

AMERICAN LUNG ASSOCIATION
OF THE MIDLAND STATES, INC.
Columbus, Ohio

Financial Statements
For the years ended June 30, 2014 and 2013
and Independent Auditors' Report Thereon



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INDEPENDENT AUDITORS' REPORT

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

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, 2014 and 2013, 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, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Schneider Downs & Co., Inc.

Columbus, Ohio
October 21, 2014

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AMERICAN LUNG ASSOCIATION OF THE MIDLAND STATES, INC.

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2014 AND 2013

		2014			
		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$	2,477,727	\$ 54,782	\$ 65,571	\$ 2,598,080
Accounts receivable		137,163	-	-	137,163
Prepaid expenses and other assets		47,599	-	-	47,599
Current portion of note receivable		9,943	-	-	9,943
		2,672,432	54,782	65,571	2,792,785
INVESTMENTS					
INTEREST IN NET ASSETS HELD BY OTHERS		-	138,832	97,743	236,575
BENEFICIAL INTEREST IN CHARITABLE FOUNDATION TRUSTS		-	650,451	645,794	1,296,245
NOTE RECEIVABLE		292,029	-	-	292,029
BENEFICIAL INTEREST IN GIFT ANNUITIES		-	34,781	-	34,781
PROPERTY AND EQUIPMENT, NET		126,051	-	-	126,051
		3,090,512	921,781	924,128	4,936,421
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Current portion of long-term debt		-	-	-	-
Current portion of capital lease obligation		-	-	-	-
Accounts payable	\$	201,387	-	-	\$ 201,387
Accrued expenses		135,561	-	-	135,561
Deferred revenue		219,029	-	-	219,029
Refundable deposits		-	-	-	-
Other liabilities		-	-	-	-
		555,977	-	-	555,977
DEFINED BENEFIT LIABILITY					
LONG-TERM DEBT		569,649	-	-	569,649
CAPITAL LEASE OBLIGATION		-	-	-	-
GIFT ANNUITY OBLIGATIONS		96,962	\$ 34,781	-	131,743
		1,222,588	34,781	-	1,257,369
Net Assets		1,867,924	887,000	\$ 924,128	3,679,052
Total Liabilities And Net Assets		\$ 3,090,512	\$ 921,781	\$ 924,128	\$ 4,936,421

2013

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 2,067,779	\$ 60,770	\$ 65,571	\$ 2,194,120
79,172	-	-	79,172
47,082	-	-	47,082
9,370	-	-	9,370
2,203,403	60,770	65,571	2,329,744
-	111,404	97,743	209,147
-	21,667	115,020	136,687
-	582,471	571,687	1,154,158
301,921	-	-	301,921
-	45,276	-	45,276
991,994	-	-	991,994
<u>\$ 3,497,318</u>	<u>\$ 821,588</u>	<u>\$ 850,021</u>	<u>\$ 5,168,927</u>
\$ 26,515	-	-	\$ 26,515
26,852	-	-	26,852
101,508	-	-	101,508
125,716	-	-	125,716
112,401	-	-	112,401
10,500	-	-	10,500
18,260	-	-	18,260
421,752	-	-	421,752
606,057	-	-	606,057
401,505	-	-	401,505
19,626	-	-	19,626
96,371	\$ 45,276	-	141,647
1,545,311	45,276	-	1,590,587
1,952,007	776,312	\$ 850,021	3,578,340
<u>\$ 3,497,318</u>	<u>\$ 821,588</u>	<u>\$ 850,021</u>	<u>\$ 5,168,927</u>

See notes to financial statements.

AMERICAN LUNG ASSOCIATION OF THE MIDLAND STATES, INC.

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUE				
Public Support:				
Direct mail	\$ 2,729,716	-	-	\$ 2,729,716
Special events:				
Gross revenue	1,916,740	-	-	1,916,740
Direct expenses	(532,548)	-	-	(532,548)
Promotions	98,733	-	-	98,733
Total Public Support	4,212,641	-	-	4,212,641
Contributions:				
Bequests	1,633,243	-	-	1,633,243
Memorials	161,310	-	-	161,310
Workplace giving	265,911	-	-	265,911
Individual gifts	128,847	\$ 6,665	-	135,512
Corporate gifts	7,840	-	-	7,840
Foundation gifts	14,532	-	-	14,532
In-kind contributions	170,734	-	-	170,734
Total Contributions	2,382,417	6,665	-	2,389,082
Other Revenue:				
Grants from other nonprofits	6,910	-	-	6,910
Government grants	109,886	-	-	109,886
Program service fees	84,163	-	-	84,163
Foundation grants	147,844	-	-	147,844
Grants from American Lung Association National	85,602	-	-	85,602
Corporate grants	10,297	-	-	10,297
Interest and dividends	21,906	3,557	-	25,463
Miscellaneous	36,291	-	-	36,291
Total Other Revenue	502,899	3,557	-	506,456
Net assets released from restriction	14,798	(14,798)	-	-
Total Revenue	7,112,755	(4,576)	-	7,108,179

