

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

American Lung Association of the Upper Midwest



June 30, 2012

## CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	3
FINANCIAL STATEMENTS	
STATEMENT OF FINANCIAL POSITION	5
STATEMENT OF ACTIVITIES	7
STATEMENT OF FUNCTIONAL EXPENSES	9
STATEMENT OF CASH FLOWS	10
NOTES TO FINANCIAL STATEMENTS	11



CPAs and  
Management Consultants

1000 Myers Building  
1 West Old State Capitol Plaza  
Springfield, IL 62701-1268  
ph 217.789.0960  
fax 217.789.2822  
www.kebcpa.com

## Independent Auditors' Report

To the Board of Directors  
American Lung Association of the Upper Midwest  
Springfield, Illinois

We have audited the accompanying statement of financial position of American Lung Association of the Upper Midwest (a non-profit corporation) (the Association) as of June 30, 2012, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the management of American Lung Association of the Upper Midwest. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Lung Association of the Upper Midwest as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

---

Other Locations

Jacksonville, IL • Belleville, IL • Carbondale, IL • Cape Girardeau, MO • St. Louis, MO • Milwaukee, WI

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2012, on our consideration of American Lung Association of the Upper Midwest'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* and should be considered in assessing the results of our audit.

*Kuhner, Eck & Brantford LLP*

Springfield, Illinois  
September 26, 2012

American Lung Association of the Upper Midwest

STATEMENT OF FINANCIAL POSITION

June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 1,641,694	\$ 339,733	\$ -	\$ 1,981,427
Current receivables				
Accounts and grants receivable, net	2,830,670	-	-	2,830,670
Pledges and bequests receivable, net	-	2,000	-	2,000
Notes receivable	219,703	-	-	219,703
Prepaid expenses and other assets				
Prepaid expenses	93,440	-	-	93,440
Inventories	88,928	-	-	88,928
	<hr/>	<hr/>	<hr/>	<hr/>
Total current assets	4,874,435	341,733	-	5,216,168
NONCURRENT ASSETS				
Investments	13,827,576	575,161	104,667	14,507,404
Noncurrent notes receivable	242,889	-	-	242,889
Property and equipment, net	4,161,462	-	-	4,161,462
Cash surrender value of life insurance policy	-	60,771	-	60,771
Beneficial interest in gift annuities	-	535,388	-	535,388
Beneficial interest in charitable trusts	-	1,354,000	534,600	1,888,600
	<hr/>	<hr/>	<hr/>	<hr/>
Total noncurrent assets	18,231,927	2,525,320	639,267	21,396,514
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	\$ 23,106,362	\$ 2,867,053	\$ 639,267	\$ 26,612,682
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

American Lung Association of the Upper Midwest  
STATEMENT OF FINANCIAL POSITION - CONTINUED

June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable and accruals				
Accounts payable - general	\$ 1,706,653	\$ -	\$ -	\$ 1,706,653
Accounts payable - National	758,126	-	-	758,126
Accrued expenses	368,556	-	-	368,556
Deferred revenue	1,158,997	190,180	-	1,349,177
Accrued pension and postretirement plan liabilities	3,704	-	-	3,704
	<hr/>	<hr/>	<hr/>	<hr/>
Total current liabilities	3,996,036	190,180	-	4,186,216
<b>NONCURRENT LIABILITIES</b>				
Deferred revenue	247,889	-	-	247,889
Gift annuities obligations	-	388,374	-	388,374
Accrued pension and postretirement plan liabilities	2,779,513	-	-	2,779,513
	<hr/>	<hr/>	<hr/>	<hr/>
Total noncurrent liabilities	3,027,402	388,374	-	3,415,776
Total liabilities	7,023,438	578,554	-	7,601,992
<b>NET ASSETS</b>				
Unrestricted	16,082,924	-	-	16,082,924
Temporarily restricted	-	2,288,499	-	2,288,499
Permanently restricted	-	-	639,267	639,267
	<hr/>	<hr/>	<hr/>	<hr/>
Total net assets	16,082,924	2,288,499	639,267	19,010,690
Total liabilities and net assets	<u>\$ 23,106,362</u>	<u>\$ 2,867,053</u>	<u>\$ 639,267</u>	<u>\$ 26,612,682</u>

The accompanying notes are an integral part of this statement.

