AMERICAN LUNG ASSOCIATION – NATIONAL OFFICE

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORTS

For the Years Ended
June 30, 2015 and 2014

AMERICAN LUNG ASSOCIATION – NATIONAL OFFICE
TABLE OF CONTENTS

Sikich®

217.793.3363 // www.sikich.com

3201 W. White Oaks Dr., Suite 102
Springfield, Illinois 62704

Certified Public Accountants & Advisors
Members of American Institute of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
American Lung Association – National Office

Report on the Financial Statements

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

Management's responsibility for the financial statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 aspects, the financial position of American Lung Association - National Office as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of the National Office as of June 30, 2014, were audited by other auditors whose report dated January 5, 2015, expressed an unmodified opinion on those statements.

Other matters

Supplementary information

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

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2015, on our consideration of National Office'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 effectiveness of 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 National Office's internal control over financial reporting and compliance.

Sikich LLP

Springfield, Illinois
November 30, 2015

FINANCIAL STATEMENTS

AMERICAN LUNG ASSOCIATION - NATIONAL OFFICE

STATEMENTS OF FINANCIAL POSITION

June 30, 2015 and 2014

	2015	2014
ASSETS		
Cash and cash equivalents	$ 13,138,430	$ 9,318,597
Receivables, net of allowance for doubtful accounts	2,019,090	1,945,960
Due from chartered Associations, net of allowance for doubtful accounts	1,598,103	1,597,232
Prepaid expenses	1,030,940	1,007,824
Investments	14,558,090	15,165,612
Property and equipment, net	185,642	215,805
Amounts held on behalf of others	1,679,196	1,822,800
Annuity fund investments	111,092	158,911
Beneficial interest in perpetual trusts	3,715,880	3,915,341
TOTAL ASSETS	$ 38,036,463	$ 35,148,082
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses:		
Accounts payable - general	$ 2,033,125	$ 3,327,278
Accounts payable - awards and grants	3,790,814	3,443,045
Deferred revenue	9,155,191	6,988,384
Due to Chartered Associations	1,002,166	908,856
Amounts held on behalf of others	1,679,196	1,822,800
Accrued pension and postretirement plan liabilities	4,869,463	4,089,366
Gift annuities obligations	82,247	106,845
Other liabilities	1,806,738	2,022,511
Total liabilities	24,418,940	22,709,085
NET ASSETS		
Unrestricted	8,515,889	6,970,520
Temporarily restricted	1,211,570	1,415,412
Permanently restricted	3,890,064	4,053,065
Total net assets	13,617,523	12,438,997
TOTAL LIABILITIES AND NET ASSETS	$ 38,036,463	$ 35,148,082

See accompanying notes to the financial statements.

AMERICAN LUNG ASSOCIATION - NATIONAL OFFICE

STATEMENT OF ACTIVITIES

Year ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING PUBLIC SUPPORT AND REVENUE				
Public support:				
Contributions from individuals, corporations and foundations	$ 6,526,180	$ -	$ -	$ 6,526,180
Bequests and trust income	1,606,098	-	-	1,606,098
Allocable share of direct response activities from Chartered Associations	2,244,215	-	-	2,244,215
Chartered Association assessments	4,808,700	-	-	4,808,700
Program reimbursements from Chartered Associations	22,239,101	-	-	22,239,101
In-kind contributions	16,513,001	-	-	16,513,001
Total public support	53,937,295	-	-	53,937,295
Revenue:				
Corporate and foundation grants	3,609,416	-	-	3,609,416
Government grants	1,372,903	-	-	1,372,903
Interest and dividends	382,441	47,137	-	429,578
Licensing fees and royalties	556,690	-	-	556,690
Other	1,049,477	-	-	1,049,477
Total revenue	6,970,927	47,137	-	7,018,064
Net assets released from restrictions	107,893	(107,893)	-	-
Total operating public support and revenue	61,016,115	(60,756)	-	60,955,359
EXPENSES				
Program services	55,057,957	-	-	55,057,957
Supporting services	2,748,791	-	-	2,748,791
Total expensess	57,806,748	-	-	57,806,748
Changes in net assets from operating activities	3,209,367	(60,756)	-	3,148,611
NONOPERATING ACTIVITIES				
Net realized gains on investments	85,136	8,797	-	93,933
Net unrealized losses on investments	(932,801)	(115,423)	-	(1,048,224)
Change in fair value of beneficial interest in trusts	-	(36,460)	(163,001)	(199,461)
Change in value of split-interest agreements	(23,221)	-	-	(23,221)
Other pension and postretirement plan changes	(793,112)	-	-	(793,112)
CHANGE IN NET ASSETS	1,545,369	(203,842)	(163,001)	1,178,526
NET ASSETS - BEGINNING	6,970,520	1,415,412	4,053,065	12,438,997
NET ASSETS - ENDING	$ 8,515,889	$ 1,211,570	$ 3,890,064	$ 13,617,523

See accompanying notes to the financial statements.

AMERICAN LUNG ASSOCIATION - NATIONAL OFFICE

STATEMENT OF ACTIVITIES

Year ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING PUBLIC SUPPORT AND REVENUE				
Public support:				
Contributions from individuals, corporations, and foundations	$ 3,818,732	$ -	$ -	$ 3,818,732
Bequests and trust income	950,880	30,130	-	981,010
Allocable share of direct response activities from Chartered Associations	2,291,310	-	-	2,291,310
Chartered Association assessments	4,675,015	-	-	4,675,015
Program reimbursements from Chartered Associations	21,080,383	-	-	21,080,383
In-kind contributions	8,133,419	-	-	8,133,419
Total public support	40,949,739	30,130	-	40,979,869
Revenue:				
Corporate and foundation grants	6,496,661	-	-	6,496,661
Government grants	1,331,126	-	-	1,331,126
Interest and dividends	403,612	63,339	-	466,951
Licensing fees and royalties	705,933	-	-	705,933
Strategic cause support	3,957,738	-	-	3,957,738
Other	1,344,285	-	-	1,344,285
Total revenue	14,239,355	63,339	-	14,302,694
Net assets released from restrictions	108,541	(108,541)	-	-
Total operating public support and revenue	55,297,635	(15,072)	-	55,282,563
EXPENSES				
Program services	49,509,172	-	-	49,509,172
Supporting services	2,628,214	-	-	2,628,214
Total expensess	52,137,386	-	-	52,137,386
Changes in net assets from operating activities	3,160,249	(15,072)	-	3,145,177
NONOPERATING ACTIVITIES				
Net realized gains on investments	282,714	69,666	-	352,380
Net unrealized gains on investments	966,207	171,329	-	1,137,536
Loss on sublease	(716,563)	-	-	(716,563)
Change in fair value of beneficial interest in trusts	-	185,274	249,980	435,254
Change in value of split-interest agreements	4,851	-	-	4,851
Other pension and postretirement plan changes	(358,276)	-	-	(358,276)
CHANGE IN NET ASSETS	3,339,182	411,197	249,980	4,000,359
NET ASSETS - BEGINNING	3,631,338	1,004,215	3,803,085	8,438,638
NET ASSETS - ENDING	$ 6,970,520	$ 1,415,412	$ 4,053,065	$ 12,438,997

See accompanying notes to the financial statements.