2013

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 2,941,777	-	-	\$ 2,941,777
1,916,764	-	-	1,916,764
(499,260)	-	-	(499,260)
133,268	-	-	133,268
4,492,549	-	-	4,492,549
1,376,418	-	-	1,376,418
196,151	-	-	196,151
253,238	-	-	253,238
130,207	\$ 5,000	-	135,207
2,435	-	-	2,435
20,370	-	-	20,370
199,684	-	-	199,684
2,178,503	5,000	-	2,183,503
1,981	-	-	1,981
52,462	-	-	52,462
94,941	-	-	94,941
63,405	-	-	63,405
133,329	-	-	133,329
5,000	-	-	5,000
21,757	7,430	-	29,187
21,032	-	-	21,032
393,907	7,430	-	401,337
15,229	(15,229)	-	-
7,080,188	(2,799)	-	7,077,389

See notes to financial statements.

AMERICAN LUNG ASSOCIATION OF THE MIDLAND STATES, INC.

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
EXPENSES				
Program services:				
Environmental Health and Advocacy	\$ 759,648	-	-	\$ 759,648
Tobacco Control	1,211,666	-	-	1,211,666
Lung Cancer, Asthma, COPD and other Lung Diseases	1,991,510	-	-	1,991,510
Community Health Services	512,736	-	-	512,736
Research	1,114,538	-	-	1,114,538
	<u>5,590,098</u>	<u>-</u>	<u>-</u>	<u>5,590,098</u>
General and administrative	576,503	-	-	576,503
Fund-raising	906,794	-	-	906,794
	<u>1,483,297</u>	<u>-</u>	<u>-</u>	<u>1,483,297</u>
Total Expenses	7,073,395	-	-	7,073,395
Changes In Net Assets From Operations	39,360	\$ (4,576)	-	34,784
OTHER INCOME (EXPENSE)				
Unrealized gain on investments	10,200	15,342	-	25,542
Realized gain (loss) on investments	22	-	-	22
Loss on sale of property and equipment	(47,942)	-	-	(47,942)
Change in split-interest agreements	24,263	99,922	\$ 74,107	198,292
Minimum pension liability	(109,986)	-	-	(109,986)
	<u>(123,443)</u>	<u>115,264</u>	<u>74,107</u>	<u>65,928</u>
Change In Net Assets	(84,083)	110,688	74,107	100,712
NET ASSETS				
Beginning of year	<u>1,952,007</u>	<u>776,312</u>	<u>850,021</u>	<u>3,578,340</u>
End of year	<u>\$ 1,867,924</u>	<u>\$ 887,000</u>	<u>\$ 924,128</u>	<u>\$ 3,679,052</u>

2013

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 759,500	-	-	\$ 759,500
1,309,547	-	-	1,309,547
2,056,177	-	-	2,056,177
476,058	-	-	476,058
565,646	-	-	565,646
5,166,928	-	-	5,166,928
598,092	-	-	598,092
911,252	-	-	911,252
1,509,344	-	-	1,509,344
6,676,272	-	-	6,676,272
403,916	\$ (2,799)	-	401,117
4,834	3,213	-	8,047
(538)	-	-	(538)
(44)	-	-	(44)
14,325	64,093	\$ 38,002	116,420
22,852	-	-	22,852
41,429	67,306	38,002	146,737
445,345	64,507	38,002	547,854
1,506,662	711,805	812,019	3,030,486
<u>\$ 1,952,007</u>	<u>\$ 776,312</u>	<u>\$ 850,021</u>	<u>\$ 3,578,340</u>

See notes to financial statements.

