

Consolidated Financial Statements

**AMERICAN SEXUAL HEALTH ASSOCIATION
AND SUBSIDIARY**

Year Ended June 30, 2018

Consolidated Financial Statements

AMERICAN SEXUAL HEALTH ASSOCIATION AND SUBSIDIARY

Year Ended June 30, 2018

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Independent Auditors' Report

Board of Directors

American Sexual Health Association and Subsidiary

Research Triangle Park, North Carolina

We have audited the accompanying consolidated financial statements of American Sexual Health Association (a nonprofit organization) and subsidiary, which comprise the consolidated statement of financial position as of June 30, 2018, 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 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 entities' 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 entities' 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Sexual Health Association and subsidiary as of June 30, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditors' Report--Continued

Other Matters

Report on Summarized Comparative Information

We have previously audited the 2017 consolidated financial statements of American Sexual Health Association and subsidiary and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated February 9, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Romeo, Wiggins & Company, L.L.P.

Raleigh, North Carolina
January 31, 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

American Sexual Health Association and Subsidiary

June 30, 2018

(With comparative totals as of June 30, 2017)

	2018	2017
ASSETS:		
Cash	\$ 357,806	\$ 59,076
Investments:		
General Fund	422,683	396,039
Endowment Fund	100,054	108,015
	<u>522,737</u>	<u>504,054</u>
Accounts receivable - contracts and grants	146,582	252,546
Accounts receivable - other	8,787	5,435
Inventory	900	3,149
Prepaid expenses	5,741	5,948
Property and equipment, net	6,263	13,066
TOTAL ASSETS	<u><u>\$ 1,048,816</u></u>	<u><u>\$ 843,274</u></u>
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued expenses	\$ 26,863	\$ 26,547
Accrued payroll and related liabilities	60,948	59,770
Accrued vacation	35,209	34,273
Refundable advance	11,666	-
Deferred lease buyout	-	2,274
Total Liabilities	<u>134,686</u>	<u>122,864</u>
Net Assets:		
Unrestricted	452,721	420,594
Temporarily restricted	361,409	199,816
Permanently restricted	100,000	100,000
Total Net Assets	<u>914,130</u>	<u>720,410</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,048,816</u></u>	<u><u>\$ 843,274</u></u>

See accompanying independent auditors' report and notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF ACTIVITIES

American Sexual Health Association and Subsidiary

Year Ended June 30, 2018

(With comparative totals for the year ended June 30, 2017)

	2018				2017
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
SUPPORT AND REVENUE:					
Contracts and grants	\$ 818,766	\$ 1,004,950	\$ -	\$ 1,823,716	\$ 1,558,538
Individual and business contributions	80,621	82,509	-	163,130	293,565
Sales of literature and educational materials	29,457	-	-	29,457	21,288
Interest and dividends, net of fees	3,292	591	-	3,883	2,337
Net realized gain on sale of investments	3,579	887	-	4,466	11,445
Net unrealized gain on investments	12,611	3,265	-	15,876	40,524
In-kind contributions	589	-	-	589	131
Other income	72,980	-	-	72,980	59,854
	<u>1,021,895</u>	<u>1,092,202</u>	<u>-</u>	<u>2,114,097</u>	<u>1,987,682</u>
Net assets released from restrictions	930,609	(930,609)	-	-	-
	<u>1,952,504</u>	<u>161,593</u>	<u>-</u>	<u>2,114,097</u>	<u>1,987,682</u>
TOTAL SUPPORT AND REVENUE					
	<u>1,952,504</u>	<u>161,593</u>	<u>-</u>	<u>2,114,097</u>	<u>1,987,682</u>
EXPENSES:					
Program services:					
Health policy	234,052	-	-	234,052	232,867
Consumer communication/education	912,382	-	-	912,382	868,811
NCCC	185,815	-	-	185,815	213,453
Sexual health promotion	301,262	-	-	301,262	540,494
Total program services	<u>1,633,511</u>	<u>-</u>	<u>-</u>	<u>1,633,511</u>	<u>1,855,625</u>
Support services:					
Management and general	248,451	-	-	248,451	256,955
Development	38,415	-	-	38,415	49,220
Total support services	<u>286,866</u>	<u>-</u>	<u>-</u>	<u>286,866</u>	<u>306,175</u>
TOTAL EXPENSES	<u>1,920,377</u>	<u>-</u>	<u>-</u>	<u>1,920,377</u>	<u>2,161,800</u>
CHANGE IN NET ASSETS	<u>\$ 32,127</u>	<u>\$ 161,593</u>	<u>\$ -</u>	<u>\$ 193,720</u>	<u>\$ (174,118)</u>
Net assets, beginning of year	\$ 420,594	\$ 199,816	\$ 100,000	\$ 720,410	\$ 894,528
Change in net assets	<u>32,127</u>	<u>161,593</u>	<u>-</u>	<u>193,720</u>	<u>(174,118)</u>
NET ASSETS, END OF YEAR	<u>\$ 452,721</u>	<u>\$ 361,409</u>	<u>\$ 100,000</u>	<u>\$ 914,130</u>	<u>\$ 720,410</u>

