SIKICH®

# AMERICAN LUNG ASSOCIATION – NATIONAL OFFICE

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS

**For the Years Ended June 30, 2017 and 2016**

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**AMERICAN LUNG ASSOCIATION – NATIONAL OFFICE**
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# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
American Lung Association – National Office

We have audited the accompanying financial statements of American Lung Association - National Office (National Office), which comprise the Statements of Financial Position as of June 30, 2017 and 2016, and the related Statements of Activities, Functional Expenses, and Cash Flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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 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 these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of American Lung Association - National Office as of June 30, 2017 and 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.

## Other Matters

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2018, on our consideration of National Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the National Office's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering National Office's internal control over financial reporting and compliance.

Sikich LLP

Springfield, Illinois
January 18, 2018

# FINANCIAL STATEMENTS

**AMERICAN LUNG ASSOCIATION - NATIONAL OFFICE**

STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 24,273,490 | $ 16,005,145 |
| Receivables, net of allowance for doubtful accounts | 552,979 | 718,488 |
| Due from Chartered Associations, net of allowance for doubtful accounts | 2,551,454 | 1,642,324 |
| Prepaid expenses | 732,981 | 640,164 |
| Investments | 15,947,880 | 14,309,172 |
| Property and equipment, net | 127,508 | 167,095 |
| Amounts held on behalf of others | 1,442,726 | 1,550,595 |
| Annuity fund investments | 131,375 | 98,992 |
| Beneficial interest in perpetual trusts | 3,864,405 | 3,597,239 |
| **TOTAL ASSETS** | $ 49,624,798 | $ 38,729,214 |
| **LIABILITIES AND NET ASSETS** | | |
| **LIABILITIES** | | |
| Accounts payable and accrued expenses: | | |
| Accounts payable - general | $ 3,146,153 | $ 1,041,581 |
| Accounts payable - awards and grants | 5,964,350 | 4,598,273 |
| Deferred revenue | 11,394,234 | 8,325,436 |
| Due to Chartered Associations | - | 236,176 |
| Amounts held on behalf of others | 1,442,726 | 1,550,595 |
| Accrued pension and postretirement plan liabilities | 5,387,584 | 5,962,343 |
| Gift annuities obligations | 77,944 | 63,049 |
| Other liabilities | 1,742,454 | 1,759,357 |
| Total liabilities | 29,155,445 | 23,536,810 |
| **NET ASSETS** | | |
| Unrestricted | 15,249,804 | 10,333,066 |
| Temporarily restricted | 1,355,149 | 1,098,527 |
| Permanently restricted | 3,864,400 | 3,760,811 |
| Total net assets | 20,469,353 | 15,192,404 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 49,624,798 | $ 38,729,214 |

See accompanying notes to the financial statements.

**AMERICAN LUNG ASSOCIATION - NATIONAL OFFICE**

STATEMENT OF ACTIVITIES

Year ended June 30, 2017

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **OPERATING PUBLIC SUPPORT AND REVENUE** | | | | |
| Public support: | | | | |
| Contributions from individuals, corporations and foundations | $ 8,619,504 | $ - | $ - | $ 8,619,504 |
| Bequests and trust income | 691,036 | - | - | 691,036 |
| Allocable share of direct response activities from Chartered Associations | 2,071,314 | - | - | 2,071,314 |
| Chartered Association assessments | 5,720,915 | - | - | 5,720,915 |
| Program reimbursements from Chartered Associations | 19,515,310 | - | - | 19,515,310 |
| Public support before in-kind contributions | 36,618,079 | - | - | 36,618,079 |
| In-kind contributions | 444,676 | - | - | 444,676 |
| Total public support | 37,062,755 | - | - | 37,062,755 |
| Revenue: | | | | |
| Corporate and foundation grants | 2,752,526 | - | - | 2,752,526 |
| Government grants | 1,054,945 | - | - | 1,054,945 |
| Interest and dividends | 361,072 | 41,539 | - | 402,611 |
| Licensing fees and royalties | 1,493,505 | - | - | 1,493,505 |
| Other | 1,066,709 | - | - | 1,066,709 |
| Total revenue | 6,728,757 | 41,539 | - | 6,770,296 |
| Net assets released from restrictions | 113,921 | (113,921) | - | - |
| Total operating public support and revenue | 43,905,433 | (72,382) | - | 43,833,051 |
| **EXPENSES** | | | | |
| Program services | 37,129,298 | - | - | 37,129,298 |
| Supporting services | 2,654,840 | - | - | 2,654,840 |
| Total expensess | 39,784,138 | - | - | 39,784,138 |
| Changes in net assets from operating activities | 4,121,295 | (72,382) | - | 4,048,913 |
| **NONOPERATING ACTIVITIES** | | | | |
| Net realized losses on investments | (148,767) | (21,958) | - | (170,725) |
| Net unrealized gains on investments | 1,275,181 | 187,385 | - | 1,462,566 |
| Change in fair value of beneficial interest in trusts | - | 163,577 | 103,589 | 267,166 |
| Change in value of split-interest agreements | 17,488 | - | - | 17,488 |
| Other pension and postretirement plan changes | (348,459) | - | - | (348,459) |
| Total nonoperating activities | 795,443 | 329,004 | 103,589 | 1,228,036 |
| **CHANGE IN NET ASSETS** | 4,916,738 | 256,622 | 103,589 | 5,276,949 |
| **NET ASSETS - BEGINNING OF YEAR** | 10,333,066 | 1,098,527 | 3,760,811 | 15,192,404 |
| **NET ASSETS - END OF YEAR** | $ 15,249,804 | $ 1,355,149 | $ 3,864,400 | $ 20,469,353 |

See accompanying notes to the financial statements.

## AMERICAN LUNG ASSOCIATION - NATIONAL OFFICE

STATEMENT OF ACTIVITIES

Year ended June 30, 2016

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **OPERATING PUBLIC SUPPORT AND REVENUE** | | | | |
| Public support: | | | | |
| Contributions from individuals, corporations and foundations | $ 6,947,465 | $ - | $ - | $ 6,947,465 |
| Bequests and trust income | 391,120 | - | - | 391,120 |
| Allocable share of direct response activities from Chartered Associations | 2,317,651 | - | - | 2,317,651 |
| Chartered Association assessments | 5,725,437 | - | - | 5,725,437 |
| Program reimbursements from Chartered Associations | 20,092,083 | - | - | 20,092,083 |
| Public support before in-kind contributions | 35,473,756 | - | - | 35,473,756 |
| In-kind contributions | 10,929,701 | - | - | 10,929,701 |
| Total public support | 46,403,457 | - | - | 46,403,457 |
| Revenue: | | | | |
| Corporate and foundation grants | 3,516,712 | - | - | 3,516,712 |
| Government grants | 897,741 | - | - | 897,741 |
| Interest and dividends | 409,560 | 50,972 | - | 460,532 |
| Licensing fees and royalties | 1,933,103 | - | - | 1,933,103 |
| Other | 824,967 | - | - | 824,967 |
| Total revenue | 7,582,083 | 50,972 | - | 7,633,055 |
| Net assets released from restrictions | 96,704 | (96,704) | - | - |
| Total operating public support and revenue | 54,082,244 | (45,732) | - | 54,036,512 |
| **EXPENSES** | | | | |
| Program services | 47,726,832 | - | - | 47,726,832 |
| Supporting services | 2,710,149 | - | - | 2,710,149 |
| Total expensess | 50,436,981 | - | - | 50,436,981 |
| Changes in net assets from operating activities | 3,645,263 | (45,732) | - | 3,599,531 |
| **NONOPERATING ACTIVITIES** | | | | |
| Net realized losses on investments | (233,258) | (32,715) | - | (265,973) |
| Net unrealized losses on investments | (363,580) | (45,208) | - | (408,788) |
| Change in fair value of beneficial interest in trusts | - | 10,612 | (129,253) | (118,641) |
| Change in value of split-interest agreements | 7,098 | - | - | 7,098 |
| Other pension and postretirement plan changes | (1,238,346) | - | - | (1,238,346) |
| Total nonoperating activities | (1,828,086) | (67,311) | (129,253) | (2,024,650) |
| **CHANGE IN NET ASSETS** | 1,817,177 | (113,043) | (129,253) | 1,574,881 |
| **NET ASSETS - BEGINNING OF YEAR** | 8,515,889 | 1,211,570 | 3,890,064 | 13,617,523 |
| **NET ASSETS - END OF YEAR** | $ 10,333,066 | $ 1,098,527 | $ 3,760,811 | $ 15,192,404 |

See accompanying notes to the financial statements.

