



FINANCIAL STATEMENTS

December 31, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Pulmonary Hypertension Association, Inc.
Silver Spring, Maryland

Opinion

We have audited the financial statements of Pulmonary Hypertension Association, Inc., which comprise the statements of financial position as of December 31, 2022 and 2021, 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 Pulmonary Hypertension Association, Inc. as of December 31, 2022 and 2021, and the changes in its net assets and its 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). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Pulmonary Hypertension Association, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Adoption of New Accounting Guidance

As discussed in Note 1 to the financial statements, Pulmonary Hypertension Association, Inc. adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, and all subsequently issued clarifying ASUs as of January 1, 2022. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's 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 auditor's 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 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, 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 Pulmonary Hypertension Association, Inc.'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 Pulmonary Hypertension Association, Inc.'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.



Wegner CPAs, LLP
Alexandria, Virginia
July 10, 2023

PULMONARY HYPERTENSION ASSOCIATION, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2022 and 2021

	2022	2021
ASSETS		
Cash	\$ 1,779,984	\$ 2,248,289
Accounts receivable	189,000	112,500
Unconditional promises to give	682,105	707,230
Prepaid expenses and other assets	199,890	255,772
Investments	17,421,912	19,463,386
Property and equipment, net	693,769	753,904
Operating lease right-of-use assets	1,672,684	-
Total assets	\$ 22,639,344	\$ 23,541,081
LIABILITIES		
Accounts payable	\$ 452,627	\$ 129,827
Accrued expenses	200,816	488,741
Grants payable	80,000	160,000
Deferred revenue and refundable advances	438,750	447,000
Deferred rent	-	793,446
Lease liabilities	2,433,094	-
Total liabilities	3,605,287	2,019,014
NET ASSETS		
Without donor restrictions	7,194,341	9,136,023
With donor restrictions	11,839,716	12,386,044
Total net assets	19,034,057	21,522,067
Total liabilities and net assets	\$ 22,639,344	\$ 23,541,081

See accompanying notes.

PULMONARY HYPERTENSION ASSOCIATION, INC.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions and grants	\$ 2,935,664	\$ 2,459,144	\$ 5,394,808
Investment return, net	(1,482,870)	(558,605)	(2,041,475)
Accreditation fees	302,500	-	302,500
Registry	350,000	-	350,000
Registration	210,364	-	210,364
Membership dues	171,174	-	171,174
Advertising	94,739	-	94,739
Merchandise sales	1,742	-	1,742
Other income	1,000	-	1,000
Total support and revenue	2,584,313	1,900,539	4,484,852
EXPENSES			
Program Services			
Patient Advocacy and Research	4,248,961	-	4,248,961
Accreditation and Registry	615,551	-	615,551
Supporting Activities			
Management and General	1,371,338	-	1,371,338
Fundraising	737,012	-	737,012
Total expenses	6,972,862	-	6,972,862
NET ASSETS RELEASED FROM RESTRICTIONS			
Expiration of time restrictions and satisfaction of purpose restrictions	2,446,867	(2,446,867)	-
Change in net assets	(1,941,682)	(546,328)	(2,488,010)
Net assets at beginning of year	9,136,023	12,386,044	21,522,067
Net assets at end of year	<u>\$ 7,194,341</u>	<u>\$ 11,839,716</u>	<u>\$ 19,034,057</u>

See accompanying notes.

