

American Lung Association of the Midland States, Inc.

Financial Statements

For the years ended June 30, 2017 and 2016

(with Independent Auditors' Report)



CLARK SCHAEFER HACKETT
CPAS & ADVISORS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
American Lung Association of the Midland States, Inc.
Dublin, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the American Lung Association of the Midland States, Inc. (the Association), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and change in net assets, 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.

Auditors' 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. 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 auditors' 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 the Association as of June 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Subsequent Event

As discussed in Note 15 to the financial statements, on July 1, 2017, the Association's Board of Directors approved the merger of the Association with the American Lung Association national office. All assets and liabilities were transferred to the national office effective July 1, 2017. Our opinion is not modified with respect to that matter.

Clark, Schaefer, Hackett & Co.

Columbus, Ohio
November 14, 2017

American Lung Association of the Midland States, Inc.
Statement of Financial Position
June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Assets				
Current assets:				
Cash and cash equivalents	\$ 658,936	38,047	65,571	762,554
Accounts receivable	206,893	-	-	206,893
Prepaid expenses and other assets	91,161	-	-	91,161
	<u>956,990</u>	<u>38,047</u>	<u>65,571</u>	<u>1,060,608</u>
Property and equipment, net	<u>56,120</u>	<u>-</u>	<u>-</u>	<u>56,120</u>
Other assets:				
Investments	7,180,756	165,826	97,743	7,444,325
Interest in net assets held by others	-	43,843	115,020	158,863
Beneficial interest in charitable foundation trusts	<u>-</u>	<u>566,029</u>	<u>630,871</u>	<u>1,196,900</u>
	<u>7,180,756</u>	<u>775,698</u>	<u>843,634</u>	<u>8,800,088</u>
	<u>\$ 8,193,866</u>	<u>813,745</u>	<u>909,205</u>	<u>9,916,816</u>
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	\$ 216,809	-	-	216,809
Accrued expenses	214,619	-	-	214,619
Deferred revenue	30,482	-	-	30,482
	<u>461,910</u>	<u>-</u>	<u>-</u>	<u>461,910</u>
Other Liabilities:				
Defined benefit liability	658,000	-	-	658,000
Gift annuity obligations	104,138	-	-	104,138
	<u>762,138</u>	<u>-</u>	<u>-</u>	<u>762,138</u>
Net assets	<u>6,969,818</u>	<u>813,745</u>	<u>909,205</u>	<u>8,692,768</u>
	<u>\$ 8,193,866</u>	<u>813,745</u>	<u>909,205</u>	<u>9,916,816</u>

See accompanying notes to the financial statements.

American Lung Association of the Midland States, Inc.
Statement of Financial Position
June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,446,058	53,982	65,571	1,565,611
Accounts receivable	101,590	-	-	101,590
Prepaid expenses and other assets	50,684	-	-	50,684
Note receivable, current portion	<u>281,419</u>	<u>-</u>	<u>-</u>	<u>281,419</u>
	<u>1,879,751</u>	<u>53,982</u>	<u>65,571</u>	<u>1,999,304</u>
Property and equipment, net	<u>109,470</u>	<u>-</u>	<u>-</u>	<u>109,470</u>
Other assets:				
Investments	6,398,268	143,816	97,743	6,639,827
Interest in net assets held by others	-	24,701	115,020	139,721
Beneficial interest in charitable foundation trusts	<u>-</u>	<u>602,863</u>	<u>599,637</u>	<u>1,202,500</u>
	<u>6,398,268</u>	<u>771,380</u>	<u>812,400</u>	<u>7,982,048</u>
	<u>\$ 8,387,489</u>	<u>825,362</u>	<u>877,971</u>	<u>10,090,822</u>
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	\$ 183,042	-	-	183,042
Accrued expenses	648,957	-	-	648,957
Deferred revenue	<u>115,537</u>	<u>-</u>	<u>-</u>	<u>115,537</u>
	<u>947,536</u>	<u>-</u>	<u>-</u>	<u>947,536</u>
Other liabilities:				
Defined benefit liability	643,780	-	-	643,780
Gift annuity obligations	<u>124,164</u>	<u>-</u>	<u>-</u>	<u>124,164</u>
	<u>767,944</u>	<u>-</u>	<u>-</u>	<u>767,944</u>
Net assets	<u>6,672,009</u>	<u>825,362</u>	<u>877,971</u>	<u>8,375,342</u>
	<u>\$ 8,387,489</u>	<u>825,362</u>	<u>877,971</u>	<u>10,090,822</u>

See accompanying notes to the financial statements.

American Lung Association of the Midland States, Inc.
Statement of Activities and Change in Net Assets
Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and support:				
Public support				
Direct mail	\$ 2,180,175	-	-	2,180,175
Special event				
Gross revenue	1,916,675	-	-	1,916,675
Direct expenses	(566,391)	-	-	(566,391)
Promotions	<u>2,220</u>	<u>-</u>	<u>-</u>	<u>2,220</u>
	<u>3,532,679</u>	<u>-</u>	<u>-</u>	<u>3,532,679</u>
Contributions:				
Bequests	1,350,314	-	-	1,350,314
Memorials	167,229	-	-	167,229
Workplace giving	144,778	-	-	144,778
Individual gifts	167,367	2,000	-	169,367
Corporate gifts	30,760	-	-	30,760
Foundation gifts	27,094	-	-	27,094
In-kind contributions	<u>215,019</u>	<u>-</u>	<u>-</u>	<u>215,019</u>
	<u>2,102,561</u>	<u>2,000</u>	<u>-</u>	<u>2,104,561</u>
Other revenue:				
Government grants	34,845	-	-	34,845
Program service fees	56,336	-	-	56,336
Foundation grants	972,319	-	-	972,319
Grants from American Lung Association National	47,699	-	-	47,699
Corporate grants	1,500	-	-	1,500
Interest and dividends	212,863	15,478	-	228,341
Miscellaneous	<u>65,804</u>	<u>-</u>	<u>-</u>	<u>65,804</u>
	<u>1,391,366</u>	<u>15,478</u>	<u>-</u>	<u>1,406,844</u>
Net assets released from restriction	<u>145,072</u>	<u>(120,218)</u>	<u>(24,854)</u>	<u>-</u>
Total revenue	<u>7,171,678</u>	<u>(102,740)</u>	<u>(24,854)</u>	<u>7,044,084</u>

See accompanying notes to the financial statements.