**AMERICAN LUNG ASSOCIATION - NATIONAL OFFICE**

STATEMENT OF FUNTIONAL EXPENSES

Year ended June 30, 2017

| | Program Services | | | | | | |
|---|---|---|---|---|---|---|---|
| | Lung Cancer, Asthma and Lung Disease | Research | Advocacy and Environment | Tobacco Control | Field Program Development | Field Support Services | Total Program Services |
| Salaries | $ 1,637,637 | $ 390,231 | $ 1,038,742 | $ 322,853 | $ 821,717 | $ 1,045,275 | $ 5,256,455 |
| Payroll taxes and benefits | 411,492 | 103,975 | 275,114 | 82,878 | 211,919 | 267,816 | 1,353,194 |
| Total compensation | 2,049,129 | 494,206 | 1,313,856 | 405,731 | 1,033,636 | 1,313,091 | 6,609,649 |
| Awards and grants, net | 216,505 | 7,717,043 | 419,250 | 257,640 | - | - | 8,610,438 |
| Program consulting | 4,117,918 | 45,108 | 424,560 | 54,135 | 86,730 | 176,366 | 4,904,817 |
| Professional fees | 440,706 | 14,784 | 39,526 | 18,450 | 76,405 | 45,432 | 635,303 |
| Occupancy | 84,761 | 20,214 | 53,764 | 16,723 | 78,259 | 54,129 | 307,850 |
| Printing | 15,929 | 1,783 | 6,510 | 32,178 | 723 | 501 | 57,624 |
| Office supplies and equipment | 81,755 | 1,861 | 5,251 | 1,555 | 7,335 | 5,116 | 102,873 |
| Equipment rental and maintenance | 30,312 | 7,229 | 20,498 | 5,980 | 32,122 | 19,357 | 115,498 |
| Postage and shipping | 1,862 | - | - | 270 | 24 | - | 2,156 |
| Telecommunication | 25,330 | 3,110 | 15,380 | 7,823 | 12,907 | 20,869 | 85,419 |
| Staff travel | 50,994 | 15,894 | 21,499 | 14,493 | 15,068 | 8,285 | 126,233 |
| Volunteer travel | 103,647 | 27,642 | 11,864 | 2,857 | 8,141 | 5,639 | 159,790 |
| Conferences, affiliations and subscriptions | 192,664 | 50,695 | 39,511 | 14,511 | 28,642 | 19,257 | 345,280 |
| Depreciation and amortization | 9,811 | 2,340 | 6,223 | 1,936 | 9,045 | 6,265 | 35,620 |
| Insurance | 29,921 | 7,136 | 18,979 | 5,903 | 27,586 | 19,108 | 108,633 |
| Processing fees | 8,603 | 1,122 | 3,395 | 928 | 730,236 | 546,994 | 1,291,278 |
| Service charges | 1,785 | 445 | 1,046 | 927 | 1,521 | 1,053 | 6,777 |
| In-kind media-advertising | - | - | 70,582 | - | - | - | 70,582 |
| Miscellaneous | 7,338 | 58,662 | 67 | - | 30,805 | - | 96,872 |
| Residential campaign | 110,592 | 63,195 | 9,874 | 13,824 | - | 132,134 | 329,619 |
| Direct mail costs | 4,404,276 | 2,516,729 | 393,239 | 550,535 | - | 5,262,208 | 13,126,987 |
| Total expenses | $ 11,983,838 | $ 11,049,198 | $ 2,874,874 | $ 1,406,399 | $ 2,179,185 | $ 7,635,804 | $ 37,129,298 |

This statement continued on the following page.

**AMERICAN LUNG ASSOCIATION - NATIONAL OFFICE**

STATEMENT OF FUNTIONAL EXPENSES (Continued)

Year ended June 30, 2017

| | Supporting Services | | | |
|---|---|---|---|---|
| | Management and General | Fund-raising | Total Supporting Services | 2017 Total |
| Salaries | $ 1,123,236 | $ 272,879 | $ 1,396,115 | $ 6,652,570 |
| Payroll taxes and benefits | 292,648 | 71,096 | 363,744 | 1,716,938 |
| Total compensation | 1,415,884 | 343,975 | 1,759,859 | 8,369,508 |
| Awards and grants, net | 699 | - | 699 | 8,611,137 |
| Program consulting | 92,561 | 22,487 | 115,048 | 5,019,865 |
| Professional fees | 125,474 | 30,483 | 155,957 | 791,260 |
| Occupancy | 171,555 | 41,677 | 213,232 | 521,082 |
| Printing | 1,587 | 8,323 | 9,910 | 67,534 |
| Office supplies and equipment | 15,791 | 3,836 | 19,627 | 122,500 |
| Equipment rental and maintenance | 61,350 | 14,904 | 76,254 | 191,752 |
| Postage and shipping | 12,311 | - | 12,311 | 14,467 |
| Telecommunication | 23,603 | 5,734 | 29,337 | 114,756 |
| Staff travel | 24,955 | 6,063 | 31,018 | 157,251 |
| Volunteer travel | 17,872 | 4,342 | 22,214 | 182,004 |
| Conferences, affiliations and subscriptions | 61,033 | 14,827 | 75,860 | 421,140 |
| Depreciation and amortization | 19,856 | 4,824 | 24,680 | 60,300 |
| Insurance | 60,560 | 14,712 | 75,272 | 183,905 |
| Processing fees | 9,518 | 2,312 | 11,830 | 1,303,108 |
| Service charges | 3,338 | 2,715 | 6,053 | 12,830 |
| In-kind media-advertising | - | - | - | 70,582 |
| Miscellaneous | 15,679 | - | 15,679 | 112,551 |
| Residential campaign | - | - | - | 329,619 |
| Direct mail costs | - | - | - | 13,126,987 |
| Total expenses | $ 2,133,626 | $ 521,214 | $ 2,654,840 | $ 39,784,138 |

See accompanying notes to the financial statements.

**AMERICAN LUNG ASSOCIATION - NATIONAL OFFICE**

STATEMENT OF FUNTIONAL EXPENSES

Year ended June 30, 2016

| | Program Services | | | | | | |
|---|---|---|---|---|---|---|---|
| | Lung Cancer, Asthma and Lung Disease | Research | Advocacy and Environment | Tobacco Control | Field Program Development | Field Support Services | Total Program Services |
| Salaries | $ 1,656,125 | $ 346,214 | $ 946,857 | $ 258,319 | $ 547,301 | $ 799,666 | $ 4,554,482 |
| Payroll taxes and benefits | 427,994 | 95,262 | 255,519 | 71,400 | 145,600 | 209,055 | 1,204,830 |
| Total compensation | 2,084,119 | 441,476 | 1,202,376 | 329,719 | 692,901 | 1,008,721 | 5,759,312 |
| Awards and grants, net | 440,988 | 6,908,539 | 710,096 | 311,008 | - | - | 8,370,631 |
| Program consulting | 3,510,612 | 43,711 | 825,199 | 18,185 | 252,668 | 220,073 | 4,870,448 |
| Professional fees | 502,522 | 8,743 | 24,715 | 54,287 | 51,391 | 27,518 | 669,176 |
| Occupancy | 123,938 | 25,892 | 70,823 | 19,315 | 90,000 | 59,815 | 389,783 |
| Printing | 22,245 | 436 | 6,043 | 11,651 | 1,691 | 891 | 42,957 |
| Office supplies and equipment | 147,652 | 5,012 | 8,662 | 2,362 | 11,007 | 7,428 | 182,123 |
| Equipment rental and maintenance | 29,461 | 6,159 | 16,846 | 4,594 | 22,155 | 14,228 | 93,443 |
| Postage and shipping | 4,720 | - | - | - | 9 | 19 | 4,748 |
| Telecommunication | 25,752 | 2,695 | 8,952 | 1,994 | 9,830 | 18,974 | 68,197 |
| Staff travel | 69,418 | 22,542 | 22,542 | 6,229 | 12,494 | 6,726 | 139,951 |
| Volunteer travel | 88,320 | 24,226 | 13,994 | 1,987 | 7,172 | 4,767 | 140,466 |
| Conferences, affiliations and subscriptions | 76,265 | 84,815 | 37,416 | 3,976 | 14,810 | 9,573 | 226,855 |
| Depreciation and amortization | 11,601 | 2,425 | 6,634 | 1,809 | 8,430 | 5,603 | 36,502 |
| Insurance | 29,035 | 6,070 | 16,603 | 4,528 | 21,099 | 14,023 | 91,358 |
| Processing fees | 11,273 | 432 | 2,106 | 1,160 | 643,153 | 586,792 | 1,244,916 |
| Service charges | 1,951 | 378 | 1,020 | 3,362 | 1,296 | 863 | 8,870 |
| In-kind media-advertising | 9,400,818 | - | 1,069,743 | - | - | - | 10,470,561 |
| Miscellaneous | 172 | 42,035 | 100 | - | 33,320 | - | 75,627 |
| Residential campaign | 473,412 | - | - | - | - | 302,673 | 776,085 |
| Direct mail costs | 8,579,542 | - | - | - | - | 5,485,281 | 14,064,823 |
| Total expenses | $ 25,633,816 | $ 7,625,586 | $ 4,043,870 | $ 776,166 | $ 1,873,426 | $ 7,773,968 | $ 47,726,832 |



This statement continued on the following page.