AMERICAN LUNG ASSOCIATION - NATIONAL OFFICE

STATEMENT OF FUNCTIONAL EXPENSES (Continued)

Year ended June 30, 2015

	Program Services						
	Lung Cancer, Asthma and Lung Disease	Research	Advocacy and Environment	Tobacco Control	Field Program Development	Field Support Services	Total Program Services
Salaries	$ 1,768,586	$ 299,992	$ 856,051	$ 281,899	$ 993,960	$ 560,440	$ 4,760,928
Payroll taxes and benefits	547,796	91,618	264,019	81,464	301,529	221,704	1,508,130
Total compensation	2,316,382	391,610	1,120,070	363,363	1,295,489	782,144	6,269,058
Awards and grants, net	117,240	6,025,239	497,186	137,980	508	-	6,778,153
Program consulting	4,185,486	45,623	866,427	113,887	226,827	82,170	5,520,420
Professional fees	1,016,801	26,872	76,567	185,784	87,623	132,754	1,526,401
Occupancy	192,578	28,003	85,595	30,828	99,355	149,476	585,835
Printing	25,856	514	10,131	5,793	2,353	2,491	47,138
Office supplies and equipment	125,746	279,671	6,723	3,951	7,465	11,140	434,696
Equipment rental and maintenance	21,613	3,041	9,294	3,306	10,788	16,230	64,272
Postage and shipping	3,314	-	630	663	895	-	5,502
Telecommunication	36,648	2,776	9,552	3,550	24,156	14,874	91,556
Staff travel	92,528	11,838	23,962	8,957	21,089	13,723	172,097
Volunteer travel	32,836	35,820	27,096	2,964	8,680	12,385	119,781
Conferences, affiliations and subscriptions	88,209	54,149	52,823	9,960	21,523	25,745	252,409
Depreciation	15,864	2,307	7,051	2,509	74,956	12,314	115,001
Insurance	32,798	4,769	14,578	5,186	16,921	25,457	99,709
Processing fees	214,115	27,961	86,024	30,459	599,526	149,335	1,107,420
Service charges	2,403	350	1,068	3,551	1,817	3,991	13,180
In-kind media-advertising	15,468,155	-	-	110,456	-	-	15,578,611
Miscellaneous	56,403	38,325	144	51,391	32,584	-	178,847
Residential campaign	1,200,313	-	-	-	-	669,027	1,869,340
Direct mail costs	9,255,638	-	-	-	-	4,972,893	14,228,531
Total expenses	$ 34,500,926	$ 6,978,868	$ 2,894,921	$ 1,074,538	$ 2,532,555	$ 7,076,149	$ 55,057,957

See accompanying notes to the financial statements.

AMERICAN LUNG ASSOCIATION - NATIONAL OFFICE

STATEMENT OF FUNCTIONAL EXPENSES (Continued)

Year ended June 30, 2015

	Supporting Services			
	Management and General	Fund-raising	Total Supporting Services	2015 Total
Salaries	$ 596,439	$ 63,847	$ 660,286	$ 5,421,214
Payroll taxes and benefits	223,012	25,257	248,269	1,756,399
Total compensation	819,451	89,104	908,555	7,177,613
Awards and grants, net	264	-	264	6,778,417
Program consulting	80,621	8,852	89,473	5,609,893
Professional fees	124,845	15,945	140,790	1,667,191
Occupancy	189,731	17,029	206,760	792,595
Printing	2,921	282	3,203	50,341
Office supplies and equipment	11,504	1,269	12,773	447,469
Equipment rental and maintenance	16,759	1,849	18,608	82,880
Postage and shipping	29,489	-	29,489	34,991
Telecommunication	15,985	1,745	17,730	109,286
Staff travel	14,367	1,561	15,928	188,025
Volunteer travel	12,789	1,411	14,200	133,981
Conferences, affiliations and subscriptions	26,561	2,930	29,491	281,900
Depreciation	12,715	1,403	14,118	129,119
Insurance	26,288	2,900	29,188	128,897
Processing fees	154,120	17,086	171,206	1,278,626
Service charges	1,926	2,057	3,983	17,163
In-kind media-advertising	-	-	-	15,578,611
Miscellaneous	-	-	-	178,847
Residential campaign	98,386	-	98,386	1,967,726
Direct mail costs	758,659	185,987	944,646	15,173,177
Total expenses	$ 2,397,381	$ 351,410	$ 2,748,791	$ 57,806,748

See accompanying notes to the financial statements.

AMERICAN LONG ASSOCIATION - NATIONAL OFFICE

STATEMENT OF FUNACTIONAL EXPENSES (Continued)

Year ended June 30, 2014

	Program Services						
	Lung Cancer, Asthma and Lung Disease	Research	Advocacy and Environment	Tobacco Control	Field Program Development	Field Support Services	Total Program Services
Salaries	$ 950,545	$ 313,903	$ 888,302	$ 557,256	$ 1,033,555	$ 177,691	$ 3,921,252
Payroll taxes and benefits	259,525	88,529	248,283	152,404	286,577	39,268	1,074,586
Total compensation	1,210,070	402,432	1,136,585	709,660	1,320,132	216,959	4,995,838
Awards and grants, net	14,780	8,299,275	367,500	250,543	-	-	8,932,098
Program consulting	4,411,391	50,783	1,808,473	368,274	184,077	34,855	6,857,853
Professional fees	162,013	26,394	78,598	59,446	77,290	58,927	462,668
Occupancy	134,368	36,546	157,682	75,386	204,909	69,085	677,976
Printing	36,297	3,017	7,356	31,371	3,696	687	82,424
Office supplies and equipment	107,072	1,549	4,554	5,297	5,567	4,030	128,069
Equipment rental and maintenance	7,939	2,159	6,579	4,454	6,205	4,082	31,418
Postage and shipping	7,261	690	458	1,661	515	17	10,602
Telecommunication	36,989	5,239	16,396	13,941	28,039	10,373	110,977
Staff travel	67,624	13,560	21,321	23,188	26,544	7,011	159,248
Volunteer travel	37,516	39,569	12,852	15,355	10,096	6,528	121,916
Conferences, affiliations and subscriptions	84,908	57,438	27,198	19,013	12,948	33,666	235,171
Depreciation and amortization	12,769	3,473	10,103	7,164	90,105	6,565	130,179
Insurance	21,818	5,935	17,263	12,242	17,052	11,219	85,529
Processing fees	148,427	30,320	88,302	62,543	589,833	58,065	977,490
Service charges	3,178	516	1,501	3,010	4,144	1,524	13,873
In-kind media-advertising	467,206	-	-	353,820	7,312,393	-	8,133,419
Miscellaneous	38,039	33,003	420	15,373	38,280	42	125,157
Bad debt expense	-	-	-	-	-	-	-
Residential campaign	1,195,061	-	-	-	-	677,201	1,872,262
Direct mail costs	9,807,450	-	-	-	-	5,557,555	15,365,005
Total expenses	$ 18,012,176	$ 9,011,898	$ 3,763,141	$ 2,031,741	$ 9,931,825	$ 6,758,391	$ 49,509,172

See accompanying notes to the financial statements.