American Lung Association of the Upper Midwest

STATEMENT OF ACTIVITIES

Year ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>OPERATING PUBLIC SUPPORT AND REVENUE</b>				
Public support				
Direct mail				
Christmas Seals	\$ 1,548,424	\$ -	\$ -	\$ 1,548,424
Other direct mail	2,965,088	-	-	2,965,088
Vehicle donation program and miscellaneous	749,138	-	-	749,138
Special events				
Special events gross revenue	2,575,151	-	-	2,575,151
Special events direct expenses	(534,172)	-	-	(534,172)
Other contributions				
Workplace giving	200,994	-	-	200,994
Memorials	306,876	-	-	306,876
Bequests	1,531,981	2,000	-	1,533,981
Individual gifts	353,356	97,936	400	451,692
Corporate gifts	12,257	109,032	-	121,289
Foundation gifts	46,091	9,100	-	55,191
In-kind contributions	4,158,154	-	-	4,158,154
	<hr/>	<hr/>	<hr/>	<hr/>
Total public support	13,913,338	218,068	400	14,131,806
Revenue				
Corporate grants	370,300	-	-	370,300
Foundation grants	74,354	-	-	74,354
Grants from other not-for-profit organizations	1,379,430	-	-	1,379,430
Government grants	6,873,877	-	-	6,873,877
Interest, dividends and royalties	651,109	-	-	651,109
Rental income	47,101	-	-	47,101
Program service fees	988,291	-	-	988,291
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	10,384,462	-	-	10,384,462
Assets released from restrictions				
Bequests	85,239	(85,239)	-	-
Individual gifts	155,936	(155,936)	-	-
Corporate gifts	120,460	(120,460)	-	-
Foundation gifts	12,400	(12,400)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total net assets released from restrictions	374,035	(374,035)	-	-
Sale of assets				
Sale of materials	200,567	-	-	200,567
	<hr/>	<hr/>	<hr/>	<hr/>
Other miscellaneous income	20,406	-	-	20,406
	<hr/>	<hr/>	<hr/>	<hr/>
Total operating public support and revenue	24,892,808	(155,967)	400	24,737,241

American Lung Association of the Upper Midwest

STATEMENT OF ACTIVITIES - CONTINUED

Year ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>EXPENSE</b>				
Program services				
Asthma	\$ 2,502,109	\$ -	\$ -	\$ 2,502,109
Environmental health	7,084,579	-	-	7,084,579
Tobacco control	7,340,719	-	-	7,340,719
Community health services	632,185	-	-	632,185
Other lung health programs	1,455,507	-	-	1,455,507
Research	1,156,849	-	-	1,156,849
Total program services	20,171,948	-	-	20,171,948
Supporting services				
Fundraising	2,168,015	-	-	2,168,015
Management and general	722,816	-	-	722,816
Total supporting services	2,890,831	-	-	2,890,831
Assessments to National	1,143,843	-	-	1,143,843
Total expense	24,206,622	-	-	24,206,622
OPERATING CHANGE IN NET ASSETS	686,186	(155,967)	400	530,619
<b>NONOPERATING CHANGE IN NET ASSETS</b>				
Other pension and postretirement plan changes	(729,790)	-	-	(729,790)
Change in split-interest agreements	-	(106,769)	(23,400)	(130,169)
Realized loss on investments	(32,911)	-	-	(32,911)
Unrealized loss on investments	(519,765)	-	-	(519,765)
CHANGE IN NET ASSETS	(596,280)	(262,736)	(23,000)	(882,016)
Net assets - beginning of year	16,679,204	2,551,235	662,267	19,892,706
NET ASSETS - END OF YEAR	<u>\$ 16,082,924</u>	<u>\$ 2,288,499</u>	<u>\$ 639,267</u>	<u>\$ 19,010,690</u>

The accompanying notes are an integral part of this statement.