**AMERICAN LUNG ASSOCIATION - NATIONAL OFFICE**

STATEMENT OF FUNTIONAL EXPENSES (Continued)

Year ended June 30, 2016

| | Supporting Services | | | |
|---|---|---|---|---|
| | Management and General | Fund-raising | Total Supporting Services | 2016 Total |
| Salaries | $ 1,167,849 | $ 261,630 | $ 1,429,479 | $ 5,983,961 |
| Payroll taxes and benefits | 317,551 | 71,140 | 388,691 | 1,593,521 |
| Total compensation | 1,485,400 | 332,770 | 1,818,170 | 7,577,482 |
| Awards and grants, net | 207 | - | 207 | 8,370,838 |
| Program consulting | 73,144 | 16,386 | 89,530 | 4,959,978 |
| Professional fees | 83,482 | 29,020 | 112,502 | 781,678 |
| Occupancy | 247,222 | 55,384 | 302,606 | 692,389 |
| Printing | 3,683 | 825 | 4,508 | 47,465 |
| Office supplies and equipment | 30,236 | 6,774 | 37,010 | 219,133 |
| Equipment rental and maintenance | 58,806 | 13,174 | 71,980 | 165,423 |
| Postage and shipping | 14,696 | - | 14,696 | 19,444 |
| Telecommunication | 25,518 | 5,717 | 31,235 | 99,432 |
| Staff travel | 27,798 | 6,228 | 34,026 | 173,977 |
| Volunteer travel | 19,702 | 4,414 | 24,116 | 164,582 |
| Conferences, affiliations and subscriptions | 37,773 | 8,462 | 46,235 | 273,090 |
| Depreciation and amortization | 23,157 | 5,188 | 28,345 | 64,847 |
| Insurance | 57,957 | 12,984 | 70,941 | 162,299 |
| Processing fees | 4,125 | 924 | 5,049 | 1,249,965 |
| Service charges | 3,560 | 1,449 | 5,009 | 13,879 |
| In-kind media-advertising | - | - | - | 10,470,561 |
| Miscellaneous | 13,984 | - | 13,984 | 89,611 |
| Residential campaign | - | - | - | 776,085 |
| Direct mail costs | - | - | - | 14,064,823 |
| Total expenses | $ 2,210,450 | $ 499,699 | $ 2,710,149 | $ 50,436,981 |

See accompanying notes to the financial statements.

**AMERICAN LUNG ASSOCIATION - NATIONAL OFFICE**

STATEMENTS OF CASH FLOWS

Years ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Changes in net assets | $ 5,276,949 | $ 1,574,881 |
| Adjustments to reconcile changes in net assets to net cash from operating activities | | |
| Depreciation and amortization | 60,300 | 64,847 |
| Net realized and unrealized (gain) loss on investments | (1,291,841) | 674,761 |
| Change in fair value of beneficial interest in perpetual trusts | (267,166) | 118,641 |
| Changes in operating assets and liabilities: | | |
| Receivables | 165,509 | 1,300,602 |
| Prepaid expenses | (92,817) | 390,776 |
| Accounts payable | 2,104,572 | (991,544) |
| Awards and grants payable | 1,366,077 | 807,459 |
| Deferred revenue | 3,068,798 | (829,755) |
| Due from/to Chartered Associations, net | (1,145,306) | (810,211) |
| Pension and postretirement plan liabilities | (574,759) | 1,092,880 |
| Gift annuities obligations | 14,895 | (19,198) |
| Other liabilities | (16,903) | (47,381) |
| Net cash from operating activities | 8,668,308 | 3,326,758 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of investments | (3,055,443) | (3,856,736) |
| Proceeds from sale of investments | 2,676,193 | 3,442,993 |
| Purchase of property and equipment | (20,713) | (46,300) |
| Net cash from investing activities | (399,963) | (460,043) |
| **CHANGE IN CASH AND CASH EQUIVALENTS** | 8,268,345 | 2,866,715 |
| **CASH AND CASH EQUIVALENTS, BEGINNING** | 16,005,145 | 13,138,430 |
| **CASH AND CASH EQUIVALENTS, END** | $ 24,273,490 | $ 16,005,145 |

See accompanying notes to the financial statements.

## 1. NATURE OF BUSINESS

National Office

American Lung Association - National Office (National Office) is a not-for-profit voluntary health organization incorporated in the State of Maine dedicated to preventing lung disease and promoting lung health. National Office provides national leadership, assistance and guidance to its Chartered Associations, of which there are eight (see Note 13), in the areas of field program development, field fundraising and field management advisory. National Office provides public health education in the areas of asthma, tobacco prevention awards and cessation, environmental health, lung disease, and community health. National Office provides grants and awards for research and for the training of researchers. National Office has an advocacy function to promote awareness in the above areas by the appropriate government agencies in order to assist them in achieving better health and environmental conditions for the public. National Office is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of National Office and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted - Net assets subject to donor-imposed stipulations that will be met either by actions of National Office and/or the passage of time.

Permanently restricted - Net assets subject to donor-imposed stipulations that must be maintained permanently by National Office. Generally, the donors of these assets permit National Office to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Use of Estimates

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

Cash Equivalents

Cash equivalents include highly liquid investments, including money market funds with original maturities of three months or less at the date of purchase.

Receivables and Allowances for Doubtful Accounts

Receivables are primarily related to grants and program service contracts. National Office provides an allowance for uncollectible accounts based upon prior experience and management's assessment of the collectability of specific accounts. Receivables and amounts due from Chartered Associations are reflected on the accompanying Statements of Financial Position net of allowances for doubtful accounts of $5,000 as of June 30, 2017 and 2016, respectively.

Beneficial Interest in Perpetual Trust

The National Office has arrangements with donors classified as charitable trusts, trusts and charitable gift annuities. In general, under these arrangements, the National Office receives a gift from a donor in which it has a remainder interest and agrees to pay the donor-stipulated amounts over the life of the donor. When the agreement reaches the end of its term, remaining assets are retained by the National Office as unrestricted, temporarily restricted or permanently restricted net assets. When a split interest gift noted above is received, it is recorded as a gift at the fair value of the amount expected to be received.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment purchased in excess of $5,000 is stated at cost, less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of three years for computer hardware and software; five to seven years for furniture, fixtures and equipment; and, for leasehold improvements, the shorter of the lease term, after consideration of renewal periods determined to be reasonably assured, or the life of the asset.

Investments

National Office carries its investments at fair value. Fair value for mutual funds and equities is determined by using quoted market prices, where available. Donated assets are recorded at fair value at the date of donation or, if sold immediately after receipt, at the amount of sales proceeds received (which are considered a fair measure of the value at the date of donation). Investment income or loss and unrealized gains or losses are included in the Statement of Activities as increases or decreases in unrestricted net assets, unless the income or loss is restricted by donor. Dividend and interest income from National Office's investments are included in operating activities on the Statement of Activities as those investments are used for National Office's daily cash management activities. All other investment return is considered nonoperating.

Deferred Revenue

Deferred revenue consists of amounts received from funding sources for which National Office has not yet fulfilled its obligations. Such amounts are reflected as revenues from program service contracts when the related services are performed or obligations are satisfied.

