

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

American Lung Association of the Upper Midwest



June 30, 2014

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

Report on the Financial Statements

We have audited the accompanying financial statements of American Lung Association of the Upper Midwest (a non-profit corporation), which comprise the statement of financial position as of June 30, 2014, 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.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Lung Association of the Upper Midwest as of June 30, 2014, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2014, 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* in considering American Lung Association of the Upper Midwest's internal control over financial reporting and compliance.

Kentner, Eck & Brantford LLP

Springfield, Illinois
October 30, 2014

American Lung Association of the Upper Midwest

STATEMENT OF FINANCIAL POSITION

June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 4,081,565	\$ 178,095	\$ -	\$ 4,259,660
Current receivables				
Accounts and grants receivable, net	3,739,437	-	-	3,739,437
Pledges and bequests receivable, net	-	88,996	-	88,996
Notes receivable	228,464	-	-	228,464
Prepaid expenses and other assets				
Prepaid expenses	42,774	-	-	42,774
Inventories	36,360	-	-	36,360
	<hr/>	<hr/>	<hr/>	<hr/>
Total current assets	8,128,600	267,091	-	8,395,691
NONCURRENT ASSETS				
Investments	16,038,402	478,994	105,067	16,622,463
Noncurrent notes receivable	509,368	-	-	509,368
Property and equipment, net	3,816,347	-	-	3,816,347
Beneficial interest in gift annuities	-	479,658	-	479,658
Beneficial interest in charitable trusts	-	1,440,300	612,100	2,052,400
	<hr/>	<hr/>	<hr/>	<hr/>
Total noncurrent assets	20,364,117	2,398,952	717,167	23,480,236
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	\$ 28,492,717	\$ 2,666,043	\$ 717,167	\$ 31,875,927

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

June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accruals				
Accounts payable - general	\$ 1,808,555	\$ -	\$ -	\$ 1,808,555
Accounts payable - National	992,261	-	-	992,261
Accrued expenses	389,517	-	-	389,517
Deferred revenue	2,315,225	92,893	-	2,408,118
Accrued pension and postretirement plan liabilities	6,807	-	-	6,807
Total current liabilities	5,512,365	92,893	-	5,605,258
NONCURRENT LIABILITIES				
Deferred revenue	514,368	-	-	514,368
Gift annuities obligations	-	322,548	-	322,548
Accrued pension and postretirement plan liabilities	2,088,639	-	-	2,088,639
Total noncurrent liabilities	2,603,007	322,548	-	2,925,555
Total liabilities	8,115,372	415,441	-	8,530,813
NET ASSETS				
Unrestricted	20,377,345	-	-	20,377,345
Temporarily restricted	-	2,250,602	-	2,250,602
Permanently restricted	-	-	717,167	717,167
Total net assets	20,377,345	2,250,602	717,167	23,345,114
Total liabilities and net assets	\$ 28,492,717	\$ 2,666,043	\$ 717,167	\$ 31,875,927

The accompanying notes are an integral part of this statement.

American Lung Association of the Upper Midwest

STATEMENT OF ACTIVITIES

Year ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATING PUBLIC SUPPORT AND REVENUE				
Public support				
Direct mail				
Christmas Seals	\$ 1,360,011	\$ -	\$ -	\$ 1,360,011
Other direct mail	2,752,118	-	-	2,752,118
Vehicle donation program and miscellaneous	292,165	-	-	292,165
Special events				
Special events gross revenue	3,498,855	-	-	3,498,855
Special events direct expenses	(650,178)	-	-	(650,178)
Other contributions				
Workplace giving	173,355	-	-	173,355
Memorials	249,392	4,455	-	253,847
Bequests	1,141,217	88,996	-	1,230,213
Individual gifts	296,762	61,533	-	358,295
Corporate gifts	9,930	59,465	-	69,395
Foundation gifts	126,489	11,508	-	137,997
In-kind contributions	3,382,759	-	-	3,382,759
Total public support	12,632,875	225,957	-	12,858,832
Revenue				
Corporate grants	1,881,221	-	-	1,881,221
Foundation grants	28,126	-	-	28,126
Grants from other not-for-profit organizations	1,397,923	-	-	1,397,923
Government grants	7,779,678	-	-	7,779,678
Interest, dividends and royalties	789,143	-	-	789,143
Rental income	46,887	-	-	46,887
Program service fees	1,354,643	-	-	1,354,643
Total revenue	13,277,621	-	-	13,277,621
Assets released from restrictions				
Memorials	3,560	(3,560)	-	-
Bequests	168,239	(168,239)	-	-
Individual gifts	85,956	(85,956)	-	-
Corporate gifts	54,071	(54,071)	-	-
Foundation gifts	5,650	(5,650)	-	-
Total net assets released from restrictions	317,476	(317,476)	-	-
Sale of assets				
Sale of materials	232,100	-	-	232,100
Other miscellaneous income				
	63,017	-	-	63,017
Total operating public support and revenue	26,523,089	(91,519)	-	26,431,570

