

**AMERICAN LUNG ASSOCIATION
OF THE UPPER MIDWEST**

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORTS**

For the Year Ended
June 30, 2016



AMERICAN LUNG ASSOCIATION OF THE UPPER MIDWEST
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
American Lung Association of the Upper Midwest

We have audited the accompanying financial statements of American Lung Association of the Upper Midwest (Association), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit 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 Association'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 Association'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 the Association as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary 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 October 31, 2016, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

Sikich LLP

Springfield, Illinois
October 31, 2016

FINANCIAL STATEMENTS

AMERICAN LUNG ASSOCIATION OF THE UPPER MIDWEST

STATEMENT OF FINANCIAL POSITION

Year ended June 30, 2016

ASSETS

Cash and cash equivalents	\$ 6,183,594
Receivables	
Accounts and grants receivable, net	2,471,104
Notes receivable	1,482,918
Prepaid expenses and other assets	
Prepaid expenses	74,372
Inventories	54,566
Investments	17,681,259
Property and equipment, net	3,536,502
Buildings held for sale	152,902
Beneficial interest in gift annuities	376,392
Beneficial interest in charitable trusts	1,480,700
	<hr/>
TOTAL ASSETS	\$ 33,494,309

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	
Accounts payable - general	\$ 1,745,150
Accounts payable - National	1,992,500
Accrued expenses	464,458
Deferred revenue	5,955,281
Accrued pension and postretirement plan liabilities	2,591,459
Gift annuities obligations	285,750
	<hr/>
Total liabilities	13,034,598

NET ASSETS

Unrestricted	18,236,206
Temporarily restricted	1,411,819
Permanently restricted	811,686
	<hr/>
Total net assets	20,459,711

TOTAL LIABILITIES AND NET ASSETS **\$ 33,494,309**

See accompanying notes to the financial statements.

AMERICAN LUNG ASSOCIATION OF THE UPPER MIDWEST

STATEMENT OF ACTIVITIES

Year ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING PUBLIC SUPPORT AND REVENUE				
Public support:				
Direct mail:				
Other direct mail	\$ 4,246,516	\$ -	\$ -	\$ 4,246,516
Vehicle donation program	186,439	-	-	186,439
Special events:				
Special events gross revenue	4,956,003	-	-	4,956,003
Less cost of direct benefits to donors	(741,036)	-	-	(741,036)
Other contributions:				
Workplace giving	169,129	-	-	169,129
United Way	438,625	-	-	438,625
Memorials	306,438	-	-	306,438
Bequests	1,023,598	18,513	-	1,042,111
Individual gifts	515,163	-	-	515,163
Corporate gifts	18,455	-	-	18,455
Foundation gifts	118,565	-	-	118,565
In-kind contributions	4,239,372	-	-	4,239,372
Total public support	<u>15,477,267</u>	<u>18,513</u>	<u>-</u>	<u>15,495,780</u>
Revenue:				
Corporate grants	1,488,401	-	-	1,488,401
Foundation grants	617,590	-	-	617,590
Grants from other not-for-profit organizations	2,255,796	-	-	2,255,796
Government grants	6,668,123	-	-	6,668,123
Interest, dividends and royalties	924,367	-	-	924,367
Rental income	52,837	-	-	52,837
Program service fees	1,287,774	-	-	1,287,774
Total revenue	<u>13,294,888</u>	<u>-</u>	<u>-</u>	<u>13,294,888</u>
Net assets released from restrictions	196,759	(196,759)	-	-
Sale of assets				
Sale of materials	208,045	-	-	208,045
Other miscellaneous income				
Other Income	21,463	-	-	21,463
Total operating public support and revenue	<u>29,198,422</u>	<u>(178,246)</u>	<u>-</u>	<u>29,020,176</u>
EXPENSES				
Program services				
Environmental health	9,513,827	-	-	9,513,827
Tobacco control	6,743,794	-	-	6,743,794
Community health services	1,183,642	-	-	1,183,642
Lung cancer, asthma, COPD and other lung disease	5,280,582	-	-	5,280,582
Research	3,328,320	-	-	3,328,320
Total program services	<u>26,050,165</u>	<u>-</u>	<u>-</u>	<u>26,050,165</u>
Supporting services				
Fundraising	1,888,489	-	-	1,888,489
Management and general	1,052,194	-	-	1,052,194
Total supporting services	<u>2,940,683</u>	<u>-</u>	<u>-</u>	<u>2,940,683</u>
Total expenses	<u>28,990,848</u>	<u>-</u>	<u>-</u>	<u>28,990,848</u>
Change in net assets from operating activities	207,574	(178,246)	-	29,328
NONOPERATING ACTIVITIES				
Net realized loss on investments	(875,535)	-	-	(875,535)
Net unrealized loss on investments	(359,933)	-	-	(359,933)
Change in fair value of beneficial interest in trusts	-	(27,000)	(41,000)	(68,000)
Change in split-interest agreements	-	(31,205)	-	(31,205)
Other pension and postretirement plan changes	(616,431)	-	-	(616,431)
CHANGE IN NET ASSETS	<u>(1,644,325)</u>	<u>(236,451)</u>	<u>(41,000)</u>	<u>(1,921,776)</u>
NET ASSETS - BEGINNING OF YEAR	<u>19,880,531</u>	<u>1,648,270</u>	<u>852,686</u>	<u>22,381,487</u>
NET ASSETS - END OF YEAR	<u>\$ 18,236,206</u>	<u>\$ 1,411,819</u>	<u>\$ 811,686</u>	<u>\$ 20,459,711</u>

See accompanying notes to the financial statements.

