

**AMERICAN LUNG ASSOCIATION
OF THE UPPER MIDWEST**

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

For the Year Ended
June 30, 2015



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

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

Report on the Financial Statements

We have audited the accompanying financial statements of American Lung Association of the Upper Midwest (Association), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of the Association as of June 30, 2014, were audited by other auditors whose report dated October 30, 2014, expressed an unmodified opinion on those statements.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2015, on our consideration of Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.



Springfield, Illinois
October 26, 2015

FINANCIAL STATEMENTS

AMERICAN LUNG ASSOCIATION OF THE UPPER MIDWEST

STATEMENT OF FINANCIAL POSITION

Year ended June 30, 2015

ASSETS

Cash and cash equivalents	\$ 5,650,812
Receivables	
Accounts and grants receivable, net	2,671,463
Notes receivable	1,169,415
Prepaid expenses and other assets	
Prepaid expenses	58,910
Inventories	34,909
Investments	18,170,685
Property and equipment, net	3,873,785
Beneficial interest in gift annuities	428,394
Beneficial interest in charitable trusts	1,648,700
	<hr/>
TOTAL ASSETS	\$ 33,707,073

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	
Accounts payable - general	\$ 1,531,491
Accounts payable - National	1,500,920
Accrued expenses	415,216
Deferred revenue	5,012,501
Accrued pension and postretirement plan liabilities	2,558,911
Gift annuities obligations	306,547
	<hr/>
Total liabilities	11,325,586

NET ASSETS

Unrestricted	19,880,531
Temporarily restricted	1,648,270
Permanently restricted	852,686
	<hr/>
Total net assets	22,381,487

TOTAL LIABILITIES AND NET ASSETS **\$ 33,707,073**

See accompanying notes to the financial statements.

AMERICAN LUNG ASSOCIATION OF THE UPPER MIDWEST

STATEMENT OF ACTIVITIES

Year ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING PUBLIC SUPPORT AND REVENUE				
Public support:				
Direct mail:				
Christmas Seals	\$ 1,174,875	\$ -	\$ -	\$ 1,174,875
Other direct mail	3,344,786	-	-	3,344,786
Vehicle donation program	258,963	-	-	258,963
Special events:				
Special events gross revenue	4,402,953	-	-	4,402,953
Less cost of direct benefits to donors	(779,528)	-	-	(779,528)
Other contributions:				
Workplace giving	113,002	-	-	113,002
United Way	478,834	-	-	478,834
Memorials	328,839	-	-	328,839
Bequests	1,976,099	1,356	-	1,977,455
Individual gifts	502,252	21,240	-	523,492
Corporate gifts	28,914	15,111	-	44,025
Foundation gifts	77,059	6,500	-	83,559
In-kind contributions	2,055,943	-	-	2,055,943
Total public support	<u>13,962,991</u>	<u>44,207</u>	<u>-</u>	<u>14,007,198</u>
Revenue:				
Corporate grants	1,958,309	-	-	1,958,309
Foundation grants	132,837	-	-	132,837
Grants from other not-for-profit organizations	1,822,046	-	-	1,822,046
Government grants	7,002,571	-	-	7,002,571
Interest, dividends and royalties	881,950	-	-	881,950
Rental income	52,605	-	-	52,605
Program service fees	1,205,907	-	-	1,205,907
Total revenue	<u>13,056,225</u>	<u>-</u>	<u>-</u>	<u>13,056,225</u>
Net assets released from restrictions	<u>471,361</u>	<u>(471,361)</u>	<u>-</u>	<u>-</u>
Sale of assets				
Sale of materials	<u>239,001</u>	<u>-</u>	<u>-</u>	<u>239,001</u>
Other miscellaneous income				
Pro-rata receipt of Plains-Gulf Charter Dissolution	507,468	-	145,319	652,787
Other Income	33,961	-	-	33,961
Total operating public support and revenue	<u>28,271,007</u>	<u>(427,154)</u>	<u>145,319</u>	<u>27,989,172</u>
EXPENSES				
Program services				
Environmental health	6,706,200	-	-	6,706,200
Tobacco control	7,902,759	-	-	7,902,759
Community health services	1,184,791	-	-	1,184,791
Lung Cancer, Asthma, COPD and other lung disease	4,627,868	-	-	4,627,868
Research	3,754,697	-	-	3,754,697
Total program services	<u>24,176,315</u>	<u>-</u>	<u>-</u>	<u>24,176,315</u>
Supporting services				
Fundraising	1,874,616	-	-	1,874,616
Management and general	1,118,530	-	-	1,118,530
Total supporting services	<u>2,993,146</u>	<u>-</u>	<u>-</u>	<u>2,993,146</u>
Total expenses	<u>27,169,461</u>	<u>-</u>	<u>-</u>	<u>27,169,461</u>
Change in net assets from operating activities	<u>1,101,546</u>	<u>(427,154)</u>	<u>145,319</u>	<u>819,711</u>
NONOPERATING ACTIVITIES				
Net realized gain on investments	88,572	-	-	88,572
Net unrealized loss on investments	(1,453,268)	-	-	(1,453,268)
Change in fair value of beneficial interest in trusts	-	(143,900)	(9,800)	(153,700)
Change in split-interest agreements	-	(31,278)	-	(31,278)
Other pension and postretirement plan changes	(233,664)	-	-	(233,664)
CHANGE IN NET ASSETS	<u>(496,814)</u>	<u>(602,332)</u>	<u>135,519</u>	<u>(963,627)</u>
NET ASSETS - BEGINNING OF YEAR	<u>20,377,345</u>	<u>2,250,602</u>	<u>717,167</u>	<u>23,345,114</u>
NET ASSETS - END OF YEAR	<u>\$ 19,880,531</u>	<u>\$ 1,648,270</u>	<u>\$ 852,686</u>	<u>\$ 22,381,487</u>