American Lung Association of the Upper Midwest

STATEMENT OF ACTIVITIES - CONTINUED

Year ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
EXPENSES				
Program services				
Environmental health	\$ 6,442,519	\$ -	\$ -	\$ 6,442,519
Tobacco control	9,239,975	-	-	9,239,975
Community health services	864,912	-	-	864,912
Lung Cancer, Asthma, COPD and other lung disease	4,097,507	-	-	4,097,507
Research	1,683,988	-	-	1,683,988
Total program services	22,328,901	-	-	22,328,901
Supporting services				
Fundraising	1,589,182	-	-	1,589,182
Management and general	1,192,325	-	-	1,192,325
Total supporting services	2,781,507	-	-	2,781,507
Assessments to National	1,169,077	-	-	1,169,077
Total expenses	26,279,485	-	-	26,279,485
OPERATING CHANGE IN NET ASSETS	243,604	(91,519)	-	152,085
NONOPERATING CHANGE IN NET ASSETS				
Other pension and postretirement plan changes	1,040,840	-	-	1,040,840
Change in split-interest agreements	-	92,232	55,500	147,732
Realized gain on investments	1,793	-	-	1,793
Unrealized gain on investments	1,582,230	-	-	1,582,230
CHANGE IN NET ASSETS	2,868,467	713	55,500	2,924,680
Net assets - beginning of year	17,508,878	2,249,889	661,667	20,420,434
NET ASSETS - END OF YEAR	<u>\$ 20,377,345</u>	<u>\$ 2,250,602</u>	<u>\$ 717,167</u>	<u>\$ 23,345,114</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, 2014

	Program Services					Supporting Services				Total
	Environmental Health	Tobacco Control	Community Health Services	Lung Cancer, Asthma, COPD & Other Lung Disease	Research	Total Program Services	Fundraising	Management and General	Total Supporting Services	
Wages and salaries	\$ 1,210,632	\$ 2,925,374	\$ 384,431	\$ 931,736	\$ 140,516	\$ 5,592,689	\$ 285,487	\$ 288,967	\$ 574,454	\$ 6,167,143
Employee benefits	369,591	896,685	119,601	282,216	41,642	1,709,735	85,815	87,017	172,832	1,882,567
Employee education and training	4,244	4,547	195	1,691	623	11,300	337	3,000	3,337	14,637
Contractors and professional fees	150,604	377,312	30,134	122,732	31,644	712,426	75,636	173,428	249,064	961,490
Business insurance	24,155	22,273	1,292	7,587	2,865	58,172	1,653	15,069	16,722	74,894
Building occupancy	137,144	147,717	5,748	43,525	20,291	354,425	9,167	100,641	109,808	464,233
Telephone	48,003	90,297	7,164	23,101	6,695	175,260	4,509	30,355	34,864	210,124
Travel	55,330	179,537	9,289	87,671	5,202	337,029	8,815	9,280	18,095	355,124
Meetings/conferences	11,225	44,267	5,042	45,811	4,903	111,248	3,167	1,841	5,008	116,256
Supplies and small equipment	83,628	136,570	25,848	49,375	8,830	304,251	12,715	46,907	59,622	363,873
Postage and shipping	45,544	90,519	13,477	261,167	102,728	513,435	232,692	107,760	340,452	853,887
Printing and educational materials	87,694	162,015	22,096	561,644	228,576	1,062,025	513,989	243,591	757,580	1,819,605
Promotional activities	33,734	124,445	18,603	105,726	18,476	300,984	23,622	1,339	24,961	325,945
Program and services	2,594,379	2,752,287	106,649	885,331	900	6,339,546	2,865	311	3,176	6,342,722
Fees and dues	33,557	53,470	10,056	77,627	24,349	199,059	62,959	25,485	88,444	287,503
Subscriptions	10,900	10,326	1,460	1,599	498	24,783	330	1,883	2,213	26,996
Research	-	-	-	-	593,472	593,472	-	-	-	593,472
Support to others	-	46,399	-	19,000	-	65,399	-	-	-	65,399
Depreciation	75,392	77,596	3,133	23,859	11,144	191,124	5,030	55,325	60,355	251,479
Strategic Cause Campaign	35,060	35,060	35,060	70,120	375,000	550,300	-	-	-	550,300
In-kind contributions	1,431,703	1,063,279	65,634	495,989	65,634	3,122,239	260,394	126	260,520	3,382,759
Subtotal	6,442,519	9,239,975	864,912	4,097,507	1,683,988	22,328,901	1,589,182	1,192,325	2,781,507	25,110,408
Assessments to National	151,980	116,908	46,763	210,434	526,085	1,052,170	46,762	70,145	116,907	1,169,077
Total functional expenses	\$ 6,594,499	\$ 9,356,883	\$ 911,675	\$ 4,307,941	\$ 2,210,073	\$ 23,381,071	\$ 1,635,944	\$ 1,262,470	\$ 2,898,414	\$ 26,279,485
Fiscal year June 30, 2014, percentage	25.09%	35.61%	3.47%	16.39%	8.41%	88.97%	6.23%	4.80%	11.03%	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, 2014