AMERICAN LUNG ASSOCIATION OF THE UPPER MIDWEST

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2016

	Program Services						Total Program Services
	Environmenta Health	Tobacco Control	Community Health Services	Lung Cancer, Asthma, COPD Other Lung	Research		
Wages and salaries	\$ 1,318,768	\$ 3,038,425	\$ 570,371	\$ 1,224,902	\$ 180,122	\$	6,332,588
Employee benefits	333,722	743,433	139,216	294,805	45,269		1,556,445
Employee education and training	9,024	4,320	549	3,935	2,754		20,582
Contractors and professional fees	3,064,498	469,245	95,906	377,806	127,561		4,135,016
Business insurance	31,863	31,508	7,049	11,114	8,449		89,983
Building occupancy	238,387	87,645	12,591	106,571	74,504		519,698
Telephone	95,179	47,149	9,208	37,136	27,826		216,498
Travel	65,599	223,739	49,331	100,079	6,073		444,821
Meetings/conferences	15,816	52,356	7,373	48,964	7,575		132,084
Supplies and small equipment	132,391	170,121	31,396	209,777	35,105		578,790
Postage and shipping	56,371	89,813	11,321	285,800	150,083		593,388
Printing and educational materials	87,607	188,409	18,598	608,861	325,256		1,228,731
Promotional activities	120,893	202,421	19,232	81,668	18,832		443,046
Program and service assistance to individuals	2,893,224	686,610	144,978	1,399,584	846		5,125,242
Credit card fees and dues	44,133	57,243	13,043	97,432	36,618		248,469
Subscriptions	2,390	9,907	2,287	1,982	799		17,365
Research contributions paid to National	-	-	-	-	1,210,220		1,210,220
Support to others	135,000	11,129	-	10,000	-		156,129
In-kind media	648,480	444,445	-	-	-		1,092,925
Depreciation	79,499	29,228	4,199	35,540	24,846		173,312
Strategic Cause Campaign-Lung Cancer Research paid to National	-	-	-	-	325,000		325,000
Subtotal	9,372,844	6,587,146	1,136,648	4,935,956	2,607,738		24,640,332
Assessments to National	140,983	156,648	46,994	344,626	720,582		1,409,833
Total functional expenses	\$ 9,513,827	\$ 6,743,794	\$ 1,183,642	\$ 5,280,582	\$ 3,328,320	\$	\$ 26,050,165
Fiscal year June 30, 2016, percentage	32.82%	23.26%	4.08%	18.21%	11.48%		89.86%

This statement is continued on the following page.

AMERICAN LUNG ASSOCIATION OF THE UPPER MIDWEST

STATEMENT OF FUNCTIONAL EXPENSES (Continued)

Year ended June 30, 2016

	Supporting Services		Total
	Fundraising	Management and General	Supporting Services
Wages and salaries	\$ 399,806	\$ 198,564	\$ 598,370
Employee benefits	95,118	50,507	145,625
Employee education and training	778	5,365	6,143
Contractors and professional fees	159,902	262,183	422,085
Business insurance	1,752	15,976	17,728
Building occupancy	27,117	134,028	161,145
Telephone	5,405	52,558	57,963
Travel	11,163	7,247	18,410
Meetings/conferences	5,128	5,202	10,330
Supplies and small equipment	72,643	35,564	108,207
Postage and shipping	264,378	42,829	307,207
Printing and educational materials	573,157	84,800	657,957
Promotional activities	74,681	47	74,728
Program and service assistance to individuals	(374)	2,612	2,238
Credit card fees and dues	76,527	14,961	91,488
Subscriptions	153	1,065	1,218
Research contributions paid to National	-	-	-
Support to others	-	-	-
In-kind media	49,453	-	49,453
Depreciation	9,043	44,696	53,739
Strategic Cause Campaign-Lung Cancer Research paid to National	-	-	-
Subtotal	1,825,830	958,204	2,784,034
Assessments to National	62,659	93,990	156,649
Total functional expenses	\$ 1,888,489	\$ 1,052,194	\$ 2,940,683
Fiscal year June 30, 2016, percentage	6.51%	3.63%	10.14%
			100.00%

See accompanying notes to the financial statements.