AMERICAN LONG ASSOCIATION - NATIONAL OFFICE

STATEMENT OF FUNACTIONAL EXPENSES (Continued)

Year ended June 30, 2014

	Supporting Services			
	Management and General	Fund-raising	Total Supporting Services	**2014** total
Salaries	$ 475,087	$ 121,502	$ 596,589	$ 4,517,841
Payroll taxes and benefits	112,670	33,657	146,327	1,220,913
Total compensation	587,757	155,159	742,916	5,738,754
Awards and grants, net	408	-	408	8,932,506
Program consulting	74,783	6,449	81,232	6,939,085
Professional fees	80,876	34,529	115,405	578,073
Occupancy	226,140	6,734	232,874	910,850
Printing	1,534	153	1,687	84,111
Office supplies and equipment	6,821	422	7,243	135,312
Equipment rental and maintenance	9,112	588	9,700	41,118
Postage and shipping	19,591	19	19,610	30,212
Telecommunication	24,157	2,076	26,233	137,210
Staff travel	14,525	7,725	22,250	181,498
Volunteer travel	20,336	940	21,276	143,192
Conferences, affiliations and subscriptions	15,875	1,024	16,899	252,070
Depreciation and amortization	14,655	945	15,600	145,779
Insurance	25,185	1,615	26,800	112,329
Processing fees	127,936	16,953	144,889	1,122,379
Service charges	2,177	4,298	6,475	20,348
In-kind media-advertising	-	-	-	8,133,419
Miscellaneous	3,538	99	3,637	128,794
Bad debt expense	32,829	-	32,829	32,829
Residential campaign	119,506	-	119,506	1,991,768
Direct mail costs	980,745	-	980,745	16,345,750
Total expenses	$ 2,388,486	$ 239,728	$ 2,628,214	$ 52,137,386

See accompanying notes to the financial statements.

AMERICAN LUNG ASSOCIATION - NATIONAL OFFICE

STATEMENTS OF CASH FLOWS

Years ended June 30, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 1,178,526	$ 4,000,359
Adjustments to reconcile changes in net assets to net cash from operating activities		
Depreciation	129,119	145,779
Net realized and unrealized loss on investments	954,291	(1,489,916)
Bad debt expense	-	32,829
Change in fair value of beneficial interest in perpetual trusts	199,461	(435,254)
Changes in operating assets and liabilities:		
Receivables	(73,130)	(383,224)
Prepaid expenses	(23,116)	(633,352)
Accounts payable	(1,294,153)	1,820,003
Awards and grants payable	347,769	(446,135)
Deferred revenue	2,166,807	1,947,348
Due from/to Chartered Associations, net	92,439	(403,578)
Pension and postretirement plan liabilities	780,097	111,326
Gift annuities obligations	(24,598)	(13,074)
Other liabilities	(215,773)	726,181
Net cash from by operating activities	4,217,739	4,979,292
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(5,519,141)	(29,604,211)
Proceeds from sale of investments	5,220,191	29,158,129
Purchase of property and equipment	(98,956)	(103,094)
Net cash from investing activities	(397,906)	(549,176)
CHANGE IN CASH AND CASH EQUIVALENTS	3,819,833	4,430,116
CASH AND CASH EQUIVALENTS, BEGINNING	9,318,597	4,888,481
CASH AND CASH EQUIVALENTS, END	$ 13,138,430	$ 9,318,597

See accompanying notes to the financial statements.

1. NATURE OF BUSINESS

National Office

American Lung Association - National Office (National Office) is a not-for-profit voluntary health organization incorporated in the State of Maine dedicated to preventing lung disease and promoting lung health. National Office provides national leadership, assistance and guidance to its Chartered Associations, of which there are nine, in the areas of field program development, field fundraising and field management advisory. National Office provides public health education in the areas of asthma, tobacco prevention awards and cessation, environmental health, lung disease, and community health. National Office provides grants and awards for research and for the training of researchers. National Office has an advocacy function to promote awareness in the above areas by the appropriate government agencies in order to assist them in achieving better health and environmental conditions for the public. National Office is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

Lung USA

National Office also delivers local programs to the territory that covers the states of Maryland, Virginia and North Carolina, and the territory of the District of Columbia, and is referred to as Lung USA (an operating division of National Office). Lung USA provides services within the territory to prevent lung disease and promote lung health. Its programs center on environmental health, tobacco control and prevention, asthma education, other lung diseases, community health services, community health advocacy, professional education, and research. While the activities of Lung USA are included as part of National Office, for stewardship purposes, it is treated as a separate and distinct operating unit.

The National Office's Board of Directors approved a Lung USA transition plan to reassign the territory as follows: North Carolina was assigned to the American Lung Association of the Southeast effective July 1, 2014; and Maryland, Virginia and the District of Columbia will be assigned to the American Lung Association of the Mid-Atlantic on or before January 1, 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

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

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

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

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

Cash Equivalents

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

Receivables and Allowances for Doubtful Accounts

Receivables are primarily related to grants, program service contracts and contributions. National Office provides an allowance for uncollectible accounts based upon prior experience and management's assessment of the collectability of specific accounts. Receivables, bequest receivables and amounts due from Chartered Associations are reflected on the accompanying statements of financial position net of allowances for doubtful accounts of $11,478 and $72,887 as of June 30, 2015 and 2014, respectively.

Beneficial Interest in Charitable Trust

The National Office has arrangements with donors classified as charitable trusts, trusts and charitable gift annuities. In general, under these arrangements, the National Office 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 National Office as unrestricted, temporarily restricted or permanently restricted net assets. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment purchased in excess of $1,000 is stated at cost, less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of three years for computer hardware and software; five to seven years for furniture, fixtures and equipment; and, for leasehold improvements, the shorter of the lease term, after consideration of renewal periods determined to be reasonably assured, or the life of the asset.

Investments

Investments in equity, mutual funds and debt securities are reported at fair value based on quoted market prices and primarily matrix pricing, respectively, as of the reporting date.

Fair Value of Financial Instruments

National Office follows guidance for fair value measurements that defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. As required by United States generally accepted accounting principles (U.S. GAAP) for fair value measurements, National Office uses a fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available.

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

Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the measurement date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level 2: Pricing inputs other than quoted prices in active market, which are either directly or indirectly observable as of the measurement date. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments (Continued)

Level 3: Securities that have little to no pricing observability as of the measurement date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

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

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

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

Deferred Revenue

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

Contributions and Bequests

National Office records contributions and bequests, including unconditional promises to give (pledges), at the time such contributions are made and confirmed. Contributions are considered unrestricted unless a donor-imposed restriction limits the use of such contributions. Contributions restricted for time and/or program-specific purposes are recorded as temporarily restricted net assets and then released to unrestricted net assets when the respective restriction is satisfied. Receivables are written off in the period in which they are deemed uncollectible.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Program Service Contracts and Federal Grants

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

Awards and Grants

National Office makes awards and grants for research and for the training of researchers. By policy, National Office's funding for research is derived from a portion of its overall revenue. National Office's research is also funded by equally matching funds that have been earmarked by Chartered Associations, and by contractual agreements with affiliates restricted to National Office's Airways Clinical Research Centers (ACRC) Network. The ACRC Network consists of 18 airways clinical research centers throughout the United States. Additional funding is provided through investment earnings on endowments and by corporate and foundation grants. Recipients are required to meet certain qualifications and to provide accountability to National Office for funds disbursed. The liability and related expense for awards and grants are recognized at the time of award and notification to, and acceptance by, the recipient. Outstanding awards and grant commitments at June 30, 2015 and 2014, are all payable within one year.