PULMONARY HYPERTENSION ASSOCIATION, INC.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions and grants	\$ 1,767,816	\$ 3,461,922	5,229,738
Investment return, net	989,790	384,602	1,374,392
Accreditation fees	227,500	75,000	302,500
Registry	150,000	-	150,000
Registration	78,975	-	78,975
Membership dues	288,010	-	288,010
Advertising	237,950	-	237,950
Paycheck Protection Program	-	412,938	412,938
Merchandise sales	2,249	-	2,249
Other income	938	-	938
	<u>3,743,228</u>	<u>4,334,462</u>	<u>8,077,690</u>
Total support and revenue			
	3,743,228	4,334,462	8,077,690
EXPENSES			
Program Services			
Patient Advocacy and Research	3,155,489	-	3,155,489
Accreditation and Registry	627,726	-	627,726
Supporting Activities			
Management and General	1,456,402	-	1,456,402
Fundraising	671,237	-	671,237
	<u>5,910,854</u>	<u>-</u>	<u>5,910,854</u>
Total expenses			
	5,910,854	-	5,910,854
NET ASSETS RELEASED FROM RESTRICTIONS			
Expiration of time restrictions and satisfaction of purpose restrictions	2,794,122	(2,794,122)	-
	<u>626,496</u>	<u>1,540,340</u>	<u>2,166,836</u>
Change in net assets			
	626,496	1,540,340	2,166,836
Net assets at beginning of year	8,509,527	10,845,704	19,355,231
	<u>8,509,527</u>	<u>10,845,704</u>	<u>19,355,231</u>
Net assets at end of year	<u>\$ 9,136,023</u>	<u>\$ 12,386,044</u>	<u>\$ 21,522,067</u>

See accompanying notes.

PULMONARY HYPERTENSION ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2022

	Program Services		Supporting Activities		
	Patient Advocacy and Research	Accreditation and Registry	Management and General	Fundraising	Total Expenses
Salaries	\$ 1,514,943	\$ 212,377	\$ 670,108	\$ 356,590	\$ 2,754,018
Benefits	195,697	29,558	64,215	59,629	349,099
Payroll taxes	110,006	15,662	43,534	26,242	195,444
Recruiting costs	-	-	65,659	-	65,659
Temporary staffing	40,000	-	9,431	3,841	53,272
Staff appreciation	79	-	17,346	-	17,425
Professional development	360	-	12,361	-	12,721
Professional services	274,572	20,454	129,340	6,485	430,851
Rent	145,527	19,230	42,316	52,179	259,252
Insurance	1,682	15,488	35,612	110	52,892
Telephone	2,215	-	20,966	200	23,381
IT supplies and software	45,381	238	47,582	54,316	147,517
Office supplies	1,767	-	15,003	555	17,325
Repairs and maintenance	129	-	840	-	969
Depreciation	-	-	97,169	-	97,169
Postage and shipping	21,338	41	5,639	11,152	38,170
Copying	857	-	-	53	910
Dues and subscriptions	17,186	102	3,109	2,474	22,871
Licenses and permits	5,034	-	14,404	375	19,813
Bank and credit card fees	1,326	1,201	28,072	5,970	36,569
Meetings and events	569,373	-	20,002	12,574	601,949
Audio/visual	211,076	-	15,407	13,212	239,695
Travel	92,925	544	13,458	30,155	137,082
Consultants and program expenses	947,316	300,656	169	100,900	1,349,041
Gifts and awards	50,172	-	-	-	50,172
Tax expense	-	-	(404)	-	(404)
Total expenses	\$ 4,248,961	\$ 615,551	\$ 1,371,338	\$ 737,012	\$ 6,972,862

See accompanying notes.

PULMONARY HYPERTENSION ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2021

	Program Services		Supporting Activities		
	Patient Advocacy and Research	Accreditation and Registry	Management and General	Fundraising	Total Expenses
Salaries	\$ 1,204,444	\$ 166,179	\$ 712,176	\$ 333,396	\$ 2,416,195
Benefits	162,892	15,558	74,285	50,332	303,067
Payroll taxes	86,243	12,398	45,581	24,456	168,678
Recruiting costs	5,000	-	22,148	-	27,148
Temporary staffing	75,758	33,286	118,422	88,153	315,619
Staff appreciation	257	-	3,868	29	4,154
Professional development	1,904	-	40,870	195	42,969
Professional services	238,871	29,292	149,252	28,131	445,546
Rent	144,233	-	50,138	59,426	253,797
Insurance	-	15,053	29,199	-	44,252
Telephone	2,042	-	24,481	564	27,087
IT supplies and software	38,348	4,000	29,012	4,748	76,108
Office supplies	-	-	21,787	-	21,787
Repairs and maintenance	-	-	1,800	-	1,800
Depreciation	-	-	86,263	-	86,263
Postage and shipping	14,513	410	2,142	12,799	29,864
Copying	-	-	791	-	791
Dues and subscriptions	6,085	-	1,910	2,999	10,994
Licenses and permits	1,272	100	10,578	5,235	17,185
Bank and credit card fees	-	758	25,053	-	25,811
Meetings and events	6,778	-	494	-	7,272
Audio/visual	31,446	-	4,078	-	35,524
Travel	-	-	370	4,203	4,573
Consultants and program expenses	1,106,703	332,692	1,073	56,571	1,497,039
Gifts and awards	-	7,000	-	-	7,000
Tax expense	28,700	-	631	-	29,331
PHCC site reimbursement fees	-	11,000	-	-	11,000
Total expenses	\$ 3,155,489	\$ 627,726	\$ 1,456,402	\$ 671,237	\$ 5,910,854