Cash flows from operating activities	
Change in net assets	\$ 2,924,680
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	251,479
Forgiveness of notes receivable	234,878
Unrealized gain on investments	(1,582,230)
Realized gain on investments	(1,793)
Change in split-interest agreements	(147,732)
(Increase) decrease in assets	
Accounts and grants receivable	494,291
Pledges and bequests receivable	(31,067)
Inventories	25,031
Prepaid expenses	(945)
Increase (decrease) in liabilities	
Accounts payable	(682,663)
Accrued expenses	(682,375)
Deferred revenue	1,655,535
	<hr/>
Net cash provided by operating activities	2,457,089
Cash flows from investing activities	
Purchase of investments	(1,448,922)
Proceeds from sale of investments	1,745,883
Advances on notes receivable	(699,405)
Purchase of property and equipment	(125,656)
	<hr/>
Net cash used in investing activities	(528,100)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,928,989
Cash and cash equivalents - beginning of year	<hr/> 2,330,671
CASH AND CASH EQUIVALENTS - END OF YEAR	<hr/> <hr/> \$ 4,259,660

The accompanying notes are an integral part of this statement.

American Lung Association of the Upper Midwest

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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

2. Basis of Financial Statement Presentation

The Association 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, 2014

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, 2014, 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 15% of its annual revenue from direct mail solicitations for the year ended June 30, 2014.

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

June 30, 2014

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, 2014, 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, 2014

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, 2014:

Educational publications	\$ 27,568
Donated vehicles	<u>8,792</u>
Total	<u>\$ 36,360</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, 2014

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 was no interest or penalties paid during fiscal year 2014.

The Association files an exempt organization return in the federal jurisdiction and various state returns. The returns prior to 2010 are closed.

16. Subsequent Events

Management has evaluated subsequent events for recognition and disclosure in the financial statements through October 30, 2014, which is the date the financial statements were available to be issued. See Note P for information requiring disclosure in the financial statements.

American Lung Association of the Upper Midwest

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

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 \$ 699,405 during the year ended June 30, 2014. 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, 2014, \$ 234,878 of the notes receivable was forgiven.

NOTE C - PROPERTY AND EQUIPMENT

Following is a summary of property and equipment at June 30, 2014:

		<u>Estimated Useful Life</u>
Land	\$ 264,515	N/A
Buildings	5,191,799	30 - 40 Years
Office furniture and equipment	2,695,795	3 - 10 Years
Vehicles	106,428	3 - 10 Years
Leasehold improvements	<u>30,609</u>	3 - 10 Years
	8,289,146	
Less accumulated depreciation	<u>4,472,799</u>	
Total property and equipment, net	<u>\$ 3,816,347</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, 2014, was \$ 231,000.

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, 2014, was \$ 138,700.