American Lung Association of the Upper Midwest

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2012

	Program Services						Supporting Services				Total
	Asthma	Environmental Health	Tobacco Control	Community Health Services	Other Lung Health Programs	Research	Total Program Services	Fundraising	Management and General	Total Supporting Services	
Wages and salaries	\$ 563,941	\$ 1,193,538	\$ 2,461,530	\$ 108,646	\$ 316,769	\$ 123,780	\$ 4,768,204	\$ 258,863	\$ 313,780	\$ 572,643	\$ 5,340,847
Employee benefits	161,163	300,298	702,011	29,640	91,676	30,094	1,314,882	74,513	65,060	139,573	1,454,455
Employee education and training	1,690	7,149	19,203	379	692	936	30,049	658	4,072	4,730	34,779
Contractors and professional fees	60,199	113,801	347,266	14,657	46,040	22,650	604,613	101,536	101,642	203,178	807,791
Business insurance	3,952	24,746	11,781	1,116	1,963	2,672	46,230	1,106	12,183	13,289	59,519
Building occupancy	29,984	161,871	92,487	7,152	13,951	20,147	325,592	8,562	93,800	102,362	427,954
Telephone	14,022	45,331	75,093	12,584	11,358	5,397	163,785	3,369	23,025	26,394	190,179
Travel	29,108	50,333	120,613	5,351	11,699	4,343	221,447	5,404	6,325	11,729	233,176
Meetings/conferences	24,174	50,992	39,386	5,343	47,611	4,044	171,550	2,407	3,269	5,676	177,226
Supplies and small equipment	37,230	85,018	109,793	14,269	16,997	5,331	268,638	6,504	22,761	29,265	297,903
Postage and shipping	80,416	75,979	198,955	37,037	129,594	58,223	580,204	374,219	2,818	377,037	957,241
Printing and educational materials	175,864	140,622	419,822	74,954	279,640	128,170	1,219,072	827,868	1,164	829,032	2,048,104
Promotional activities	196,141	149,225	892,726	44,090	45,653	43,869	1,371,704	55,043	2,832	57,875	1,429,579
Program and services	252,570	2,550,429	761,248	89,171	160,130	-	3,813,548	-	-	-	3,813,548
Fees and dues	29,525	31,617	49,980	9,856	26,457	14,726	162,161	76,649	6,152	82,801	244,962
Subscriptions	3,475	6,921	28,648	1,451	2,106	1,355	43,956	1,793	2,014	3,807	47,763
Research	-	-	-	-	-	585,073	585,073	-	-	-	585,073
Support to others	-	44,950	28,200	-	-	1,000	74,150	-	-	-	74,150
Depreciation	19,698	106,433	59,846	4,697	9,169	13,243	213,086	5,607	61,683	67,290	280,376
Strategic Cause Campaign	80,000	80,000	80,000	80,000	80,000	-	400,000	-	-	-	400,000
In-kind contributions	738,957	1,865,326	842,131	91,792	164,002	91,796	3,794,004	363,914	236	364,150	4,158,154
Subtotal	2,502,109	7,084,579	7,340,719	632,185	1,455,507	1,156,849	20,171,948	2,168,015	722,816	2,890,831	23,062,779
Assessments to National	151,559	125,709	305,177	65,771	265,257	121,705	1,035,178	17,615	91,050	108,665	1,143,843
Total functional expenses	<u>\$ 2,653,668</u>	<u>\$ 7,210,288</u>	<u>\$ 7,645,896</u>	<u>\$ 697,956</u>	<u>\$ 1,720,764</u>	<u>\$ 1,278,554</u>	<u>\$ 21,207,126</u>	<u>\$ 2,185,630</u>	<u>\$ 813,866</u>	<u>\$ 2,999,496</u>	<u>\$ 24,206,622</u>
Fiscal year June 30, 2012, percentage	10.96%	29.79%	31.59%	2.89%	7.11%	5.28%	87.62%	9.03%	3.35%	12.38%	100.00%

The accompanying notes are an integral part of this statement.