American Lung Association of the Midland States, Inc.
Statement of Activities and Change in Net Assets (continued)
Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Expenses:				
Program services:				
Lung cancer, asthma, COPD and other lung diseases	2,420,254	-	-	2,420,254
Environmental health and Advocacy	1,542,842	-	-	1,542,842
Tobacco control	1,027,813	-	-	1,027,813
Community health services	466,194	-	-	466,194
Research	889,506	-	-	889,506
	<u>6,346,609</u>	<u>-</u>	<u>-</u>	<u>6,346,609</u>
Fundraising	1,082,473	-	-	1,082,473
Administration	659,756	-	-	659,756
	<u>1,742,229</u>	<u>-</u>	<u>-</u>	<u>1,742,229</u>
Total operating expenses	<u>8,088,838</u>	<u>-</u>	<u>-</u>	<u>8,088,838</u>
Changes in net assets from operations	<u>(917,160)</u>	<u>(102,740)</u>	<u>(24,854)</u>	<u>(1,044,754)</u>
Other income/(expense):				
Realized and unrealized gain on investments	620,304	-	-	620,304
Loss on sale of property and equipment	(3,463)	-	-	(3,463)
Change in value of interest in net assets held by others	-	20,577	-	20,577
Change in beneficial interest in charitable foundation trusts	-	70,546	56,088	126,634
Change in value of beneficial interest in gift annuities	20,026	-	-	20,026
Minimum pension liability	578,102	-	-	578,102
	<u>1,214,969</u>	<u>91,123</u>	<u>56,088</u>	<u>1,362,180</u>
Change in net assets	297,809	(11,617)	31,234	317,426
Net assets - beginning of year	<u>6,672,009</u>	<u>825,362</u>	<u>877,971</u>	<u>8,375,342</u>
Net assets - end of year	<u>\$ 6,969,818</u>	<u>813,745</u>	<u>909,205</u>	<u>8,692,768</u>

See accompanying notes to the financial statements.

American Lung Association of the Midland States, Inc.
Statement of Activities and Change in Net Assets (continued)
Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and support:				
Public support				
Direct mail	\$ 2,358,755	-	-	2,358,755
Special event				
Gross revenue	1,949,849	-	-	1,949,849
Direct expenses	(515,967)	-	-	(515,967)
Promotions	<u>8,222</u>	<u>-</u>	<u>-</u>	<u>8,222</u>
	<u>3,800,859</u>	<u>-</u>	<u>-</u>	<u>3,800,859</u>
Contributions:				
Bequests	2,402,803	-	-	2,402,803
Memorials	152,697	-	-	152,697
Workplace giving	203,092	-	-	203,092
Individual gifts	152,204	2,643	-	154,847
Corporate gifts	25,550	-	-	25,550
Foundation gifts	29,211	-	-	29,211
In-kind contributions	<u>243,013</u>	<u>-</u>	<u>-</u>	<u>243,013</u>
	<u>3,208,570</u>	<u>2,643</u>	<u>-</u>	<u>3,211,213</u>
Other revenue:				
Government grants	39,007	-	-	39,007
Program service fees	72,762	-	-	72,762
Foundation grants	126,584	-	-	126,584
Grants from American Lung				
Association National	101,711	-	-	101,711
Interest and dividends	205,405	4,989	-	210,394
Miscellaneous	<u>53,568</u>	<u>-</u>	<u>-</u>	<u>53,568</u>
	<u>599,037</u>	<u>4,989</u>	<u>-</u>	<u>604,026</u>
Net assets released from restriction	<u>85,039</u>	<u>(60,185)</u>	<u>(24,854)</u>	<u>-</u>
Total revenue	<u>7,693,505</u>	<u>(52,553)</u>	<u>(24,854)</u>	<u>7,616,098</u>

See accompanying notes to the financial statements.

American Lung Association of the Midland States, Inc.
Statement of Activities and Change in Net Assets (continued)
Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Expenses:				
Program services:				
Lung cancer, asthma, COPD and other lung diseases	2,372,552	-	-	2,372,552
Environmental health and Advocacy	784,779	-	-	784,779
Tobacco control	993,364	-	-	993,364
Community health services	448,639	-	-	448,639
Research	<u>1,305,943</u>	<u>-</u>	<u>-</u>	<u>1,305,943</u>
	<u>5,905,277</u>	<u>-</u>	<u>-</u>	<u>5,905,277</u>
Fundraising	1,065,320	-	-	1,065,320
Administration	<u>607,218</u>	<u>-</u>	<u>-</u>	<u>607,218</u>
	<u>1,672,538</u>	<u>-</u>	<u>-</u>	<u>1,672,538</u>
Total operating expenses	<u>7,577,815</u>	<u>-</u>	<u>-</u>	<u>7,577,815</u>
Changes in net assets from operations	<u>115,690</u>	<u>(52,553)</u>	<u>(24,854)</u>	<u>38,283</u>
Other income/(expense):				
Realized and unrealized gain on investments	3,579	1,252	-	4,831
Loss on sale of property and equipment	(441)	-	-	(441)
Change in value of interest in net assets held by others	-	1,750	-	1,750
Change in beneficial interest in charitable foundation trusts	-	(328)	(5,544)	(5,872)
Change in value of beneficial interest in gift annuities	(11,130)	-	-	(11,130)
Minimum pension liability	<u>76,508</u>	<u>-</u>	<u>-</u>	<u>76,508</u>
	<u>68,516</u>	<u>2,674</u>	<u>(5,544)</u>	<u>65,646</u>
Change in net assets	184,206	(49,879)	(30,398)	103,929
Net assets - beginning of year	<u>6,487,803</u>	<u>875,241</u>	<u>908,369</u>	<u>8,271,413</u>
Net assets - end of year	<u>\$ 6,672,009</u>	<u>825,362</u>	<u>877,971</u>	<u>8,375,342</u>

See accompanying notes to the financial statements.

