	<u><b>\$ (45,106)</b></u>

# Pulmonary Hypertension Association, Inc. and Affiliate

## Notes to the Consolidated Financial Statements

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### **J. MANAGEMENT'S PLAN REGARDING OPERATING LOSSES**

In June 2016, PHA underwent a change in leadership, appointing a new president and CEO. After a subsequent comprehensive and detailed financial analysis and review of PHA operations, a significant 2016 operating loss (approximately \$2.5 million) was projected for PHA and PHCC, Inc. Management presented the PHA Board of Trustees with an expense reduction plan to be executed in Q4 2016 that would minimize additional losses in 2016, establish a more realistic budget that brings expenses in line with expected revenue, and improve cash flow going forward. The 2016 Board-approved expense reduction plan included an approximately 25% reduction in overall expenses, including a 36% reduction in staff full-time equivalents. The largest staff eliminations were made to the Chapters program, which was closed. Additional smaller reductions were made to un-funded or under-funded programs and administrative units.

Management intends to continue closely monitoring the financial performance of PHA and PHCC. Additional operational changes will be made as deemed necessary.

### **K. DEFINED CONTRIBUTION PLAN**

The Association maintains a defined contribution plan for employees who have met certain eligibility requirements. Employees may contribute a portion of their salary on a tax-deferred basis. Annual contributions also include a discretionary employer matching contribution of 3% of employees' salaries. Employer contributions to the plan were \$59,096 and \$69,478 for the years ended December 31, 2016 and 2015, respectively.

T A T E



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Certified Public

Accountants

and Consultants

## Independent Auditor's Report on the Supplementary Information

To the Board of Trustees  
Pulmonary Hypertension Association, Inc. and Affiliate

We have audited the consolidated financial statements of the Pulmonary Hypertension Association, Inc. and Affiliate as of and for the year ended December 31, 2016, and our report thereon dated October 19, 2017, which expressed an unmodified opinion on those consolidated financial statements, appears on page 1. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on the following pages is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position or changes in net assets of the individual entities and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Washington, DC  
October 19, 2017

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# Pulmonary Hypertension Association, Inc. and Affiliate

## Consolidating Statement of Financial Position

*December 31, 2016*

	Pulmonary Hypertension Association	Pulmonary Hypertension Care Centers	Eliminations	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 3,104,830	\$ -	\$ -	\$ 3,104,830
Other receivables	3,313	13,000	-	16,313
Contributions receivable	797,934	30,000	-	827,934
Prepaid expenses and other assets	126,500	1,111	-	127,611
Investments	12,360,021	-	-	12,360,021
Property and equipment, net	148,991	-	-	148,991
<b>Total assets</b>	<b>\$ 16,541,589</b>	<b>\$ 44,111</b>	<b>\$ -</b>	<b>\$ 16,585,700</b>
<b>Liabilities and Net Assets</b>				
Liabilities				
Accounts payable	\$ 355,703	\$ 11,651	\$ -	\$ 367,354
Accrued expenses	294,593	4,903	-	299,496
Grants payable	1,435,947	-	-	1,435,947
Deferred revenue	288,000	-	-	288,000
Deferred rent	131,145	-	-	131,145
Total liabilities	2,505,388	16,554	-	2,521,942
Net assets				
Unrestricted net assets	4,676,587	27,557	-	4,704,144
Temporarily restricted	7,054,982	-	-	7,054,982
Permanently restricted	2,304,632	-	-	2,304,632
Total net assets	14,036,201	27,557	-	14,063,758
<b>Total liabilities and assets</b>	<b>\$ 16,541,589</b>	<b>\$ 44,111</b>	<b>\$ -</b>	<b>\$ 16,585,700</b>

# Pulmonary Hypertension Association, Inc. and Affiliate

## Consolidating Statement of Activities Year Ended December 31, 2016

	Pulmonary Hypertension Association				Pulmonary Hypertension Care Centers				Eliminations	Consolidated Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total		
Revenue and support										
Contributions & grants	\$ 4,534,089	\$ 2,846,341	\$ 50,000	\$ 7,430,430	\$ 211,790	\$ -	\$ -	\$ 211,790	\$ (126,707)	\$ 7,515,513
Contributions - research	-	803,569		803,569	-			-		803,569
Advertising revenues	606,417			606,417	-			-		606,417
Investment income	331,517	262,599		594,116	-			-		594,116
Conference	266,597			266,597	-			-		266,597
Other income	(332)			(332)	240,414			240,414		240,082
Membership dues	145,358			145,358	-			-		145,358
Merchandise sales	58,245			58,245	-			-		58,245
Releases from restrictions	5,466,771	(5,466,771)		-	-			-		-
Transfers to permanently restricted	(50,000)		50,000	-	-			-		-
Total revenue and support	11,358,662	(1,554,262)	100,000	9,904,400	452,204	-	-	452,204	(126,707)	10,229,897
Expense										
Program services	8,391,417			8,391,417	430,206			430,206	(126,707)	8,694,916
Management and general	2,123,330			2,123,330	96,939			96,939		2,220,269
Fund raising	1,277,798			1,277,798	167,475			167,475		1,445,273
Total expense	11,792,545	-	-	11,792,545	694,620	-	-	694,620	(126,707)	12,360,458
<b>Change in net assets</b>	(433,883)	(1,554,262)	100,000	(1,888,145)	(242,416)	-	-	(242,416)	-	(2,130,561)
Net assets, beginning of year, as restated	5,110,470	8,609,244	2,204,632	15,924,346	269,973	-	-	269,973	-	16,194,319
<b>Total net assets, end of year</b>	\$ 4,676,587	\$ 7,054,982	\$ 2,304,632	\$ 14,036,201	\$ 27,557	\$ -	\$ -	\$ 27,557	\$ -	\$ 14,063,758