See accompanying notes to the financial statements.

AMERICAN LUNG ASSOCIATION OF THE UPPER MIDWEST

STATEMENT OF FUNCTIONAL EXPENSES (Continued)

Year ended June 30, 2015

	Environmental Health	Tobacco Control	Community Health Services	Lung Cancer, Asthma, COPD & Other Lung Disease	Research	Total Program Services
Wages and salaries	\$ 1,227,495	\$ 2,861,376	\$ 571,979	\$ 1,015,080	\$ 188,518	\$ 5,864,448
Employee benefits	401,052	792,698	152,706	296,215	99,689	1,742,360
Employee education and training	6,541	6,613	1,315	4,013	3,782	22,264
Contractors and professional fees	456,382	1,002,299	82,104	407,520	119,701	2,068,006
Business insurance	24,833	16,887	1,811	14,082	11,296	68,909
Building occupancy	163,278	126,131	9,899	95,839	94,916	490,063
Telephone	67,215	80,203	9,505	37,875	36,032	230,830
Travel	68,911	189,533	15,828	94,350	8,325	376,947
Meetings/conferences	21,518	53,587	6,373	101,488	6,466	189,432
Supplies and small equipment	828,214	325,714	64,179	261,438	74,708	1,554,253
Postage and shipping	57,402	79,490	11,005	292,271	150,712	590,880
Printing and educational materials	107,624	209,146	17,728	636,692	327,356	1,298,546
Promotional activities	101,885	286,946	17,771	76,838	17,771	501,211
Program and services	2,655,245	1,500,667	139,161	830,754	2,953	5,128,780
Credit card fees and dues	42,585	61,457	11,859	94,920	37,867	248,688
Subscriptions	3,586	19,196	2,832	2,323	863	28,800
Research contributions paid to National	-	-	-	-	1,007,944	1,007,944
Support to others	154,900	25,335	-	14,850	-	195,085
In-kind media	49,780	45,030	-	-	-	94,810
Depreciation	70,313	72,370	2,922	22,251	10,393	178,249
Strategic Cause Campaign-Lung Cancer Research paid to National	-	-	-	-	815,000	815,000
Subtotal	6,508,759	7,754,678	1,118,977	4,298,799	3,014,292	22,695,505
Assessments to National	197,441	148,081	65,814	329,069	740,405	1,480,810
Total functional expenses	\$ 6,706,200	\$ 7,902,759	\$ 1,184,791	\$ 4,627,868	\$ 3,754,697	\$ 24,176,315
Fiscal year June 30, 2015, percentage	24.68%	29.09%	4.36%	17.03%	13.82%	88.98%

See accompanying notes to the financial statements.

AMERICAN LUNG ASSOCIATION OF THE UPPER MIDWEST

STATEMENT OF FUNCTIONAL EXPENSES (Continued)