American Lung Association of the Upper Midwest

STATEMENT OF CASH FLOWS

Year ended June 30, 2012

Cash flows from operating activities	
Change in net assets	\$ (882,016)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	280,376
Forgiveness of notes receivable	310,378
Unrealized loss on investments	519,765
Realized loss on investments	32,911
Change in split-interest agreements	130,169
(Increase) decrease in assets	
Accounts and grants receivable	(45,805)
Pledges and bequests receivable	91,246
Inventories	(9,652)
Prepaid expenses	(29,850)
Increase (decrease) in liabilities	
Accounts payable	849,090
Accrued expenses	1,075,335
Deferred revenue	(120,328)
	<hr/>
Net cash provided by operating activities	2,201,619
Cash flows from investing activities	
Purchase of investments	(3,974,962)
Proceeds from sale of investments	2,405,843
Advances on notes receivable	(98,891)
Purchase of property and equipment	(58,842)
Proceeds received from sale of property and equipment	8,782
	<hr/>
Net cash used in investing activities	(1,718,070)
NET INCREASE IN CASH AND CASH EQUIVALENTS	483,549
Cash and cash equivalents - beginning of year	<hr/> 1,497,878
CASH AND CASH EQUIVALENTS - END OF YEAR	<hr/> <u>\$ 1,981,427</u>

The accompanying notes are an integral part of this statement.

American Lung Association of the Upper Midwest

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE A - SUMMARY OF ACCOUNTING POLICIES

*1. Nature of Operations*

The mission of the American Lung Association of the Upper Midwest (the 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, Minnesota, North Dakota, South Dakota, and Wisconsin.

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

*2. Basis of Financial Statement Presentation*

The American Lung Association of the Upper Midwest follows the financial reporting and accounting guidance for not-for-profit organizations as required under the FASB Codification of accounting principles generally accepted in the United States of America.

Under the provisions of these standards, net assets and revenues, gains and losses are classified based on donor imposed restrictions. Accordingly, net assets of the Association and changes therein are classified and reported as follows:

Unrestricted - Resources over which the board of directors has discretionary control. Designated amounts represent those revenues which the board has set aside for a particular purpose.

Temporarily Restricted - Those resources subject to donor imposed restrictions which will be satisfied by actions of the Association or passage of time. The Association has elected to present all temporarily restricted contributions, which are fulfilled in the same time period, within the unrestricted net asset class.

American Lung Association of the Upper Midwest  
NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

2. *Basis of Financial Statement Presentation - Continued*

Permanently Restricted - Those resources subject to a donor imposed restriction that they be maintained permanently by the Association. The donors of these resources permitted the Association to use all or part of the income earned, including capital appreciation, on related investments for unrestricted or temporarily restricted purposes.

Operating activities includes all revenue and expenses except for unrealized and realized gains and losses on investments, changes in value of split interest agreements, and changes in other comprehensive income relating to pension and postretirement plan costs.

3. *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.

4. *Concentrations of Credit Risk*

Financial instruments which potentially subject the Association to concentration of credit risk consist primarily of cash, bequests receivable and fundraising support. The Association maintains its checking accounts at several institutions, which at times have balances exceeding the insured limit of \$ 250,000. The Association has not experienced any losses in such accounts as of June 30, 2012, and through the date of this report.

Accounts and grants receivable consist primarily of government, corporation and foundation reimbursements for specific program expenditures. With respect to bequests and pledges receivable, the balance consists of a limited number of estates that may or may not individually exceed an amount considered a concentration.

The Association received approximately 18% of its annual revenue from direct mail solicitations for the year ended June 30, 2012.

American Lung Association of the Upper Midwest

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

5. *Cash and Cash Equivalents*

The Association considers all liquid instruments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents held as part of an investment portfolio are considered investments and are, therefore, excluded from cash.

6. *Accounts and Grants Receivable*

The Association provides an allowance for bad debts using the allowance method which is based on management's judgment considering historical information. Services are sold on an unsecured basis. Payment is required 30 days after receipt of the invoice. Accounts past due more than 120 days are individually analyzed for collectibility. Accounts for which no payments have been received for six months are written off. In addition, an allowance is provided for other accounts when a significant pattern of uncollectibility has occurred. When all collection efforts have been exhausted, the accounts are written off against the related allowance. At June 30, 2012, an allowance was not warranted.

7. *Pledges Receivable*

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Pledges that are expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of the amount expected to be collected. The discounts on those amounts are computed using an imputed interest rate applicable to the year in which the pledge is received. Conditional pledges are not included as support until the conditions are substantially met. The Association currently does not have conditional pledges. Any pledges deemed uncollectible by management are written off at the time of determination of uncollectibility.