See accompanying notes.

PULMONARY HYPERTENSION ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (2,488,010)	\$ 2,166,836
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	97,169	86,263
Amortization of operating lease right-of-use assets	176,696	-
Net realized and unrealized (gain)/loss on investments	2,245,275	(1,038,506)
(Increase) decrease in assets		
Accounts receivable	(76,500)	(81,500)
Unconditional promises to give	25,125	(274,465)
Prepaid expenses and other assets	55,882	(49,332)
Increase (decrease) in liabilities		
Accounts payable	322,800	26,598
Accrued expenses	(287,925)	188,346
Grants payable	(80,000)	(40,000)
Deferred revenue and refundable advances	(8,250)	362,000
Deferred rent	9,887	9,887
Operating lease liabilities	(219,619)	-
Net cash flows from operating activities	(227,470)	1,356,127
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	3,259,067	7,106,919
Purchases of and interest retained in investments	(3,462,868)	(8,443,614)
Purchases of property and equipment	(37,034)	(29,828)
Net cash flows from investing activities	(240,835)	(1,366,523)
Change in cash	(468,305)	(10,396)
Cash at beginning of year	2,248,289	2,258,685
Cash at end of year	<u>\$ 1,779,984</u>	<u>\$ 2,248,289</u>

See accompanying notes.

PULMONARY HYPERTENSION ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Pulmonary Hypertension Association, Inc. (the Association) is a nonprofit organization founded in 1991 which serves those affected with pulmonary hypertension by providing education, support, and research for a cure for pulmonary hypertension. The Association is supported primarily by contributions and grants.

Basis of Presentation

The financial statements as of and for the year ended December 31, 2021 include the accounts of the Association and Pulmonary Hypertension Care Centers (PHCC). The accounts of PHCC were consolidated with the Association since the Association had both an economic interest in PHCC and control of PHCC through a majority voting interest in its governing body, and all material intra-entity transactions were eliminated. As discussed in Note 12, the Association acquired PHCC during 2022. Accordingly, the financial statements as of and for the year ended December 31, 2022, include the accounts of the Association, which includes the acquired accounts of PHCC.

Accounts Receivable

Accounts receivable consist of amounts due from health care centers undergoing accreditation by PHCC. Accounts receivable are reported at the amount management expects to collect from outstanding balances. At December 31, 2022 and 2021, management has determined that all amounts are fully collectible and no allowance for doubtful accounts is necessary.

Promises to Give

Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promise become unconditional. At December 31, 2022 and 2021, all unconditional promises to give are collectible within one year.

Property and Equipment

The Association capitalizes all expenditures for property and equipment over \$5,000 that are expected to have useful lives of greater than one year. Purchased property and equipment are carried at cost. Depreciation is computed using the straight-line method.

Deferred Revenue and Refundable Advances

Event sponsorships and advertising revenue received in advance of the period in which they are earned are recorded as deferred revenue and refundable advances.

PULMONARY HYPERTENSION ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

The Association reports investments in equity securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statements of financial position.

Contributions and Grants

Contributions and grants received are recorded as increases in net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Membership dues revenue consists of contributions. Thus, the revenue is recognized in the period in which the dues are received.