See accompanying independent auditors' report and notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

American Sexual Health Association and Subsidiary

Year Ended June 30, 2018

(With comparative totals for the year ended June 30, 2017)

	2018						2017			
	Program Services					Support Services			Total Expenses	Total Expenses
	Health Policy	Consumer Communication/ Education	NCCC	Sexual Health Promotion	Total Program Services	Management and General	Development	Total Support Services		
Salaries and wages	\$ 154,658	\$ 469,668	\$ 48,794	\$ 106,310	\$ 779,430	\$ 88,418	\$ 13,936	\$ 102,354	\$ 881,784	\$ 852,103
Payroll taxes and fringe benefits	34,466	84,328	5,078	19,806	143,678	27,993	2,284	30,277	173,955	186,208
Professional services/consultants	17,060	165,616	34,769	45,400	262,845	91,405	12	91,417	354,262	677,221
Occupancy	6,813	45,783	2,725	11,718	67,039	6,885	1,635	8,520	75,559	61,470
Telephone/ internet	2,242	86,725	897	4,893	94,757	1,664	538	2,202	96,959	89,964
Printing and publications		9,296	1,307	34	10,637	67	361	428	11,065	10,000
Postage and shipping		3,406	1,128	194	4,728	519	1,758	2,277	7,005	6,281
Transportation and travel	12,808	2,964	22,783	34,479	73,034	8,583	2,523	11,106	84,140	95,337
Conferences and meetings	4,072	882	16,761	15,633	37,348	953		953	38,301	22,270
Sponsorships				50,000	50,000			-	50,000	-
Equipment rental and maintenance	260	12,405	2,103	1,940	16,708	385	726	1,111	17,819	13,343
Advertising	440	3,118	57	1,083	4,698		250	250	4,948	5,296
Insurance					-	12,971		12,971	12,971	13,426
Office supplies and expenses	462	11,212	71	2,159	13,904	3,191	2,148	5,339	19,243	8,914
Dues and reference materials	250	5,239	13	1,777	7,279	818	11,366	12,184	19,463	15,667
Interest expense					-	524		524	524	284
Other bank charges		3,057	3,246	114	6,417	643	683	1,326	7,743	6,643
Chapter expenses			42,508		42,508			-	42,508	68,799
Bad debt					-			-	-	1,485
Depreciation/amortization	511	5,653	319	1,373	7,856	575	192	767	8,623	8,556
Miscellaneous expense	10	3,030	3,256	4,349	10,645	2,857	3	2,860	13,505	18,533
TOTAL EXPENSES	\$ 234,052	\$ 912,382	\$ 185,815	\$ 301,262	\$ 1,633,511	\$ 248,451	\$ 38,415	\$ 286,866	\$ 1,920,377	\$ 2,161,800

See independent auditors' report and notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

American Sexual Health Association and Subsidiary

Year Ended June 30, 2018

(With comparative totals for the year ended June 30, 2017)

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 193,720	\$ (174,118)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,623	8,556
Net realized gain on sale of investments	(4,466)	(11,445)
Net unrealized gain on investments	(15,876)	(40,524)
Changes in operating assets and liabilities:		
Accounts receivable - contracts and grants	105,964	(70,299)
Accounts receivable - other	(3,352)	2,441
Inventory	2,249	2,300
Prepaid expenses	207	(2,584)
Deferred lease buyout payoff	(2,274)	(11,658)
Accounts payable and accrued expenses	316	(34,786)
Accrued payroll and related liabilities	1,178	26,698
Accrued vacation	936	(4,147)
Refundable advance	11,666	-
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>298,891</u>	<u>(309,566)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Transfers to investment portfolio	(11,046)	3,777
Distributions from investment portfolio	12,704	88,151
Purchases of property and equipment	(1,819)	-
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	<u>(161)</u>	<u>91,928</u>
CASH FLOWS FROM FINANCING ACTIVITIES	<u>-</u>	<u>-</u>
NET CHANGE IN CASH	298,730	(217,638)
CASH - BEGINNING OF YEAR	<u>59,076</u>	<u>276,714</u>
CASH - END OF YEAR	<u>\$ 357,806</u>	<u>\$ 59,076</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$ 524	\$ 284

See accompanying independent auditors' report and notes to consolidated financial statements.