Contributions and Bequests

National Office records contributions and bequests, including unconditional promises to give (pledges), at the time such contributions are made and confirmed. Contributions are considered unrestricted unless a donor-imposed restriction limits the use of such contributions. Contributions restricted for time and/or program-specific purposes are recorded as temporarily restricted net assets and then released to unrestricted net assets when the respective restriction is satisfied. Receivables are written off in the period in which they are deemed uncollectible.

Program Service Contracts and Federal Grants

Revenue from program service contracts and federal grants is recognized as the related expenses are incurred in accordance with the terms of the respective grant or contract agreement. Amounts received in advance are reported as deferred revenues.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Awards and Grants

National Office makes awards and grants for research and for the training of researchers. By policy, National Office's funding for research is derived from a portion of its overall revenue. National Office's research is also funded by equally matching funds that have been earmarked by Chartered Associations, and by contractual agreements with affiliates restricted to National Office's Airways Clinical Research Centers (ACRC) Network. The ACRC Network consists of 18 airways clinical research centers throughout the United States. Additional funding is provided through investment earnings on endowments and by corporate and foundation grants. Recipients are required to meet certain qualifications and to provide accountability to National Office for funds disbursed. The liability and related expense for awards and grants are recognized at the time of award and notification to, and acceptance by, the recipient. Outstanding awards and grant commitments at June 30, 2017 and 2016, are all payable within one year.

In-Kind Contributions

National Office recognizes advertising costs when incurred. National Office received $70,582 and $10,470,561 of billboard, print, and TV and radio advertisement space during the years ended June 30, 2017 and 2016, respectively. The decrease in in-kind media was due to receiving less donated media coverage in relation to certain programmatic campaigns for the year ended June 30, 2016 versus the year ended June 30, 2016. The value of such in-kind media, based upon information provided by third-party media services, is reflected on the Statements of Activities as in-kind contributions and on the Statements of Functional Expenses as in-kind media-advertising.

Contributed goods and services are reported as contributions if such goods or services create or enhance non-financial assets or if they would have been purchased if not provided by contribution, require specialized skills, and are provided by individuals possessing such specialized skills. Contributed goods and services are recognized at their estimated fair values at date of receipt with an equal and offsetting amount in program and supporting services in the Statements of Activities, resulting in no net impact on the change in net assets during the year. Contributed services recognized related to consulting work were $374,094 and $459,140 for the years ended June 30, 2017 and 2016, respectively.

Licensing Fees and Royalties

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Licensing Fees and Royalties (Continued)

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

National Office records revenue from licensing fees and royalties as increases to unrestricted net assets to the extent the earnings process is complete. Receivables are expected to be collected within one year and are recorded at net realizable value.

Functional Allocation of Expenses

The costs of providing National Office programs and supporting services have been summarized on a functional basis on the Statements of Activities and Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on an allocation of personnel costs.

The following is a description of National Office's programs for fiscal 2017 and 2016:

Lung Cancer, Asthma, and Lung Disease - National Office's public health education work consists of supporting Chartered Associations and developing lung health educational materials for the public. The Chartered Associations rely on National Office to develop health programs and provide expert training, guidance and materials to support their mission outreach. National Office helps people manage their lung disease, overcome their nicotine addiction and live healthier lives. This is also where funding is for all other lung diseases such as National Office Lung Cancer portal for patients and their families to find support and information. The National Office is managing nationwide programs aimed at children in schools and their asthma.

Research - National Office awards funds to ACRC and quality researchers seeking treatments and cures for an array of lung diseases from asthma to lung cancer.

Advocacy and Environment - National Office fights for public policies to protect the right to breathe healthy air, free of air pollution or tobacco smoke. This work includes testifying wherever necessary to ensure laws in place protect these rights and ensuring that communities are properly enforcing them.

Tobacco Control - National Office has been able to secure funding that is disbursed to the field to carry out tobacco control programs by the local field associations to help people overcome their nicotine addiction and reduce the use of tobacco, specifically in children and diverse sections of the population.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses (Continued)

Field Program Development - National Office supports its eight Chartered Associations to successfully deliver American Lung Association's mission by providing skill-building and other learning opportunities. Through the implementation of staff learning and volunteer development offerings, Chartered Associations are kept current on best practices in lung health programs and advocacy.

Field Support Services - A variety of National Office's staff provide support to the Chartered Associations with respect to financial management, fundraising, leadership development and volunteer management. Some areas of involvement are planned giving, special events and major gifts. Field support services also includes direct mail, residential campaign and e-philanthropy, collectively, "direct response." This support includes developing fundraising strategies, training local staff, marketing special events and developing and implementing all direct response campaigns. Individual discipline groups (e.g., chief executive officers, chief financial officers, chief development officers, program managers, etc.) meet regularly with National Office's peers to share ideas, problem-solve and network.

Measure of Operations

The accompanying Statements of Activities distinguish between operating and non-operating activities. Operating activities principally include all revenues and expenses that are an integral part of National Office's programs. Non-operating activities principally include investment activity, other than interest and dividends which are included as part of operating activities, on National Office's endowment and other investments, change in fair value of beneficial interest in trusts and split-interest agreements, and pension and life insurance benefit plan activities and other items which are considered to be more of an unusual or nonrecurring nature.

Tax Exempt Status

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

Concentrations of Credit Risk

Cash, cash equivalents and investments are exposed to various risks, such as interest rate, market and credit risks. To minimize such risks, the National Office has a diversified investment portfolio managed by independent investment managers in a variety of asset classes. The National Office regularly evaluates its investments including performance thereof. Due to inherent risks and potential volatility in investment valuations, the amounts

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Concentrations of Credit Risk

reported on the accompanying financial statements can vary substantially from year to year. The National Office maintains its cash and cash equivalents in various bank deposit accounts which, at times may exceed federally insured limits. At June 30, 2017 and 2016, The National Office's cash accounts exceeded federally insured limits by approximately $24,427,443 and $15,922,848, respectively. The National Office's cash and investment accounts were placed with high credit quality financial institutions and accordingly, National Office does not expect nonperformance.

**3. PROPERTY AND EQUIPMENT, NET**

Property and equipment, net, consists of the following at June 30,:

| | 2017 | 2016 |
|---|---|---|
| Computer hardware and software | $ 351,583 | $ 453,066 |
| Furniture, fixtures and equipment | 716,203 | 742,716 |
| Leasehold improvements | 221,238 | 231,008 |
| Total property and equipment | 1,289,024 | 1,426,790 |
| Less: accumulated depreciation and amortization | 1,161,516 | 1,259,695 |
| Property and equipment, net | $ 127,508 | $ 167,095 |

Depreciation expense totaled $60,300 and $64,847 for years ended June 30, 2017 and 2016, respectively.

**4. BENEFICIAL INTEREST IN PERPETUAL TRUSTS**

In July 2003, National Office entered into an agreement whereby the former American Lung Association of New Hampshire agreed to set aside, as a segregated fund, within its Mary Fuller Russell Trust (Trust), the sum of $1,297,643 and to maintain such segregated fund to be named the Mary Fuller Russell Research Fund intact for the purpose of paying to and allowing National Office to use all of the annual income and net appreciation, if any, in the fair value of the segregated fund (pursuant to the New Hampshire Uniform Prudent Management of Institutional Funds Act) for research purposes determined by National Office. Such segregated fund is to be held for National Office's benefit in perpetuity. This Trust is reflected on the financial statements as part of beneficial interest in perpetual trusts and the principle is included within permanently restricted net assets. Earnings, in excess of corpus including amounts undistributed, and those received by National Office not yet spent, are recorded as temporarily restricted net assets and released from restriction for research purposes in accordance with the terms of the Trust agreement. Underlying assets of the Trust are primarily invested in common stock mutual funds. As of June 30, 2017 and 2016, the fair value of this beneficial interest is $1,797,648 and $1,634,071, respectively.

## 4. BENEFICIAL INTEREST IN PERPETUAL TRUSTS (Continued)

National Office is an income beneficiary of several trusts. Each trust provides for the distribution of a certain percentage of the net income from each trust to National Office, based on the respective trust's governing document. Distributions from these trusts to National Office are at the discretion of the respective trustees and can be used for the general operations of National Office. National Office will remain a beneficiary of these trusts in perpetuity. As of June 30, 2017 and 2016, the fair value of these beneficial interests totaled $2,066,757 and $1,963,168, respectively.

U.S. GAAP requires not-for-profit beneficiaries of such trusts to record, as a contribution and an asset, the present value of the estimated future cash receipts to be received from the trusts, over the life of the trust. Due to the perpetual nature of the trusts, the future cash flows from these trusts cannot be estimated. Under such circumstances, not-for-profit entities are permitted to base the present value measurement on the fair value of each trust's assets. Changes in each trust's fair value are recorded as permanently restricted change in beneficial interest in perpetual trusts on the Statements of Activities.