In-Kind Contributions

National Office recognizes advertising costs when incurred. National Office received $15,578,611 and $7,666,213 of billboard, print, and TV and radio advertisement space during the years ended June 30, 2015 and 2014, respectively. The value of such in-kind media, based upon information provided by third-party media services, is reflected on the statements of activities as in-kind contributions and on the statements of functional expenses as in-kind media-advertising.

Contributed goods and services are reported as contributions if such goods or services create or enhance non-financial assets or if they would have been purchased if not provided by contribution, require specialized skills, and are provided by individuals possessing such specialized skills. Contributed goods and services are recognized at their estimated fair values at date of receipt with an equal and offsetting amount in program and supporting services in the statements of activities, resulting in no net impact on the change in net assets during the year. Contributed goods recognized related to drugs for research projects were $277,584 for the year ended June 30, 2015. There was no contributed goods related to drugs for research projects for the year ended June 30, 2014. Contributed services recognized related to consulting work were $656,806 and $467,206 for the years ended June 30, 2015 and 2014, repectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Licensing Fees and Royalties

National Office receives licensing fees from corporations who become part of the American Lung Association Health Partners (Health Partners) program, under either educational partner agreements or license agreements. Health Partners pay fees for use of the American Lung Association logo and approved informational content under strict usage terms that require National Office's approvals on all of the corporate partners' marketing materials. The term of these agreements typically range from one to three years. Fees are paid either annually, semiannually or quarterly depending on the terms of the respective contract.

In certain affinity contracts, royalties are derived from fees paid and reported to National Office by the corporate partner on a quarterly basis based on the number of applications, renewals, the volume of charges or some other formula based on activity generated by the program.

National Office records revenue from licensing fees and royalties as increases to unrestricted net assets to the extent the earnings process is complete. Receivables are expected to be collected within one year and are recorded at net realizable value.

Functional Allocation of Expenses

The costs of providing National Office programs and supporting services have been summarized on a functional basis on the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on an allocation of personnel costs.

The following is a description of National Office's programs for fiscal 2015 and 2014:

Lung Cancer, Asthma, and Lung Disease - National Office's public health education work consists of supporting Chartered Associations and Lung USA and developing lung health educational materials for the public. The Chartered Associations rely on National Office to develop health programs and provide expert training, guidance and materials to support their mission outreach. National Office helps people manage their lung disease, overcome their nicotine addiction and live healthier lives. This is also where funding is for all other lung diseases such as National Office Lung Cancer portal for patients and their families to find support and information. The National Office is managing nationwide programs aimed at children in schools and their asthma.

Research - National Office awards funds to ACRC and quality researchers seeking treatments and cures for an array of lung diseases from asthma to lung cancer.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses (Continued)

Advocacy and Environment - National Office fights for public policies to protect the right to breathe healthy air, free of air pollution or tobacco smoke. This work includes testifying wherever necessary to ensure laws in place protect these rights and ensuring that communities are properly enforcing them.

Tobacco Control - National Office has been able to secure funding that is disbursed to the field to carry out tobacco control programs by the local field associations to help people overcome their nicotine addiction and reduce the use of tobacco, specifically in children and diverse sections of the population.

Field Program Development - National Office supports its nine Chartered Associations and Lung USA to successfully deliver American Lung Association's mission by providing skill-building and other learning opportunities. Through the implementation of staff learning and volunteer development offerings, Chartered Associations and Lung USA are kept current on best practices in lung health programs and advocacy.

Field Support Services - A variety of National Office's staff provide support to the Chartered Associations and Lung USA with respect to financial management, fundraising, leadership development and volunteer management. Some areas of involvement are planned giving, special events and major gifts. Field support services also includes direct mail, residential campaign and e-philanthropy, collectively, "direct response." This support includes developing fundraising strategies, training local staff, marketing special events and developing and implementing all direct response campaigns. Individual discipline groups (e.g., chief executive officers, chief financial officers, chief development officers, program managers, etc.) meet regularly with National Office's peers to share ideas, problem-solve and network.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates include the determination of allowances for doubtful accounts; and the pension and life insurance benefit obligations; the fair values assigned to certain financial instruments and in-kind contributions; and the useful lives assigned to property and equipment. Actual results could differ from those estimates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measure of Operations

The accompanying statements of activities distinguish between operating and non-operating activities. Operating activities principally include all revenues and expenses that are an integral part of National Office's programs. Non-operating activities principally include investment activity, other than interest and dividends which are included as part of operating activities, on National Office's endowment and other investments, change in fair value of beneficial interest in trusts and split-interest agreements, and pension and life insurance benefit plan activities and other items which are considered to be more of an unusual or nonrecurring nature.

Accounting for Uncertainty in Income Taxes

Guidance in the area of accounting for uncertainty in income taxes under the Financial Accounting Standards Board (FASB) Accounting Standards Codification clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This standard provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if the position is more-likely-than-not to be sustained, if the position were to be challenged by a taxing authority. The standard also provides guidance on measurement, classification, interest and penalties, and disclosure. The fiscal years ended 2012, 2013 and 2014 are still open to audit for both federal and state purposes. National Office has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and, to identify and evaluate other matters that may be considered tax positions. National Office incurred no interest or penalties related to tax liabilities for the years ended June 30, 2015 and 2014.

Concentrations of Credit Risk

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

3. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consists of the following at June 30,:

	2015	2014
Computer hardware and software	$ 451,418	$ 447,418
Furniture, fixtures and equipment	742,716	653,516
Leasehold improvements	186,357	180,602
Total property and equipment	1,380,491	1,281,536
Less accumulated depreciation and amortization	1,194,849	1,065,731
Property and equipment, net	$ 185,642	$ 215,805

Depreciation expense totaled $129,119 and $145,779 for years ended June 30, 2015 and 2014, respectively.

4. BENEFICIAL INTEREST IN PERPETUAL TRUSTS

In July 2003, National Office entered into an agreement whereby the former American Lung Association of New Hampshire agreed to set aside, as a segregated fund, within its Mary Fuller Russell Trust (Trust), the sum of $1,297,643 and to maintain such segregated fund to be named the Mary Fuller Russell Research Fund intact for the purpose of paying to and allowing National Office to use all of the annual income and net appreciation, if any, in the fair value of the segregated fund (pursuant to the New Hampshire Uniform Prudent Management of Institutional Funds Act) for research purposes determined by National Office. Such segregated fund is to be held for National Office's benefit in perpetuity. This Trust is reflected on the financial statements as part of beneficial interest in perpetual trusts and the principle is included within permanently restricted net assets. Earnings, in excess of corpus including amounts undistributed, and those received by National Office not yet spent, are recorded as temporarily restricted net assets and released from restriction for research purposes in accordance with the terms of the Trust agreement. Underlying assets of the Trust are primarily invested in common stock mutual funds. As of June 30, 2015 and 2014, the fair value of this beneficial interest is $1,623,459 and $1,659,919,respectively.