8. *Beneficial Interest 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 above is received, it is recorded as a gift at the fair value of the amount expected to be received.

American Lung Association of the Upper Midwest

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

9. *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, 2012:

Educational publications	\$	63,539
Donated vehicles		<u>25,389</u>
Total	\$	<u>88,928</u>

10. *Property and Equipment*

The Association capitalizes land, buildings, and equipment 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 3 to 40 years. Leasehold improvements are amortized over the shorter of the life of the lease or estimated life of the asset.

11. *Investments*

The Association carries its investments at fair value in accordance with Topic 958-320 under the FASB Codification of accounting standards. Fair value 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.

12. *Contributions*

Contributions are recorded as support when received or pledged. If donor-imposed restrictions accompany the contribution, the amount is recorded as temporarily or permanently restricted until the donor-imposed restrictions expire or are fulfilled. Temporarily restricted net assets are reclassified to unrestricted net assets in the period the donor-imposed restrictions expire or are fulfilled, and are reported in the Statement of Activities under the Operating Public Support and Revenue Category - Assets released from restrictions.

American Lung Association of the Upper Midwest  
NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

*13. Donated Goods and Services*

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

*14. 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.

*15. 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.

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 reasonably possible 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 were no interest or penalties paid during fiscal year 2012.

The Association files an exempt organization return in the federal jurisdiction and various state returns. The returns prior to 2008 are closed.

*16. Subsequent Events*

Management has evaluated subsequent events for recognition and disclosure in the financial statements through September 26, 2012, which is the date the financial statements were available to be issued. Through September 26, 2012, no subsequent events required recognition or disclosure in the financial statements.

American Lung Association of the Upper Midwest

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE B - 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 \$ 98,891 during the year ended June 30, 2012. 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, 2012, \$ 310,378 of the notes receivable was forgiven.

NOTE C - PROPERTY AND EQUIPMENT

Following is a summary of property and equipment at June 30, 2012:

		<u>Estimated Useful Life</u>
Land	\$ 264,515	N/A
Buildings	5,191,799	30 - 40 Years
Office furniture and equipment	2,580,696	3 - 10 Years
Vehicles	69,862	3 - 10 Years
Leasehold improvements	30,609	3 - 10 Years
Construction in progress	<u>15,697</u>	N/A
	8,153,178	
Less accumulated depreciation	<u>3,991,716</u>	
Total property and equipment, net	<u>\$ 4,161,462</u>	

NOTE D - 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, 2012, was \$ 208,000.

The Association is named as a 1/27<sup>th</sup> 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, 2012, was \$ 115,000.



American Lung Association of the Upper Midwest

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE D - BENEFICIAL INTEREST IN CHARITABLE TRUSTS - Continued

During the year ended June 30, 2007, the Association became a 1/12<sup>th</sup> 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 is \$ 1,825,000 and the trust and the exact date of liquidation of assets and payment of distributions is not known at this time, but it is not expected to be within the next year. 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, 2012, was \$ 1,031,000 and the Association received distributions from the trust in the amount of \$ 217,852 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, 2012, was \$ 450,500.

The Association is named as a 1/20<sup>th</sup> 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, 2012, was \$ 84,100.

NOTE E - INVESTMENTS

Investments consist of the following at June 30, 2012:

	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 1,427	\$ 1,427
Mutual funds	13,277,923	13,822,800
Stocks	<u>551,645</u>	<u>683,177</u>
Total	<u>\$ 13,830,995</u>	<u>\$ 14,507,404</u>

Investment income for the year ended June 30, 2012, consisted of the following:

Interest and dividends	\$ 496,312
Unrealized losses	(519,765)
Realized losses	<u>(32,911)</u>
Total	<u>\$ (56,364)</u>

Investment fees totaled \$ 29,219 for the year ended June 30, 2012, and are included in contractors and professional fees on the statement of functional expenses.

American Lung Association of the Upper Midwest

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE F - FAIR VALUE MEASUREMENTS

Fair value is defined 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. Accounting standards establish a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as U.S. Treasury securities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments. These assets also include certain entities that calculate net asset value per share if the Association has the ability to redeem the investment at net asset value per share at the measurement date or shortly thereafter. Examples of these entities include real estate investment trusts, hedge funds, private equity funds, real estate funds, offshore funds and funds of funds.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant measurement judgment or estimation. These assets also include certain entities that calculate net asset value per share in which the Association never has the ability to redeem the investment at net asset value per share or cannot redeem the investment in the near term.