## 5. FAIR VALUE MEASUREMENTS

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

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

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

Level 3: Significant unobservable inputs.

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

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

## 5. FAIR VALUE MEASUREMENTS (Continued)

Valuation Techniques

Following is a description of the valuation techniques used for assets and liabilities measured at fair value on a recurring basis. There have been no changes to the techniques used during the year ended June 30, 2017 and 2016.

- Common stock: Valued at the closing quoted price in an active market.
- Mutual funds: Valued at the NAV of shares on the last trading day of the fiscal year.
- U.S. government securities: U.S. Treasury notes and bonds in which National Office invests are usually “off the run” on the measurement date. Thus, they are valued by a pricing service using a model that incorporates market observable data such as reported sales of similar securities, broker quotes, yields, bids, offers, and reference data. U.S. Treasury notes and bonds that are “on the run” are measured at quoted prices in active markets for the same security.
- U.S. agency bonds: Valued by a pricing service using a model that incorporates market observable data such as reported sales of similar securities, broker quotes, yields, bids, offers, and reference data.
- Corporate bonds: The investment grade corporate bonds held by National Office generally do not trade in active markets on the measurement date. Therefore, corporate bonds are valued using inputs including yields currently available on comparable securities of issuers with similar credit ratings, recent market price quotations (where observable), bond spreads, and fundamental data relating to the issuer.
- Foreign equity securities: Valued at the closing quoted price in an active market.
- Beneficial interest in perpetual trust: Valued using the fair value of the assets held in the trust reported by the trustee as of June 30, 2017 and 2016, respectively. The National Office considers the measurement of its beneficial interest in the perpetual charitable trust to be a Level 3 measurement within the hierarchy because even though that measurement is based on the unadjusted fair value of trust assets reported by the trustee, National Office will never receive those assets or have the ability to direct the trustee to redeem them.
- Gift annuities obligations: Valued based on the present value of discounted expected cash flows and life expectancies. The present value was calculated using discount factors ranging from 1.5% to 11.7% as of June 30, 2017 and 2016, respectively. As they are unobservable inputs, they are categorized as Level 3.

Investments, which include amounts held on behalf of others (excluding amounts reported under National Office deferred compensation plans (see note 8)) annuity fund investments, and beneficial interests in perpetual trusts are reported at fair value.

## 5. FAIR VALUE MEASUREMENTS (Continued)

Recurring Measurements

Assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 and 2016 are as follows:

| | 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| ASSETS | | | | |
| Investments, amounts held on behalf of others and annuity fund investments: | | | | |
| Common stock | $ 165,273 | $ - | $ - | $ 165,273 |
| Mutual funds – equities | 9,968,183 | - | - | 9,968,183 |
| Mutual funds – fixed income | 6,280,697 | - | - | 6,280,697 |
| United States Treasury notes and bonds | - | 406,465 | - | 406,465 |
| Corporate bonds | - | 279,295 | - | 279,295 |
| Foreign stock | 4,617 | - | - | 4,617 |
| Total investments, amounts held on behalf of others and annunity fund investments at fair value | 16,418,770 | 685,760 | - | 17,104,530 |
| Beneficial interest in perpetual trusts | - | - | 3,864,405 | 3,864,405 |
| Total assets at fair value | $ 16,418,770 | $ 685,760 | $ 3,864,405 | 20,968,935 |
| Money market funds* | | | | 46,794 |
| Total investments, amounts held on behalf of others and annunity fund investments | | | | $ 21,015,729 |
| LIABILITIES | | | | |
| Gift annuities obligations | $ - | $ - | $ 77,944 | $ 77,944 |

* Money market funds are recorded at cost and are not based on Level 1, 2, or 3 inputs.

## 5. FAIR VALUE MEASUREMENTS (Continued)

| | 2016 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| ASSETS | | | | |
| Investments, amounts held on behalf of others and annuity fund investments: | | | | |
| Common stock | $ 182,171 | $ - | $ - | $ 182,171 |
| Mutual funds – equities | 8,059,855 | - | - | 8,059,855 |
| Mutual funds – fixed income | 6,600,427 | - | - | 6,600,427 |
| United States Treasury notes and bonds | - | 400,380 | - | 400,380 |
| United States Agency bonds | - | 87 | - | 87 |
| Corporate bonds | - | 248,222 | - | 248,222 |
| Foreign stock | 10,136 | - | - | 10,136 |
| Total investments, amounts held on behalf of others and annunity fund investments at fair value | 14,852,589 | 648,689 | - | 15,501,278 |
| Beneficial interest in perpetual trusts | - | - | 3,597,239 | 3,597,239 |
| Total assets at fair value | $ 14,852,589 | $ 648,689 | $ 3,597,239 | 19,098,517 |
| Money market funds* | | | | 150,761 |
| Total investments, amounts held on behalf of others and annunity fund investments | | | | $ 19,249,278 |
| LIABILITIES | | | | |
| Gift annuities obligations | $ - | $ - | $ 63,049 | $ 63,049 |

* Money market funds are recorded at cost and are not based on Level 1, 2, or 3 inputs.

Investment management and custodial fees incurred during the years ended June 30, 2017 and 2016, totaled $59,081 and $41,730, respectively, and are included within professional fees on the accompanying Statements of Functional Expenses.

The change in assets measured at fair value using Level 3 inputs for the years ended June 30, 2017 and 2016 are as follows:

| | 2017 | 2016 |
|---|---|---|
| Balance, beginning of the year | $3,597,239 | $ 3,715,880 |
| Change in value of beneficial interests in perpetual trusts | 267,166 | (118,641) |
| Balance, end of the year | $3,864,405 | $3,597,239 |

## 5. FAIR VALUE MEASUREMENTS (Continued)

The change in liabilities measured at fair value using Level 3 inputs for the years ended June 30, 2017 and 2016 are as follows:

| | 2017 | 2016 |
|---|---|---|
| Balance, beginning of the year | $ (63,049) | $ (82,247) |
| Total gains included in change in net assets | (14,895) | 19,198 |
| Balance, end of the year | $ (77,944) | $ (63,049) |

## 6. LINE OF CREDIT

National Office has a $5,000,000 secured revolving line of credit with a bank. Amounts borrowed under the line of credit bear interest at a rate of 2% plus the one-month LIBOR then in effect. Amounts borrowed are secured by National Office's investment portfolio.

During the year ended June 30, 2017 and 2016 no amounts were borrowed under the line of credit.

## 7. DEFINED BENEFIT PENSION PLAN

Defined Benefit Plan

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

All of Retirement Plan D's investments are in a trust that was established for the investment of assets of the American Lung Association Retirement Plan D, which includes National Office and other Chartered Associations. Each participating retirement plan has an undivided interest in the trust. The assets of the trust are held by First State Trust Company. At June 30, 2017 and 2016, National Office's interest in the net assets of the trust were approximately 38% and 31%, respectively.

Investment income and administrative expenses relating to the trust are allocated to the individual Chartered Associations based upon an actuarial allocation, based on the provisions in the Retirement Plan D document.