American Lung Association of the Midland States, Inc.
Statement of Functional Expenses
Year Ended June 30, 2017

	Program Services					Support Services				Total all Services
	Lung Cancer, Asthma, COPD and other Lung Diseases	Environmental Health and Advocacy	Tobacco Control	Community Health Services	Research	Total	Fundraising	Administration	Total	
Salaries	\$ 602,282	240,466	321,028	203,737	97,607	1,465,120	307,634	256,497	564,131	2,029,251
Employee benefits	340,066	135,774	181,262	115,036	55,112	827,250	173,700	144,826	318,526	1,145,776
Payroll taxes	49,416	19,730	26,340	16,716	8,008	120,210	25,241	21,044	46,285	166,495
Total salaries and related benefits	991,764	395,970	528,630	335,489	160,727	2,412,580	506,575	422,367	928,942	3,341,522
Professional fees	164,600	37,986	48,059	21,663	-	272,308	51,548	29,369	80,917	353,225
Research awards and grants	-	-	-	-	60,000	60,000	-	-	-	60,000
Building occupancy	70,225	28,038	37,431	23,755	11,381	170,830	35,870	29,907	65,777	236,607
Building insurance	10,392	4,149	5,539	3,516	1,684	25,280	5,308	4,427	9,735	35,015
Telephone	48,787	16,146	20,428	9,208	-	94,569	21,911	12,483	34,394	128,963
Travel, meetings, and conferences	40,285	11,904	27,349	6,570	-	86,108	15,359	8,751	24,110	110,218
Printing and publications	13,081	2,676	70,048	3,992	-	89,797	3,050	1,737	4,787	94,584
Postage	15,358	4,186	5,457	2,701	-	27,702	5,660	3,225	8,885	36,587
Media	79,349	25,606	32,396	14,603	-	151,954	34,748	19,798	54,546	206,500
Supplies, equipment rental, and maintenance	44,191	14,859	18,456	8,319	-	85,825	19,796	11,278	31,074	116,899
Dues and subscriptions	2,353	1,011	847	382	-	4,593	908	518	1,426	6,019
Depreciation	17,942	7,163	9,563	6,069	2,908	43,645	9,164	7,642	16,806	60,451
Miscellaneous	26,929	8,905	11,818	5,078	-	52,730	12,084	6,885	18,969	71,699
Program expense	100,249	871,283	75,414	6,710	-	1,053,656	-	-	-	1,053,656
Direct mail campaign	655,685	58,543	81,961	-	374,677	1,170,866	336,307	65,092	401,399	1,572,265
	2,281,190	1,488,425	973,396	448,055	611,377	5,802,443	1,058,288	623,479	1,681,767	7,484,210
Assessments from National	139,064	54,417	54,417	18,139	278,129	544,166	24,185	36,277	60,462	604,628
	\$ 2,420,254	1,542,842	1,027,813	466,194	889,506	6,346,609	1,082,473	659,756	1,742,229	8,088,838
Percent of total expenses	29.92%	19.07%	12.71%	5.76%	11.00%	78.46%	13.38%	8.16%	21.54%	100.00%

See accompanying notes to the financial statements.

American Lung Association of the Midland States, Inc.
Statement of Functional Expenses (continued)
Year Ended June 30, 2016

	Program Services					Support Services				Total all Services
	Lung Cancer, Asthma, COPD and other Lung Diseases	Environmental Health and Advocacy	Tobacco Control	Community Health Services	Research	Total	Fundraising	Administration	Total	
Salaries	\$ 617,040	226,547	328,707	205,544	90,741	1,468,579	325,038	245,512	570,550	2,039,129
Employee benefits	257,996	94,724	137,439	85,942	37,941	614,042	135,903	102,651	238,554	852,596
Payroll taxes	48,051	17,642	25,597	16,006	7,066	114,362	25,312	19,120	44,432	158,794
Total salaries and related benefits	923,087	338,913	491,743	307,492	135,748	2,196,983	486,253	367,283	853,536	3,050,519
Professional fees	168,666	43,072	55,739	25,791	-	293,268	52,008	31,846	83,854	377,122
Asthma Clinical Research Center Support	-	-	-	-	353,440	353,440	-	-	-	353,440
Research awards and grants	-	-	-	-	130,000	130,000	-	-	-	130,000
Building occupancy	65,548	24,066	34,918	21,835	9,639	156,006	34,528	26,082	60,610	216,616
Building insurance	10,185	3,739	5,426	3,393	1,498	24,241	5,365	4,052	9,417	33,658
Telephone	45,987	17,544	27,974	11,834	-	103,339	20,943	13,320	34,263	137,602
Travel, meetings, and conferences	47,428	17,840	33,609	11,144	-	110,021	19,474	12,385	31,859	141,880
Printing and publications	9,759	1,522	47,498	721	-	59,500	1,244	792	2,036	61,536
Postage	11,775	4,474	6,982	2,983	-	26,214	5,081	3,232	8,313	34,527
Media	79,405	30,390	46,782	20,154	-	176,731	35,024	22,274	57,298	234,029
Supplies, equipment rental, and maintenance	27,626	11,401	17,199	7,086	-	63,312	12,540	7,976	20,516	83,828
Dues and subscriptions	2,532	871	1,547	587	-	5,537	1,039	661	1,700	7,237
Depreciation	6,920	2,541	3,687	2,305	1,018	16,471	3,645	2,754	6,399	22,870
Miscellaneous	22,279	8,483	13,880	5,719	-	50,361	10,122	6,435	16,557	66,918
Program expense	131,521	127,995	47,764	7,529	-	314,809	-	-	-	314,809
Direct mail campaign	672,681	91,729	91,729	-	366,917	1,223,056	351,299	67,993	419,292	1,642,348
	2,225,399	724,580	926,477	428,573	998,260	5,303,289	1,038,565	567,085	1,605,650	6,908,939
Assessments from National	147,153	60,199	66,887	20,066	307,683	601,988	26,755	40,133	66,888	668,876
Total functional expenses	\$ 2,372,552	784,779	993,364	448,639	1,305,943	5,905,277	1,065,320	607,218	1,672,538	7,577,815
Percent of total expenses	31.31%	10.36%	13.11%	5.92%	17.23%	77.93%	14.06%	8.01%	22.07%	100.00%