Year ended June 30, 2015

	Supporting Services			Total
	Fundraising	Management and General	Supporting Services	
Wages and salaries	\$ 354,862	\$ 205,747	\$ 560,609	\$ 6,425,057
Employee benefits	90,963	62,361	153,324	1,895,684
Employee education and training	950	5,312	6,262	28,526
Contractors and professional fees	72,252	263,462	335,714	2,403,720
Business insurance	4,393	15,434	19,827	88,736
Building occupancy	18,296	135,426	153,722	643,785
Telephone	5,543	52,365	57,908	288,738
Travel	12,693	3,856	16,549	393,496
Meetings/conferences	3,008	4,220	7,228	196,660
Supplies and small equipment	180,005	51,507	231,512	1,785,765
Postage and shipping	274,924	45,214	320,138	911,018
Printing and educational materials	603,970	99,988	703,958	2,002,504
Promotional activities	66,734	588	67,322	568,533
Program and services	6,638	4,825	11,463	5,140,243
Credit card fees and dues	76,738	15,606	92,344	341,032
Subscriptions	512	2,299	2,811	31,611
Research contributions paid to National	-	-	-	1,007,944
Support to others	-	-	-	195,085
In-kind media	31,630	-	31,630	126,440
Depreciation	4,691	51,601	56,292	234,541
Strategic Cause Campaign-Lung Cancer Research paid to National	-	-	-	815,000
Subtotal	1,808,802	1,019,811	2,828,613	25,524,118
Assessments to National	65,814	98,719	164,533	1,645,343
Total functional expenses	\$ 1,874,616	\$ 1,118,530	\$ 2,993,146	\$ 27,169,461
Fiscal year June 30, 2015, percentage	6.90%	4.12%	11.02%	100.00%

See accompanying notes to the financial statements.

AMERICAN LUNG ASSOCIATION OF THE UPPER MIDWEST

STATEMENT OF CASH FLOWS

Year ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Changes in net assets	\$ (963,627)
Adjustments to reconcile changes in net assets to net cash provided by operating activities	
Depreciation	234,541
Forgiveness of notes receivable	306,845
Net realized and unrealized gain on investments	1,364,738
Change in beneficial interest in gift annuities and in charitable trusts	454,964
Contributed property and equipment	(269,295)
Contributions restricted for long-term investments	(145,319)
Change in operating assets and liabilities:	
Accounts and grants receivable	1,156,970
Inventory	1,451
Prepaid expenses	(16,136)
Accounts payable and accrued expenses	257,294
Deferred revenue	2,090,015
Accrued pension and postretirement plan liabilities	463,465
Gift annuities obligations	(16,001)
Net cash provided by operating activities	<u>4,919,905</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(9,570,457)
Proceeds from sale of investments	6,657,497
Advances on notes receivable	(738,428)
Purchase of property and equipment	(22,684)
Net cash used in investing activities	<u>(3,674,072)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from contributions restricted for long-term investments	<u>145,319</u>
Net cash used in financing activities	<u>145,319</u>
CHANGE IN CASH AND CASH EQUIVALENTS	1,391,152
CASH AND CASH EQUIVALENTS, BEGINNING	<u>4,259,660</u>
CASH AND CASH EQUIVALENTS, END	<u><u>\$ 5,650,812</u></u>

See accompanying notes to the financial statements.

AMERICAN LUNG ASSOCIATION OF THE UPPER MIDWEST

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2015

1. NATURE OF BUSINESS

Nature of Operations

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Cash Equivalents

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

Accounts and Grants Receivable

Accounts and grants receivable consist primarily of noninterest-bearing amounts due from cost-reimbursable contracts and grants. The Association determines the allowance for uncollectible accounts and grants receivable based upon historical experience, an assessment of economic conditions, and review of subsequent collections. Accounts and grants receivable are written off when deemed uncollectible. At June 30, 2015, an allowance was not warranted.

Property and Equipment

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

Beneficial Interest Gift Annuities and in Charitable Trusts

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

Inventory is comprised of the following at June 30, 2015:

Educational publications	\$	21,900
Donated Vehicles		<u>13,009</u>
Total	\$	<u>34,909</u>

Investments

The Association carries its investments at fair value in accordance with Topic 958-320 under the Financial Accounting Standards Board (FASB) Codification of accounting standards. Fair value for mutual funds and equities is determined by using quoted market prices, where available. Donated assets are recorded at fair value at the date of donation or, if sold immediately after receipt, at the amount of sales proceeds received (which are considered a fair measure of the value at the date of donation). Investment income or loss and unrealized gains or losses are included in the statement of activities as increases or decreases in unrestricted net assets, unless the income or loss is restricted by donor or law.

Fair Value of Financial Instruments

The Association follows guidance for fair value measurements that 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. As required by accounting principles generally accepted in the USA (U.S. GAAP) for fair value measurements, the Association uses a fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments (Continued)

- Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the measurement date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.
- Level 2: Pricing inputs other than quoted prices in active market, which are either directly or indirectly observable as of the measurement date. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.
- Level 3: Securities that have little to no pricing observability as of the measurement date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by an entity. The Association considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Association's perceived risk of that instrument.

The fair values assigned to investments, annuity fund investments and amounts held on behalf of others-annuity funds are based on the quoted fair values of the underlying securities as of the measurement date.