AMERICAN SEXUAL HEALTH ASSOCIATION AND SUBSIDIARY

Year Ended June 30, 2018

NOTE A -- THE REPORTING ENTITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Reporting Entities: American Sexual Health Association (ASHA/the Organization) is a not-for-profit corporation, organized under the laws of the State of North Carolina. ASHA promotes the sexual health of individuals, families and communities by advocating sound policies and practices and educating the public, professionals and policy makers, in order to foster healthy sexual behaviors and relationships and prevent adverse health outcomes. ASHA earns revenues by selling informational brochures and newsletters, receiving charitable donations, and servicing grant and contract agreements from other organizations that need call center and data collection services in accordance with ASHA's mission. ASHA is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and the applicable state tax statutes.

During fiscal 2012, National Cervical Cancer Coalition (NCCC, a California public benefit corporation) merged with ASHA and continues to operate as a program of ASHA.

Empatha, Inc. (Empatha) was incorporated in 2005 and is a wholly-owned subsidiary of ASHA. Empatha serviced a call center contract for fiscal 2015-2016, using ASHA facilities and employees. The call center contract was awarded to ASHA directly for fiscal 2016-2017 and 2017-2018. Empatha reported no activity for fiscal 2017-2018 and reported a stockholder's deficit of \$523,399 at June 30, 2018.

Affiliated Entity: The CEO/President of ASHA is a voting, ex-officio member of the Board of Directors of the American Sexually Transmitted Diseases Association (ASTDA). ASHA provides conference management and administration management services to ASTDA. In fiscal 2017-2018, ASHA recognized revenue of \$24,000 for management services provided in connection with the 2018 STD conference and \$24,530 for administration management services.

Program Services: ASHA's programs include the following:

Health Policy – ASHA's Washington office works to secure sound policy responses to sexual health issues including prevention, treatment, diagnostics and education through efforts with national organizations. ASHA opposes education initiatives that limit access to science-based education. ASHA's key relationships with colleague organizations, federal agencies and project-related corporate efforts support the sexual health of individuals, families and communities in order to foster healthy behaviors and relationships.

Consumer Communication/Education – ASHA operates a state-of-the-art call center providing compassionate, one-on-one services to thousands of individuals. ASHA's websites receive approximately 6 million visitors each year. The websites are the primary means of educating patients, partners, professionals and partner organizations throughout the United States. Each website is regularly updated to ensure accuracy and clear, non-biased information on sexual and reproductive health. ASHA responds to requests from media sources looking for clarification, quotes and more.

NCCC – HPV and cervical cancer education receive funding from corporations to support our volunteer chapter leaders around the country. The National Cervical Cancer Coalition (NCCC) works to educate people *community by community* and volunteers are at the heart of that effort. Our volunteer local chapter leaders—many of whom are cervical cancer survivors—are passionate about seeking out opportunities to educate people through health fairs, awareness walk/runs, and education and fundraising events. These individuals have demonstrated a true passion to help others and, as a result, thousands of people across the United States have benefitted from their efforts.

Sexual Health Promotion – ASHA works with partner organizations to educate the public and providers on a range of subjects both funded and unfunded. ASHA has set a goal of being a leader in sexual health and works with partner organizations, as well as the federal government, to achieve that goal.

AMERICAN SEXUAL HEALTH ASSOCIATION AND SUBSIDIARY

NOTE A -- THE REPORTING ENTITIES AND SIGNIFICANT ACCOUNTING POLICIES--Continued

Basis of Accounting: The consolidated financial statements of ASHA and its subsidiary (Empatha) have been prepared on the accrual basis of accounting whereby income is recognized when earned and expenses are recognized when incurred. This basis of accounting conforms to U.S. generally accepted accounting principles. All significant inter-entity transactions and accounts have been eliminated in consolidation.