See accompanying notes to the financial statements.

American Lung Association of the Midland States, Inc.
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 317,426	103,929
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	60,451	22,870
Minimum pension liability adjustment	14,220	356,395
Loss on sale of property and equipment, net	3,463	441
Net realized/unrealized gain on investments	(620,304)	(4,831)
Change in value of interest in assets held by others	(20,577)	(1,750)
Change in value of beneficial interest in charitable foundation trusts	(126,634)	5,872
Change in value of beneficial interest in gift annuities	(20,026)	11,130
Changes in assets and liabilities:		
Accounts receivable	(105,303)	(21,916)
Prepaid and other assets	(40,477)	(6,332)
Accounts payable	33,767	49,511
Accrued expenses	(434,338)	(115,240)
Deferred revenue	(85,055)	42,153
	(1,023,387)	442,232
Net cash (used) provided by operating activities		
Cash flows from investing activities:		
Sale of investments	19,623	1,290,383
Purchase of investments	(203,816)	(7,681,747)
Proceeds from note receivable	281,419	9,751
Purchase of property and equipment	(10,564)	(11,507)
Return of assets from interest in net assets held by others	1,434	734
Transfer to beneficial interest in charitable foundation trust	-	(143)
Distributions from beneficial interest in charitable foundation trust	132,234	75,445
	220,330	(6,317,084)
Net cash (used) provided by investing activities		
Net change in cash and cash equivalents	(803,057)	(5,874,852)
Cash and cash equivalents - beginning of year	1,565,611	7,440,463
Cash and cash equivalents - end of year	\$ 762,554	1,565,611

See accompanying notes to the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

The following accounting principles and practices of American Lung Association of the Midland States, Inc. are set forth to facilitate the understanding of data presented in the financial statements:

Nature of activities

On July 1, 2007, the American Lung Associations of Kentucky, Michigan and Tennessee merged into the American Lung Association of Ohio to form the American Lung Association of the Midland States, Inc. (the Association). The Association is a not-for-profit voluntary health agency dedicated to the conquest of lung disease and the promotion of lung health through research, community services and education. The Association conducts programs throughout the states of Ohio, Kentucky, Michigan, and Tennessee to inform the public about environmental health issues, the health hazards of smoking and lung disease.

Basis of accounting

The financial statements of the Association have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of presentation

The Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, which represents the expendable resources that are available for operations at management's discretion; temporarily restricted net assets, which represent resources whose use is limited by the donor-imposed restrictions that either expire by passage of time or that can be fulfilled or removed by actions of the Association; and permanently restricted net assets, which represents resources whose use by the Association is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Association.

Cash and cash equivalents

Cash and cash equivalents are defined as cash and investments with original maturities of three months or less at time of purchase. Cash in financial institutions might exceed federally insured amounts at times.

Accounts receivable

Accounts receivable consist primarily of amounts due from various funding sources. The Association's estimate of the allowance is based on historical collection experience, a review of current status of trade receivables and judgment. Decisions to charge-off receivables are based on management's judgment after consideration of facts and circumstances surrounding potential uncollectible accounts. Receivables are written-off when they are determined to be uncollectible. No allowance was deemed necessary at June 30, 2017 and 2016.

Investments

Investments are stated at fair value, and realized and unrealized gains and losses are reflected in the statements of activities and changes in net assets. See Note 3 for discussion of fair value measurements.

Interest in Net Assets Held by Others

The Association is the beneficiary of a fund held at the Community Foundation of Louisville, Inc. Periodically, the Association transfers assets to this fund and withdraws from this fund as called for by specific program needs. However, the Community Foundation of Louisville, Inc. has variance power over the funds and reserves the right to redirect the use of the transferred assets to another beneficiary. In accordance with accounting standards relating to "Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others," the Association has recognized an asset for the fair value of the funds. The fair value is generally equivalent to the present value of the future payments expected to be received by the Association from the Community Foundation of Louisville, Inc.

Property and equipment

Property and equipment of \$5,000 or more are recorded at cost when purchased or at fair value at the date of donation. Depreciation is computed on the straight-line method over estimated useful lives of the assets, which range from five to 40 years. Repairs and maintenance that do not extend the lives of the applicable assets are charged to expense as incurred.

The Association reports gifts of property and equipment as unrestricted support unless explicit donor restrictions specify how the donated assets must be used. Gifts of property and equipment with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire property and equipment are reported as restricted support. Absent explicit donor restrictions about how long the property and equipment must be maintained, the Association reports expirations of donor restrictions over time based on an estimate of the useful lives of the donated or acquired property and equipment.