AMERICAN LUNG ASSOCIATION OF THE MIDLAND STATES, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

	Program Services					Total
	Environmental Health and Advocacy	Tobacco Control	Lung Cancer, Asthma, COPD and other Lung Diseases	Community Health Services	Research	
Salaries	\$ 190,797	\$ 278,830	\$ 572,031	\$ 182,173	\$ 81,744	\$ 1,305,575
Employee Benefits	37,572	54,908	112,646	35,874	16,097	257,097
Payroll Taxes	15,409	22,519	46,199	14,713	6,602	105,442
Total Salaries And Related Benefits	243,778	356,257	730,876	232,760	104,443	1,668,114
Professional fees	25,948	44,663	70,172	65,991	-	206,774
Asthma Clinical Research Center Support	-	-	-	-	401,904	401,904
Research awards and grants	-	-	-	-	20,000	20,000
Assistance to individual patients	-	-	-	-	-	-
Building occupancy	23,162	33,849	69,442	22,115	9,923	158,491
Business insurance	4,993	7,296	14,969	4,767	2,139	34,164
Telephone	12,499	21,540	33,838	7,823	-	75,700
Travel, meetings, and conferences	17,897	32,819	39,285	8,758	-	98,759
Printing and publications	2,367	28,500	11,636	1,236	-	43,739
Postage	4,397	7,465	12,281	2,809	-	26,952
Media expense	21,793	43,416	58,779	13,590	-	137,578
Supplies, equipment rental, and maintenance	9,425	16,377	25,857	5,947	-	57,606
Dues and subscriptions	523	1,026	1,416	327	-	3,292
Depreciation	3,519	5,143	10,551	3,360	1,508	24,081
Miscellaneous	7,647	13,735	20,823	4,786	-	46,991
Interest	-	-	-	-	-	-
Program expense	84,307	77,107	144,942	9,025	-	315,381
Direct mail campaign	177,024	429,882	579,979	92,405	157,960	1,437,250
Subtotal	639,279	1,119,075	1,824,846	475,699	697,877	4,756,776
Assessments from National	120,369	92,591	166,664	37,037	416,661	833,322
Total Functional Expenses	\$ 759,648	\$ 1,211,666	\$ 1,991,510	\$ 512,736	\$ 1,114,538	\$ 5,590,098
Percent Of Total Expenses	10.74%	17.13%	28.15%	7.25%	15.76%	79.03%

Supporting Services

	Fundraising	Administration	Total	Total All Services
\$	274,158	\$ 216,847	\$ 491,005	\$ 1,796,580
	53,988	42,702	96,690	353,787
	22,142	17,513	39,655	145,097
	350,288	277,062	627,350	2,295,464
	31,006	20,400	51,406	258,180
	-	-	-	401,904
	-	-	-	20,000
	-	-	-	-
	33,282	26,324	59,606	218,097
	7,174	5,674	12,848	47,012
	14,993	9,865	24,858	100,558
	16,484	10,845	27,329	126,088
	2,345	1,543	3,888	47,627
	5,155	3,392	8,547	35,499
	26,045	17,136	43,181	180,759
	11,262	7,410	18,672	76,278
	627	413	1,040	4,332
	5,057	4,000	9,057	33,138
	9,173	6,035	15,208	62,199
	-	11,375	11,375	11,375
	-	-	-	315,381
	356,866	119,474	476,340	1,913,590
	869,757	520,948	1,390,705	6,147,481
	37,037	55,555	92,592	925,914
\$	<u>906,794</u>	<u>\$ 576,503</u>	<u>\$ 1,483,297</u>	<u>\$ 7,073,395</u>
	<u>12.82%</u>	<u>8.15%</u>	<u>20.97%</u>	<u>100.00%</u>

See notes to financial statements.

AMERICAN LUNG ASSOCIATION OF THE MIDLAND STATES, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

Program Services

	Environmental Health and Advocacy	Tobacco Control	Lung Cancer, Asthma, COPD and other Lung Diseases	Community Health Services	Research	Total
Salaries	\$ 182,589	\$ 263,054	\$ 495,622	\$ 174,092	\$ 72,636	\$ 1,187,993
Employee Benefits	39,056	56,267	106,015	37,239	15,537	254,114
Payroll Taxes	15,369	22,142	41,718	14,654	6,114	99,997
Total Salaries And Related Benefits	237,014	341,463	643,355	225,985	94,287	1,542,104
Professional fees	35,324	63,352	97,144	22,329	-	218,149
Asthma Clinical Research Center Support	-	-	-	-	203,376	203,376
Research awards and grants	-	-	-	-	20,000	20,000
Assistance to individual patients	-	-	1,169	-	-	1,169
Building occupancy	22,714	32,724	61,655	21,657	9,036	147,786
Business insurance	4,926	7,097	13,372	4,697	1,960	32,052
Telephone	9,190	16,449	25,254	5,804	-	56,697
Travel, meetings, and conferences	21,891	31,635	51,272	10,233	-	115,031
Printing and publications	4,386	42,404	16,350	2,848	-	65,988
Postage	5,917	10,587	16,900	3,741	-	37,145
Media expense	26,542	53,511	73,361	16,762	-	170,176
Supplies, equipment rental, and maintenance	12,542	21,864	34,866	7,709	-	76,981
Dues and subscriptions	514	1,151	1,191	274	-	3,130
Depreciation	5,727	8,251	15,547	5,461	2,278	37,264
Miscellaneous	7,738	14,009	21,284	4,887	-	47,918
Interest	-	-	-	-	-	-
Program expense	102,016	26,258	121,656	6,368	-	256,298
Direct mail campaign	185,136	449,581	606,554	96,639	165,197	1,503,107
Subtotal	681,577	1,120,336	1,800,930	435,394	496,134	4,534,371
Assessments from National	77,923	189,211	255,247	40,664	69,512	632,557
Total Expenses	\$ 759,500	\$ 1,309,547	\$ 2,056,177	\$ 476,058	\$ 565,646	\$ 5,166,928
Percent Of Total Expenses	11.38%	19.61%	30.80%	7.13%	8.47%	77.39%