Revenue Recognition

Revenue from contracts with customers is derived primarily from accreditation fees, advertising, conference registrations, and product sales. Accreditation fees are recognized as revenue upon completion of the accreditation assessments. Advertising revenue is recognized at the point in time that the advertising is presented. Conference registrations are recognized as revenue upon commencement of the event. Product sales are recognized as revenue upon shipment to the customer.

There are no significant rights of return or refund for the Association's revenue from contracts with customers. Payments are due upon receipt of the invoice. The Association did not have any impairment or credit losses on any receivables or contract assets arising from contracts with customers. There are no incremental costs of obtaining a contract and no significant financing components.

Expense Allocation

The financial statements report certain categories of expenses that are attributable to more than one program service or supporting activity. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, benefits, payroll taxes, and staff appreciation, which are allocated on the basis of estimates of time and effort.

PULMONARY HYPERTENSION ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

The Association does not recognize short-term leases in the statements of financial position. For these leases, the Association recognizes the lease payments in the change in net assets on a straight-line basis over the lease term and variable lease payments in the period in which the obligation for those payments is incurred. The Association also does not separate nonlease components from lease components for all classes of underlying assets and instead accounts for each separate lease component and the nonlease components associated with that lease component as a single lease component. If the rate implicit in the lease is not readily determinable, the Association uses a risk-free rate as the discount rate for the lease for all classes of underlying assets.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.

Income Tax Status

The Association is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Association's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Association qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(1).

Reclassification

Certain accounts in the prior year financial statement have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Date of Management's Review

Management has evaluated subsequent events through July 10, 2023, the date which the financial statements were available to be issued.

PULMONARY HYPERTENSION ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of New Accounting Guidance

On February 25, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)*. The guidance in this Update and all subsequently issued clarifying Updates supersede the guidance in FASB Accounting Standards Codification (ASC) Topic 840, Leases, and creates FASB ASC Topic 842, Leases. The main difference between previous guidance and Topic 842 is the recognition of assets and liabilities by lessees for those leases classified as operating leases. A lessee should recognize in the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. Also, under Topic 842, disclosures are required by lessees and lessors to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from leases.

The Association adopted the requirements of Topic 842 as of January 1, 2022, using the optional transition method that allows the Association to initially apply the new guidance at the adoption date and recognize a cumulative-effect adjustment to the opening balance of net assets in the period of adoption. The Association's reporting for the year ended December 31, 2021, is in accordance with the previous guidance in Topic 840.

The Association elected the package of practical expedients permitted under the transition guidance within Topic 842. This package allowed the Association to account for its leases that commenced before the adoption date without reassessing whether any expired or existing contracts are or contain leases, the lease classification for any expired or existing leases, and initial direct costs for any existing leases.

The adoption of Topic 842 resulted in the recognition of operating lease right-of-use assets of \$1,863,771 and operating lease liabilities of \$1,863,771 as of January 1, 2022. The adoption of Topic 842 did not have a material effect on the Association's change in net assets or cash flows.

NOTE 2—CONCENTRATIONS

Contribution Revenue

For the years ended December 31, 2022 and 2021, approximately 65% and 54% of the Association's total contributions, respectively, were provided by five donors.

Credit Risk

The Association maintains cash balances at a financial institution located in Silver Spring, Maryland. Accounts at the institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2022, the Association's uninsured cash balances total approximately \$1,550,000.

PULMONARY HYPERTENSION ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 3—INVESTMENTS

Investments are comprised of the following:

	<u>2022</u>	<u>2021</u>
Money market funds	\$ 1,058,218	\$ 916,288
Certificates of deposit	-	302,747
Equity mutual funds	13,097,907	15,245,518
Fixed income mutual funds	1,337,640	1,560,165
Alternative mutual funds	1,553,369	1,438,668
U.S. Treasury securities	<u>374,778</u>	<u>-</u>
Investments	<u>\$ 17,421,912</u>	<u>\$ 19,463,386</u>

Fair values of equity mutual funds, fixed income mutual funds, and alternative mutual funds are valued at the closing price reported on the active market on which the mutual funds are traded and are considered Level 1 fair value measurements. Fair values of certificates of deposit and U.S. treasury securities are valued at prices in active markets for similar assets and prices for identical assets in inactive markets that have been adjusted by observable indexes, which are considered Level 2 fair value measurements.