National Office is an income beneficiary of several trusts. Each trust provides for the distribution of a certain percentage of the net income from each trust to National Office, based on the respective trust's governing document. Distributions from these trusts to National Office are at the discretion of the respective trustees and can be used for the general operations of National Office. National Office will remain a beneficiary of these trusts in perpetuity. As of June 30, 2015 and 2014, the fair value of these beneficial interests totaled $2,092,421 and $2,255,422, respectively.

4. BENEFICIAL INTEREST IN PERPETUAL TRUSTS (Continued)

U.S. GAAP requires not-for-profit beneficiaries of such trusts to record, as a contribution and an asset, the present value of the estimated future cash receipts to be received from the trusts, over the life of the trust. Due to the perpetual nature of the trusts, the future cash flows from these trusts cannot be estimated. Under such circumstances, not-for-profit entities are permitted to base the present value measurement on the fair value of each trust's assets. Changes in each trust's fair value are recorded as permanently restricted change in beneficial interest in perpetual trusts on the statements of activities.

5. INVESTMENTS

Investments, which include amounts held on behalf of others (excluding amounts reported under National Office deferred compensation plans (see note 8)) annuity fund investments, and beneficial interests in perpetual trusts are reported at fair value. Management evaluated the level of trading volume associated with its debt securities and accordingly, has classified such instruments within Level 2 of the fair value hierarchy. Investments consist of the following at June 30, 2015 and 2014:

	2015			
	Level 1	Level 2	Level 3	Total
Investments, amounts held on behalf of others and annuity fund investments:				
Money market funds	$ 242,416	$ -	$ -	$ 242,416
Common stock	211,706	-	-	211,706
Mutual funds – equities	7,729,024	-	-	7,729,024
Mutual funds – fixed income	7,173,679	-	-	7,173,679
United States Treasury notes and bonds	-	414,751	-	414,751
United States Agency bonds	-	244	-	244
Corporate bonds	-	253,759	-	253,759
Foreign stock	10,326	-	-	10,326
Total investments, amounts held on behalf of others and annunity fund investments	15,367,151	668,754	-	16,035,905
Beneficial interest in perpetual trusts	-	-	3,715,880	3,715,880
Total assets at fair value	$15,367,151	$668,754	$3,715,880	$19,751,785

5. INVESTMENTS (Continued)

	2014			
	Level 1	Level 2	Level 3	Total
Investments, amounts held on behalf of others and annuity fund investments:				
Money market funds	$ 61,433	$ -	$ -	$ 61,433
Common stock	256,580	-	-	256,580
Mutual funds – equities	8,016,683	-	-	8,016,683
Mutual funds – fixed income	7,552,244	-	-	7,552,244
United States Treasury notes and bonds	-	491,903	-	491,903
United States Agency bonds	-	410	-	410
Corporate bonds	-	260,440	-	260,440
Foreign bonds	-	104,838	-	104,838
Municipal bonds	-	34,094	-	34,094
Foreign stock	20,373	-	-	20,373
Total investments, amounts held on behalf of others and annunity fund investments	15,907,313	891,685	-	16,798,998
Beneficial interest in perpetual trusts	-	-	3,915,341	3,915,341
Total assets at fair value	$15,907,313	$891,685	$3,915,341	$20,714,339

Investment management and custodial fees incurred during the years ended June 30, 2015 and 2014, totaled $57,645and $49,510, respectively, and are included within professional fees on the accompanying statements of functional expenses.

The change in assets measured at fair value using Level 3 inputs for the years ended June 30, 2015 and 2014 are as follows:

	2015	2014
Balance, beginning of the year	$ 3,915,341	$ 3,480,087
Change in value of beneficial interests in perpetual trusts	(199,461)	435,254
Balance, end of the year	$ 3,715,880	$ 3,915,341

6. LINE OF CREDIT

National Office has a $5,000,000 secured revolving line of credit with a bank. Amounts borrowed under the line of credit bear interest at a rate of 2% plus the one-month LIBOR then in effect. Amounts borrowed are secured by National Office's investment portfolio.

During the year ended June 30, 2015 and 2014 no amounts were borrowed under the line of credit.

7. DEFINED BENEFIT PENSION PLAN

Defined Benefit Plan

National Office has a noncontributory defined benefit pension plan (Retirement Plan D) comprising substantially all of its employees after one year of service. Benefits paid to retirees are based on their age at retirement, years of credited service and average compensation. National Office's Board of Directors voted to freeze this plan effective July 1, 2011. National Office uses a June 30 measurement date for the Retirement Plan D.

All of Retirement Plan D's investments are in a trust that was established for the investment of assets of the American Lung Association Retirement Plan D, which includes National Office and other branches. Each participating retirement plan has an undivided interest in the trust. The assets of the trust are held by First State Trust Company. At June 30, 2015 and 2014, National Office's interest in the net assets of the trust were approximately 26%.

Investment income and administrative expenses relating to the trust are allocated to the individual branches based upon an actuarial allocation, based on the provisions in the Retirement Plan D document.

Information as of and for the years ended June 30, 2015 and 2014, regarding National Office's Retirement Plan D follows:

	2015	2014
Change in benefit obligation:		
Benefit obligation, beginning of year	$16,977,170	$16,099,007
Interest cost	705,092	738,270
Actuarial loss	509,679	1,140,252
Settlements	(1,355,274)	-
Benefits paid	(504,372)	(1,000,359)
Benefit obligation, end of year	$16,332,295	$16,977,170
Change in plan assets:		
Fair value of plan assets, beginning of year	$12,920,123	$12,155,711
Actual return on plan assets	8,743	1,459,911
Employer contributions	558,000	400,000
Settlements	(1,355,274)	-
Benefits paid	(504,372)	(1,000,359)
Plan expenses paid	(137,463)	(95,140)
Fair value of plan assets, end of year	$11,489,757	$12,920,123
Funded status, end of year	$ (4,842,538)	$ (4,057,047)

7. DEFINED BENEFIT PENSION PLAN (Continued)

Defined Benefit Plan (Continued)

Amounts that have not yet been recognized as a component of net periodic benefit cost, but are included in unrestricted net assets, consist of net actuarial loss of $5,342,767 and $4,547,746 as of June 30, 2015 and 2014.