Deferred Revenue

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions and Bequests

The Association records contributions and bequests, including unconditional promises to give (pledges), at the time such contributions are made and confirmed (having cleared probate). Contributions are considered unrestricted unless a donor-imposed restriction limits the use of such contributions. Contributions restricted for time and/or program-specific purposes are recorded as temporarily restricted net assets and then released to unrestricted net assets when the respective restriction is satisfied.

Program Service Contracts and Federal Grants

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

In-Kind Contributions

Donated goods and services are valued at their fair value. Donated services are recognized in the financial statements when they include specialized skills.

The value of in-kind media, based upon information provided by third-party media services, is reflected on the statement of activities as in-kind contributions and on the statement of functional expenses as in-kind media.

Functional Expenses

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

Estimates

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

Tax Exempt Status

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Tax Exempt Status (Continued)

The Association has recognized in the financial statements the effect of all tax positions and continually evaluates expiring statutes of limitations, audits, changes in tax law, and new authoritative rulings. The Association is not aware of any circumstances or events that make it more likely than not that any unrecognized tax benefits may increase or decrease within 12 months of the statement of financial position date. Penalties and interest assessed by taxing authorities are included in the Association's expenses, if applicable. There was no interest or penalties paid during fiscal year 2015.

The Association files an exempt organization return in the federal jurisdiction and various state returns.

Concentrations of Credit Risk

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

3. NOTES RECEIVABLE

The Association received several grants to provide gas stations with funding to provide E-85 fueling. The funds were advanced to the gas stations upon completion of the project and the Association executed a note agreement with each station. The total amount advanced to gas stations was \$738,428 during the year ended June 30, 2015. The notes are forgivable over a two to five-year period, providing the E-85 fueling capacity remains intact. For the year ended June 30, 2015, \$306,845 of the notes receivable was forgiven.

4. PROPERTY AND EQUIPMENT

Following is a summary of property and equipment at June 30, 2015:

		<u>Estimated Useful Life</u>
Land	\$ 365,985	N/A
Buildings	5,359,623	30 – 40 Years
Office furniture and equipment	2,713,261	3 – 10 Years
Vehicles	84,928	3 – 10 Years
Leasehold improvements	35,828	3 – 10 Years
	<u>8,559,625</u>	
Less accumulated depreciation	<u>(4,685,840)</u>	
Total property and equipment, net	<u>\$ 3,873,785</u>	

5. BENEFICIAL INTEREST IN CHARITABLE TRUSTS

The Association has been named the beneficiary of a charitable remainder trust. Upon the death of the donors, the Association will receive 20% of the remaining assets of the trust. The value at June 30, 2015, was \$224,000.

The Association is named as a 1/27th beneficiary of a charitable trust. The Association receives its pro-rata share of income from the trust and in 2024, all assets will be distributed in the same ratio. The value at June 30, 2015, was \$140,400.

During the year ended June 30, 2007, the Association became a 1/12th beneficiary of a trust which consists of real estate, investments and other personal assets. The Association will receive its pro-rata share of income from the trust and all assets will be distributed in the same ratio. The value of the contribution recorded at the date of measurement was \$1,825,000 and the trust and the exact date of liquidation of assets and payment of distributions is not known at this time. The Association has valued its share based on its portion of the trust, less the amount of anticipated transaction and administrative costs. The value at June 30, 2015, was \$682,000 and the Association received distributions from the trust in the amount of \$291,666 during the year.

The Association is named as a 14% beneficiary of a charitable trust. The Association receives its pro-rata share of income from the trust. This trust is perpetual. The value at June 30, 2015, was \$503,500.

The Association is named as a 1/20th beneficiary of a charitable trust. The Association receives its pro-rata share of income from the trust. This trust is perpetual. The value at June 30, 2015, was \$98,800.

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

6. INVESTMENTS

Investments consist of the following at June 30, 2015:

	Cost	Fair Value
Cash and cash equivalents	\$ 50	\$ 50
Mutual funds	15,975,991	16,853,600
Equities	1,314,700	1,317,035
Total	<u>\$ 17,290,741</u>	<u>\$ 18,170,685</u>

Investment fees totaled \$ 56,308 for the year ended June 30, 2015, and are included in contractors and professional fees on the statement of functional expenses.

The following table presents the Association's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as June 30, 2015.

	Total	Level 1	Level 2	Level 3
ASSETS				
Investments				
Mutual funds				
Bond funds	\$ 7,884,060	\$ 7,884,060	\$ -	\$ -
Equity funds	8,969,540	8,969,540	-	-
Equities	1,317,035	1,317,035	-	-
	<u>18,170,635</u>	<u>18,170,635</u>	-	-
Cash and cash equivalents	50	50	-	-
Total investments	<u>18,170,685</u>	<u>18,170,685</u>	-	-
Beneficial interest in charitable trusts	1,648,700	-	-	1,648,700
Beneficial interest in gift annuities	428,394	-	-	428,394
Total assets	<u>\$ 20,247,779</u>	<u>18,170,685</u>	-	<u>2,077,094</u>
LIABILITIES				
Gift annuities obligations	<u>\$ 306,547</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 306,547</u>

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

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

6. INVESTMENTS (Continued)

The following table presents a reconciliation of all Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended June 30, 2015.