Display of Net Assets by Class: The consolidated financial statements have been prepared in conformity with the disclosure and display requirements of the Financial Accounting Standards Board (FASB) as set forth in FASB ASC 958-205, 210, 225. ASHA reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Net assets of the two restricted classes are created only by donor-imposed restrictions on their use. Temporarily restricted net assets are restricted as to time or purpose as designated by the donor. All net assets other than those subject to temporary or permanent donor-imposed restrictions, including Board-designated or appropriated amounts, are legally unrestricted and are reported as part of the unrestricted class.

Cash Equivalents: The Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. ASHA held no cash equivalents at June 30, 2018 and 2017.

Investments: ASHA's investments at June 30, 2018 consist of funds held in agency with Triangle Community Foundation. The funds are invested in a non-endowed, equity-oriented portfolio (70% equities/30% fixed income). Investments are carried at fair value, as reported by Triangle Community Foundation. Refer also to *Note E-- Permanently Restricted / Endowment Net Assets and Note I--Fair Value Measurements*.

Recognition of Support and Revenue: Unconditional promises to give are recognized as support or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Support is reported as an increase in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Revenue from exchange transactions is recognized in the period earned as defined by contract.

Accounts Receivable: Accounts receivable consists of amounts due under contracts and grants. ASHA provides an allowance for doubtful accounts based on historical collection experience and a review of the current status of the existing receivables. Management deems all accounts receivable to be fully collectible; therefore, no allowance is provided at June 30, 2018. Receivables are unsecured and are expected to be collected within a year.

Inventory: Inventory includes brochures and educational materials, and is stated at lower of cost (first-in, first-out method) or market. ASHA's management periodically reviews the value of items in inventory and provides write-downs or write-offs of inventory based on its assessment of market conditions. The Organization made no inventory write-offs in fiscal 2017-2018.

Property and Equipment: All acquisitions of property and equipment in excess of \$1,000 and expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Donated Goods and Services: Contributions of donated non-cash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization. Volunteer services are not recorded in the consolidated financial statements because the criteria for recognition have not been satisfied.

AMERICAN SEXUAL HEALTH ASSOCIATION AND SUBSIDIARY

NOTE A -- THE REPORTING ENTITIES AND SIGNIFICANT ACCOUNTING POLICIES--Continued

Fair Value of Financial Instruments: The carrying values of accounts receivable, accounts payable and accrued liabilities approximate the fair values of such due to the short-term maturity of these financial instruments at June 30, 2018. Investments are recorded at fair value, as reported by Triangle Community Foundation. Refer also to *Note I--Fair Value Measurements*.

Functional Expenses: The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expense classification. Certain indirect expenses are allocated to programs based on estimated usage and/or benefit.

Use of Estimates: The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of support, revenues and expenses during the reporting period. Actual results could differ from these estimates.

Income Taxes: ASHA is an exempt organization under Section 501(c)(3) of the Internal Revenue Code, and is classified as other than a private foundation. It is also exempt from North Carolina income and franchise taxes under the North Carolina Non-Profit Corporation Act.

Income taxes for Empatha are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of assets and liabilities and their respective tax basis, operating loss carryforwards, and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for deferred taxes if it is uncertain as to future realization of these benefits.

Information (income tax) returns filed for fiscal years subsequent to fiscal 2013-2014 remain open and subject to examination.

Summarized Comparative Information: The consolidated financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements as of and for the year ended June 30, 2018, from which the summarized information was derived.

Pending Adoption of ASU 2016-14: On August 18, 2016, the FASB issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU are intended to improve financial statement presentation by not-for-profit organizations by providing more relevant information about their resources and the changes in those resources to their donors, grantors, creditors, and other users. There are qualitative and quantitative requirements in a number of areas, including net asset classes, investment return, expenses, liquidity and availability of resources, and presentation of operating cash flows. The standard will be effective for the fiscal years beginning after December 15, 2017. Management is currently in the process of evaluating the impact of adoption of this ASU on the consolidated financial statements.

AMERICAN SEXUAL HEALTH ASSOCIATION AND SUBSIDIARY

NOTE B -- SIGNIFICANT CONCENTRATIONS (including subsequent events)

Support Risk (including subsequent events): Approximately 29% of ASHA's total support and revenue for the year ended June 30, 2018, was derived from a call center contract with a nonprofit agency. The contract expired December 31, 2018; however, ASHA continues to provide call center services based on the contracting agency's expressed intent (on January 10, 2019) to renew the contract through December 31, 2019.