AMERICAN LUNG ASSOCIATION OF THE UPPER MIDWEST

STATEMENT OF CASH FLOWS

Year ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Changes in net assets	\$ (1,921,776)
Adjustments to reconcile changes in net assets to net cash provided by operating activities	
Depreciation	227,051
Forgiveness of notes receivable	401,475
Net realized and unrealized loss on investments	1,235,468
Change in beneficial interest in gift annuities and in charitable trusts	120,002
Distributions of beneficial interest in charitable trust	100,000
Change in operating assets and liabilities:	
Accounts and grants receivable	200,359
Inventory	(19,657)
Prepaid expenses	(15,462)
Accounts payable and accrued expenses	754,481
Deferred revenue	942,780
Accrued pension and postretirement plan liabilities	32,548
Gift annuities obligations	(20,797)
Net cash from operating activities	<u>2,036,472</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(5,949,935)
Proceeds from sale of investments	5,209,657
Advances on notes receivable	(714,978)
Purchase of property and equipment	(42,670)
Net cash from investing activities	<u>(1,497,926)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from contributions restricted for long-term investments	<u>(5,764)</u>
Net cash from financing activities	<u>(5,764)</u>

CHANGE IN CASH AND CASH EQUIVALENTS

532,782

CASH AND CASH EQUIVALENTS, BEGINNING

5,650,812

CASH AND CASH EQUIVALENTS, END

\$ 6,183,594

See accompanying notes to the financial statements.

AMERICAN LUNG ASSOCIATION OF THE UPPER MIDWEST

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

1. NATURE OF BUSINESS

Nature of Operations

The mission of the American Lung Association of the Upper Midwest (Association) is to prevent lung disease and promote lung health. Founded to eradicate tuberculosis, the Association now sponsors research, education, services, and advocacy related to asthma and other lung diseases, tobacco control, and indoor and outdoor air quality. Programs include education and public information programs about indoor and outdoor environmental and air quality issues, community and school programs about tobacco control, asthma and comprehensive health education, smoking cessation and prevention programs for teens and adults, asthma camps, support groups for children and adults with lung diseases, conferences and public information. The Association is governed by an elected board of directors having regional representation. The American Lung Association of the Upper Midwest operates under a charter established by the National American Lung Association in the states of Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota, and Wisconsin.

A summary of the Association's significant accounting policies applied in the preparation of the accompanying financial statements follows.

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 the Association 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 the Association and/or the passage of time.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

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. 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.

Cash Equivalents

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

Accounts and Grants Receivable

Accounts and grants receivable consist primarily of noninterest-bearing amounts due from cost-reimbursable contracts and grants. The Association determines the allowance for uncollectible accounts and grants receivable based upon historical experience, an assessment of economic conditions, and review of subsequent collections. Accounts and grants receivable are written off when deemed uncollectible. At June 30, 2016, an allowance was not warranted.

Property and Equipment

The Association capitalizes land, buildings, office furniture, equipment, vehicles and leasehold improvements that exceed \$2,500 at cost or fair value, if donated. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, which range from three to forty years. Leasehold improvements are amortized over the shorter of the life of the lease or estimated life of the asset.

Buildings Held for Sale

Accounting principles generally accepted in the United States of America (US GAAP) requires that long-lived assets to be sold be classified as “held for sale” in the period in which certain criteria are met, such as the estimated timeframe in which the assets are expected to be sold. As a result, depreciation is not recorded on an asset once deemed to be held for sale, and it is recorded in the financial statements at the lower of its carrying value or fair value less cost to sell. As of June 30, 2016 the Association has included buildings held for sale on the statement of financial position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Beneficial Interest in Gift Annuities and in Charitable Trusts

The Association has arrangements with donors classified as charitable trusts, trusts and charitable gift annuities. In general, under these arrangements, the Association 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 Association as unrestricted, temporarily restricted or permanently restricted. When a split interest gift noted as above is received, it is recorded as a gift at the fair value of the amount expected to be received.

Inventories

Inventories consist of educational publications and donated vehicles which have not yet been sold. Educational publications are valued at the lower of cost or market, determined using the first in, first out (FIFO) method. Donated vehicles are recorded at an estimated fair market value on the date of donation.

Inventory is comprised of the following at June 30, 2016:

Educational publications	\$	48,911
Donated Vehicles		5,655
Total	\$	<u>54,566</u>

Investments

The Association 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 the Association's investments are included in operating activities on the statement of activities as those investments are used for the Association's daily cash management activities. All other investment return is considered nonoperating.

Deferred Revenue

Deferred revenue consists of amounts received from funding sources for which the Association 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions and Bequests

The Association records contributions and bequests, including unconditional promises to give (pledges), at the time such contributions are made and confirmed (having cleared probate). 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.

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.

In-Kind Contributions

The Association's policy is to recognize contributed professional services if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets and materials are recognized at fair market value when received. The value of in-kind media, based upon information provided by third-party media services, is reflected on the statement of activities as in-kind contributions and on the statement of functional expenses as in-kind media.

Advertising

Advertising is used to promote the Association and the vehicle donation program. Advertising costs are expenses as incurred. During the year ended June 30, 2016, advertising costs totaled \$516,065.

Functional Expenses

Expenses which apply to more than one function are allocated among the functions to which they apply. The allocation of salary expense is made by actual time expended and management's estimates. Other expenses are allocated on the basis of percentage of space or time devoted to that function unless a more direct basis is apparent.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Tax Exempt Status

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

Concentrations of Credit Risk

Cash, cash equivalents and investments are exposed to various risks, such as interest rate, market and credit risks. To minimize such risks, the Association has a diversified investment portfolio managed by independent investment managers in a variety of asset classes. The Association regularly evaluates its investments including performance thereof. Due to inherent risks and potential volatility in investment valuations, the amounts reported on the accompanying financial statements can vary substantially from year to year. The Association maintains its cash and cash equivalents in various bank deposit accounts which, at times may exceed federally insured limits. The Association's cash and investment accounts were placed with high credit quality financial institutions and accordingly, the Association does not expect nonperformance.