	2015	2014
Components of net periodic benefit cost:		
Interest cost	$ 705,092	$ 738,270
Expected return on plan assets	(693,907)	(659,595)
Recognized loss due to settlements	443,349	-
Amortization of net actuarial loss	93,936	75,080
Net periodic benefit cost	$ 548,470	$ 153,755
Benefit-related changes other than net periodic benefit cost:		
Net actuarial loss arising during the year	$ 1,332,306	$ 435,076
Amortization of net actuarial loss	(537,285)	(75,080)
Total benefit-related changes other than net periodic benefit cost	$ 795,021	$ 359,996

The following are the weighted-average assumptions used to determine benefit obligations as of June 30, 2015 and 2014:

	2015	2014
Discount rate	4.50%	4.25%
Rate of compensation increase	N/A	N/A

The following are the weighted-average assumptions used to determine net periodic benefit cost for the years ended June 30, 2015 and 2014:

	2015	2014
Discount rate	4.25%	4.75%
Rate of compensation increase	N/A	N/A
Expected rate of return on plan assets	5.50%	5.50%

7. DEFINED BENEFIT PENSION PLAN (Continued)

Defined Benefit Plan (Continued)

The following are major categories of National Office's interest in the plan assets reported at fair value as of June 30, 2015 and 2014:

	2015		
	Level 1	Level 2	Total
Money market funds	$ -	$ -	$ -
Equity securities	2,734,293	-	2,734,293
Debt securities	-	7,252,807	7,252,807
Municipal obligations	-	301,145	301,145
U.S. Treasury obligations	-	1,201,512	1,201,512
Total	$ 2,734,293	$ 8,755,464	$11,489,757

	2014		
	Level 1	Level 2	Total
Money market funds	$ -	$ 253,560	$ 253,560
Equity securities	3,103,145	-	3,103,145
Debt securities	-	8,270,083	8,270,083
Municipal obligations	-	270,840	270,840
U.S. Treasury obligations	-	1,022,495	1,022,495
Total	$ 3,103,145	$ 9,816,978	$12,920,123

Pension plan asset allocation – as of June 30, 2015 and 2014

	2015	
Asset categories	**Actual**	**Target**
Debt securities	63.75%	67.00%
Equity securities	21.94%	30.00%
Real estate	11.95%	0.00%
Cash and cash equivalents	2.36%	3.00%

	2014	
Asset categories	**Actual**	**Target**
Debt securities	65.58%	67.00%
Equity securities	23.86%	30.00%
Real estate	7.95%	0.00%
Cash and cash equivalents	2.61%	3.00%

7. DEFINED BENEFIT PENSION PLAN (Continued)

Rate of Return on Assets Assumption

Effective July 1, 2015, the expected long-term rate of return on pension plan assets assumption is 5.50% (previously 5.50%). 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 category and historical rates of return for each individual asset category.

Investment Strategy

In order to meet its needs, the investment strategy of National Office's Retirement Plan D emphasizes total return, that is, the aggregate return from capital appreciation and dividend 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 over the long-term.

The secondary objective in the investment management of pension plan 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 National Office are preservation of capital and minimization of costs.

Risk control is an important element in the investment of Retirement Plan D 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.

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, changes in the employee groups covered by the plan, and any legislative or regulatory changes affecting plan funding requirements. For tax planning, financial planning, cash flow management or cost reduction purposes the National Office may increase, accelerate, decrease or delay contributions to the plan to the extent permitted by law.

7. DEFINED BENEFIT PENSION PLAN (Continued)

Investment Strategy (Continued)

Benefits expected to be paid in future fiscal years are as follows at June 30, 2015:

2016	$1,474,097
2017	$1,093,123
2018	$1,418,240
2019	$1,004,835
2020	$1,032,529
2021-2025	$5,188,773

8. POST-RETIREMENT BENEFITS OTHER THEN PENSIONS

Life Insurance Benefit Plan

National Office offers postretirement life insurance to employees who retire directly from service and are participants in the Retirement Plan D Pension Plan (described above). National Office carries term life insurance to cover the total benefits due to all retired persons covered under this plan. Employees are eligible if they are vested in Retirement

Plan D with a minimum of 5 years of eligible service and are at least 55 years of age. This plan is not funded.

Life insurance coverage equals 90% of annual salary at time of retirement and the coverage is reduced each year to a final benefit of $1,000 in the 5th year of retirement or age 70, whichever arrives earlier.

Effective July 1, 2008, National Office changed its retiree life insurance plan coverage. Current employees who were not yet 55 years of age on July 1, 2008, were no longer provided with retiree life insurance, and new employees after that date were no longer enrolled in the plan. Employees who were 55 years of age at July 1, 2008, are provided a lump sum cash payment in lieu of coverage of $1,000 upon retirement.

8. POST-RETIREMENT BENEFITS OTHER THEN PENSIONS (Continued)

Life Insurance Benefit Plan (Continued)

	2015	2014
Change in benefit obligation:		
Benefit obligation, beginning of year	$ 32,319	$ 37,381
Service cost	129	228
Interest cost	1,234	1,397
Actual distribution	(99)	42
Experience gain	(6,658)	(6,729)
Benefit obligation, end of year	$ 26,925	$ 32,319
Change in plan assets:		
Fair value of plan assets, beginning of year	$ -	$ -
Employer contributions	99	42
Actual distribution	(99)	(42)
Fair value of plan assets, end of year	$ -	$ -
Funded status, end of year	$ (26,925)	$ 32,319

Amounts that have not yet been recognized as a component of net periodic benefit cost, but which are included in unrestricted net assets, consist of:

	2015	2014
Transition asset	$ 15,703	$ 19,803
Actuarial gain	(165,598)	(166,270)
Prior service cost	(19,397)	(20,916)
Net periodic benefit (credit)	$ (169,292)	$ (167,383)

8. POST-RETIREMENT BENEFITS OTHER THEN PENSIONS (Continued)

Life Insurance Benefit Plan (Continued)

	2015	2014
Components of net periodic benefit cost:		
Service cost	$ 129	$ 228
Interest cost	1,234	1,397
Amortization of net actuarial loss	(4,749)	(5,009)
Net periodic benefit cost	$ (3,386)	$ (3,384)
Benefit-related changes other than net periodic benefit cost:		
Net gain arising during the year	$ (6,658)	$ (6,729)
Amortization of actuarial gain	7,330	7,590
Amortization of prior service cost	1,519	1,519
Amortization of transition obligation	(4,100)	(4,100)
Total benefit-related changes other than net periodic benefit cost	$ (1,909)	$ (1,720)

Benefits expected to be paid in future fiscal years are as follows at June 30, 2015:

2016	$ 4,506
2017	$ 2,413
2018	$ 2,267
2019	$ 2,135
2020	$ 2,009
2021-2025	$ 8,374

The net post-retirement benefit cost for 2014-2015 was determined based on a 4.5% and 4.25% discount rate and a rate of compensation increase of 4.0% per year as of June 30, 2015 and 2014, respectively.

Defined Contribution Plan
National Office sponsors a defined contribution 403(b) employee retirement plan that matches 3% of employee contributions. The plan also allows for a discretionary 4% contribution regardless of an employee's participation in the matching portion of the plan. National Office's expense totaled $165,776 and $129,324 for the matching contribution and $244,072 and $210,197 for discretionary contributions for the years ended June 30, 2015 and 2014, respectively.

