



**AMERICAN LUNG ASSOCIATION**

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FINANCIAL STATEMENTS AND INDEPENDENT  
AUDITOR'S REPORT

For the Year Ended June 30, 2018

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**AMERICAN LUNG ASSOCIATION**  
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3201 W. White Oaks Dr., Suite 102  
Springfield, IL 62704  
217.793.3363

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
American Lung Association

### **Report on the Financial Statements**

We have audited the accompanying financial statements of American Lung Association (Association), which comprise the Statement of Financial Position as of June 30, 2018, and the related Statement 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 respects, the financial position of American Lung Association as of June 30, 2018, 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.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2019, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the Association's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

*Sikich LLP*

Springfield, Illinois  
January 18, 2019

## **FINANCIAL STATEMENTS**

AMERICAN LUNG ASSOCIATION

STATEMENT OF FINANCIAL POSITION

June 30, 2018

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**ASSETS**

Cash and cash equivalents	\$ 37,231,856
Receivables:	
Accounts and grants receivable, net	12,946,620
Notes receivable	2,038,664
Prepaid expenses and other assets:	
Prepaid expenses	1,370,190
Inventories	125,125
Investments	104,412,597
Other assets	729,507
Land, buildings, and equipment, net	10,566,611
Beneficial interest in gift annuities	1,078,190
Beneficial interest in charitable and perpetual trusts	33,687,847
<b>TOTAL ASSETS</b>	<b>\$ 204,187,207</b>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Accounts payable and accrued expenses	
Accounts payable - general	\$ 8,948,271
Accounts payable - awards and grants	6,618,850
Deferred revenue	19,790,399
Amounts held on behalf of others	978,992
Accrued pension and postretirement plan liabilities	15,288,190
Gift annuities obligations	1,059,228
Other liabilities	2,672,921
Total liabilities	<u>55,356,851</u>

**NET ASSETS**

Unrestricted	106,001,896
Temporarily restricted	5,011,492
Permanently restricted	37,816,968
Total net assets	<u>148,830,356</u>

**TOTAL LIABILITIES AND NET ASSETS** \$ 204,187,207

See accompanying notes to the financial statements.

**AMERICAN LUNG ASSOCIATION**

STATEMENT OF ACTIVITIES

Year ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUE</b>				
Public support:				
Direct mail	\$ 18,427,032	\$ -	\$ -	\$ 18,427,032
Contributions	5,330,764	-	-	5,330,764
Contributed media services and materials	28,495,537	-	-	28,495,537
Bequests and trust income	14,634,118	43,500	-	14,677,618
Special events	18,448,037	-	-	18,448,037
Less direct donor benefits	<u>(3,639,102)</u>	<u>-</u>	<u>-</u>	<u>(3,639,102)</u>
Total public support	81,696,386	43,500	-	81,739,886
Other revenue:				
Corporate support	14,726,098	-	-	14,726,098
Foundation support	3,960,169	51,696	-	4,011,865
Government grants	24,739,244	-	-	24,739,244
Interest and dividends	2,671,389	171,985	3,012	2,846,386
Research co-funding	1,378,900	-	-	1,378,900
Program service fees	2,520,422	-	-	2,520,422
Other	700,243	-	-	700,243
Total other revenue	<u>50,696,465</u>	<u>223,681</u>	<u>3,012</u>	<u>50,923,158</u>
Net assets released from restrictions	<u>2,704,819</u>	<u>(2,704,819)</u>	<u>-</u>	<u>-</u>
Total revenue	135,097,670	(2,437,638)	3,012	132,663,044
<b>EXPENSES</b>				
Program services	116,333,400	-	-	116,333,400
Supporting services	15,201,843	-	-	15,201,843
Total expenses	<u>131,535,243</u>	<u>-</u>	<u>-</u>	<u>131,535,243</u>
Changes in net assets from operating activities	3,562,427	(2,437,638)	3,012	1,127,801
<b>OTHER CHANGES IN NET ASSETS</b>				
Net realized gains (losses) on investments	2,100,478	384,632	(1,566)	2,483,544
Net unrealized gains (losses) on investments	1,544,679	(65,571)	6,875	1,485,983
Gain on sale of land, buildings, and equipment	128,365	-	-	128,365
Change in fair value of beneficial interest in trusts & other	115,444	82,734	695,705	893,883
Change in value of split-interest agreements	6,537	-	-	6,537
Change in value of equity method investments	(81,484)	-	-	(81,484)
Other pension and postretirement plan changes	(645,062)	-	-	(645,062)
Acquisition of dissolved and merged charters	84,020,708	5,692,186	33,248,542	122,961,436
Total other changes in net assets	<u>87,189,665</u>	<u>6,093,981</u>	<u>33,949,556</u>	<u>127,233,202</u>
<b>CHANGE IN NET ASSETS</b>	90,752,092	3,656,343	33,952,568	128,361,003
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>15,249,804</u>	<u>1,355,149</u>	<u>3,864,400</u>	<u>20,469,353</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 106,001,896</u>	<u>\$ 5,011,492</u>	<u>\$ 37,816,968</u>	<u>\$ 148,830,356</u>

See accompanying notes to the financial statements.