Impairment of property and equipment

The Association reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends, and prospects, as well as the effects of obsolescence, demand, competition, and other economic factors.

Direct mail revenue

Direct mail revenue is recognized when received by the National Mail Center. Revenue is credited to the Association on a weekly or bi-weekly basis depending upon the mail volume.

Special event revenue

Special event revenue is recognized when the event is concluded. Amounts received for an event in advance of an event is recorded as deferred revenue and recognized as revenue once the event has concluded.

Contributions

All unconditional contributions are recognized as revenue in the period pledged. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. Conditional promises to give are recorded when related conditions are met.

In-kind contributions

Significant services are donated to the Association by various individuals and organizations. Qualifying donated services are recorded as revenue at their estimated fair value at the date of donation.

Grants

Grant receipts are recorded as revenue at the time related grant expenses are incurred or services are provided.

Income taxes

The Association is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code), except for income derived from unrelated business activities, as defined in the Code.

Defined benefit pension plan

Accounting standards related to employers' accounting for defined benefit pension plans require employers to fully recognize the obligations associated with single-employer (and certain multi-employer) defined benefit pension, retiree healthcare and other postretirement plans in their financial statements. In addition, it requires that changes in the funded status of a defined benefit postretirement plan be recognized in other changes in net assets in the year in which the changes occur.

Functional allocation of expenses

The costs of providing the various programs and activities are reported on a functional basis. Certain costs have been allocated among the programs and supporting services benefited. The Association allocates costs to its programs following the functional expense allocation method recommended by American Lung Association National (National). Joint costs of activities, which include fundraising, are allocated to programs to the extent they are intended to inform or educate the public concerning respiratory health. Such costs are classified as support services to the extent they are intended to create contributions, enhance the image of the Association or are administrative functions. Joint costs have been incurred for the distribution of informational materials in the direct mail campaign, which includes the residential campaign. These joint costs have been allocated to program and support services as reported in the statements of functional expenses. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain assumptions that affect the reported amounts of assets and liabilities along with disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events

The Association evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through November 14, 2017, the date on which the financial statements were available to be issued.

2. RELATED-PARTY TRANSACTIONS

The Association has a contractual agreement to provide certain nondirect mail revenue to National. This amount is used to fund activities of National. For the years ended June 30, 2017 and 2016, the Association's income assessment to National totaled approximately \$413,000 and \$443,000, respectively. At June 30, 2016, the Association had assessments totaling approximately \$110,000 due to National, which have been included in accounts payable in the statements of financial position. There were no payables due to National as of June 30, 2017.

The National office processes all direct mail receipts for the Association. The Association is required to reimburse National for all direct mail-related expenses, and is also assessed by National an amount of 30% of net proceeds from direct mail. During fiscal years 2017 and 2016, the Association's assessment from National for direct mail shareable income totaled approximately \$192,000 and \$226,000, respectively.

The National office also operates the Asthma Clinical Research Center. The Association is required to fund the Center a certain amount annually. For the year ended June 30, 2016, the Association was billed approximately \$353,000 from National, of which all has been paid prior to year-end. There were no billings for the year ended June 30, 2017.

3. FAIR VALUE MEASUREMENTS

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value. Investments in debt securities are valued based on observable inputs including, but not limited to time to maturity, effective and current interest rates and principal amount. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities the Association has the ability to access.
- Level 2 inputs (other than quoted prices included within level 1) are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

The following is a description of the Association's valuation methodologies used to measure and disclose the fair values of its financial assets and liabilities on a recurring or nonrecurring basis:

Mutual Funds: Valued at the net asset value (NAV) of shares at year-end.

Common Stocks: Valued at the closing price reported on the active market on which the individual securities are traded.

Beneficial Interest in Net Assets Held by Others and Beneficial Interests in Charitable Trusts: Valued based upon the Association's proportional share of the underlying assets and is valued on a recurring basis. However, because there is not currently an active market to observe quoted prices for beneficial interest in net assets held by others and beneficial interest in charitable trust, the assets are considered to be valued using unobservable inputs and are therefore considered to be Level 3 assets.

Fixed Income: Valued at the closing price reported on the active market on which the individual securities are traded.

Beneficial Interest in Gift Annuities: The asset is valued based on a proportional share of the fair value of the pooled investments with National. The liability is valued by calculating the present value of the future distributions expected to be paid, using published life expectancy tables and a discount rate. However, because there is not currently an active market to observe quoted prices for the gift annuities, the assets and liabilities are considered to be valued using unobservable inputs and are therefore considered to be Level 3 inputs.

The carrying amounts of cash and cash equivalents, accounts receivable, note and trade receivables, prepaid expenses, and accounts payable all approximate their fair values.

The following tables present the Association's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis at June 30, 2017 and 2016:

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Assets				
Investments:				
Mutual funds				
Blend	\$ 1,474,293	-	-	1,474,293
Emerging markets	610,650	-	-	610,650
Small cap international	131,794	-	-	131,794
Small cap domestic	310,121	-	-	310,121
Large cap international	639,098	-	-	639,098
Real estate	327,192	-	-	327,192
Foreign growth	384,069	-	-	384,069
Small cap growth	461,560	-	-	461,560
Large cap growth	273,355	-	-	273,355
Small cap value	88,736	-	-	88,736
Energy limited partnerships	274,877	-	-	274,877
Commodities	30,931	-	-	30,931
	<u>5,006,676</u>	<u>-</u>	<u>-</u>	<u>5,006,676</u>
Stocks and equities				
Large cap domestic	36,512	-	-	36,512
Mid cap domestic	17,395	-	-	17,395
Large blend international	3,912	-	-	3,912
Small blend equity	9,407	-	-	9,407
Emerging market equity	3,311	-	-	3,311
	<u>70,537</u>	<u>-</u>	<u>-</u>	<u>70,537</u>
Fixed income				
Corporate term bonds	4,818	-	-	4,818
High yield bond	425,133	-	-	425,133
Inflation protected bond	333,450	-	-	333,450
Emerging markets bond	67,298	-	-	67,298
International bond	126,362	-	-	126,362
Intermediate term bond	1,410,051	-	-	1,410,051
	<u>2,367,112</u>	<u>-</u>	<u>-</u>	<u>2,367,112</u>
Interest in net assets held by others	-	-	158,863	158,863
Beneficial interest in charitable trusts	-	-	1,196,900	1,196,900
Total assets at fair value	<u>\$ 7,444,325</u>	<u>-</u>	<u>1,355,763</u>	<u>8,800,088</u>
Liabilities				
Gift annuities obligation	<u>\$ -</u>	<u>-</u>	<u>104,138</u>	<u>104,138</u>