Deferred Compensation Plans
National Office provides deferred compensation plans for certain of its employees. The obligations under these plans are fully funded and totaled $312,473 and $348,325 as of June 30, 2015 and 2014, respectively. The obligations and underlying assets are recorded in amounts held on behalf of others on the statements of financial position at June 30, 2015 and 2014.

9. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Contributions with donor-imposed restrictions expended in the year of receipt are reported as part of unrestricted net assets. Temporarily restricted net assets are donor-restricted for medical research. Investment return from permanently restricted net assets is primarily to be used to support research scholars in interstitial related lung diseases and is recorded as part of temporarily restricted net assets until appropriated for expenditure. For the year ended June 30, 2015 and 2014, $107,893 and $108,541, respectively, of temporarily restricted net assets, related to these programs, were released from restrictions.

10. ENDOWMENT

National Office maintains a donor-restricted endowment fund whose purpose is to provide long-term support for research. In classifying such funds for financial statement purposes as either permanently restricted, temporarily restricted or unrestricted net assets, the Board of Directors looks to explicit directions of the donor where applicable and the provisions of the laws of the state of Maine.

National Office follows the provisions of *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* of the Accounting Standards Codification. This standard provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and also requires additional disclosures about endowments for both donor-restricted funds and board-designated funds.

National Office has interpreted the relevant UPMIFA as requiring the preservation of the fair value of the original gift, as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. As a result of this interpretation, National Office classifies as permanently restricted net assets: (a) the original value of gifts donated to its permanent endowment, (b) the original value of subsequent gifts to its permanent endowment; and, (c) accumulations to its 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 such amounts are appropriated for expenditure by National Office in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, National Office considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the purpose, duration, and preservation of the endowment fund; expected total return of investments; general economic conditions; the possible effects of inflation and deflation; other resources of National Office; and, the investment policy of National Office.

10. ENDOWMENT (Continued)

To satisfy its long-term objectives, National Office 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). National Office targets a diverse asset allocation that places a greater emphasis on equity and fixed income based investments to achieve its long-term return objectives within prudent risk constraints.

All endowments are donor-restricted. There are no board-designated endowment funds.

The following tables summarize the changes in National Office endowment net assets for the years ended June 30, 2015 and 2014, which consists of permanently restricted net assets and excludes its beneficial interest in perpetual trusts for which National Office is not the trustee, and the changes in the endowment fund for the year then ended:

	2015		
	Temporarily restricted	Permanently restricted	Total
Balance, beginning of year	$ 905,053	$ 500,000	$ 1,405,053
Interest and dividends	47,137	-	47,137
Realized gains	8,797	-	8,797
Unrealized gains (losses)	(115,423)	-	(115,423)
Investment fees	(9,385)	-	(9,385)
Appropriation for expenditure	(98,509)	-	(98,509)
Balance end of year	$ 737,670	$ 500,000	$ 1,237,670

	2014		
	Temporarily restricted	Permanently restricted	Total
Balance, beginning of year	$ 701,259	$ 500,000	$ 1,201,259
Interest and dividends	63,339	-	63,339
Realized gains	69,666	-	69,666
Unrealized gains	171,329	-	171,329
Investment fees	(5,451)	-	(5,451)
Appropriation for expenditure	(95,089)	-	(95,089)
Balance end of year	$ 905,053	$ 500,000	$ 1,405,053

11. RELATED PARTY TRANSACTIONS

At June 30, 2014, there were nine Chartered Associations that have jurisdiction over specific geographical areas. However, one of the Chartered Associations legally dissolved with an effective date of June 30, 2014. The geographical area was absorbed by three of the remaining Chartered Associations, effective July 1, 2014.

11. RELATED PARTY TRANSACTIONS (Continued)

Each Chartered Association is required to remit a monthly bundled billing amount, which includes a fee for some services or contracts held by National Office. Part of these fees pertain to National Office Direct Marketing and the ROI Data Program which provides information on donors and fundraising events conducted by and for the benefit of Chartered Associations. Donations resulting from the direct mail campaign and revenue raised by the Direct Marketing Program are remitted to the Chartered Associations based on the zip code of the donor. The Chartered Associations reimburse National Office for costs required to operate this program. These reimbursements are shown as program reimbursement revenue from Chartered Associations on the accompanying statements of activities. This revenue is recognized as expenses are incurred. For the years ended June 30, 2015 and 2014, program reimbursements approximated $22,000,000 and $21,000,000, respectively.

Each Chartered Association is also required to remit a monthly assessment, which National Office uses in a variety of ways including, but not limited to, providing national leadership, assistance and guidance in the areas of Field Program Development, Field Fundraising and Field Management Advisory and other activities. This revenue is recognized over the assessment period. For the years ended June 30, 2015 and 2014, Chartered Associations' assessments revenue approximated $4,800,000 and $4,700,000, respectively.

Additionally, per National Office's agreement with each Chartered Association, National Office receives 30% of direct response revenues, less direct response expenses. This revenue is recognized in the period when contributions are collected. For the years ended June 30, 2015 and 2014, the allocable share of direct response activities from Chartered Associations approximated $2,200,000 and $2,300,000, respectively.

Receivables from Chartered Associations at June 30, 2015 and 2014, approximated $1,600,000. There were no amounts considered uncollectible as of June 30, 2015 and 2014.

At June 30, 2015 and 2014, annuity and pooled income fund assets, deferred compensation plan assets and related liabilities pertaining to Chartered Associations administered by National Office approximating $1,300,000 and $1,800,000, respectively, are reflected as amounts held on behalf of others on the accompanying statements of financial position.

National Office's processes certain administrative costs relating to American Lung Association's defined benefit pension plan - Retirement Plan D (see note 7). In relation to these transactions, National Office has receivables from the Retirement Plan D trust of $55,518 and $127,485 as of June 30, 2015 and 2014, respectively.

12. JOINT COSTS

During the years ended June 30, 2015 and 2014, National Office incurred joint costs of $599,959 and $1,351,203, respectively, for informational materials and activities that included development appeals which pertain to Lung USA. Of those costs, for the years ended June 30, 2015 and 2014, $185,987 and $466,327, respectively, was allocated to fundraising, $35,998 and $76,618 allocated to management and general and $377,974 and $808,258, respectively, allocated to program services.

13. COMMITMENTS AND CONTINGENCIES

Government Contracts

National Office operates under various contracts with government agencies which generally cover a one-year period, subject to annual renewal. The terms of these contracts allow the grantors the right to audit the costs incurred thereunder and adjust contract funding based upon, among other things, the amount of program income received. Any costs disallowed by the grantor would be absorbed by National Office and any adjustments by grantors would be recorded when amounts are known; however, it is the opinion of management that disallowances, if any, would not be material to the accompanying financial statements.

Operating Leases

National Office leases office space in New York, District of Columbia, Wisconsin and Illinois. These leases expire at varying dates through December 2020. The annual rentals are subject to escalation agreements and periodic rate increases. Beginning in fiscal year 2014, National Office subleases office space in New York and District of Columbia. As a result of signing the sublease of the New York office space, a loss of $716,563 was recognized for the year ended June 30, 2014, which will be amortized straight-line against rental expense over the term of the lease. Sublease revenue for the years ended June 30, 2015 and 2014 was $302,505 and $229,917, respectively. Net rental expense for the years ended June 30, 2015 and 2014 totaled $764,373 and $702,896, respectively.