3. NOTES RECEIVABLE

The Association received several grants to provide gas stations with funding to provide E-85 fueling. The funds were advanced to the gas stations upon completion of the project and the Association executed a note agreement with each station. The total amount advanced to gas stations was \$686,928 during the year ended June 30, 2016. The notes are forgivable over a two to five-year period, providing the E-85 fueling capacity remains intact. For the year ended June 30, 2016, \$401,475 of the notes receivable was forgiven.

4. PROPERTY AND EQUIPMENT

Following is a summary of property and equipment at June 30, 2016:

		Estimated Useful Life
Land	\$ 365,985	N/A
Buildings	5,206,722	30 – 40 Years
Office furniture and equipment	2,755,931	3 – 10 Years
Vehicles	84,928	3 – 10 Years
Leasehold improvements	35,828	3 – 10 Years
	8,449,394	
Less accumulated depreciation	(4,912,892)	
Total property and equipment, net	\$ 3,536,502	

The assets reported as held for sale are buildings in Missouri and North Dakota which were previously purchased and used as office space by the Association. The carrying amount of the Missouri building is \$151,042. The sale of this asset is probable and the sale is expected to be completed within one year. The carrying amount of the North Dakota building is \$1,860. This building was sold on September 27, 2016 for a net gain of \$255,640.

5. BENEFICIAL INTEREST IN CHARITABLE TRUSTS

The Association has been named the beneficiary of a charitable remainder trust. Upon the death of the donors, the Association will receive 20% of the remaining assets of the trust. The value at June 30, 2016, was \$205,000.

The Association is named as a 1/27th beneficiary of a charitable trust. The Association receives its pro-rata share of income from the trust and in 2024, all assets will be distributed in the same ratio. The value at June 30, 2016, was \$136,400.

During the year ended June 30, 2007, the Association became a 1/12th beneficiary of a trust which consists of real estate, investments and other personal assets. The Association will receive its pro-rata share of income from the trust and all assets will be distributed in the same ratio. The value of the contribution recorded at the date of measurement was \$1,825,000 and the trust and the exact date of liquidation of assets and payment of distributions is not known at this time. The Association has valued its share based on its portion of the trust, less the amount of anticipated transaction and administrative costs. The value at June 30, 2016, was \$578,000 and the Association received distributions from the trust in the amount of \$100,000 during the year.

5. BENEFICIAL INTEREST IN CHARITABLE TRUSTS (continued)

The Association is named as a 14% beneficiary of a charitable trust. The Association receives its pro-rata share of income from the trust. This trust is perpetual. The value at June 30, 2016, was \$467,300.

The Association is named as a 1/20th beneficiary of a charitable trust. The Association receives its pro-rata share of income from the trust. This trust is perpetual. The value at June 30, 2016, was \$94,000.

6. FAIR VALUE MEASUREMENTS

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

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

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

Level 3: Significant unobservable inputs.

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

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

6. FAIR VALUE MEASUREMENTS (Continued)

Valuation Techniques

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

- Equities: 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.
- Beneficial interest in charitable trusts: Valued using the fair value of the assets held in the trust reported by the trustee as of June 30, 2016. The Association considers the measurement of its beneficial interest in charitable trusts held by others to be a Level 3 measurement within the hierarchy because even though that measurement is based on the unadjusted fair value of trust assets reported by the trustee, the Association will never receive those assets or have the ability to direct the trustee to redeem them.
- Beneficial interest in gift annuities: Valued using the fair value of the assets held in the trust reported by the trustee as of June 30, 2016. The Association considers the measurement of beneficial interest in gift annuities 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, they are significant unobservable outputs.
- 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, 2016. As they are unobservable outputs, they are categorized as Level 3.

Investments consist of the following at June 30, 2016:

	Cost	Fair Value
Cash and cash equivalents	\$ 458	\$ 458
Mutual funds	15,734,118	16,586,994
Equities	1,426,672	1,093,807
Total	<u>\$ 17,161,248</u>	<u>\$ 17,681,259</u>

Investment fees totaled \$ 56,549 for the year ended June 30, 2016, and are included in contractors and professional fees on the statement of functional expenses.

AMERICAN LUNG ASSOCIATION OF THE UPPER MIDWEST
 NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. FAIR VALUE MEASUREMENTS (Continued)

The following table presents the Association's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as June 30, 2016.

	Total	Level 1	Level 2	Level 3
ASSETS				
Investments				
Mutual funds				
Bond funds	\$ 6,968,796	\$ 6,968,796	\$ -	\$ -
Equity funds	9,618,198	9,618,198	-	-
Equities	1,093,807	1,093,807	-	-
	17,680,801	\$17,680,801	\$ -	\$ -
Cash and cash equivalents*	458			
Total investments	<u>\$ 17,681,259</u>			
Other Assets				
Beneficial interest in charitable trusts	\$ 1,480,700	-	-	1,480,700
Beneficial interest in gift annuities	376,392	-	-	376,392
Total other assets	<u>\$ 1,857,092</u>	\$ -	\$ -	\$ 1,857,092
LIABILITIES				
Gift annuities obligations	<u>\$ 285,750</u>	\$ -	\$ -	\$ 285,750

*Cash and cash equivalents are recorded at cost and are not based on Level 1, 2, or 3 inputs. The following table presents a reconciliation of all Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended June 30, 2016.