American Lung Association of the Midland States, Inc.
Notes to the Financial Statements
June 30, 2017 and 2016

		June 30, 2016			
		Level 1	Level 2	Level 3	Total
Assets					
Investments:					
Mutual funds					
Blend	\$	1,299,654	-	-	1,299,654
Emerging markets		505,474	-	-	505,474
Small cap international		111,560	-	-	111,560
Small cap domestic		285,766	-	-	285,766
Large cap international		523,946	-	-	523,946
Real estate		338,346	-	-	338,346
Foreign growth		318,637	-	-	318,637
Small cap growth		374,295	-	-	374,295
Large cap growth		219,743	-	-	219,743
Small cap value		74,476	-	-	74,476
Energy limited partnerships		263,318	-	-	263,318
Commodities		33,041	-	-	33,041
		4,348,256	-	-	4,348,256
Stocks and equities					
Large cap domestic		33,166	-	-	33,166
Mid cap domestic		16,700	-	-	16,700
Large blend international		3,349	-	-	3,349
Small blend equity		7,665	-	-	7,665
Emerging market equity		2,749	-	-	2,749
		63,629	-	-	63,629
Fixed income					
Corporate term bonds		4,829	-	-	4,829
High yield bond		382,406	-	-	382,406
Inflation protected bond		312,914	-	-	312,914
Emerging markets bond		62,693	-	-	62,693
International bond		126,712	-	-	126,712
Intermediate term bond		1,338,388	-	-	1,338,388
		2,227,942	-	-	2,227,942
Interest in net assets held by others		-	-	139,721	139,721
Beneficial interest in charitable trusts		-	-	1,202,500	1,202,500
Total assets at fair value	\$	6,639,827	-	1,342,221	7,982,048
Liabilities					
Gift annuities obligation	\$	-	-	124,164	124,164

The following tables set forth a summary of changes in the fair value of the Association's Level 3 assets and liabilities for the years ended June 30, 2017 and 2016:

	June 30, 2017			
	Interest in net assets held by others	Beneficial interest in charitable trusts	Beneficial interest in gift annuities	Gift annuities obligation
Balance, beginning of year	\$ 139,721	1,202,500	-	124,164
Interest and dividends	3,006	6,559	-	-
Realized and unrealized gains	16,136	112,901	-	-
Distributions	-	(125,060)	-	-
Change in funded status	-	-	-	(20,026)
Balance, end of year	\$ <u>158,863</u>	<u>1,196,900</u>	<u>-</u>	<u>104,138</u>

	June 30, 2016			
	Interest in net assets held by others	Beneficial interest in charitable trusts	Beneficial interest in gift annuities	Gift annuities obligation
Balance, beginning of year	\$ 138,705	1,283,674	14,257	127,291
Interest and dividends	3,391	7,417	-	-
Realized and unrealized gains	(2,375)	(19,534)	-	-
Distributions	-	(69,200)	-	-
Change in funded status	-	143	(14,257)	(3,127)
Balance, end of year	\$ <u>139,721</u>	<u>1,202,500</u>	<u>-</u>	<u>124,164</u>

Investments at June 30 are as follows:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Stocks and equities	\$ 29,030	70,537	30,978	63,629
Mutual funds	4,372,912	5,006,676	4,358,292	4,348,256
Fixed income	2,336,462	2,367,112	2,175,747	2,227,942
	\$ <u>6,738,404</u>	<u>7,444,325</u>	<u>6,565,017</u>	<u>6,639,827</u>

4. INTEREST IN NET ASSETS HELD BY OTHERS

The Association received an initial gift of \$25,000 and has established a fund at the Community Foundation of Louisville, Inc. The Association retains the right to add to this fund from time to time, and it is the hope of the Association that other individuals, organizations and corporations will also contribute to this fund. The fund, classified as interest in net assets held by others, is not under the control of the Association and as such, the Association does not appropriate this fund or control its investment policies.

5. BENEFICIAL INTEREST IN CHARITABLE FOUNDATION TRUSTS

The Association is one of the designated beneficiaries of a charitable foundation trust. According to the terms of the Beach Trust (the Trust), the Association will receive semiannual distributions of the Trust's earnings in perpetuity of up to 5% of the principal balance as of the beginning of the Trust's fiscal year. The market value of the Association's share of the Trust totaled \$630,871 and \$599,637 at June 30, 2017 and 2016, respectively. The fund, classified as a beneficial interest in charitable foundation trust, is not under the control of the Association, and as such, the Association does not appropriate this fund or control its investment policies.

The Association is one of the designated beneficiaries of a charitable foundation trust. According to the terms of the Niehaus Trust (the Trust), the Association will receive quarterly distributions of the Trust's earnings. Every five years, the Association will also receive a distribution equal to 20% of the Trust's principal balance as of the beginning of the Trust's fiscal year. The Association has recorded its beneficial interest in the Trust at its pro rata share of its fair value of the Trust's assets. The market value of the Association's share of the Trust totaled \$566,029 and \$602,863 at June 30, 2017 and 2016, respectively. The fund, classified as a beneficial interest in charitable foundation trust, is not under the control of the Association and as such, the Association does not appropriate this fund or control its investment policies.