Supporting Services

Fundraising	General and Administration	Total	Total All Services
\$ 269,052	\$ 208,909	\$ 477,961	\$ 1,665,954
57,551	44,686	102,237	356,351
22,647	17,585	40,232	140,229
349,250	271,180	620,430	2,162,534
35,694	21,944	57,638	275,787
-	-	-	203,376
-	-	-	20,000
-	-	-	1,169
33,470	25,988	59,458	207,244
7,259	5,636	12,895	44,947
9,286	7,947	17,233	73,930
16,373	14,013	30,386	145,417
4,210	3,603	7,813	73,801
5,787	4,953	10,740	47,885
26,819	22,955	49,774	219,950
12,334	10,557	22,891	99,872
438	375	813	3,943
8,440	6,553	14,993	52,257
7,819	6,692	14,511	62,429
-	29,041	29,041	29,041
-	-	-	256,298
373,219	124,948	498,167	2,001,274
890,398	556,385	1,446,783	5,981,154
20,854	41,707	62,561	695,118
<u>\$ 911,252</u>	<u>\$ 598,092</u>	<u>\$ 1,509,344</u>	<u>\$ 6,676,272</u>
<u>13.65%</u>	<u>8.96%</u>	<u>22.61%</u>	<u>100.00%</u>

See notes to financial statements.

AMERICAN LUNG ASSOCIATION OF THE MIDLAND STATES, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 100,712	\$ 547,854
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	33,139	52,257
Minimum pension liability adjustment	(36,408)	(34,243)
Loss on sale of property and equipment, net	47,942	44
(Gain) loss on investments, net	(29,662)	10,283
Gain on split-interest agreements, net	(198,292)	(116,422)
Changes in assets and liabilities:		
Accounts receivable	(57,991)	243,737
Prepays and other assets	(517)	6,648
Accounts payable	99,879	(48,997)
Accrued expenses	9,845	23,022
Refundable deposits	(10,500)	10,500
Other liabilities	(18,260)	18,260
Deferred revenue	106,628	(30,971)
Net Cash Provided By Operating Activities	46,515	681,972
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of investments	3,835	-
Purchase of investments	(1,601)	-
Proceeds from note receivable	9,319	8,028
Purchase of property and equipment	(48,311)	(29,238)
Proceeds from sale of property and equipment	833,173	449
Distributions from beneficial interest in charitable foundation trust	35,528	35,267
Net Cash Provided By Investing Activities	831,943	14,506
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(428,020)	(15,879)
Payments on capital lease	(46,478)	(24,038)
Net Cash Used In Financing Activities	(474,498)	(39,917)
Net Increase In Cash And Cash Equivalents	403,960	656,561
CASH AND CASH EQUIVALENTS		
Beginning of year	2,194,120	1,537,559
End of year	\$ 2,598,080	\$ 2,194,120
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 11,000	\$ 29,000

See notes to financial statements.

AMERICAN LUNG ASSOCIATION OF THE MIDLAND STATES, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 1 - ORGANIZATION

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies consistently applied by management in the preparation of the accompanying financial statements follows:

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.

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, 2014 and 2013.

Investments - Investments are stated at fair value, and realized and unrealized gains and losses are reflected in the statement of activities. See Note 4 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.

AMERICAN LUNG ASSOCIATION OF THE MIDLAND STATES, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment - Property and equipment of \$500 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, plant and equipment as unrestricted support unless explicit donor restrictions specify how the donated assets must be used. Gifts of property, plant 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, plant and equipment are reported as restricted support. Absent explicit donor restrictions about how long the property, plant 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, plant 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

Classification of Net Assets - Resources are classified into three net asset categories according to donor-imposed restrictions. A description of these categories follows:

Unrestricted - Net assets that are free of donor-imposed restrictions; all revenues, expenses, gains and losses that are not changes in permanently or temporarily restricted net assets.

Temporarily Restricted - Net assets whose use by the Association 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. Donor-imposed restrictions that will be met in the same period in which the revenue is received are recognized as unrestricted net assets. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets - Net assets whose use by the Association is permanently limited by donor-imposed restrictions.