	Beneficial Interest in Charitable Trusts	Beneficial Interest Gift Annuities	Gift Annuities Obligations
Beginning balance, July 1, 2014	\$ 2,052,400	\$ 479,658	\$ (322,548)
Total gains (losses) included in change in net assets	(153,700)	(47,278)	16,001
Receipt of principal distribution	(250,000)	-	-
Plains gulf contribution adjustment	-	(3,986)	-
Ending balance, June 30, 2015	<u>\$ 1,648,700</u>	<u>\$ 428,394</u>	<u>\$ (306,547)</u>

7. DEFINED BENEFIT PENSION PLAN

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

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

The measurement date used to determine the pension measurements for Plan assets and benefit obligations was June 30, 2015.

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

7. DEFINED BENEFIT PENSION PLAN (Continued)

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

The changes in the projected benefit obligation for the year ended June 30, 2015 are as follows:

Projected benefit obligation at beginning of year	\$ 7,841,423
Service cost	29,270
Interest cost	323,861
Settlements	(1,860,904)
Benefits paid	(12,277)
Actuarial loss	279,896
Projected obligation at end of year	<u>\$ 6,601,269</u>
Change in Plan Assets	
Fair value of Plan assets at beginning of year	\$ 5,856,402
Employer contributions	290,000
Benefits paid	(12,277)
Settlements	(1,860,904)
Expenses paid	(98,042)
Actual return on Plan assets	4,025
Fair value of Plan assets at end of year	<u>\$ 4,179,204</u>
Funded Status of the Plan	
Benefit obligation	\$ 6,601,269
Fair value of Plan	<u>4,179,204</u>
Excess of benefit obligation over fair value of Plan assets	<u>\$ 2,422,065</u>

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

7. DEFINED BENEFIT PENSION PLAN (Continued)

Components of Net Periodic Benefit Costs	
Service cost	\$ 29,270
Interest cost	323,861
Expected return on Plan assets	(319,965)
Recognized loss due to curtailments	342,642
Amortization of recognized net actuarial loss	2,572
Net periodic benefit cost	<u>\$ 378,380</u>

Underfunded Plan Information	
Projected benefit obligation at end of year	\$ 6,601,269
Accumulated benefit obligation at end of year	\$ 6,601,269
Fair value of assets at end of year	\$ 4,179,204

Amounts Recognized in the Statement of Financial Position	
Liabilities	<u>\$ 2,422,065</u>

Amounts Recognized in Other Nonoperating Changes in Net Assets	
Contribution	\$ (115,000)
Recognized loss	(345,214)
Actuarial gain	693,878
Total	<u>\$ 233,664</u>

Actuarial Assumptions	
Assumptions used to determine benefit obligations at June 30,	
Discount rate	4.50%
Expected assets return	5.50%
Salary increase rate	N/A

7. DEFINED BENEFIT PENSION PLAN (Continued)

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

<u>Year</u>	
2016	\$ 274,897
2017	141,321
2018	211,853
2019	475,193
2020	496,873
2021 through 2025	2,300,447

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

Rate of Return Assumption

Effective July 1, 2015, the expected long-term rate of return on Plan assets assumption is 5.50%. As defined in Topic 715 under the FASB Codification of accounting standards, this assumption represents the rate of return on Plan assets reflecting the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the benefit obligation. The assumption has been determined by reflecting expectations regarding future rates of return for the investment portfolio, with consideration given to the distribution of investments by asset class and historical rates of return for each individual class.

Fair Value of Plan Assets

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

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

7. DEFINED BENEFIT PENSION PLAN (Continued)

The following table presents the Association's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2015.

	Total	Level 1	Level 2	Level 3
Plan assets				
Cash and cash equivalents	\$ 71,680	\$ -	\$ -	\$ -
Debt securities	3,184,651	-	3,184,651	-
Equity securities	922,873	922,873	-	-
Total Plan assets	<u>\$ 4,179,204</u>	<u>\$ 922,873</u>	<u>\$ 3,184,651</u>	<u>\$ -</u>

Investment Strategy

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

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

Income and growth - to achieve a balanced return of current income and appropriate growth of principal.