The following discussion describes the valuation methodologies used for financial assets and liabilities measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions used, including discount rates and estimates of the amount and timing of future cash flows. Care should be exercised in deriving conclusions about the Association's business, its value or financial position based on the fair value information of financial assets and liabilities presented.

American Lung Association of the Upper Midwest

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE F - FAIR VALUE MEASUREMENTS - Continued

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset. In addition, the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset.

Fair values of mutual funds and stocks have been determined by the Association from observable market quotations as provided by the Association's custodian bank, when available. Fair value for the Level 2 beneficial interest in charitable trust and gift annuities, is determined using other observable market data and inputs. Fair value for the Level 3 beneficial interest in charitable trusts is determined by calculating the present value of the future distributions expected to be received using a 7.0% discount rate. Gift annuities obligations have been valued using the net present value of expected future cash flows combined with certain life expectancy tables and other assumptions.

The following table presents the Association's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2012.

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>ASSETS</b>				
Investments				
Cash and cash equivalents	\$ 1,427	\$ 1,427	\$ -	\$ -
Mutual funds				
Bond funds	7,044,806	7,044,806	-	-
Equity funds	6,777,994	6,777,994	-	-
Stocks	<u>683,177</u>	<u>683,177</u>	<u>-</u>	<u>-</u>
	14,507,404	14,507,404	-	-
Beneficial interest in charitable trusts	1,888,600	-	1,680,600	208,000
Beneficial interest in gift annuities	<u>535,388</u>	<u>-</u>	<u>535,388</u>	<u>-</u>
Total assets	<u>\$ 16,931,392</u>	<u>\$ 14,507,404</u>	<u>\$ 2,215,988</u>	<u>\$ 208,000</u>
<b>LIABILITIES</b>				
Gift annuities obligations	<u>\$ 388,374</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 388,374</u>

American Lung Association of the Upper Midwest

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE F - FAIR VALUE MEASUREMENTS - 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, 2012.

	Beneficial Interest in Charitable <u>Trusts</u>	Gift Annuities <u>Obligations</u>
Beginning balance, July 1, 2011	\$ 221,500	\$ 417,624
Total losses included in change in net assets	<u>(13,500)</u>	<u>(29,250)</u>
Ending balance, June 30, 2012	<u>\$ 208,000</u>	<u>\$ 388,374</u>

NOTE G - LEASES

The Association has several operating leases for equipment and office space. Monthly lease payments range from \$ 21 to \$ 1,139 for equipment and \$ 650 to \$ 5,228 for office space. Lease expense for the year ended June 30, 2012, was \$ 269,634. Future minimum lease commitments as of June 30, 2012, are as follows:

Years ending June 30,	
2013	\$ 197,685
2014	156,954
2015	92,960
2016	72,319
2017	<u>44,289</u>
Total	<u>\$ 564,207</u>

American Lung Association of the Upper Midwest  
NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE H - NET ASSETS

Temporarily Restricted

Temporarily restricted net assets are restricted according to donor restrictions at June 30, 2012, as follows:

Purpose restricted	
Research	\$ 575,161
Camp	32,844
Other	<u>116,708</u>
Total purpose	724,713
Time restricted	<u>1,563,786</u>
Total	<u>\$ 2,288,499</u>

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes for the year ended June 30, 2012.

Permanently Restricted

Permanently restricted net assets are restricted according to donor restrictions at June 30, 2012, as follows:

Endowment - operations	\$ 52,439
Endowment - research	52,228
Beneficial interest in charitable trusts	<u>534,600</u>
Total	<u>\$ 639,267</u>

American Lung Association of the Upper Midwest

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE I - 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 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 GAAP, deficiencies of this nature are reported in unrestricted net assets. At June 30, 2012, there were no such deficiencies.