## 7. DEFINED BENEFIT PENSION PLAN (Continued)

Defined Benefit Plan (Continued)

Information as of and for the years ended June 30, 2017 and 2016, regarding National Office's Retirement Plan D follows:

| | 2017 | 2016 |
|---|---|---|
| Change in benefit obligation: | | |
| Benefit obligation, beginning of year | $17,748,293 | $16,332,295 |
| Interest cost | 691,488 | 710,068 |
| Actuarial loss (gain) | (70,217) | 1,392,493 |
| Benefits paid | (725,683) | (686,563) |
| Benefit obligation, end of year | $17,643,881 | $17,748,293 |
| Change in plan assets: | | |
| Fair value of plan assets, beginning of year | $11,813,546 | $11,489,757 |
| Actual return on plan assets | 75,912 | 635,352 |
| Employer contributions | 1,120,000 | 375,000 |
| Benefits paid | (725,683) | (686,563) |
| Fair value of plan assets, end of year | $12,283,775 | $11,813,546 |
| Funded status, end of year | $ (5,360,106) | $ (5,934,747) |

Amounts that have not yet been recognized as a component of net periodic benefit cost, but are included in unrestricted net assets, consist of net actuarial loss of $6,929,019 and $6,580,442 as of June 30, 2017 and 2016.

| | 2017 | 2016 |
|---|---|---|
| Components of net periodic benefit cost: | | |
| Interest cost | $ 691,488 | $ 710,068 |
| Expected return on plan assets | (644,840) | (597,772) |
| Amortization of net actuarial loss | 150,134 | 117,238 |
| Net periodic benefit cost | $ 196,782 | $ 229,534 |
| Benefit-related changes other than net periodic benefit cost: | | |
| Net actuarial loss arising during the year | $ 498,711 | $ 1,354,913 |
| Amortization of net actuarial loss | (150,134) | (117,238) |
| Total benefit-related changes other than net periodic benefit cost | $ 348,577 | $ 1,237,675 |

## 7. DEFINED BENEFIT PENSION PLAN (Continued)

Defined Benefit Plan (Continued)

The following are the weighted-average assumptions used to determine benefit obligations as of June 30, 2017 and 2016:

| | 2017 | 2016 |
|---|---|---|
| Discount rate | 4.25% | 4.00% |
| Rate of compensation increase | N/A | N/A |

The following are the weighted-average assumptions used to determine net periodic benefit cost for the years ended June 30, 2017 and 2016:

| | 2017 | 2016 |
|---|---|---|
| Discount rate | 4.00% | 4.50% |
| Rate of compensation increase | N/A | N/A |
| Expected rate of return on plan assets | 5.50% | 5.50% |

The following are major categories of National Office's interest in the plan assets reported at fair value as of June 30, 2017 and 2016:

| | 2017 | | |
|---|---|---|---|
| | Level 1 | Level 2 | Total |
| Equity securities | $ 3,023,676 | $ - | $3,023,676 |
| Debt securities | - | 6,542,548 | 6,542,548 |
| Municipal obligations | - | 131.476 | 131,476 |
| U.S. Government Agencies | - | 75,293 | 75,293 |
| U.S. Treasury obligations | - | 1,112,514 | 1,112,514 |
| | $ 3,023,676 | $ 7,861,831 | 10,885,507 |
| Money market funds* | | | 1,398,268 |
| Total Plan assets | | | $12,283,775 |

| | 2016 | | |
|---|---|---|---|
| | Level 1 | Level 2 | Total |
| Equity securities | $ 2,377,958 | $ - | $ 2,377,958 |
| Debt securities | - | 6,480,945 | 6,480,945 |
| Municipal obligations | - | 158,888 | 158,888 |
| U.S. Government Agencies | - | 213,928 | 213,928 |
| U.S. Treasury obligations | - | 1,829,550 | 1,829,550 |
| | $ 3,130,235 | $ 8,683,311 | 11,813,546 |
| Money market mutual funds* | | | 752,277 |
| Total Plan assets | | | $ 11,813,546 |

*Money market funds are valued at cost and are not based on Level 1, Level 2 or Level 3 inputs.

## 7. DEFINED BENEFIT PENSION PLAN (Continued)

Defined Benefit Plan (Continued)

Pension plan asset allocation – as of June 30, 2017 and 2016

| | 2017 | |
|---|---|---|
| Asset categories | **Actual** | **Target** |
| Debt securities | 62.38% | 67.00% |
| Equity securities | 23.29% | 30.00% |
| Real estate | 2.27% | 0.00% |
| Cash and cash equivalents | 12.06% | 3.00% |

| | 2016 | |
|---|---|---|
| Asset categories | **Actual** | **Target** |
| Debt securities | 65.70% | 67.00% |
| Equity securities | 19.97% | 30.00% |
| Real estate | 7.22% | 0.00% |
| Cash and cash equivalents | 7.11% | 3.00% |

Rate of Return on Assets Assumption

The expected long-term rate of return on pension plan assets assumption is 5.50%. This assumption represents the rate of return on plan assets reflecting the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the benefit obligation. The assumption has been determined by reflecting expectations regarding future rates of return for the investment portfolio, with consideration given to the distribution of investments by asset category and historical rates of return for each individual asset category.

Investment Strategy

In order to meet its needs, the investment strategy of National Office's Retirement Plan D emphasizes total return, that is, the aggregate return from capital appreciation and dividend and interest income. Specifically, the primary objective in the investment management for the Plan is income and growth to achieve a balanced return of current income and appropriate growth over the long-term.

The secondary objective in the investment management of pension plan assets is preservation of purchasing power after spending to achieve returns in excess of the rate of inflation, plus spending over the investment horizon in order to preserve the purchasing power of plan assets.

Additional objectives for the National Office are preservation of capital and minimization of costs.

## 7. DEFINED BENEFIT PENSION PLAN (Continued)

Investment Strategy (Continued)

Risk control is an important element in the investment of Retirement Plan D assets and is achieved through a diversified target allocation and the prohibition of investing in derivative instruments, private placements, limited partnerships, and venture-capital investments. In addition, short selling and margin transactions are prohibited.

Investments in companies that derive their revenue from the manufacture and sale of tobacco products are strictly prohibited.

Management will make contributions to satisfy minimum funding requirements at their discretion. Funding requirements for subsequent years are uncertain and will significantly depend on whether the plan's actuary changes any assumptions used to calculate plan funding levels, the actual return on plan assets, changes in the employee groups covered by the plan, and any legislative or regulatory changes affecting plan funding requirements. For tax planning, financial planning, cash flow management or cost reduction purposes the National Office may increase, accelerate, decrease or delay contributions to the plan to the extent permitted by law.

Benefits expected to be paid in future fiscal years are as follows at June 30, 2017:

| | |
|---|---|
| 2018 | $3,368,513 |
| 2019 | $3,413,647 |
| 2020 | $3,327,108 |
| 2021 | $3,330,777 |
| 2022 | $3,055,240 |
| 2023-2027 | $15,284,665 |

Effective July 1, 2017, the plans sponsored by ALA California, Mid-Atlantic, Southeast, Southwest and the Upper Midwest were merged into the National plan. Contributions in fiscal year 2018 will consist of the remaining contributions for those plans and the quarterly requirements for the new combined plan. (See Note 13).

## 8. POST-RETIREMENT BENEFITS OTHER THEN PENSIONS

Life Insurance Benefit Plan

National Office offers postretirement life insurance to employees who retire directly from service and are participants in the Retirement Plan D Pension Plan (described above). National Office carries term life insurance to cover the total benefits due to all retired persons covered under this plan. Employees are eligible if they are vested in Retirement Plan D with a minimum of 5 years of eligible service and are at least 55 years of age. This plan is not funded.

## 8. POST-RETIREMENT BENEFITS OTHER THEN PENSIONS (Continued)

Life Insurance Benefit Plan (Continued)

Life insurance coverage equals 90% of annual salary at time of retirement and the coverage is reduced each year to a final benefit of $1,000 in the 5th year of retirement or age 70, whichever arrives earlier.

Effective July 1, 2008, National Office changed its retiree life insurance plan coverage. Current employees who were not yet 55 years of age on July 1, 2008, were no longer provided with retiree life insurance, and new employees after that date were no longer enrolled in the plan. Employees who were 55 years of age at July 1, 2008, are provided a lump sum cash payment in lieu of coverage of $1,000 upon retirement.

| | 2017 | 2016 |
|---|---|---|
| Change in benefit obligation: | | |
| Benefit obligation, beginning of year | $ 27,596 | $ 26,925 |
| Service cost | - | 7 |
| Interest cost | 1,084 | 1,013 |
| Actual distribution | (94) | (98) |
| Experience gain | (1,108) | (251) |
| Benefit obligation, end of year | $ 27,478 | $ 27,596 |
| | | |
| Change in plan assets: | | |
| Fair value of plan assets, beginning of year | $ - | $ - |
| Employer contributions | 94 | 98 |
| Actual distribution | (94) | (98) |
| Fair value of plan assets, end of year | $ - | $ - |
| | | |
| Funded status, end of year | $ (27,478) | $ (27,596) |

Amounts that have not yet been recognized as a component of net periodic benefit cost, but which are included in unrestricted net assets, consist of:

| | 2017 | 2016 |
|---|---|---|
| Transition asset | $ 7,503 | $ 11,603 |
| Actuarial gain | (99,546) | (132,115) |
| Prior service cost | (16,359) | (17,878) |
| Net periodic benefit (credit) | $ (108,402) | $ (138,390) |