	Beneficial Interest in Charitable Trusts	Beneficial Interest Gift Annuities	Gift Annuities Obligations
Beginning balance, July 1, 2015	\$ 1,648,700	\$ 428,394	\$ (306,547)
Total gains (losses) included in change in net assets	(68,000)	(52,002)	20,797
Receipt of principal distribution	(100,000)	-	-
Ending balance, June 30, 2016	<u>\$ 1,480,700</u>	<u>\$ 376,392</u>	<u>\$ (285,750)</u>

7. DEFINED BENEFIT PENSION PLAN

The Association has a noncontributory defined benefit pension plan (the Plan) covering substantially all of its employees. Plan assets consist of an interest in a common collective trust (CCT) which invests primarily in equity and fixed-income securities.

The Association has adopted the recognition provisions of Topic 958-715 under the FASB Codification of accounting standards, which requires that the funded status of defined benefit pension and other postretirement plans be fully recognized in the statement of financial position.

The measurement date used to determine the pension measurements for Plan assets and benefit obligations was June 30, 2016.

The Plan was frozen for all participants effective July 31, 2014.

The changes in the projected benefit obligation for the year ended June 30, 2016 are as follows:

Projected benefit obligation at beginning of year	\$ 6,601,269
Interest cost	280,862
Benefits paid	(128,603)
Actuarial loss	584,499
Projected obligation at end of year	<u>\$ 7,338,027</u>
 Change in Plan Assets	
Fair value of Plan assets at beginning of year	\$ 4,179,204
Employer contributions	650,000
Benefits paid	(128,603)
Expenses paid	(107,688)
Actual return on Plan assets	276,958
Fair value of Plan assets at end of year	<u>\$ 4,869,871</u>
 Funded Status of the Plan	
Benefit obligation	\$ 7,338,027
Fair value of Plan	<u>4,869,871</u>
Excess of benefit obligation over fair value of Plan assets	<u>\$ 2,468,156</u>

AMERICAN LUNG ASSOCIATION OF THE UPPER MIDWEST
 NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. DEFINED BENEFIT PENSION PLAN (Continued)

Components of Net Periodic Benefit Costs:

Interest cost	\$ 280,862
Expected return on Plan assets	(215,858)
Amortization of recognized net actuarial loss	14,656
Net periodic benefit cost	<u>\$ 79,660</u>

Underfunded Plan Information

Projected benefit obligation at end of year	\$ 7,338,027
Accumulated benefit obligation at end of year	7,338,027
Fair value of assets at end of year	4,869,871

Amounts Recognized in the Statement of Financial Position

Liabilities	<u>\$ 2,468,156</u>
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Amounts Recognized in Other Nonoperating Changes in Net Assets

Recognized gain	\$ (14,656)
Actuarial loss	631,087
Total	<u>\$ 616,431</u>

Actuarial Assumptions

Assumptions used to determine benefit obligations at June 30,

Discount rate	4.50%
Expected assets return	5.50%
Salary increase rate	N/A

Estimated future benefit payments over the next ten years, which reflect expected future services, are expected to be paid as follows:

<u>Year</u>	
2017	\$ 196,399
2018	\$ 211,305
2019	\$ 472,148
2020	\$ 480,081
2021	\$ 605,991
2022 through 2026	\$ 2,123,767

7. DEFINED BENEFIT PENSION PLAN (Continued)

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 and any legislative or regulatory changes affecting Plan requirements. For financial planning, cash flow management, or cost reduction purposes, the Association may increase, accelerate, decrease or delay contributions to the Plan to the extent permitted by law.

Rate of Return Assumption

Effective July 1, 2016, the expected long-term rate of return on 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 class and historical rates of return for each individual class.

Fair Value of Plan Assets

The Plan assets consist of an interest in a CCT. The Plan's proportionate share of the fair value of the underlying investments, which consist primarily of equity and fixed-income securities, is valued based on quoted market prices.

The following table presents the Association's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2016.

	Total	Level 1	Level 2	Level 3
Plan assets				
Debt securities	\$ 3,579,501	\$ -	\$ 3,579,501	\$ -
Equity securities	980,260	980,260	-	-
	4,559,761	\$ 980,260	\$ 3,579,501	\$ -
Cash and cash equivalents*	310,110			
Total Plan assets	<u>\$ 4,869,871</u>			

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

Investment Strategy

In order to meet its needs, the investment strategy of the Association emphasizes total return; that is, the aggregate return from capital appreciation, dividend income, and interest income.

7. DEFINED BENEFIT PENSION PLAN (Continued)

Investment Strategy (Continued)

Specifically, the primary objective in the investment management for the Plan is:

Income and growth - to achieve a balanced return of current income and appropriate growth of principal. The secondary objective in the investment management of assets is:

Preservation of purchasing power after spending - to achieve returns in excess of the rate of inflation plus spending over the investment horizon in order to preserve the purchasing power of Plan assets.