The minimum annual rental payments due related to all office leases are as follows:

2016	$ 959,710
2017	609,520
2018	599,624
2019	598,730
2020	379,393
2021	110,985
	$ 3,257,962

13. COMMITMENTS AND CONTINGENCIES (Continued)

Litigation

National Office is contingently liable under certain claims that have arisen in the ordinary course of its operations. In the opinion of management, the claims will be defended as appropriate. National Office believes that the resolution of these matters will not have a material effect upon its financial position, changes in net assets or cash flows.

14. SUBSEQUENT EVENTS

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

National Office has evaluated subsequent events through November 30, 2015, which was the date that these financial statements were available for issuance, and determined that there were no significant non-recognized subsequent events through that date.

SUPPLEMENTARY INFORMATION

AMERICAN LUNG ASSOCIATION – NATIONAL OFFICE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2015

	Federal CFDA Number	Grant ID Number	Expenditures	
U.S. Environment Protection Agency (EPA)				
Office of Air and Radiation				
Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034	XA-83461301	$ 75,003	
	66.034	XA-83576901	96,447	
Total U.S. EPA			171,450	
U.S. Department of Health and Human Services				
Centers for Disease Control and Prevention				
PPHF: Community Transformation Grants and National Dissemination and Support for Community Transformation Grant financed solely by Prevention and Public Health Funds				
Expanding Smokefree Communities (Public Health Service) - Year 2	93.531	5U58DP003755	311,121	
Expanding Smokefree Communities (Public Health Service) - Year 3	93.531	5U58DP003755	58,881	
Total CFDA 93.531			370,002	(M)
Environmental Public Health and Emergency Response - Year 3	93.070	5UE1EH000763	16,762	
Environmental Public Health and Emergency Response - Year 4	93.070	5UE1EH000763	111,409	
Total for CFDA 93.070			128,171	
National Public Health Improvement Initiative	93.292	1U38OT000224	40,652	
NON-ACA/PPHF - Building Capacity of the Public Health System to Improve Population Health through National Nonprofit Organizations				
Enchancing Use and Availablity of Asthma Inhalers - Year 1	93.424	5U38OT000224	152,325	
Enchancing Use and Availablity of Asthma Inhalers - Year 2	93.424	5U38OT000224	26,166	
Total for CFDA 93.424			178,491	
Building Capacity of the Public Health System to Improve Population Health Health through National Nonprofit Organizations - financed in part by Prevention and Public Health Funds (PPHF)				
Tracking Trends in State Coverage of Tobacco Cessation Treatments for Medicaid Enrollees	93.524	3U38OT000224	100,000	
Assistance Programs for Chronic Disease Prevention and Control - Year 1	93.945	1U58DP004966	83,710	
Assistance Programs for Chronic Disease Prevention and Control - Year 2	93.945	1U58DP004966	171,652	
Total for CFDA 93.945			255,362	
Total Centers for Disease Control and Prevention			1,072,678	
National Institutes of Health - Passed through from University of California				
Cardiovascular Diseases Research	93.837	1 R34HL 109482-01A1	10,575	
National Institutes of Health - Passed through from Johns Hopkins University				
Lung Diseases Research	93.838	2001706156	118,200	
Total U.S. Department of Health and Human Services			1,201,453	
Total expenditure of federal awards			$ 1,372,903	

(M) - Audited as a major program

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of American Lung Association - National Office (National Office) for the year ended June 30, 2015. The information presented on this schedule has been prepared using the accrual basis of accounting and is in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

DESCRIPTION OF MAJOR FEDERAL PROGRAM

The Community Transformation Grants aim to reduce death and disability from the five leading causes of death through the prevention and control of these conditions and their risk factors.

NON-CASH ASSISTANCE, INSURANCE, AND LOANS

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

AMERICAN LUNG ASSOCIATION – NATIONAL OFFICE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

For the Year Ended June 30, 2015

SUBRECIPIENTS

Of the federal expenditures presented on the accompanying schedule, National Office provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amounts provided to subrecipients
Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034	$ 5,000
PPHF: Community Transformation Grants and National Dissemination and Support for Community Transformation Grant financed solely by Prevention and Public Health Funds		
Expanding Smokefree Communities (Public Health Service) - Year 2	93.531	164,356
Expanding Smokefree Communities (Public Health Service) - Year 3	93.531	106,573
Total CFDA 93.531		270,929
Cardiovascular Diseases Research	93.837	10,575
Lung Diseases Research	93.838	118,200
Total		$ 404,704

Sikich®

217.793.3363 // www.sikich.com

3201 W. White Oaks Dr., Suite 102
Springfield, Illinois 62704

Certified Public Accountants & Advisors
Members of American Institute of Certified Public Accountants

**Independent Auditor's Report on
Internal Control Over Financial Reporting and
On Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
with *Government Auditing Standards***

To the Board of Directors of
American Lung Association - National Office:

We have audited, 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, the financial statements of American Lung Association - National Office (National Office), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 30, 2015.

Internal control over financial reporting

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

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

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

Compliance and other matters

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

Purpose of this Report

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

Sikich LLP

Springfield, Illinois
November 30, 2015

Sikich®

217.793.3363 // www.sikich.com

3201 W. White Oaks Dr., Suite 102
Springfield, Illinois 62704

Certified Public Accountants & Advisors
Members of American Institute of Certified Public Accountants

**Independent Auditor's Report on
Compliance for Each Major Federal Program and
on Internal Control Over Compliance
Required by OMB Circular A-133**

To the Board of Directors of
American Lung Association - National Office:

Report on Compliance for Each Major Federal Program

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

Management's responsibility

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

Auditor's responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Types of Control Over Compliance

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

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

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

Purpose of this Report

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

Sikich LLP

Springfield, Illinois
November 30, 2015

AMERICAN LUNG ASSOCIATION – NATIONAL OFFICE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2015

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	*unmodified*	
Internal control over financial reporting:		
Material weakness(es) identified?	_____ yes	__X__ no
Significant deficiency(s) identified that are not considered to be material weaknesses?	_____ yes	__X__ none reported
Noncompliance material to financial statements noted?	_____ yes	__X__ no

Federal Awards

Internal Control over major programs:		
Material weakness(es) identified?	_____ yes	__X__ no
Significant deficiency(s) identified that are not considered to be material weaknesses?	_____ yes	__X__ no
Type of auditor's report issued on compliance for major programs:	*unmodified*	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	_____ yes	__X__ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.531	Community Transformation Grants and National Dissemination and Support for Community Transformation Grants – financed solely by Prevention and Public Health Funds

Dollar threshold used to distinguish between Type A and Type B programs:	$ 300,000	
Auditee qualified as low-risk auditee?	__X__ yes	_____ no

Financial Statement Findings

None.

Federal Award Findings

None.

Prior Audit Findings

Note: The prior audit contained no findings.