The secondary objective in the investment management of assets is:

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

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

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

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

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

8. LEASES

The Association has several operating leases for equipment and office space. Monthly lease payments range from \$54 to \$1,844 for equipment and \$2,090 to \$7,321 for office space. Lease expense for the year ended June 30, 2015, was \$364,709. Future minimum lease commitments as of June 30, 2015, are as follows:

Years ending June 30,

2016	\$ 345,509
2017	310,653
2018	248,552
2019	195,726
2020	184,457
Total	<u>\$ 1,284,897</u>

9. RETIREMENT PLAN

The Association has a 403(b) deferred compensation retirement plan. All employees hired on or after July 1, 2011, completing 1,000 hours of service are eligible for participation. The contribution percentage by the Association is determined by the Board of Directors. From July 1, 2014 to June 30, 2015, the Association contributed to the plan a 4% contribution and 3% match on employee contributions. Total plan contributions made by the Association for the year ended June 30, 2015, were \$454,117.

10. POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

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

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

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

The following table sets forth the Plan's funded status and amounts recognized in the Association's financial statements as of and for the year ended June 30, 2015:

Disclosure of Components of the 2014-2015 Net Post-Retirement Cost

	<u>2014-2015</u>
Change in Projected Benefit Obligation	
Projected benefit obligation at beginning of year	\$ 110,425
Service Cost	7,062
Interest cost	2,970
Benefits paid	(106)
Actuarial Loss	(477)
Projected obligation at end of year	<u>\$ 119,874</u>
Underfunded Plan Information	
Projected benefit obligation at end of year	\$ 119,874
Accumulated benefit obligation at end of year	\$ 73,510
Components of Net Periodic Benefit Costs	
Service cost	\$ 7,062
Interest cost	2,970
Amortization of gain	(1,542)
Amortization of unrecognized prior service cost	1,305
Amortization of unrecognized net actuarial loss	645
Net periodic benefit cost	<u>\$ 10,440</u>
Funded Status of the Plan	
Benefit obligation	<u>\$ 119,874</u>
Amounts Recognized in the Statement of Financial Position	
Liabilities	<u>\$ 119,874</u>

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

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

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

<u>Year</u>	
2016	\$ 6,565
2017	8,092
2018	8,084
2019	8,537
2020	7,407
2021 through 2025	34,775

The net post-retirement benefit cost for 2014-2015 was determined based on 4.5% discount rate and a rate of compensation increase of 4.0% per year.

11. NET ASSETS

Temporarily Restricted

Temporarily restricted net assets are restricted according to donor restrictions at June 30, 2015, as follows:

Purpose restricted	
Research	\$ 431,264
Public Health	47,403
Total purpose	<u>478,667</u>
Time restricted	1,169,603
Total	<u>\$ 1,648,270</u>

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses and/or the passage of time satisfying the time and/or purpose restriction for the year ended June 30, 2015.

Permanently Restricted

Permanently restricted net assets are restricted according to donor restrictions at June 30, 2015, as follows:

Endowment - operations	\$ 136,533
Endowment - camp	15,680
Endowment - research	98,173
Beneficial interest in charitable trusts	602,300
Total	<u>\$ 852,686</u>

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

11. NET ASSETS (Continued)

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

12. ALLOCATION OF JOINT COSTS

The Association incurred joint costs of \$2,894,574 for informational materials and activities that included fundraising appeals as part of the Association's direct mail campaigns for the year ended June 30, 2015. The Association follows the accounting guidance for joint costs contained in Topic 958 of the FASB Codification. These costs were allocated as follows:

Program	\$ 1,784,636
Management and general	144,729
Fundraising	955,209
Total	<u>\$ 2,894,574</u>

13. RELATED PARTY TRANSACTIONS

The American Lung Association National (National) office provides research, materials, publications, and various fundraising services to the Association and, in return, the Association, pays a portion of contributions to the American Lung Association as a shareable payment. The cost of these services and the shareable payment are included in the following expense categories in the statement of functional expenses for the year ended June 30, 2015.

Contractors and professional fees	\$ 399,329
Postage and shipping	812,631
Printing and educational materials	1,799,959
Program and services	70,608
Credit card fees and dues	128,175
Research contributions paid to National	1,007,944
Strategic Cause Campaign – Lung Cancer research paid to National	815,000
Assessments paid to National	1,645,343
Total	<u>\$ 6,678,989</u>

14. ENDOWMENTS

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

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

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

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Association to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets. At June 30, 2015, there were no such deficiencies.