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

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

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

8. LEASES

The Association has several operating leases for equipment and office space. Monthly lease payments range from \$54 to \$1,844 for equipment and \$1,458 to \$7,212 for office space. Lease expense for the year ended June 30, 2016, was \$422,164. Future minimum lease commitments as of June 30, 2016, are as follows:

Years ending June 30,

2017	\$ 351,899
2018	291,029
2019	233,281
2020	185,462
2021	119,988
Total	<u>\$ 1,181,659</u>

9. RETIREMENT PLAN

The Association has a 403(b) deferred compensation retirement plan. All employees hired on or after July 1, 2011, completing 1,000 hours of service are eligible for participation. The contribution percentage by the Association is determined by the Board of Directors. From July 1, 2015 to June 30, 2016, the Association contributed to the plan a 4% contribution and 3% match on employee contributions. Total plan contributions made by the Association for the year ended June 30, 2016, were \$480,381.

10. POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

The Association participates in a post-retirement life insurance benefit plan (the Plan) covering all employees eligible for active life insurance benefits. The Plan provides benefits to employees reaching age 65 or age 55, with 5 years of service. Benefits consist of 90% of Basic Annual Salary, adjusted to the next higher \$1,000. Amounts in excess of \$150,000, will require proof of insurability. For the next three anniversaries of retirement, the benefit will be reduced by 10% of Basic Annual Salary. At the earlier age of 70 or the fifth anniversary of retirement, the amount of insurance shall be \$1,000.

The following table sets forth the Plan's funded status and amounts recognized in the Association's financial statements as of and for the year ended June 30, 2016:

Disclosure of Components of the 2015-2016 Net Post-Retirement Cost

	<u>2015-2016</u>
Change in Projected Benefit Obligation	
Projected benefit obligation at beginning of year	\$ 119,874
Service Cost	1,871
Interest cost	1,394
Benefits paid	(78)
Actuarial Loss	(11,941)
Effect of curtailment	(4,789)
Projected obligation at end of year	<u>\$ 106,331</u>
Underfunded Plan Information	
Projected benefit obligation at end of year	\$ 106,331
Accumulated benefit obligation at end of year	38,744
Components of Net Periodic Benefit Costs	
Service cost	1,871
Interest cost	1,394
Amortization of gain	(12,012)
Amortization of unrecognized prior service cost	-
Amortization of unrecognized net actuarial loss	71
Net periodic benefit cost	<u>\$ (8,676)</u>
Funded Status of the Plan	
Benefit obligation	<u>\$ 106,331</u>
Amounts Recognized in the Statement of Financial Position	
Liabilities	<u>\$ 106,331</u>

10. POST-RETIREMENT BENEFITS OTHER THAN PENSIONS (Continued)

Disclosure of Components of the 2014-2015 Net Post-Retirement Cost (Continued)

Estimated future benefit payments over the next ten years, which reflect expected future services, are to be paid as follows:

<u>Year</u>	
2017	\$ 7,558
2018	\$ 5,374
2019	\$ 4,178
2020	\$ 3,916
2021	\$ 4,555
2022 through 2026	\$ 11,718

The net post-retirement benefit cost for 2015-2016 was determined based on 3.5% discount rate and a rate of compensation increase of 4.0% per year.

11. NET ASSETS

Temporarily Restricted

Temporarily restricted net assets are restricted according to donor restrictions at June 30, 2016, as follows:

Purpose restricted	
Research	\$ 383,265
Total purpose	<u>383,265</u>
Time restricted	1,028,554
Total	<u>\$ 1,411,819</u>

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses and/or the passage of time satisfying the time and/or purpose restriction for the year ended June 30, 2016.

Permanently Restricted

Permanently restricted net assets are restricted according to donor restrictions at June 30, 2016, as follows:

Endowment - operations	\$ 136,533
Endowment - camp	15,680
Endowment - research	98,173
Beneficial interest in charitable trusts	561,300
Total	<u>\$ 811,686</u>

11. NET ASSETS (Continued)

Earnings on these permanently restricted net assets are available to the Association for the purposes specified by the donors.

12. ALLOCATION OF JOINT COSTS

The Association incurred joint costs of \$2,707,623 for informational materials and activities that included fundraising appeals as part of the Association's direct mail campaigns for the year ended June 30, 2016. These costs were allocated as follows:

Program	\$ 1,678,726
Management and general	135,381
Fundraising	893,516
Total	<u>\$ 2,707,623</u>

13. RELATED PARTY TRANSACTIONS

The American Lung Association National (National) office provides research, materials, publications, and various fundraising services to the Association and, in return, the Association, pays a portion of contributions to the American Lung Association as a sharable payment. The cost of these services and the shareable payment are included in the following expense categories in the statement of functional expenses for the year ended June 30, 2016.