American Lung Association of the Upper Midwest

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE D - BENEFICIAL INTEREST IN CHARITABLE TRUSTS - Continued

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 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, 2014, was \$ 1,070,600 and the Association received distributions from the trust in the amount of \$ 44,400 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, 2014, was \$ 512,000.

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, 2014, was \$ 100,100.

NOTE E - INVESTMENTS

Investments consist of the following at June 30, 2014:

	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 28,106	\$ 28,106
Mutual funds	13,357,269	15,369,111
Equities	<u>903,877</u>	<u>1,225,246</u>
Total	<u>\$ 14,289,252</u>	<u>\$ 16,622,463</u>

Investment income for the year ended June 30, 2014, consisted of the following:

Interest and dividends	\$ 584,931
Unrealized gains	1,582,230
Realized gains	<u>1,793</u>
Total	<u>\$ 2,168,954</u>

Investment fees totaled \$ 52,192 for the year ended June 30, 2014, 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, 2014

NOTE F - FAIR VALUE MEASUREMENTS

The Association follows the fair value measurement guidance for financial assets and financial liabilities. The guidance defines fair value, establishes a framework for measuring value and expands disclosure about fair value measurements. In addition, the guidance permits an entity to measure eligible financial instruments and other items at fair value. The Association has not made any fair value elections.

Fair value is defined to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-level hierarchy has been established for fair value measurements based upon the inputs to the valuation of an asset or liability as follows:

Level 1 - Valuation is based on quoted prices for identical assets and liabilities in active markets.

Level 2 - Valuation is derived from inputs, other than quoted prices included in Level 1, which are observable for the asset or liability either directly or indirectly. Investments classified as Level 2 are generally valued by benchmarking model-derived prices to quoted market prices and trade data for identical or comparable securities. The significant inputs used in this approach include interest rates, prepayment timing, yield spreads, maturities, credit losses and credit ratings of the securities.

Level 3 - Valuation is derived from unobservable inputs that are not corroborated by market data.

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 annuity obligations have been valued using the net present value of expected future cash flows combined with certain life expectancy tables and other assumptions.

American Lung Association of the Upper Midwest

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE F - FAIR VALUE MEASUREMENTS - Continued

The following table presents the Association's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2014.

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
ASSETS				
Investments				
Cash and cash equivalents	\$ 28,106	\$ 28,106	\$ -	\$ -
Mutual funds				
Bond funds	6,689,333	6,689,333	-	-
Equity funds	8,679,778	8,679,778	-	-
Equities	<u>1,225,246</u>	<u>1,225,246</u>	<u>-</u>	<u>-</u>
	16,622,463	16,622,463	-	-
Beneficial interest in charitable trusts	2,052,400	-	1,821,400	231,000
Beneficial interest in gift annuities	<u>479,658</u>	<u>-</u>	<u>479,658</u>	<u>-</u>
Total assets	<u>\$ 19,154,521</u>	<u>\$ 16,622,463</u>	<u>\$ 2,301,058</u>	<u>\$ 231,000</u>
LIABILITIES				
Gift annuities obligations	<u>\$ 322,548</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 322,548</u>

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

June 30, 2014

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, 2014.

	Beneficial Interest in Charitable <u>Trusts</u>	Gift Annuities <u>Obligations</u>
Beginning balance, July 1, 2013	\$ 223,000	\$ 369,636
Total gains (losses) included in change in net assets	<u>8,000</u>	<u>(47,088)</u>
Ending balance, June 30, 2014	<u>\$ 231,000</u>	<u>\$ 322,548</u>

NOTE G - LEASES

The Association has several operating leases for equipment and office space. Monthly lease payments range from \$ 12 to \$ 1,844 for equipment and \$ 66 to \$ 7,322 for office space. Lease expense for the year ended June 30, 2014, was \$ 337,935. Future minimum lease commitments as of June 30, 2014, are as follows:

Years ending June 30,	
2015	\$ 222,075
2016	214,983
2017	159,612
2018	110,735
2019	<u>98,876</u>
Total	<u>\$ 806,281</u>

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

June 30, 2014

NOTE H - NET ASSETS

Temporarily Restricted

Temporarily restricted net assets are restricted according to donor restrictions at June 30, 2014, as follows:

Purpose restricted	
Research	\$ 479,263
Camp	5,561
Other	<u>79,372</u>
Total purpose	564,196
Time restricted	<u>1,686,406</u>
Total	<u>\$ 2,250,602</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, 2014.