American Lung Association of the Upper Midwest

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE I - 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, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ _____ -	\$ _____ -	\$ 639,267	\$ 639,267

American Lung Association of the Upper Midwest  
NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE I - ENDOWMENTS - Continued

Changes in Endowment Net Assets  
for the year ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning of year	\$ -	\$ -	\$ 662,267	\$ 662,267
Investment return				
Interest and dividends	2,098	1,089	-	3,187
Net unrealized depreciation	<u>-</u>	<u>-</u>	<u>(23,400)</u>	<u>(23,400)</u>
	2,098	1,089	(23,400)	(20,213)
Contributions	-	-	400	400
Appropriation of endowment assets for expenditure	<u>(2,098)</u>	<u>(1,089)</u>	<u>-</u>	<u>(3,187)</u>
End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 639,267</u>	<u>\$ 639,267</u>

Description of Amounts Classified as Permanently Restricted Net Assets  
(Endowment Only)  
June 30, 2012

Permanently restricted net assets	
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or UPMIFA	<u>\$ 639,267</u>
Total endowment funds classified as permanently restricted net assets	<u>\$ 639,267</u>



American Lung Association of the Upper Midwest

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE J - DEFINED BENEFIT PENSION PLAN

The Association has a noncontributory defined benefit pension 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, 2012.

The changes in the projected benefit obligation for the year ended June 30, 2012, are as follows:

**Change in Projected Benefit Obligation**

Projected benefit obligation at beginning of year	\$ 6,430,144
Service cost	373,125
Interest cost	343,571
Benefits paid	(515,597)
Actuarial loss	<u>770,786</u>
Projected benefit obligation at end of year	<u>\$ 7,402,029</u>

**Change in Plan Assets**

Fair value of plan assets at beginning of year	\$ 4,713,166
Employer contributions	231,000
Benefits paid	(515,597)
Actual return on plan assets	<u>276,258</u>
Fair value of plan assets at end of year	<u>\$ 4,704,827</u>

**Funded Status of the Plan**

Benefit obligation	\$ 7,402,029
Fair value of plan assets	<u>4,704,827</u>
Excess of benefit obligation over fair value of plan assets	<u>\$ 2,697,202</u>

American Lung Association of the Upper Midwest

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE J - DEFINED BENEFIT PENSION PLAN - Continued

**Components of Net Periodic Benefit Costs**

Service cost	\$ 373,125
Interest cost	343,571
Expected return on plan assets	(272,872)
Amortization of unrecognized prior service cost	16,307
Amortization of recognized net actuarial loss	<u>21,303</u>
Net periodic benefit cost	<u>\$ 481,434</u>

**Underfunded Plan Information**

Projected benefit obligation at end of year	\$ 7,402,029
Accumulated benefit obligation at end of year	\$ 6,465,162
Fair value of assets at end of year	\$ 4,704,827

**Amounts Recognized in the Statement of Financial Position**

Noncurrent assets	\$ -
Current liabilities	-
Noncurrent liabilities	<u>2,697,202</u>
Total	<u>\$ 2,697,202</u>

**Amounts Recognized in Other Nonoperating Changes in Net Assets**

Transition obligation	\$ -
Prior service cost	16,307
Recognized loss	21,303
Actuarial loss	<u>(767,400)</u>
Total	<u>\$ (729,790)</u>

**Actuarial Assumptions**

Assumptions used to determine benefit obligations at June 30, 2012	
Discount rate	4.25%
Salary increase rate	2.00%

Assumptions used to determine net periodic benefit cost for year ended June 30, 2012	
Discount rate	5.75%
Expected return on plan assets	6.00%
Salary increase rate	3.00%

American Lung Association of the Upper Midwest

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE J - 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>	
2013	\$ 311,349
2014	351,090
2015	227,414
2016	445,969
2017	329,776
2018 through 2022	5,181,431

Expected employer contributions from the Association to the plan for the year beginning July 1, 2012, are \$ 670,000.

Rate of Return Assumption

Effective July 1, 2012, the expected long-term rate of return on plan assets assumption is 5.00% (previously 6.00%). 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.

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, 2012.