14. ENDOWMENTS (Continued)

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

Endowment Net Asset Composition by Type of Fund
 as of June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 852,686	\$ 852,686

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

14. ENDOWMENTS (Continued)

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

	Changes in Endowment Net Assets for the year ended June 30, 2015							
Endowment net assets, beginning of year	\$	-	\$	-	\$	717,167	\$	717,167
Receipt of new endowments						145,319		145,319
Investment return:								
Interest and dividends		-	5,657		-	5,657		5,657
Net unrealized loss		-	-		(9,800)	(9,800)		(9,800)
		-	5,657		(9,800)	(4,143)		(4,143)
Appropriation of endowment assets for expenditure		-	(5,657)		-	(5,657)		(5,657)
End of year	\$	-	\$	-	\$	852,686	\$	852,686

Description of Amounts Classified as Permanently Restricted Net Assets
 (Endowment Only)
 June 30, 2015

Permanently restricted net assets		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or UPMIFA	\$	852,686
Total endowment funds classified as permanently restricted net assets	\$	852,686

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

15. DONATED GOODS AND SERVICES

For the year ended June 30, 2015, the following donated goods and services were received and expensed to the following categories:

	Professional services	Contributed supplies	Use of facilities	Media	Total
Asthma Camp	\$ 137,869	\$ 258	\$ -	\$ -	\$ 138,127
Asthma Education	-	-	400	-	400
Environmental Programs	135,277	648,480	-	49,780	833,537
Tobacco Education	146,800	-	-	45,030	191,830
Other Lung Disease	49,700	-	-	-	49,700
Lung Walk	3,915	65,879	-	-	69,794
Gala	1,165	123,323	8,673	-	133,161
Stair Climb	52,795	513,227	17,000	31,630	614,652
Bike Trek	-	20,386	-	-	20,386
Other	-	4,356	-	-	4,356
	<u>\$ 527,521</u>	<u>\$ 1,375,909</u>	<u>\$ 26,073</u>	<u>\$ 126,440</u>	<u>\$ 2,055,943</u>

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

16. SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are issued or are available to be issued. These events and transactions either provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing financial statements (that is, recognized subsequent events), or provide evidence about conditions that did not exist at the date of the statement of financial position but arose after that date (that is, non-recognized subsequent events).

The Association has evaluated subsequent events through October 26, 2015, which was the date that these financial statements were available for issuance, and determined that there were no significant non-recognized subsequent events through that date.

SUPPLEMENTARY INFORMATION

AMERICAN LUNG ASSOCIATION OF THE UPPER MIDWEST

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2015

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant ID Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development			
Passed through City of Duluth, Minnesota Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	21347	<u>24,696</u>
Healthy Homes Technical Studies Grants	14.906	ILHHU0010-13	<u>179,140</u>
Asthma Interventions in Public and Assisted Multi-Family Housing Grant Program	14.914	MNLHH0222-10	<u>384</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			204,220
U.S. Department of the Interior			
Mississippi National River and Recreation Area State and Local Assistance	15.941	P13AP00046	<u>66,795</u>
TOTAL U.S. DEPARTMENT OF THE INTERIOR			66,795
U.S. Department of Transportation			
Passed through Missouri Highways and Transportation Commission Highway Planning and Construction		CMAQ-5602(615)	63,712
Highway Planning and Construction		CMAQ-5401(715)	<u>125,706</u>
Total Highway Planning and Construction Grants	20.205		<u>189,418</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			189,418
U.S. Environmental Protection Agency			
Passed through Illinois Emergency Management Agency State Indoor Radon Grants		13 ALAIL (Radon)	72,321
State Indoor Radon Grants		14 ALAIL (Radon)	55,859
State Indoor Radon Grants		14ALAMIT (Radon)	10,525
State Indoor Radon Grants		14ALARRC (Radon)	18,352
Passed through Indiana Department of Health State Indoor Radon Grants		A70-5-154010	4,164
State Indoor Radon Grants		K100E13106-1	1,688
State Indoor Radon Grants		A70-5-154009	24,674
Passed through Iowa Department of Public Health State Indoor Radon Grants		5585RC01	<u>79,995</u>
Total State Indoor Radon Grants	66.032		<u>267,578</u>
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities			
Relating to the Clean Air Act		97738301	3,932
Relating to the Clean Air Act		00E01057	13,589
Relating to the Clean Air Act		83575301	<u>56,342</u>
Total Surveys, Studies, Research, Investigations, Deomnstrations and Special Purpose Activities	66.034		<u>73,863</u>
National Clean Diesel Emissions Reduction Program		DE-00D27715-0	4,586
National Clean Diesel Emissions Reduction Program		DE-00E01162-0	464,289
National Clean Diesel Emissions Reduction Program		DE-00E01253-0	<u>225,009</u>
Total National Clean Diesel Emissions Reduction Program	66.039		<u>693,884 (m)</u>
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY			1,035,325

This schedule continued on the following page.