NOTE 4—PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

	<u>2022</u>	<u>2021</u>
Leasehold improvements	\$ -	\$ 796,267
Equipment	1,251,080	417,779
Accumulated depreciation	<u>(557,311)</u>	<u>(460,142)</u>
Property and equipment, net	<u>\$ 693,769</u>	<u>\$ 753,904</u>

NOTE 5—GRANTS PAYABLE

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

	<u>2022</u>	<u>2021</u>
Payable in less than one year	\$ 40,000	\$ 40,000
Payable in one to five years	<u>40,000</u>	<u>120,000</u>
Grants payable	<u>\$ 80,000</u>	<u>\$ 160,000</u>

PULMONARY HYPERTENSION ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 6—RETIREMENT PLANS

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 contribution of 3% of employees' salaries. Employer contributions to the plan were \$53,591 and \$46,213 for the years ended December 31, 2022 and 2021, respectively.

NOTE 7—NET ASSETS

Net assets with donor restrictions are restricted for the following periods or purposes:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
Research	\$ 6,400,504	\$ 7,180,407
Leadership award	11,985	11,985
Scholarships	224,775	337,807
Support groups	606,342	940,581
Other purposes	2,197,968	1,346,291
Subsequent year operations	76,510	247,341
Endowment funds held in perpetuity:		
Research	1,000,000	1,000,000
Scholarships	321,632	321,632
Support groups	<u>1,000,000</u>	<u>1,000,000</u>
Net assets with donor restrictions	<u><u>\$ 11,839,716</u></u>	<u><u>\$ 12,386,044</u></u>

NOTE 8—ENDOWMENT

The Association's endowment is a donor-restricted fund established to support research, scholarships, and support groups for those affected by pulmonary hypertension. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The board of directors of the Association has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Association considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument.

PULMONARY HYPERTENSION ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 8—ENDOWMENT (continued)

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

Investment Return Objectives, Risk Parameters, and Strategies. The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Association must hold in perpetuity or for donor-specified periods. Given the relationship between risk and return, a fundamental step in determining the investment policy for the endowment fund is the determination of an appropriate risk tolerance. After taking into consideration such factors as corporate financial stability, uncertainty of cash flows in and out of the endowment fund over the long term, and capital market volatility, the Board of Directors believes that a moderate risk strategy is prudent. Under this policy, as approved by the Board of Directors, the goal is to have stable returns over the long term, with a reduced potential of negative returns in any given year. The Association expects its endowment fund, over time, to provide an annual average rate of return of approximately 4%. Actual returns in any given year may vary from this amount. To satisfy its long-term rate of return 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 diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives with prudent risk constraints.

Spending Policy. At year end, the Association has a policy of distributing up to 4% of the moving average of the past 12 quarters' closing market value of the endowment investment. In establishing this policy, the Association considered the long-term expected return of its endowment.

Underwater Endowment Funds. 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 UPMIFA requires the Association to retain as a fund of perpetual duration. At December 31, 2022 and 2021, there are no donor-restricted endowment funds with deficiencies.

PULMONARY HYPERTENSION ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 8—ENDOWMENT (continued)

Endowment net asset composition by type of fund at December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Donor-restricted endowment funds:		
Original donor-restricted gift and amounts required to be maintained in perpetuity by donor	\$ 2,321,632	\$ 2,321,632
Accumulated investment gains	<u>1,137,547</u>	<u>1,778,627</u>
Total endowment funds	<u>\$ 3,459,179</u>	<u>\$ 4,100,259</u>

Changes in endowment net assets for the years ended December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Endowment net assets at beginning of year	\$ 4,100,259	\$ 3,804,126
Investment return, net	(558,605)	384,602
Amounts appropriated	<u>(82,475)</u>	<u>(88,469)</u>
Endowment net assets at end of year	<u>\$ 3,459,179</u>	<u>\$ 4,100,259</u>

NOTE 9—LEASE

The Association leases office space in Colesville, Maryland under a noncancelable lease with a term from April 2020, through May 2031. The lease agreement includes provisions for annual increases to base rent and provisions for rent abatement. The Association does not expect to exercise a renewal option on this lease.