Permanently Restricted

Permanently restricted net assets are restricted according to donor restrictions at June 30, 2014, as follows:

Endowment - operations	\$ 52,839
Endowment - research	52,228
Beneficial interest in charitable trusts	<u>612,100</u>
Total	<u>\$ 717,167</u>

American Lung Association of the Upper Midwest

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

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, 2014, there were no such deficiencies.

American Lung Association of the Upper Midwest

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

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, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ _____ -	\$ _____ -	\$ <u>717,167</u>	\$ <u>717,167</u>

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

June 30, 2014

NOTE I - ENDOWMENTS - Continued

Changes in Endowment Net Assets
for the year ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning of year	\$ -	\$ -	\$ 661,667	\$ 661,667
Investment return				
Interest and dividends	2,114	1,089	-	3,203
Net unrealized appreciation	<u>-</u>	<u>-</u>	<u>55,500</u>	<u>55,500</u>
	2,114	1,089	55,500	58,703
Appropriation of endowment assets for expenditure	<u>(2,114)</u>	<u>(1,089)</u>	<u>-</u>	<u>(3,203)</u>
End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 717,167</u>	<u>\$ 717,167</u>

Description of Amounts Classified as Permanently Restricted Net Assets
(Endowment Only)
June 30, 2014

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>\$ 717,167</u>
Total endowment funds classified as permanently restricted net assets	<u>\$ 717,167</u>

American Lung Association of the Upper Midwest

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE J - 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, 2014.

The Plan was frozen for all participants effective July 31, 2014. The freeze was recognized for purposes of year-end disclosure since the plan amendment was adopted prior to June 30, 2014. A freeze is a curtailment event. Since all future service is being curtailed the unamortized Prior Service Cost amounts of \$ 113,570 must be fully recognized and added to the Net Periodic Pension Cost for the year ended June 30, 2014. Since the liability gain as a result of the plan freeze is less than the unrecognized loss there is no special curtailment charge related to unrecognized losses. Instead, it is treated as a liability gain.

The changes in the projected benefit obligation for the year ended June 30, 2014, are as follows:

Change in Projected Benefit Obligation

Projected benefit obligation at beginning of year	\$ 7,733,220
Service cost	493,404
Interest cost	352,796
Curtailments	(1,332,807)
Benefits paid	(83,320)
Actuarial loss	<u>678,130</u>
Projected benefit obligation at end of year	<u>\$ 7,841,423</u>

Change in Plan Assets

Fair value of Plan assets at beginning of year	\$ 5,034,928
Employer contributions	345,092
Benefits paid	(83,320)
Expenses paid	(70,974)
Actual return on Plan assets	<u>630,676</u>
Fair value of Plan assets at end of year	<u>\$ 5,856,402</u>

American Lung Association of the Upper Midwest

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE J - DEFINED BENEFIT PENSION PLAN - Continued

Funded Status of the Plan

Benefit obligation	\$ 7,841,423
Fair value of Plan assets	<u>5,856,402</u>
Excess of benefit obligation over fair value of Plan assets	<u>\$ 1,985,021</u>

Components of Net Periodic Benefit Costs

Service cost	\$ 493,404
Interest cost	352,796
Expected return on Plan assets	(276,281)
Recognized loss due to curtailments	113,570
Amortization of unrecognized prior service cost	15,951
Amortization of recognized net actuarial loss	<u>88,221</u>
Net periodic benefit cost	<u>\$ 787,661</u>

Underfunded Plan Information

Projected benefit obligation at end of year	\$ 7,841,423
Accumulated benefit obligation at end of year	\$ 7,841,423
Fair value of assets at end of year	\$ 5,856,402

Amounts Recognized in the Statement of Financial Position

Noncurrent liabilities	<u>\$ 1,985,021</u>
------------------------	---------------------

Amounts Recognized in Other Nonoperating Changes in Net Assets

Contribution	\$ 115,000
Recognized prior service cost	(129,521)
Recognized gain	(88,221)
Actuarial gain	<u>(938,098)</u>

Total	<u>\$ (1,040,840)</u>
--------------	-----------------------

Actuarial Assumptions

Assumptions used to determine benefit obligations at June 30, 2014	
Discount rate	4.75%
Expected assets return	5.50%
Salary increase rate	3.00%

American Lung Association of the Upper Midwest

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

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>	
2015	\$ 113,516
2016	295,196
2017	228,385
2018	277,403
2019	639,546
2020 through 2024	3,088,864

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, 2014, 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 FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE J - 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, 2014.