## 8. POST-RETIREMENT BENEFITS OTHER THEN PENSIONS (Continued)

Life Insurance Benefit Plan (Continued)

| | 2017 | 2016 |
|---|---|---|
| Components of net periodic benefit cost: | | |
| Service cost | $ - | $ 7 |
| Interest cost | 1,084 | 1,013 |
| Amortization of net actuarial loss | (31,096) | (31,153) |
| Net periodic benefit cost | $ (30,012) | $ (30,133) |
| Benefit-related changes other than net periodic benefit cost: | | |
| Net gain arising during the year | $ (1,108) | $ (251) |
| Amortization of actuarial gain | 33,677 | 3,503 |
| Amortization of prior service cost | 1,519 | 1,519 |
| Amortization of transition obligation | (4,100) | (4,100) |
| Total benefit-related changes other than net periodic benefit cost | $ 29,988 | $ 671 |

Benefits expected to be paid in future fiscal years are as follows at June 30, 2017

| | |
|---|---|
| 2018 | $ 2,870 |
| 2019 | $ 2,636 |
| 2020 | $ 2,427 |
| 2021 | $ 2,241 |
| 2022 | $ 2,067 |
| 2023-2027 | $ 8,211 |

The net post-retirement benefit cost for 2016-2017 was determined based on a 3.75% and 3.5% discount rate and a rate of compensation increase of 4.0% per year as of June 30, 2017 and 2016, respectively.

Defined Contribution Plans

National Office sponsors a defined contribution 403(b) employee retirement plan that matches 3% of employee contributions. The plan also allows for a discretionary 4% contribution regardless of an employee's participation in the matching portion of the plan. National Office's expense totaled $218,026 and $205,893 for the matching contribution and $297,911 and $277,518 for discretionary contributions for the years ended June 30, 2017 and 2016, respectively.

## 8. POST-RETIREMENT BENEFITS OTHER THEN PENSIONS (Continued)

Deferred Compensation Plans (Continued)

National Office provides deferred compensation plans for certain of its employees. The obligations under these plans are fully funded and totaled $370,657 and $306,720 as of June 30, 2017 and 2016, respectively. The obligations and underlying assets are recorded in amounts held on behalf of others on the statements of financial position at June 30, 2017 and 2016.

## 9. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Contributions with donor-imposed restrictions expended in the year of receipt are reported as part of unrestricted net assets. Temporarily restricted net assets are donor-restricted for medical research. Investment return from permanently restricted net assets is primarily to be used to support research scholars in interstitial related lung diseases and is recorded as part of temporarily restricted net assets until appropriated for expenditure.

As of June 30, 2017 and 2016, the National Office has temporarily restricted net assets that are available for the following purposes:

| | 2017 | 2016 |
|---|---|---|
| Medical research | $ 648,089 | $ 484,511 |
| Unappropriated earnings on endowment for research | 707,060 | 614,016 |
| Total | $ 1,355,149 | $1,098,527 |

For the year ended June 30, 2017 and 2016, $113,921 and $96,704, respectively, of temporarily restricted net assets, related to these programs, were released from restrictions.

As of June 30, 2017 and 2016, the National Office has permanently restricted net assets for the following purposes:

| | 2017 | 2016 |
|---|---|---|
| Endowment | $ 500,000 | $ 500,000 |
| Medical research | 3,364,400 | 3,260,811 |
| Total | $ 3,864,400 | $3,760,811 |

## 10. ENDOWMENT

National Office maintains a donor-restricted endowment fund whose purpose is to provide long-term support for research. In classifying such funds for financial statement purposes as either permanently restricted, temporarily restricted or unrestricted net assets, the Board of Directors looks to explicit directions of the donor where applicable and the provisions of the laws of the state of Maine.

## 10. ENDOWMENT (Continued)

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

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

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until such amounts are appropriated for expenditure by National Office in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

To satisfy its long-term objectives, National Office 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). National Office targets a diverse asset allocation that places an emphasis on both equity and fixed income investments to achieve its long-term return objectives within prudent risk constraints.

All endowments are donor-restricted. There are no board-designated endowment funds.

## 10. ENDOWMENT (Continued)

The following tables summarize the changes in National Office endowment net assets for the years ended June 30, 2017 and 2016, which consists of permanently restricted net assets and excludes its beneficial interest in perpetual trusts for which National Office is not the trustee, and the changes in the endowment fund for the year then ended:

| | 2017 | | |
|---|---|---|---|
| | Temporarily restricted | Permanently restricted | Total |
| Balance, beginning of year | $ 614,016 | $ 500,000 | $ 1,114,016 |
| Interest and dividends | 41,538 | - | 41,538 |
| Realized losses, net | (21,958) | - | (21,958) |
| Unrealized gains, net | 187,385 | - | 187,385 |
| Investment fees | (6,646) | - | (6,646) |
| Appropriation for expenditure | (107,275) | - | (107,275) |
| Balance end of year | $ 707,060 | $ 500,000 | $ 1,207,060 |

| | 2016 | | |
|---|---|---|---|
| | Temporarily restricted | Permanently restricted | Total |
| Balance, beginning of year | $ 737,670 | $ 500,000 | $ 1,237,670 |
| Interest and dividends | 50,972 | - | 50,972 |
| Realized losses, net | (32,715) | - | (32,715) |
| Unrealized losses, net | (45,208) | - | (45,206) |
| Investment fees | (4,521) | - | (4,523) |
| Appropriation for expenditure | (92,182) | - | (92,182) |
| Balance end of year | $ 614,016 | $ 500,000 | $ 1,114,016 |

## 11. RELATED PARTY TRANSACTIONS

Each Chartered Association is required to remit a monthly bundled billing amount, which includes a fee for some services or contracts held by National Office. Part of these fees pertain to National Office Direct Marketing and the ROI Data Program which provides information on donors and fundraising events conducted by and for the benefit of Chartered Associations. Donations resulting from the direct mail campaign and revenue raised by the Direct Marketing Program are remitted to the Chartered Associations based on the zip code of the donor. The Chartered Associations reimburse National Office for costs required to operate this program. These reimbursements are shown as program reimbursement revenue from Chartered Associations on the accompanying Statements of Activities. This revenue is recognized as expenses are incurred. For the years ended June 30, 2017 and 2016, program reimbursements approximated $19,515,000 and $20,000,000, respectively.

Each Chartered Association is also required to remit a monthly assessment, which National Office uses in a variety of ways including, but not limited to, providing national leadership, assistance and guidance in the areas of Field Program Development, Field Fundraising and Field Management Advisory and other activities.

## 11. RELATED PARTY TRANSACTIONS (Continued)

This revenue is recognized over the assessment period. For the years ended June 30, 2017 and 2016, Chartered Associations' assessments revenue approximated $5,720,000 for each year.

Additionally, per National Office's agreement with each Chartered Association, National Office receives 30% of direct response revenues, less direct response expenses. This revenue is recognized in the period when contributions are collected. For the years ended June 30, 2017 and 2016, the allocable share of direct response activities from Chartered Associations approximated $2,071,000 and $2,300,000, respectively.

Receivables from Chartered Associations at June 30, 2017 and 2016, approximated $2,550,000 and $1,640,000, respectively. There were no amounts considered uncollectible as of June 30, 2017 and 2016.

At June 30, 2017 and 2016, annuity and pooled income fund assets, deferred compensation plan assets and related liabilities pertaining to Chartered Associations administered by National Office approximating $1,442,000 and $1,550,000, respectively, are reflected as amounts held on behalf of others on the accompanying Statements of Financial Position.

National Office's processes certain administrative costs relating to American Lung Association's defined benefit pension plan - Retirement Plan D (see note 7). In relation to these transactions, National Office has receivables from the Retirement Plan D trust of $29,032 and $19,940 as of June 30, 2017 and 2016, respectively.

## 12. COMMITMENTS AND CONTINGENCIES

Government Contracts

National Office operates under various contracts with government agencies which generally cover a one-year period, subject to annual renewal. The terms of these contracts allow the grantors the right to audit the costs incurred thereunder and adjust contract funding based upon, among other things, the amount of program income received. Any costs disallowed by the grantor would be absorbed by National Office and any adjustments by grantors would be recorded when amounts are known; however, it is the opinion of management that disallowances, if any, would not be material to the accompanying financial statements.