Contractors and professional fees	\$ 414,103
Postage and shipping	760,147
Printing and educational materials	1,683,705
Program and services	70,608
Credit card fees and dues	119,896
Research contributions paid to National	1,210,220
Strategic Cause Campaign – Lung Cancer research paid to National	325,000
Assessments paid to National	1,566,482
Total	<u>\$ 6,150,161</u>

14. ENDOWMENTS

The Association's endowment consists of individual funds established for research and operational purposes. The funds are all donor-restricted endowment funds. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Association has interpreted Illinois' Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent

14. ENDOWMENTS (Continued)

explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate appreciation of donor-restricted endowment funds:

- (1) The long and short-term needs of the Association in carrying out its purposes
- (2) Present and anticipated financial requirements
- (3) General economic conditions
- (4) Price level trends
- (5) The expected total return on its investments

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Association to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets. At June 30, 2016, there were no such deficiencies.

Return Objectives and Risk Parameters

The Association has adopted investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Association must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results in excess of the rate of inflation over the investment horizon in order to preserve purchasing power of assets. The Association's goal of its endowment funds is to provide an average rate-of-return of approximately 4% annually. Actual returns in any given year may vary from this amount.

14. ENDOWMENTS (Continued)

Strategies Employed for Achieving Objectives

To satisfy its rate-of-return objectives, the Association relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Association's permanent endowment funds are limited to fixed income investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Association has a policy of appropriating for distribution each year investment return on the permanent endowment funds, based upon appreciation and current yield of the Association's investment portfolio. This is consistent with the Association's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

Endowment Net Asset Composition by Type of Fund
 as of June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 811,686	\$ 811,686

Changes in Endowment Net Assets
 for the year ended June 30, 2016

Endowment net assets, beginning of year	\$ -	\$ -	\$ 852,686	\$ 852,686
Investment return:				
Interest and dividends	-	10,016	-	10,016
Net unrealized loss	-	-	(41,000)	(41,000)
	-	10,016	(41,000)	(30,984)
Appropriation of endowment assets for expenditure	-	(10,016)	-	(10,016)
End of year	\$ -	\$ -	\$ 811,686	\$ 811,686

AMERICAN LUNG ASSOCIATION OF THE UPPER MIDWEST
 NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. ENDOWMENTS (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy (Continued)

Description of Amounts Classified as Permanently Restricted Net Assets
 (Endowment Only)
 June 30, 2016

Permanently restricted net assets

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or UPMIFA

\$ 811,686

15. DONATED GOODS AND SERVICES

For the year ended June 30, 2016, the following donated goods and services were received and expensed to the following categories:

	Professional services	Contributed supplies	Use of facilities	Media	Total
Environmental Programs	\$ 2,571,284	\$ 14,700	\$ -	\$ 648,480	\$ 3,234,464
Tobacco Education	199,689	-	-	-	199,689
Other Lung Disease	2,200	-	-	-	2,200
Lung Walk	5,335	30,348	2,995	30,100	68,778
Gala	-	82,022	-	-	82,022
Stair Climb	8,475	126,892	19,868	414,345	569,580
Bike Trek	4,280	4,990	-	-	9,270
Other	-	13,916	10,000	49,453	73,369
	<u>\$ 2,791,263</u>	<u>\$ 272,868</u>	<u>\$ 32,863</u>	<u>\$ 1,142,378</u>	<u>\$ 4,239,372</u>

Professional services included medical professional time for asthma camps and professional trainers for various grants administered by the Association.

16. SUBSEQUENT EVENTS

The Association has evaluated subsequent events through October 31, 2016, which was the date that these financial statements were available for issuance, and determined that there were no significant non-recognized subsequent events through that date.

SUPPLEMENTARY INFORMATION

AMERICAN LUNG ASSOCIATION OF THE UPPER MIDWEST

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant ID Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Passed through City of Duluth, Minnesota			
Lead-Based Paint Hazard Control in Privately-Owned Housing		22062	\$ 36,931
Total Lead-Base Paint Hazard Control in Privately-Owned Housing	14.900		36,931
Healthy Homes Technical Studies Grants	14.906	ILHHU0010-13	409,785
Total Healthy Homes Technical Studies Grants			409,785
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			446,716
U.S. Department of the Interior			
Mississippi National River and Recreation Area State and Local Assistance	15.941	P13AP00046	58,066
Total Mississippi National River and Recreation Area State and Local Assistance			58,066
TOTAL U.S. DEPARTMENT OF THE INTERIOR			58,066
U.S. Department of Transportation			
Passed through Missouri Highways and Transportation Commission			
Highway Planning and Construction		CMAQ-5401(715)	258,705
Total Highway Planning and Construction Grants	20.205		258,705
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			258,705
U.S. Environmental Protection Agency			
Passed through Illinois Emergency Management Agency			
State Indoor Radon Grants		15ALAIL (Radon)	21,254
State Indoor Radon Grants		13ALAIL (Radon)	44,492
State Indoor Radon Grants		14ALACCP (Radon)	78,405
State Indoor Radon Grants		14ALAMIT (Radon)	9,855
State Indoor Radon Grants		14ALARRC (Radon)	7,811
Passed through Indiana Department of Health			
State Indoor Radon Grants		14453	31,252
State Indoor Radon Grants		A70-5-154010	29,434
Passed through Iowa Department of Public Health			
State Indoor Radon Grants		5886RC01	80,000
Total State Indoor Radon Grants	66.032		302,503
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act		83575301	142,893
Total Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activ	66.034		142,893
National Clean Diesel Emissions Reduction Program		DE-00D27715-0	435,951
National Clean Diesel Emissions Reduction Program		DE-00E01162-0	85,663
National Clean Diesel Emissions Reduction Program		DE-00E01253-0	83,535
National Clean Diesel Emissions Reduction Program		DE-00E01555-0	503,470
Total National Clean Diesel Emissions Reduction Program	66.039		1,108,619
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY			1,554,015

This schedule continued on the following page.