Credit Risk: Financial instruments that subject the Organization to the potential concentration of credit risk consist primarily of cash deposits, investments, and accounts receivable. The Organization maintains its cash deposits with a financial institution, with deposits generally eligible for up to \$250,000 of FDIC insurance coverage. At June 30, 2018, the Organization's bank deposits exceeded federally insured limits by approximately \$130,000, though the Organization have incurred no loss as a result of such.

In July 2011, the Organization placed \$500,000 in agency with Triangle Community Foundation, including \$400,000 of operating reserves and \$100,000 of donor-restricted endowment assets. The funds are invested in a non-endowed, equity-oriented portfolio (70% equity/30% fixed income). These investments are not eligible for FDIC coverage, but may be eligible for SIPC protection of up to \$500,000. SIPC protection does not insure the quality of investments or protect against losses from changing market values.

At June 30, 2018, approximately 80% of *accounts receivable -- contracts and grants* is due under the significant contract referenced in *Support Risk* above.

NOTE C -- PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2018:

Other equipment	\$ 10,894
CPU server	<u>30,181</u>
	41,075
Less: Accumulated depreciation and amortization	<u>(34,812)</u>
	<u>\$ 6,263</u>

NOTE D -- TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were released from donor restriction by incurring expenses satisfying the restricted purposes or by occurrence of other events as specified by donors as follows for the year ended June 30, 2018:

Health policy	\$ 365,450
Consumer communication/education	103,000
NCCC	239,455
Sexual health promotion	210,000
Endowment earnings appropriated for expenditure	<u>12,704</u>
	<u>\$ 930,609</u>

Temporarily restricted net assets are available for the following purposes at June 30, 2018:

NCCC	\$ 204,855
Sexual Health Promotion	156,500
Accumulated earnings on endowments	<u>54</u>
	<u>\$ 361,409</u>

AMERICAN SEXUAL HEALTH ASSOCIATION AND SUBSIDIARY

NOTE E -- PERMANENTLY RESTRICTED / ENDOWMENT NET ASSETS

Permanently restricted net assets are comprised of endowment funds that are restricted by donors to investment in perpetuity, with the net earnings thereon available for ASHA's general use.

In July 2011, ASHA placed its endowment funds in agency with Triangle Community Foundation (TCF), directing the funds be invested in a non-endowed, equity-oriented portfolio (70% equities/30% fixed income). This is consistent with the Organization's objectives to provide income for its general use and to preserve endowment assets without subjecting them to substantial risk. Earnings on endowment funds are considered appropriated for ASHA's general use when distributed in accordance with TCF's spending policies.

The composition of endowment net assets by fund type is as follows at June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 54	\$ 100,000	\$ 100,054
Board-designated endowment funds	-	-	-	-
Total funds, at June 30, 2018	<u>\$ -</u>	<u>\$ 54</u>	<u>\$ 100,000</u>	<u>\$ 100,054</u>

Changes in endowment net assets for the year ended June 30, 2018, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2017	\$ -	\$ 8,015	\$ 100,000	\$ 108,015
Investment return:				
Interest/dividend income, net*	-	591	-	591
Net change in fair value	-	4,152	-	4,152
Total investment return	-	4,743	-	4,743
Contributions	-	-	-	-
Appropriated for expenditure	-	(12,704)	-	(12,704)
Endowment net assets, June 30, 2018	<u>\$ -</u>	<u>\$ 54</u>	<u>\$ 100,000</u>	<u>\$ 100,054</u>

*Net administrative fees of \$1,056

Regulations/Standards Governing Endowment Funds: In March 2009, the State of North Carolina enacted a version of UPMIFA (Uniform Prudent Management Institutional Funds Act) applicable to endowment funds existing on or established after the Act's effective date. UPMIFA eliminates the historic dollar concept of UMIFA (the governing law in North Carolina prior to March 2009) in favor of the "prudent spending" concept as pertains to endowment net assets.