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.

AMERICAN LUNG ASSOCIATION OF THE MIDLAND STATES, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Organization 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 Internal Revenue Code Section 501(c)(3). The Association has not identified any material uncertain tax positions requiring an accrual or disclosure in the financial statements. There were no interest or penalties recognized in the statements of activities for the years ended June 30, 2014 and 2013 related to uncertain tax positions. The Association is no longer subject to U.S. federal or state tax examinations for years prior to 2011.

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 fund-raising, 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 following table. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

	<u>June 30, 2014</u>			<u>June 30, 2013</u>		
	<u>Program</u>	<u>Support</u>	<u>Total</u>	<u>Program</u>	<u>Support</u>	<u>Total</u>
Direct mail campaign \$	<u>1,437,250</u>	<u>\$ 476,340</u>	<u>\$ 1,913,590</u>	<u>\$ 1,503,107</u>	<u>\$ 498,167</u>	<u>\$ 2,001,274</u>

AMERICAN LUNG ASSOCIATION OF THE MIDLAND STATES, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events - Subsequent events are defined as events or transactions that occur after the statement of financial position date, but before the financial statements are issued or are available to be issued. Management has evaluated subsequent events through October 21, 2014, the date on which the financial statements were available to be issued.

NOTE 3 - 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, 2014 and 2013, the Association's income assessment to National totaled approximately \$375,000 and \$390,000, respectively. At June 30, 2014 and 2013, the Association had assessments totaling approximately \$68,000 and \$0, respectively, due to National, which have been included in accounts payable in the statement of financial position.

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 2014 and 2013, the Association's assessment from National for direct mail shareable income totaled approximately \$244,000 and \$280,000, respectively. At June 30, 2014 the Association owed the national office approximately \$65,000, for direct mail expenses, which has been included in accounts payable in the statement of financial opinion. At June 30, 2013, the National office owed the Association approximately \$17,000, for direct mail revenue, which has been included in accounts receivable in the statement of financial opinion.

The National office and its related charters engaged in a Strategic Cause Campaign. The campaign, which was formally introduced to the public in May 2014, is known as Lung Force and targets lung cancer, primarily in women. For the years ended June 30, 2014 and 2013, the Association funded approximately \$307,000 and \$25,000, 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 years ended June 30, 2014 and 2013, the Association was billed approximately \$402,000 and \$203,000, respectively, from National, of which all has been paid prior to year-end.

NOTE 4 - FAIR VALUE MEASUREMENTS

The Financial Accounting Standards Board (FASB) has issued an accounting standard related to fair value measurements. This standard defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This standard establishes a fair value hierarchy regarding the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. It defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

AMERICAN LUNG ASSOCIATION OF THE MIDLAND STATES, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 inputs, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant, unobservable inputs that reflect an organization's own assumptions about the assumptions that market participants would use in pricing an 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 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 Associations' 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 a Level 3 asset.

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, grants, note and trade receivables, prepaid expenses, accounts payable, notes payable and capital leases all approximate their fair values.

AMERICAN LUNG ASSOCIATION OF THE MIDLAND STATES, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

The following table sets forth by level, within the fair value hierarchy, the Association's assets and liabilities at fair value as of June 30, 2014 and 2013:

	Assets and Liabilities at Fair Value as of June 30, 2014			
	Level 1	Level 2	Level 3	Total
ASSETS				
Investments:				
Mutual funds				
Blend	\$ 149,636	-	-	\$ 149,636
Stocks and equities				
Large cap domestic	29,550	-	-	29,550
Mid cap domestic	14,308	-	-	14,308
Large blend international	4,102	-	-	4,102
Small blend equity	8,323	-	-	8,323
Emerging market equity	3,458	-	-	3,458
	<u>59,741</u>	<u>-</u>	<u>-</u>	<u>59,741</u>
Fixed income				
Corporate term bonds	4,886	-	-	4,886
Intermediate term bond	22,312	-	-	22,312
	<u>27,198</u>	<u>-</u>	<u>-</u>	<u>27,198</u>
Interest in net assets held by others	-	-	\$ 157,955	157,955
Beneficial interest in charitable trusts	-	-	1,296,245	1,296,245
Beneficial interest in gift annuities	-	-	34,781	34,781
	<u>-</u>	<u>-</u>	<u>157,955</u>	<u>157,955</u>
	<u>-</u>	<u>-</u>	<u>1,296,245</u>	<u>1,296,245</u>
	<u>-</u>	<u>-</u>	<u>34,781</u>	<u>34,781</u>
Total Assets At Fair Value	<u>\$ 236,575</u>	<u>-</u>	<u>\$ 1,488,981</u>	<u>\$ 1,725,556</u>
LIABILITIES				
Gift annuities obligation	-	-	\$ 131,743	\$ 131,743
	<u>-</u>	<u>-</u>	<u>131,743</u>	<u>131,743</u>
Total Liabilities At Fair Value	<u>-</u>	<u>-</u>	<u>\$ 131,743</u>	<u>\$ 131,743</u>