Operating Leases

National Office leases office space in New York, District of Columbia, Wisconsin and Illinois. These leases expire at varying dates through April 2027. The annual rentals are subject to escalation agreements and periodic rate increases. Beginning in fiscal year 2014, National Office subleases office space in New York and District of Columbia. As a result of signing the sublease of the New York office space, a loss of $716,563 was recognized for the year ended June 30, 2014, which will be amortized straight-line against rental expense over the term of the lease.

## 12. COMMITMENTS AND CONTINGENCIES (Continued)

Operating Leases (Continued)

Sublease revenue for the years ended June 30, 2017 and 2016 was $332,672 and $361,554, respectively.

The following is a schedule of future minimum rental income expected from the subleases:

| | |
|---|---|
| 2018 | $ 264,000 |
| 2019 | 276,000 |
| 2020 | 115,000 |
| | $ 655,200 |

Net rental expense for the years ended June 30, 2017 and 2016 totaled $523,819 and $636,148, respectively.

The minimum annual rental payments due related to all office leases are as follows:

| | |
|---|---|
| 2018 | $ 814,910 |
| 2019 | 819,404 |
| 2020 | 605,599 |
| 2021 | 342,826 |
| 2022 | 237,624 |
| Thereafter | 1,234,837 |
| | $ 4,055,200 |

## 13. SUBSEQUENT EVENTS

As the nation's oldest voluntary health organization, the American Lung Association has grown and evolved over the course of more than a century to support the lung health of Americans. As part of our regular strategic planning process, we routinely consider how we can best achieve our mission, both locally and nationally, to save lives by improving lung health and preventing lung disease. To maximize our mission impact and save more lives, the American Lung Association launched a thorough internal and external review process. Volunteer and staff leadership identified changing our operating structure to a Single Nationwide Organization as a powerful strategy to enable us to fund our mission where there is greatest need, grow our staff and invest in greater relationships with our volunteers and donors. The National Board of Directors and all charter boards unanimously voted to unite our organization into a Single Nationwide Organization. The merger was completed on July 1, 2017.

National Office has evaluated subsequent events through January 18, 2018, which was the date that these financial statements were available for issuance, and determined that there were no additional significant non-recognized subsequent events through that date.

# SUPPLEMENTARY INFORMATION

# AMERICAN LUNG ASSOCIATION – NATIONAL OFFICE

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2017

| | Federal CFDA Number | Grant ID Number | Expenditures | Amounts provided to Subrecipients |
|---|---|---|---|---|
| **U.S. Environment Protection Agency (EPA)** | | | | |
| Office of Air and Radiation: | | | | |
| Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act | 66.034 | XA-83576901 | $ 38,677 | $ 10,000 |
| Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act | 66.034 | XA-83576901 | 106,614 | 40,000 |
| Total for CFDA 66.034 | | | 145,291 | 50,000 |
| Total U.S. EPA | | | 145,291 | 50,000 |
| **U.S. Department of Health and Human Services** | | | | |
| Centers for Disease Control and Prevention | | | | |
| PPHF: Community Transformation Grants and National Dissemination and Support for Community Transformation Grant financed solely by Prevention and Public Health Funds: | | | | |
| Environmental Public Health and Emergency Response - Year 4 | 93.070 | 1UE1EH001305 | 40,739 | - |
| Environmental Public Health and Emergency Response - Year 4 | 93.070 | 5UE1EH001305-02 | 163,328 | - |
| Total for CFDA 93.070 | | | 204,067 | - |
| Building Capacity of the Public Health System to Improve Population: | | | | |
| Non-ACA/PPHF Building Capacity of the Public Health System to Improve Population Health Through National Nonprofit Organizations | 93.424 | 5U38OT000224-03 | 1,192 | - |
| Non-ACA/PPHF Building Capacity of the Public Health System to Improve Population Health Through National Nonprofit Organizations | 93.424 | 5U38OT000224-03 | 14,430 | - |
| Non-ACA/PPHF Building Capacity of the Public Health System to Improve Population Health Through National Nonprofit Organizations | 93.424 | 5U38OT000224-03 | 54,472 | - |
| Non-ACA/PPHF Building Capacity of the Public Health System to Improve Population Health Through National Nonprofit Organizations | 93.424 | 5U38OT000224-04 | 119,471 | - |
| Non-ACA/PPHF Building Capacity of the Public Health System to Improve Population Health Through National Nonprofit Organizations | 93.424 | 5U38OT000224-04 | 103,184 | - |
| Non-ACA/PPHF Building Capacity of the Public Health System to Improve Population Health Through National Nonprofit Organizations | 93.424 | 5U38OT000224-04 | 242,910 | - |
| Total for CFDA 93.424 | | | 535,659 | - (M) |
| Building Capacity of the Public Health System to Improve Population Health: Health through National Nonprofit Organizations - financed in part by Prevention and Public Health Funds (NON-ACA/PPHF) | 93.524 | 3U38OT000224-03S1 | 11,980 | - |
| Consortium for Tobacco Use Cessation Technical Assistance Financed | 93.759 | 5NU58DP004966-03-00 | 51,568 | - |
| Consortium for Tobacco Use Cessation Technical Assistance Financed | 93.759 | 5NU58DP004966-04-00 | 106,380 | - |
| Total for CFDA 93.759 | | | 157,948 | - |
| Total Centers for Disease Control and Prevention | | | 909,654 | - |
| Total U.S. Department of Health and Human Services | | | 909,654 | - |
| Total expenditure of federal awards | | | $ 1,054,945 | $ 50,000 |

(M) - Audited as a major program

See accompanying Independent Auditor’s Report and notes to Schedule of Expenditures of Federal Awards

## BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of American Lung Association - National Office (National Office) for the year ended June 30, 2017. The information presented on this schedule has been prepared using the accrual basis of accounting and is in accordance with the requirements of *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained the Uniform Guidance, wherein certain types of expenditures are not allowed or limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

## NON-CASH ASSISTANCE, INSURANCE, AND LOANS

The National Association did not receive any non-cash assistance through federal awards during the year ended June 30, 2017. In addition, there was no federal insurance in effect during the year, nor any federal loans or loan guarantees outstanding at year end.

## DE MINIMIS RATE

The Association did not elect to use the de minimis rate of 10 percent for the year ended June 30, 2017.

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# Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors of
American Lung Association - National Office:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of American Lung Association - National Office (National Office), which comprise the Statement of Financial Position as of June 30, 2017, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 18, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the National Office's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on effectiveness of the National Office's internal control. Accordingly, we do not express an opinion on the effectiveness of the National Office's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the National Office's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the National Office's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the National Office's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the National Office's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sikich LLP

Springfield, Illinois
January 18, 2018

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**Independent Auditor's Report on**
**Compliance for Each Major Program and**
**on Internal Control Over Compliance**
**Required by the Uniform Guidance**

To the Board of Directors of
American Lung Association - National Office:

**Report on Compliance for Each Major Federal Program**

We have audited American Lung Association - National Office's (National Office) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the National Office's major federal programs for the year ended June 30, 2017. The National Office's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the National Office's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the National Office's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the National Office's compliance.

**Opinion on Each Major Federal Program**

In our opinion, National Office complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

**Report on Internal Control over Compliance**

Management of the National Office is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the National Office's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the National Office's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Sikich LLP

Springfield, Illinois
January 18, 2018

**AMERICAN LUNG ASSOCIATION – NATIONAL OFFICE**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

## SUMMARY OF AUDITOR'S RESULTS

***Financial Statements***

| | | |
|---|---|---|
| Type of auditor's report issued: | *unmodified* | |
| Internal control over financial reporting: | | |
| Material weakness(es) identified? | _____ yes | X no |
| Significant deficiency(s) identified that are not considered to be material weaknesses? | _____ yes | X none reported |
| Noncompliance material to financial statements noted? | _____ yes | X no |

***Federal Awards***

| | | |
|---|---|---|
| Internal Control over major programs: | | |
| Material weakness(es) identified? | _____ yes | X no |
| Significant deficiency(s) identified that are not considered to be material weaknesses? | _____ yes | X none reported |
| Type of auditor's report issued on compliance for major programs: | *unmodified* | |
| Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance? | _____ yes | X no |

Identification of major programs:

| CFDA Number(s) | Name of Federal Program or Cluster |
|---|---|
| 93.424 | Building Capacity of the Public Health System to Improve Population Health through National Nonprofit Organizations |

| | | |
|---|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | $ 750,000 | |
| Auditee qualified as low-risk auditee? | X yes | _____ no |

## Financial Statement Findings

None.

## Federal Award Findings

None.

## Prior Audit Findings

Note: The prior audit contained no findings.