AMERICAN LUNG ASSOCIATION OF THE UPPER MIDWEST

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

For the Year Ended June 30, 2015

U.S. Department of Energy

Conservation Research and Development		DE-EE0006008	60,097
Conservation Research and Development		DE-EE0002557	7,067
Total Conservation Research and Development	81.086		<u>67,164</u>
TOTAL U.S. DEPARTMENT OF ENERGY			67,164

U.S. Department of Health and Human Services

Centers for Disease Control and Prevention

Passed through Illinois Department of Public Health			
Environmental Public Health and Emergency Response		2U59EH000532-06	25,094
Passed through Indiana Department of Health			
Environmental Public Health and Emergency Response		5U59EH000507	19,459
Environmental Public Health and Emergency Response		13600	22,031
Environmental Public Health and Emergency Response		155072	12,386
Total Environmental Public Health and Emergency Response	93.070		<u>78,970</u>
Passed through Illinois Department of Public Health			
Project Grants and Cooperative Agreements for Tuberculosis Control Programs		55180258C	6,154
Project Grants and Cooperative Agreements for Tuberculosis Control Programs		45180031B	48,656
Passed through Wisconsin Department of Public Health			
Project Grants and Cooperative Agreements for Tuberculosis Control Programs		25776	16,279
Project Grants and Cooperative Agreements for Tuberculosis Control Programs		28875	8,609
Total Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		<u>79,698</u>
Passed through Wisconsin Department of Public Health			
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	155072	<u>10,820</u>
Passed through Wisconsin Department of Health Services			
National State Based Tobacco Control Programs	93.305	158136	<u>294,779</u>
Passed through American Lung Association (National)			
Community Transformation Grants and National Dissemination and Support for Community Transformation Grants		na	28,094
Passed through University of Wisconsin-Madison			
Community Transformation Grants and National Dissemination and Support for Community Transformation Grants		na	42,925
Passed through Carlton-Cook-Lake-St.Louis Community Health Board (Minnesota)			
Community Transformation Grants and National Dissemination and Support for Community Transformation Grants		na	53,969
Passed through Whiteside County (Illinois) Health Department			
Community Transformation Grants and National Dissemination and Support for Community Transformation Grants		na	4,922
Passed through North Country Community Health Services Agency			
Community Transformation Grants and National Dissemination and Support for Community Transformation Grants		na	6,070
Total Community Transformation Grants and National Dissemination and Support for Community Transformation Grants	93.531		<u>135,980</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
CENTERS FOR DISEASE CONTROL AND PREVENTION			600,247
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$2,163,169</u>

(m) Audited as major program.

See Notes to Schedule of Expenditures of Federal Awards
See Independent Auditor's Report

AMERICAN LUNG ASSOCIATION OF THE UPPER MIDWEST

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2015

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of American Lung Association of the Upper Midwest under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of the Office of Budget and Management (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of American Lung Association of the Upper Midwest, it is not intended to and does not present the financial position, changes in net assets or cash flows of American Lung Association of the Upper Midwest.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowed or limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

DESCRIPTION OF MAJOR FEDERAL PROGRAM

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

SUBRECIPIENTS

The Association did not provide federal awards to subrecipients during the year ended June 30, 2015.

NON-CASH ASSISTANCE, INSURANCE, AND LOANS

The Association did not receive any non-cash assistance through federal awards during the year ended June 30, 2015. In addition, there was no federal insurance in effect during the year, nor any federal loans or loan guarantees outstanding at year end.

**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
American Lung Association of the Upper Midwest

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of American Lung Association of the Upper Midwest (Association), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 26, 2015.

Internal control over financial reporting

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

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

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

Compliance and other matters

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

Purpose of this Report

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

A handwritten signature in cursive script, appearing to read "S. L. L.", is positioned above the typed text.

Springfield, Illinois
October 26, 2015

**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

Board of Directors
American Lung Association of the Upper Midwest

Report on Compliance for Each Major Federal Program

We have audited American Lung Association of the Upper Midwest's (Association) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Association's major federal programs for the year ended June 30, 2015. The Association's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's responsibility

Our responsibility is to express an opinion on compliance for each of the Association's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Association complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Types of Control Over Compliance

Management of the Association is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Association's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over compliance.

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

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Springfield, Illinois
October 26, 2015

AMERICAN LUNG ASSOCIATION OF THE UPPER MIDWEST

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2015

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: *unmodified*

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

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

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

Type of auditor's report issued on compliance
for major programs: *unmodified*

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section .510(a)? _____ yes X no

Identification of major programs:

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

Dollar threshold used to distinguish
between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X yes _____ no

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

Financial Statement Findings

None.

Federal Award Findings

None.

Prior Audit Findings

Note: The prior audit contained no findings.