Operating lease cost for the year ended December 31, 2022 is \$217,548.

Other information related to operating leases is as follows:

Cash payments classified as part of operating cash flows for amounts included in the measurement of lease liabilities	\$ 219,619
Right-of-use assets obtained in exchange for lease obligations	1,863,771
Weighted average remaining lease term	6.56 years
Weighted average discount rate	1.63%

PULMONARY HYPERTENSION ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 9—LEASE (continued)

The maturities of operating lease liabilities as of December 31, 2022 is as follows:

Year ending December 31:	
2023	\$ 267,843
2024	298,732
2025	306,563
2026	307,017
2027	309,344
Thereafter	<u>1,122,314</u>
Total minimum lease payments	2,611,813
Imputed interest	<u>(178,719)</u>
Total lease liabilities	<u><u>\$ 2,433,094</u></u>

Rental payments, including rent abatement and fixed rent increase were being recognized on the straight-line basis over the term of the lease. Additionally, the Association received a tenant improvement allowance of \$623,175 which was being amortized on the straight-line basis over the life of the lease. Total rent expense for the year ended December 31, 2021 was \$253,797.

NOTE 10—LIQUIDITY AND AVAILABILITY

The following table reflects the Association's financial assets as of the date of the statements of financial position reduced by amounts not available for general expenditures within one year of the date of the statements of financial position because of donor-imposed restrictions.

	<u>2022</u>	<u>2021</u>
Financial assets at year-end:		
Cash	\$ 1,779,984	\$ 2,248,289
Accounts receivable	189,000	112,500
Unconditional promises to give	682,105	707,230
Investments	<u>17,421,912</u>	<u>19,463,386</u>
Total financial assets	20,073,001	22,531,405
Less those unavailable for general expenditures within one year due to:		
Restricted by donors with purpose restrictions	<u>(11,763,206)</u>	<u>(12,138,703)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 8,309,795</u></u>	<u><u>\$ 10,392,702</u></u>

As part of the Association's liquidity management policy, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

PULMONARY HYPERTENSION ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 11—PAYCHECK PROTECTION PROGRAM LOANS

The Association received loans totaling \$840,838 under the Paycheck Protection Program (PPP) established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act and administered by the U.S. Small Business Administration (SBA). The loans accrue interest at 1% but payments are deferred for borrowers who apply for forgiveness until SBA remits the borrower's forgiveness amount to the lender. The amount of forgiveness depends, in part, on the total amount of eligible expenses paid by the Association during the covered period. Eligible expenses may include payroll costs, rent, and utilities. Any unforgiven portion is payable over five years. The Association has received preliminary forgiveness on both of its PPP loans. The Association must retain PPP documentation in its files for six years after the date the loan is forgiven or repaid in full and permit authorized representatives of SBA to access such files upon request. SBA may review any loan at any time at its discretion. Therefore, SBA may review the Association's good-faith certification concerning the necessity of its loan request, whether the Association calculated the loan amount correctly, whether the Association used loan proceeds for the allowable uses specified in the CARES Act, and whether the Association is entitled to loan forgiveness in the amount claimed on its application. If SBA determines the Association was ineligible for the loan or for forgiveness in whole or in part, SBA will seek repayment of the outstanding loan balance.

NOTE 12—BUSINESS COMBINATION

On December 31, 2022, the Association acquired Pulmonary Hypertension Care Center, which was previously a subsidiary of the Association. No consideration was transferred, and the Association recognized an inherent contribution in the statement of activities as of the acquisition date. The fair value of the assets acquired, and liabilities assumed at the acquisition date are as follows:

Cash	\$ 210,720
Accounts receivable	89,000
Unconditional promises to give	100,000
Prepaid expenses and other assets	19,125
Accounts payable	(43,743)
Accrued expenses	(1,846)
Deferred revenue and refundable advances	<u>(50,000)</u>
Net assets	<u><u>\$ 323,256</u></u>