6. BENEFICIAL INTEREST IN GIFT ANNUITIES

The Association has arrangements with donors classified as charitable gift annuities. 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. The present value of the discounted future payments is recorded on the statements of financial position as gift annuity obligations. When the agreement reaches the end of its term, remaining assets, if any, are retained by the Association and are unrestricted. The Association has recorded its beneficial interest in the total of these gift annuities at its pro rata share of its fair value of the total assets. The fund, classified as a beneficial interest in gift annuities, is not under the control of the Association, and as such, the Association does not appropriate this fund or control its investment policies.

7. NOTE RECEIVABLE

In 2011, the Association sold its building located in Michigan for \$385,000, receiving \$23,880 in cash and \$327,250 in a note receivable. The note requires monthly principal and interest payments of \$2,345 until June 30, 2016, at which time the entire outstanding principal and accrued interest was due. The interest rate is fixed at 6.5%. The building serves as collateral for the note receivable. Management reviews the current status of notes receivable. Notes receivable are written-off when they are determined to be uncollectible. No allowance was deemed necessary at June 30, 2017 and 2016. The balance of the note receivable was received in full in August 2016.

8. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30:

	2017	2016
Land	\$ 7,766	7,766
Buildings and improvements	149,249	144,886
Furniture and equipment	119,859	171,903
	276,874	324,555
Less accumulated depreciation	(220,754)	(215,085)
	\$ 56,120	109,470

9. NET ASSETS

As of June 30, temporarily restricted net assets released from restriction consisted of the following:

	2017	2016
Charles Niehaus Trust	\$ 107,380	50,591
Fleischman Memorial Trust Fund	9,404	-
Levinson Family Fund	2,000	4,859
Stephens Research Fund	1,434	735
Anderson Lectureship	-	4,000
	\$ 120,218	60,185

As of June 30, temporarily restricted net assets are available for the following purposes:

	2017	2016
Charles Niehaus Trust - programming to greater Dayton, Ohio area	\$ 566,029	602,863
Fleischman Memorial Trust Fund - purchase of medication and equipment for persons affected by chronic obstructive lung disease	-	9,404
Heffner Family Fund - asthma education to affected children	93,166	90,000
Nedilsky Staff Development Fund - staff development	700	700
Levinson Family Fund - pediatric asthma programming	6,821	8,819
Summers Education Fund - pulmonary education	57,805	50,853
Stephens Research Fund - lung disease and research education programs	43,843	24,700
Anderson Lectureship - CME lectures on lung disease	19,851	14,367
Stringer Fund - lectureships	25,530	23,656
	\$ 813,745	825,362

As of June 30, permanently restricted net assets consist of funds to be held in perpetuity. Principal amounts are as follows:

	2017	2016
Williams Trust Fund	\$ 20,000	20,000
Blakemore-Wheeler Fund	45,571	45,571
Summers Education Fund	10,050	10,050
Stephens Research Fund	115,020	115,020
Anderson Lectureship	23,112	23,112
Beach Trust	630,871	599,637
Stringer Fund	64,581	64,581
	\$ 909,205	877,971

10. ENDOWMENTS

The Association follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which sets out guidelines to be considered when managing and investing donor-restricted endowment funds. UPMIFA permits a nonprofit organization to appropriate investment income and appreciation on endowment funds for operations in absence of donor restrictions. In addition, the Association's policy is intended to allow for sufficient flexibility in the management process to capture investment opportunities, yet provide parameters that will ensure prudence and care in the execution of the investment program.

The financial goal of the Association's investment policies is to preserve and enhance investment value while supporting current income needs. The goal is to be achieved over time through the combination of prudent investment management in conjunction with an appropriate spending policy.

In order to meet its needs, the investment strategy of the Association is to emphasize total return; the aggregate return from capital appreciation and dividend and interest income. The primary objective of the Association shall be the long-term growth of capital while avoiding excessive risk. Short-term volatility will be tolerated in as much as it is consistent with the volatility of the comparable market benchmarks.

The asset allocation philosophy is full investment as opposed to market timing. This specific allocation approach is chosen to preserve and enhance the real investment value of the endowment fund over time, minimize the overall portfolio's volatility, and to reflect expected long-term consideration such as liquidity probability, expected cash inflows and risk tolerances.

The Association's spending from endowment funds is to be determined by a formula, realized from a rolling average of total return (income received and appreciation). Further, to accomplish the objectives, the endowment investment posture shall be to prudently preserve principal so that investment value over time is maintained after taking into account inflation adjustments. The distribution of income remains at the discretion of the Executive Board within the direction of the budget process.

The Association's spending policy is to limit appropriations from endowment funds to no more than 5% of the average market value of the three years preceding the subject fiscal year.

The following represents the change in donor-restricted endowment funds by net asset type excluding the interest in net assets held by others and beneficial interest in charitable foundation trusts, as described in Notes 4 and 5, for the year ended June 30, 2017:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets			
Beginning of year	\$ 88,876	163,314	252,190
Investment income	14,310	-	14,310
End of year	\$ 103,186	163,314	266,500

The following represents the change in donor-restricted endowment funds by net asset type excluding the interest in net assets held by others and beneficial interest in charitable foundation trusts, as described in notes 4 and 5, respectively, for the year ended June 30, 2016:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets			
Beginning of year	\$ 86,615	163,314	249,929
Investment return:			
Investment income	5,009	-	5,009
Net appreciation	1,252	-	1,252
	92,876	163,314	256,190
Appropriation of endowment assets for expenditures	(4,000)	-	(4,000)
End of year	\$ 88,876	163,314	252,190

11. OPERATING LEASES

The Association leases office facilities and various office equipment throughout the four-state region. These operating leases have monthly payments ranging from \$27 to \$9,344 and expire at various dates over the next five years.