American Lung Association of the Upper Midwest

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE J - DEFINED BENEFIT PENSION PLAN - Continued

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Plan assets				
Money funds	\$ 104,544	\$ 104,544	\$ -	\$ -
Common stock	730,743	730,743	-	-
U.S. Treasury notes and bonds	724,209	724,209	-	-
Corporate bonds	2,986,507	-	2,986,507	-
Hedge funds	150,452	-	150,452	-
Partnership/joint venture	<u>8,372</u>	<u>-</u>	<u>8,372</u>	<u>-</u>
 Total plan assets	 <u>\$ 4,704,827</u>	 <u>\$ 1,559,496</u>	 <u>\$ 3,145,331</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 FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE K - POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

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

The following table sets forth the plan's funded status and amounts recognized in the Association's financial statements as of and for the year ended June 30, 2012:

Disclosure of Components of the 2011 - 2012 Net Post-Retirement Cost

**Change in Projected Benefit Obligation**

Projected benefit obligation at beginning of year	\$ 75,530
Service cost	7,800
Interest cost	2,853
Benefits paid	(211)
Actuarial loss	<u>43</u>
Projected benefit obligation at end of year	<u>\$ 86,015</u>

**Underfunded Plan Information**

Projected benefit obligation at end of year	\$ 86,015
Accumulated benefit obligation at end of year	\$ 80,153
Fair value of assets at end of year	\$ -

**Components of Net Periodic Benefit Costs**

Service cost	\$ 7,800
Interest cost	2,853
Amortization of gain	(1,942)
Amortization of unrecognized prior service cost	1,340
Amortization of unrecognized net actuarial loss	<u>645</u>
Net periodic benefit cost	<u>\$ 10,696</u>

American Lung Association of the Upper Midwest  
 NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE K - POST-RETIREMENT BENEFITS OTHER THAN PENSIONS - Continued

**Funded Status of the Plan**

Benefit obligation	\$ 86,015
Fair value of plan assets	<u>          -</u>
Excess of benefit obligation over fair value of plan assets	<u><u>\$ 86,015</u></u>

**Amounts Recognized in the Statement of Financial Position**

Noncurrent assets	\$ -
Current liabilities	3,704
Noncurrent liabilities	<u>82,311</u>
Total	<u><u>\$ 86,015</u></u>

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

<u>Year</u>	
2013	\$ 5,557
2014	4,609
2015	4,325
2016	4,534
2017	6,016
2018 through 2022	52,135

The net post-retirement benefit cost for 2011 - 2012 was determined based on 5.75% discount rate and a rate of compensation increase of 4.0% per year.

NOTE L - AFFILIATES

The American Lung Association National office provides research, materials, publications, and various fundraising services to the Association and, in addition, pays a portion of contributions to the American Lung Association as a sharable payment. The cost of these services and the sharable payment is charged to program and supporting services and totaled \$ 5,684,159 for the year ended June 30, 2012.

American Lung Association of the Upper Midwest

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012

NOTE M - DONATED GOODS AND SERVICES

For the year ended June 30, 2012, the following donated goods and services were received and expensed to the following categories:

Expenses

Asthma Camp - professional time and supplies	\$ 404,200
Asthma Camp - supplies and services	119
Asthma Education - professional time	12,564
Asthma Education - supplies and services	16,655
Environmental Programs - professional time	1,134,268
Environmental Programs - supplies and services	517,182
Tobacco Education - professional time	414,579
Tobacco Education - supplies and services	75
Other Lung Disease - professional time	64,352
Other Lung Disease - supplies and services	7,648
Lung Walk - supplies and services	198,432
Gala - supplies and services	45,068
Golf Outing - supplies and services	7,500
Stair Climb - facilities, supplies and services	1,016,131
Bike Trek - supplies and services	77,102
Marathon - supplies and services	289
Vehicle Donation Program - services	237,700
Other facilities, services and materials	<u>4,290</u>
 Total expenses	 <u>\$ 4,158,154</u>

NOTE N - ALLOCATION OF JOINT COSTS

The Association incurred joint costs of \$ 2,985,130 for informational materials and activities that included fundraising appeals as part of the Association's direct mail campaigns for the year ended June 30, 2012. The Association follows the accounting guidance for joint costs contained in Topic 958 of the FASB Codification. These costs were allocated as follows:

Program	\$ 1,682,419
Fundraising	<u>1,302,711</u>
 Total	 <u>\$ 2,985,130</u>