AMERICAN LUNG ASSOCIATION OF THE MIDLAND STATES, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

	<u>Assets and Liabilities at Fair Value as of June 30, 2013</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
ASSETS				
Investments:				
Mutual funds				
Blend	\$ 53,653	-	-	\$ 53,653
Stocks and equities				
Large cap domestic	24,132	-	-	24,132
Mid cap domestic	11,550	-	-	11,550
Large blend international	3,438	-	-	3,438
Small blend equity	6,657	-	-	6,657
Emerging market equity	3,080	-	-	3,080
	<u>48,857</u>	<u>-</u>	<u>-</u>	<u>48,857</u>
Fixed income				
Corporate term bonds	4,906	-	-	4,906
Intermediate term bond	101,731	-	-	101,731
	<u>106,637</u>	<u>-</u>	<u>-</u>	<u>106,637</u>
Interest in net assets held by others	-	-	\$ 136,687	136,687
Beneficial interest in charitable trusts	-	-	1,154,158	1,154,158
Beneficial interest in gift annuities	-	-	45,276	45,276
	<u>-</u>	<u>-</u>	<u>136,687</u>	<u>136,687</u>
	<u>-</u>	<u>-</u>	<u>1,154,158</u>	<u>1,154,158</u>
	<u>-</u>	<u>-</u>	<u>45,276</u>	<u>45,276</u>
Total Assets At Fair Value	<u>\$ 209,147</u>	<u>-</u>	<u>\$ 1,336,121</u>	<u>\$ 1,545,268</u>
LIABILITIES				
Gift annuities obligation	<u>-</u>	<u>-</u>	<u>\$ 141,647</u>	<u>\$ 141,647</u>
Total Liabilities At Fair Value	<u>-</u>	<u>-</u>	<u>\$ 141,647</u>	<u>\$ 141,647</u>

AMERICAN LUNG ASSOCIATION OF THE MIDLAND STATES, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

Level 3 Gains and Losses - The following table sets forth a summary of changes in the fair value of the Association's Level 3 assets and liabilities for the year ended June 30, 2014:

	Level 3 Assets and Liabilities			
	Year Ended June 30, 2014			
	Interest in net assets held by others	Beneficial interest in charitable trusts	Beneficial interest in gift annuities	Gift annuities obligation
Balance, beginning of year	\$ 136,687	\$ 1,154,158	\$ 45,276	\$ 141,647
Interest and dividends	3,242	13,717	-	-
Realized and unrealized gains	18,026	163,898	-	-
Distributions	-	(35,528)	-	-
Change in funded status	-	-	(10,495)	(9,904)
Balance, End Of Year	<u>\$ 157,955</u>	<u>\$ 1,296,245</u>	<u>\$ 34,781</u>	<u>\$ 131,743</u>

The following table sets forth a summary of changes in the fair value of the Association's Level 3 assets and liabilities for the year ended June 30, 2013:

	Level 3 Assets and Liabilities			
	Year Ended June 30, 2013			
	Interest in net assets held by others	Beneficial interest in charitable trusts	Beneficial interest in gift annuities	Gift annuities obligation
Balance, beginning of year	\$ 122,059	\$ 1,077,104	\$ 60,808	\$ 146,652
Interest and dividends	3,118	12,857	-	-
Realized and unrealized gains	11,510	99,464	-	-
Distributions	-	(35,267)	-	-
Change in funded status	-	-	(15,532)	(5,005)
Balance, End Of Year	<u>\$ 136,687</u>	<u>\$ 1,154,158</u>	<u>\$ 45,276</u>	<u>\$ 141,647</u>

AMERICAN LUNG ASSOCIATION OF THE MIDLAND STATES, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)

Investments at June 30 are as follows:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Stocks and equities	\$ 29,030	\$ 59,741	\$ 29,030	\$ 48,857
Mutual funds	119,561	149,636	39,957	53,653
Fixed income	26,207	27,198	103,560	106,637
	\$ 174,798	\$ 236,575	\$ 172,547	\$ 209,147

NOTE 5 - 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.

NOTE 6 - 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 \$645,794 and \$571,687 at June 30, 2014 and 2013, 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 \$650,451 and \$582,471 at June 30, 2014 and 2013, 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.

AMERICAN LUNG ASSOCIATION OF THE MIDLAND STATES, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 7 - 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 Statement 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.

NOTE 8 - 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, 2014 and 2013.