Future minimum payments for noncancelable leases are as follows:

<u>Year ending June 30</u>	
2018	\$ 219,241
2019	221,502
2020	161,174
2021	145,266
2022	120,471
Thereafter	<u>581,505</u>
	<u>\$ 1,449,159</u>

Rent expense under cancelable and noncancelable leases for the years ended June 30, 2017 and 2016 approximated \$179,000 and \$174,000, respectively.

12. DEFINED BENEFIT PLAN

During fiscal year 2009, the Michigan defined benefit plan was merged into the Tennessee defined benefit plan, and the combined plan was renamed the Midland States Plan (the Plan).

Effective June 30, 2008, the Association froze the Plan for all employees. The effect of freezing of the pension plan is that employees hired on or after July 1, 2008 will not be eligible to participate. No additional benefits accrue to employees who were participants in the Plan at July 1, 2008 based on services provided after that date. In addition, employees who had already retired under the Plan, or who are beneficiaries of a deceased participant, will continue to receive current benefits without any change.

Significant assumptions used to calculate the benefit obligation at June 30 are as follows:

	<u>2017</u>	<u>2016</u>
Weighted average discount rate	N/A**	0.90%
Weighted average rate of compensation increase	N/A	N/A

**Final payments were made in July 2017, so no discounting was applied.

Significant assumptions used to calculate the net periodic pension cost at June 30 are as follows:

	<u>2017</u>	<u>2016</u>
Weighted average discount rate	0.90%	4.50%/1.09%*
Weighted average rate of compensation increase	N/A	N/A
Weighted average expected rate of return on plan assets	5.50%	5.50%

*The expense was calculated using a 4.50% discount rate for the period July 1, 2015 to October 31, 2015 and using a 1.09% discount rate for the period from November 1, 2015 to June 30, 2016.

Effective July 1, 2015, the expected long-term rate of return for the past two years on assets assumptions has been 5.50%. This assumption represents the rate of return on the 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 asset class.

The following table provides a reconciliation of the changes in the Plan's benefit obligations at June 30:

	<u>2017</u>	<u>2016</u>
Reconciliation of projected benefit obligation:		
Benefit obligation at beginning of year	\$ 1,957,972	1,719,499
Interest cost	16,615	38,302
Actuarial loss (gain)	(3,147)	373,980
Settlements and benefits paid	<u>(1,337,249)</u>	<u>(173,809)</u>
Benefit obligation at end of year	\$ <u>634,191</u>	<u>1,957,972</u>
Reconciliation of fair value of Midland States Plan assets:		
Fair value of Midland States Plan assets at beginning of year	\$ 1,314,192	1,432,114
Actual return on Midland States Plan assets	(50,752)	55,887
Employer contributions	50,000	-
Settlements and benefits paid	<u>(1,337,249)</u>	<u>(173,809)</u>
Fair value of Midland States Plan assets at end of year	\$ <u>(23,809)</u>	<u>1,314,192</u>
Reconciliation of funded status:		
Funded status	\$ <u>(658,000)</u>	<u>(643,780)</u>
Interest costs	\$ 16,615	38,302
Expected return on assets	(66,309)	(66,288)
Amortization of prior service costs	56,367	44,014
Recognized net loss	325,938	389,122
Recognition due to settlement or curtailment	<u>309,711</u>	<u>27,753</u>
Net periodic benefit cost	\$ <u>642,322</u>	<u>432,903</u>

The Plan's overall strategy is to earn a total return that is greater than inflation, by assuming prudent risk levels and adhering to certain restrictions and guidelines. The Plan assets consist of an interest in a common collective trust (CCT). The fair value of the Plan's interest in the CCT is a Level 2 investment in the fair value hierarchy. The Plan's proportionate share of fair value of the underlying investments, which consist primarily of equity and fixed-income securities and a value based on quoted market prices. In general, the Plan's goal is to maintain the following allocation range in the CCT for the years ended June 30, 2017 and 2016:

<u>Asset Category</u>	<u>Target Allocation</u>
Equity securities	30.00%
Debt securities	67.00%
Cash & cash equivalents	3.00%

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. Specifically, the primary objective in the investment management for the Midland States Plan is income and growth. The secondary objective in the investment management of assets is preservation of purchasing power after spending. Additional objectives for the Association are preservation of capital and minimization of costs.

Risk control is an important element in the investment of Midland States 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.

In September 2015, the Board of Directors passed a resolution that will terminate this plan effective December 31, 2015. The Midland States Plan has filed the appropriate documentation to terminate the Plan. A final contribution of \$658,000 was made to the Midland States Plan in July 2017 to cover the final benefit distributions and expenses.

13. RETIREMENT PLAN

The Association has a 401(k) retirement plan for all eligible employees who are 21 years of age or older. The Association can make a discretionary contribution based on years of service from 2% up to 12% of the employee's applicable salary after the employee has completed one year of service, which is defined as 1,000 hours of service. The Association has contributed approximately \$166,000 and \$128,000 to the retirement plan for the years ended June 30, 2017 and 2016, respectively.

14. BOARD-DESIGNATED NET ASSETS

For the years ended June 30, 2017 and 2016, the Association's Board of Directors designated certain funds from bequests received in current and prior years for the purpose of operations of the Association in the amounts of \$3,555,925 and \$3,201,937, respectively, and for research in the amounts of \$3,650,993 and \$3,213,284, respectively.

15. SUBSEQUENT EVENT

Effective July 1, 2017, the Association's Board of Directors approved the merger of the Association with the American Lung Association national office. All charters were terminated at that time and all assets and liabilities were transferred to the national office effective July 1, 2017.