AMERICAN LUNG ASSOCIATION OF THE UPPER MIDWEST

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant ID Number	Federal Expenditures
U.S. Department of Energy			
Conservation Research and Development		DE-EE0006008	\$ 17,989
Conservation Research and Development		DE-EE0007376	31,963
Conservation Research and Development		DE-EE0007440	<u>5,653</u>
Total Conservation Research and Development	81.086		<u>55,605</u>
TOTAL U.S. DEPARTMENT OF ENERGY			55,605
U.S. Department of Health and Human Services			
Centers for Disease Control and Prevention			
Passed through Illinois Department of Public Health			
Environmental Public Health and Emergency Response		2U59EH000532-06	64,750
Environmental Public Health and Emergency Response		63283002D	58,133
Passed through Indiana Department of Health			
Environmental Public Health and Emergency Response		14228	<u>116,858</u>
Total Environmental Public Health and Emergency Response	93.070		<u>239,741</u>
Passed through Illinois Department of Public Health			
Project Grants and Cooperative Agreements for Tuberculosis Control Programs		55180258C	38,632
Project Grants and Cooperative Agreements for Tuberculosis Control Programs		45180031B	6,379
Passed through Wisconsin Department of Public Health			
Project Grants and Cooperative Agreements for Tuberculosis Control Programs		25776	16,086
Project Grants and Cooperative Agreements for Tuberculosis Control Programs		28875	<u>16,600</u>
Total Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		<u>77,697</u>
Passed through Wisconsin Department of Public Health			
Centers for Disease Control and Prevention - Investigations and Technical Assistance		155072	13,657
Centers for Disease Control and Prevention - Investigations and Technical Assistance		155072	<u>6,952</u>
Total Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283		<u>20,609</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES CENTERS FOR DISEASE CONTROL AND PREVENTION			<u>338,047</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$2,711,154</u>

(m) Audited as major program.

AMERICAN LUNG ASSOCIATION OF THE UPPER MIDWEST

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2016

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of American Lung Association of the Upper Midwest under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of American Lung Association of the Upper Midwest, it is not intended to and does not present the financial position, changes in net assets or cash flows of American Lung Association of the Upper Midwest.

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 in Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) wherein certain types of expenditures are not allowed or limited as to reimbursement. Pass-through entity identifying numbers are presented where available. The Association has elected not to use the 10-percent de minimus indirect cost rate as allowed under the Uniform Guidance.

DESCRIPTION OF MAJOR FEDERAL PROGRAM

The National Clean Diesel Emissions Program aims to work aggressively to reduce the pollution emitted from diesel engines across the country through the implementation of varied, control strategies and aggressive involvement of national, state, and local partners.

SUBRECIPIENTS

The Association did not provide federal awards to subrecipients during the year ended June 30, 2016.

NON-CASH ASSISTANCE, INSURANCE, AND LOANS

The Association did not receive any non-cash assistance through federal awards during the year ended June 30, 2016. In addition, there was no federal insurance in effect during the year, nor any federal loans or loan guarantees outstanding at year end.

**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***

Board of Directors
American Lung Association of the Upper Midwest

We have audited, in accordance with the 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 of the Upper Midwest (Association), which comprise the statement of financial position as of June 30, 2016, 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 October 31, 2016.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the Association’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 Association’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Association’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 Association’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 Association'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 Association'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 Association's internal control and compliance. Accordingly this communication is not suitable for any other purpose.

Sikich LLP

Springfield, Illinois
October 31, 2016

**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
American Lung Association of the Upper Midwest

Report on Compliance for Each Major Federal Program

We have audited American Lung Association of the Upper Midwest's (Association) 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 Association's major federal programs for the year ended June 30, 2016. The Association'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 Association'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 Association'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 Association's compliance.

Opinion on Each Major Federal Program

In our opinion, the Association 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, 2016.

Report on Internal Control over Compliance

Management of the Association 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 Association'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 Association'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.

Purpose of this Report

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
October 31, 2016

AMERICAN LUNG ASSOCIATION OF THE UPPER MIDWEST

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2016

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: *unmodified*

Internal control over financial reporting:
Material weakness(es) identified? yes no
Significant deficiency(s) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes none reported

Federal Awards

Internal Control over major programs:
Material weakness(es) identified? yes no
Significant deficiency(s) identified that are not considered to be material weaknesses? yes no

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 the Uniform Guidance? yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.039	National Clean Diesel Emissions Reduction Program

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? yes no

AMERICAN LUNG ASSOCIATION OF THE UPPER MIDWEST
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Financial Statement Findings

None.

Federal Award Findings

None.

Prior Audit Findings

Note: The prior audit contained no findings.