NOTE 9 - PROPERTY AND EQUIPMENT

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

	<u>2014</u>	<u>2013</u>
Land	\$ 7,766	\$ 176,226
Buildings and improvements	144,886	1,403,950
Furniture and equipment	<u>211,092</u>	<u>312,123</u>
Total	363,744	1,892,299
Less accumulated depreciation	<u>(237,693)</u>	<u>(900,305)</u>
	<u>\$ 126,051</u>	<u>\$ 991,994</u>

In December of 2013, the Association sold its building located in Columbus, Ohio, to an unrelated third party that was leasing part of the space for a purchase price of \$875,000. The building had a net book value of approximately \$880,000. After settlement charges and cost associated with the sale of the building the sale resulted in a loss of approximately \$48,000.

NOTE 10 - LINE OF CREDIT

In June 2013, the Association renewed a \$350,000 revolving line of credit with a commercial bank bearing interest at the bank's prime interest rate. This line of credit was terminated in June of 2014.

AMERICAN LUNG ASSOCIATION OF THE MIDLAND STATES, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 11 - REFUNDABLE DEPOSITS

The Association had entered into a lease agreement to rent a portion of the Columbus office building to an unrelated third party (Lessee). The Lessee had the right to use approximately 5,000 square feet of the building for twelve months commencing on April 1, 2013 with monthly lease payments of \$10,000. In December of 2013, the Lessee purchased the building from the Association for a purchase price of \$875,000. The Association credited the Lessee 35% of the gross rent payments made, at the time of the closing. Prior to the purchase, the Association had recorded 35% of all payments received as refundable deposits on the Statement of Financial Position. The remaining 65% of the rent payments were recorded in miscellaneous income. For the year end June 30, 2014 and 2013, rental income recorded approximated \$35,000 and \$20,000, respectively.

NOTE 12 - LONG-TERM DEBT

In December of 2013, the Association paid in full the long-term debt associated with a building, which was sold to the Lessee, as noted above. The loan terms included principal and interest payments of approximately \$3,787, which were due monthly until August 2017. The interest rate was fixed at 4.55% per annum; and the loan is collateralized by the land and building. The outstanding balance as of June 30, 2013 was approximately \$428,000.

NOTE 13 - CAPITAL LEASE OBLIGATION

In December of 2013, the Association bought-out the capital lease obligation related to the HVAC system associated with the building, which was sold to the Lessee, as noted above. Prior to the termination, the asset and liability under the capital lease obligation were recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The asset was amortized over its estimated useful life. Cost of the related asset was approximately \$148,000 and accumulated depreciation of the asset was approximately \$38,000 at June 30, 2013.

NOTE 14 - NET ASSETS

Temporarily restricted net assets released from restriction for the years ended June 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Charles Niehaus Trust	\$ 10,674	\$ 10,413
Fleischman Memorial Trust Fund	2,124	1,316
Levinson Family Fund	2,000	2,000
Anderson Lectureship	<u>-</u>	<u>1,500</u>
	<u>\$ 14,798</u>	<u>\$ 15,229</u>

AMERICAN LUNG ASSOCIATION OF THE MIDLAND STATES, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 14 - NET ASSETS (Continued)

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

	<u>2014</u>	<u>2013</u>
Charles Niehaus Trust - programming to greater Dayton, Ohio area	\$ 650,451	\$ 582,471
Fleischman Memorial Trust Fund - purchase of medication and equipment for persons affected by chronic obstructive lung disease	11,445	9,404
Heffner Family Fund - asthma education to affected children	85,000	82,500
Nedilsky Staff Development Fund - staff development	700	700
Levinson Family Fund - pediatric asthma programming	13,698	15,709
Summers Education Fund - pulmonary education	46,282	38,185
Stephens Research Fund - lung disease and research education programs	42,935	21,667
Anderson Lectureship - CME lectures on lung disease	17,483	10,474
Stringer Fund - lectureships	<u>19,006</u>	<u>15,202</u>
	<u>\$ 887,000</u>	<u>\$ 776,312</u>

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

	<u>2014</u>	<u>2013</u>
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	645,794	571,687
Stringer Fund	<u>64,581</u>	<u>64,581</u>
	<u>\$ 924,128</u>	<u>\$ 850,021</u>

AMERICAN LUNG ASSOCIATION OF THE MIDLAND STATES, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 15 - 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.