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Plan assets				
Cash and cash equivalents	\$ 114,933	\$ 114,933	\$ -	\$ -
Debt securities	4,334,883	-	4,334,883	-
Equity securities	<u>1,406,586</u>	<u>1,406,586</u>	<u>-</u>	<u>-</u>
Total Plan assets	<u>\$ 5,856,402</u>	<u>\$ 1,521,519</u>	<u>\$ 4,334,883</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, 2014

NOTE K - POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

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

The following table sets forth the Plan's funded status and amounts recognized in the Association's financial statements as of and for the year ended June 30, 2014:

Disclosure of Components of the 2013 - 2014 Net Post-Retirement Cost

Change in Projected Benefit Obligation

Projected benefit obligation at beginning of year	\$ 97,439
Service cost	9,131
Interest cost	3,640
Benefits paid	(139)
Actuarial loss	<u>354</u>
Projected benefit obligation at end of year	<u>\$ 110,425</u>

Underfunded Plan Information

Projected benefit obligation at end of year	\$ 110,425
Accumulated benefit obligation at end of year	\$ 95,068

Components of Net Periodic Benefit Costs

Service cost	\$ 9,131
Interest cost	3,640
Amortization of gain	(1,631)
Amortization of unrecognized prior service cost	1,340
Amortization of unrecognized net actuarial loss	<u>645</u>
Net periodic benefit cost	<u>\$ 13,125</u>

American Lung Association of the Upper Midwest

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

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

Funded Status of the Plan

Benefit obligation	<u>\$ 110,425</u>
--------------------	-------------------

Amounts Recognized in the Statement of Financial Position

Current liabilities	\$ 6,807
Noncurrent liabilities	<u>103,618</u>

Total	<u>\$ 110,425</u>
-------	-------------------

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

<u>Year</u>	
2015	\$ 8,128
2016	6,165
2017	9,828
2018	10,364
2019	10,157
2020 through 2024	46,348

The net post-retirement benefit cost for 2013 - 2014 was determined based on 4.25% discount rate and a rate of compensation increase of 4.0% per year.

NOTE L - 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, 2013 to June 30, 2014, 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, 2014, were \$ 62,025.

American Lung Association of the Upper Midwest

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE M - 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 \$ 5,132,581 for the year ended June 30, 2014.

NOTE N - DONATED GOODS AND SERVICES

For the year ended June 30, 2014, the following donated goods and services were received and expensed to the following categories:

Expenses

Asthma Camp - professional time and supplies	\$ 173,558
Asthma Camp - supplies and services	100
Asthma Education - professional time	12,183
Environmental Programs - professional time	653,306
Environmental Programs - supplies and services	625,462
Tobacco Education - professional time	757,535
Other Lung Disease - professional time	11,856
Other Lung Disease - supplies and services	14,092
Lung Walk - supplies and services	3,411
Lung Walk – professional time	124,000
Gala - supplies and services	141,455
Golf Outing - supplies and services	26,442
Stair Climb - facilities, supplies and services	362,511
Stair Climb – professional time	428,334
Bike Trek - supplies and services	20,360
Bike Trek – professional time	25,640
Other facilities, services and materials	<u>2,514</u>

Total expenses \$ 3,382,759

American Lung Association of the Upper Midwest

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE O - ALLOCATION OF JOINT COSTS

The Association incurred joint costs of \$ 2,627,386 for informational materials and activities that included fundraising appeals as part of the Association's direct mail campaigns for the year ended June 30, 2014. The Association follows the accounting guidance for joint costs contained in Topic 958 of the FASB Codification. These costs were allocated as follows:

Program	\$ 1,441,120
Management and general	373,351
Fundraising	<u>812,915</u>
Total	<u>\$ 2,627,386</u>

NOTE P - SUBSEQUENT EVENTS

On July 1, 2014 the Association's charter with the national American Lung Association was expanded to include Kansas, Missouri and Nebraska. The Association does not expect to assume any liabilities associated with the operation of these states when they were part of the Plains-Gulf charter through June 30, 2014.