AMERICAN SEXUAL HEALTH ASSOCIATION AND SUBSIDIARY

NOTE E -- PERMANENTLY RESTRICTED / ENDOWMENT NET ASSETS--Continued

The Organization has interpreted the State Prudent Management Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the endowed gift on the date of gift, absent explicit donor stipulations to the contrary. Therefore, the Organization classifies as permanently restricted net assets (1) the original value of gifts donated to endowments, (2) the original value of subsequent gifts to endowments, and (3) accumulations to endowments made in accordance with the direction of the applicable donor gift instruments. The remaining portions of donor-restricted endowment funds that are not classified as permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization.

NOTE F -- LEASE COMMITMENTS

Operating Leases: The Organization leases its primary office space under an operating lease. The lease was amended effective January 15, 2018, to allow the Organization to move into a larger space within the building. The sixty-one-month lease expires in February 2023. Rent expense (including TICAM) approximated \$73,579 for the year ended June 30, 2018. The Organization also leased a copier under an operating lease that expired in September 2017. A second copier lease expires in August 2020. Lease expense approximated \$16,350 for the year ended June 30, 2018.

Future minimum rentals (excluding TICAM) required under these operating leases, are as follows:

<u>Years Ending June 30,</u>	
2019	\$ 115,643
2020	118,736
2021	111,451
2022	112,638
2023	71,813
Thereafter	-
	<u>\$ 530,281</u>

NOTE G -- RETIREMENT PLAN

The Organization has established a 401(k) retirement plan for its employees. Eligible employees may contribute a portion of their earnings each year, not to exceed the maximum allowed by the Internal Revenue Service. For the year ended June 30, 2018, ASHA contributed a Safe Harbor match on each eligible employee's deferrals up to 5% of the participant's compensation. Employer Safe Harbor matching contributions approximated \$28,280 for fiscal 2017-2018. The plan also provides for discretionary matching contributions, as well as discretionary non-elective contributions; however, no discretionary contributions were made for fiscal 2017-2018.

Notes to Consolidated Financial Statements--Continued

AMERICAN SEXUAL HEALTH ASSOCIATION AND SUBSIDIARY

NOTE H -- INCOME TAXES (EMPATHA)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets are as follows at June 30, 2018:

Deferred tax asset:	
Net operating loss:	
Federal	\$ 109,914
State	<u>15,702</u>
	125,616
Valuation allowance	<u>(125,616)</u>
Net deferred tax asset	\$ <u> -</u>

Empatha has \$523,000 in net operating loss carryforwards that will begin to expire in the year ending June 30, 2026, for federal purposes and June 30, 2021, for state purposes.

NOTE I -- FAIR VALUE MEASUREMENTS

The Organization applies generally accepted accounting principles (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

FASB ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority; Level 2 inputs consist of observable inputs other than quoted prices for identical assets; and Level 3 inputs have the lowest priority.

The following represents assets measured at fair value on a recurring basis by the Organization at June 30, 2018:

		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
<u>June 30, 2018</u>	<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Investments	\$ <u>522,737</u>	\$ <u>522,737</u>	\$ <u> -</u>	\$ <u> -</u>
	\$ <u>522,737</u>	\$ <u>522,737</u>	\$ <u> -</u>	\$ <u> -</u>

Level 1: Investments are held in a non-endowed, equity-oriented portfolio (70% equities/30% fixed income) with Triangle Community Foundation and are carried at fair value, as reported by Triangle Community Foundation (TCF). Because TCF's non-endowed funds are not restricted to granting limits in any time period, ASHA's investments are held primarily in publicly traded securities. Fair values of equities and fixed income securities listed on national exchanges are value at the last sales price, or if there is no sale and the market is considered active, at the mean of the last bid and asked prices on such exchange. Such securities are classified within Level 1 of the fair value hierarchy.

The Organization reports transfers between levels of the fair value hierarchy, if any, at the end of the reporting period. There were no such transfers at June 30, 2018.

As of June 30, 2018, the Organization has no assets or liabilities classified within Level 2 or Level 3 of the fair value hierarchy.

Notes to Consolidated Financial Statements--Continued

AMERICAN SEXUAL HEALTH ASSOCIATION AND SUBSIDIARY

NOTE J -- COMMITMENTS AND CONTINGENCIES

Financial assistance from various awarding agencies is subject to special audit. Such audits could result in claims against the Organization for disallowable costs or noncompliance with grantor restrictions. Management is aware of no costs that may be disallowed or instances of noncompliance with grantor restrictions that could result in such claims. Consequently, no provision has been made for liabilities, if any, that may arise from future audits.

NOTE K -- SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 31, 2019, the date on which financial statements were available for issue.