AMERICAN LUNG ASSOCIATION OF THE MIDLAND STATES, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 15 - ENDOWMENTS (Continued)

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 5 and 6, for the year ended June 30, 2014:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets			
Beginning of year	\$ 63,861	\$ 163,314	\$ 227,175
Investment return:			
Investment income	3,557	-	3,557
Net appreciation	<u>15,353</u>	<u>-</u>	<u>15,353</u>
	82,771	163,314	246,085
Appropriation of endowment assets for expenditures	<u>-</u>	<u>-</u>	<u>-</u>
End Of Year	<u>\$ 82,771</u>	<u>\$ 163,314</u>	<u>\$ 246,085</u>

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 5 and 6, for the year ended June 30, 2013:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets			
Beginning of year	\$ 54,726	\$ 163,314	\$ 218,040
Investment return:			
Investment income	7,423	-	7,423
Net appreciation	<u>3,212</u>	<u>-</u>	<u>3,212</u>
	65,361	163,314	228,675
Appropriation of endowment assets for expenditures	<u>(1,500)</u>	<u>-</u>	<u>(1,500)</u>
End Of Year	<u>\$ 63,861</u>	<u>\$ 163,314</u>	<u>\$ 227,175</u>

AMERICAN LUNG ASSOCIATION OF THE MIDLAND STATES, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 16 - OPERATING LEASES

The Association leases office facilities and various office equipment throughout the four-state region. These operating leases have monthly payments ranging from \$60 to \$3,412 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>	<u>Amount</u>
2015	\$ 155,252
2016	124,494
2017	106,889
2018	95,888
2019	<u>61,518</u>
Total	<u>\$ 544,041</u>

Rent expense under cancelable and noncancelable leases for the years ended June 30, 2014 and 2013 approximated \$143,000 and \$133,000, respectively.

NOTE 17 - 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.

Effective June 30, 2008, the Association froze the Midland States 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 Midland States Plan at July 1, 2008 based on services provided after that date. In addition, employees who had already retired under the Midland States Plan, or who are beneficiaries of a deceased participant, will continue to receive current benefits without any change.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 17 - DEFINED BENEFIT PLAN (Continued)

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

	<u>2014</u>	<u>2013</u>
Weighted average discount rate	4.25%	4.75%
Weighted average rate of compensation increase	N/A	N/A

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

	<u>2014</u>	<u>2013</u>
Weighted average discount rate	4.75%	4.25%
Weighted average rate of compensation increase	N/A	N/A
Weighted average expected rate of return on plan assets	5.00%	5.50%

Effective July 1, 2014, the expected long-term rate of return on assets assumptions is 5.00%. This assumption represents the rate of return on Midland States 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.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 17 - DEFINED BENEFIT PLAN (Continued)

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

	<u>2014</u>	<u>2013</u>
Reconciliation of projected benefit obligation:		
Benefit obligation at beginning of year	\$ 2,242,204	\$ 2,482,431
Interest cost	97,547	92,568
Actuarial loss (gain)	213,022	(44,560)
Settlements and benefits paid	<u>(65,970)</u>	<u>(288,235)</u>
 Benefit Obligation At End Of Year	 <u>\$ 2,486,803</u>	 <u>\$ 2,242,204</u>
Reconciliation of fair value of Midland States Plan assets:		
Fair value of Midland States Plan assets at beginning of year	\$ 1,636,147	\$ 1,842,131
Actual return on Midland States Plan assets	166,080	(22,820)
Employer contributions	180,897	105,071
Settlements and benefits paid	<u>(65,970)</u>	<u>(288,235)</u>
 Fair Value Of Midland States Plan Assets At End Of Year	 <u>\$ 1,917,154</u>	 <u>\$ 1,636,147</u>
Reconciliation of funded status:		
Funded status	<u>\$ (569,649)</u>	<u>\$ (606,057)</u>
Interest cost	\$ 97,547	\$ 92,568
Expected return on assets	(80,955)	(78,733)
Amortization of prior service cost (credit)	8,609	8,609
Recognized net loss	9,302	8,066
Recognition due to settlement or curtailment	<u>-</u>	<u>63,170</u>
 Net Periodic Benefit Cost	 <u>\$ 34,503</u>	 <u>\$ 93,680</u>

The Midland States 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 Midland States Plan's goal is to maintain the following allocation range in the CCT for the years ended June 30, 2014 and 2013:

U.S. Equities	30%
Debt Securities	67%
Cash Equivalents	3%

AMERICAN LUNG ASSOCIATION OF THE MIDLAND STATES, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 17 - DEFINED BENEFIT PLAN (Continued)

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.

The Association expects to contribute approximately \$150,000 to the Midland States Plan for the year ended June 30, 2015. Benefits expected to be paid by the Midland States Plan during the ensuing five years and thereafter are approximately as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2015	\$ 102,000
2016	202,000
2017	57,000
2018	104,000
2019	134,000
2020 to 2024	642,000

NOTE 18 - 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 \$85,000 and \$57,000 for the discretionary contribution for the years ended June 30, 2014 and 2013, respectively.