# AMERICAN LUNG ASSOCIATION

## STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2018

	Program Services				Total Program Services
	Lung Cancer, Asthma, COPD and Lung Disease	Research	Advocacy and Environment	Tobacco Control	
Salaries	\$ 10,074,284	\$ 3,026,859	\$ 6,062,157	\$ 11,561,276	\$ 30,724,576
Payroll taxes and benefits	2,940,398	836,646	1,753,434	3,414,168	8,944,646
Total compensation	13,014,682	3,863,505	7,815,591	14,975,444	39,669,222
Awards and grants, net	-	7,654,496	-	-	7,654,496
Program consulting	2,517,271	9,048	3,007,784	7,681,402	13,215,505
Professional fees	4,926,058	473,885	1,833,217	2,792,691	10,025,851
Media and advertising	431,681	142,872	240,518	297,711	1,112,782
In-kind media	25,716,981	164,300	388,225	123,225	26,392,731
Occupancy	960,374	232,137	660,320	1,270,953	3,123,784
Office supplies and equipment	1,051,978	333,307	994,040	991,074	3,370,399
Printing	188,076	26,953	45,176	386,250	646,455
Postage and shipping	94,779	31,519	59,442	110,310	296,050
Travel	559,774	131,089	274,661	594,086	1,559,610
Conferences	502,070	81,000	112,935	184,633	880,638
Miscellaneous	200,260	92,128	115,865	184,060	592,313
Direct mail - materials and professional fees	4,286,460	2,416,005	467,614	623,485	7,793,564
Total functional expenses before direct donor benefits	54,450,444	15,652,244	16,015,388	30,215,324	116,333,400
Percentage of total	41%	12%	12%	23%	88%
Direct donor benefits					
Site rental/food/entertainment	-	-	-	-	-
Total functional expenses and direct donor benefits	\$ 54,450,444	\$ 15,652,244	\$ 16,015,388	\$ 30,215,324	\$ 116,333,400

This statement continued on the following page.



# AMERICAN LUNG ASSOCIATION

## STATEMENT OF FUNCTIONAL EXPENSES (Continued)

Year ended June 30, 2018

	Supporting Services			
	Management and General	Fund- raising	Total Supporting Services	Total
Salaries	\$ 853,716	\$ 3,719,179	\$ 4,572,895	\$ 35,297,471
Payroll taxes and benefits	292,436	1,218,177	1,510,613	10,455,259
Total compensation	1,146,152	4,937,356	6,083,508	45,752,730
Awards and grants, net	-	-	-	7,654,496
Program consulting	278	3,290	3,568	13,219,073
Professional fees	322,541	718,131	1,040,672	11,066,523
Media and advertising	6,038	150,291	156,329	1,269,111
In-kind media	-	205,375	205,375	26,598,106
Occupancy	732,701	561,874	1,294,575	4,418,359
Office supplies and equipment	202,659	523,117	725,776	4,096,175
Printing	1,568	36,493	38,061	684,516
Postage and shipping	7,217	49,043	56,260	352,310
Travel	26,886	96,176	123,062	1,682,672
Conferences	25,838	52,919	78,757	959,395
Miscellaneous	24,283	175,908	200,191	792,504
Direct mail - materials and professional fees	649,463	4,546,246	5,195,709	12,989,273
Total functional expenses before direct donor benefits	3,145,624	12,056,219	15,201,843	131,535,243
Percentage of total	3%	9%	12%	100%
Direct donor benefits				
Site rental/food/entertainment	-	-	3,639,102	3,639,102
Total functional expenses and direct donor benefits	\$ 3,145,624	\$ 12,056,219	\$ 18,840,945	\$ 135,174,345

See accompanying notes to the financial statements.

# AMERICAN LUNG ASSOCIATION

## STATEMENT OF CASH FLOWS

Year ended June 30, 2018

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<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Changes in net assets	\$ 128,361,003
Adjustments to reconcile changes in net assets to net cash provided by operating activities	
Depreciation and amortization	513,611
Forgiveness of notes receivable	573,386
Gain on sale of land, buildings, and equipment	(128,365)
Net realized and unrealized gain on investments	(3,969,527)
Distribution of assets held in trusts	115,444
Change in fair value of beneficial interest in trusts and other	(893,883)
Change in fair value of beneficial interest in gift annuities	(107,204)
Change in valuation of investment in LLC	826,050
Acquisition of merged charters	(122,961,436)
Changes in operating assets and liabilities:	
Receivables	2,180,793
Prepaid expenses	71,337
Inventory	(36,514)
Other assets	1,541,498
Accounts payable and accrued expenses	(5,268,929)
Awards and grants payable	654,500
Deferred revenue	252,072
Amounts held on behalf of others	(557,747)
Accrued pension and postretirement plan liabilities	(924,003)
Gift annuities obligations	100,668
Other liabilities	930,467
	<hr/>
Net cash from operating activities	1,273,221
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of investments	(21,709,857)
Sale of investments	19,546,222
Advances on notes receivable	(1,344,322)
Purchase of property and equipment	(24,090)
Proceeds from sale of property and equipment	173,344
Cash and cash equivalents received from merged charters	15,043,848
	<hr/>
Net cash from investing activities	11,685,145
 <b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	 12,958,366
 <b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	 <hr/> 24,273,490
 <b>CASH AND CASH EQUIVALENTS, END</b>	 <hr/> <hr/> \$ 37,231,856

See accompanying notes to the financial statements.

# AMERICAN LUNG ASSOCIATION

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

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### 1. NATURE OF BUSINESS

American Lung Association (the Association or ALA) is a not-for-profit voluntary health organization incorporated in the State of Maine. The mission of the Association is to prevent lung disease and promote lung health. The Association sponsors 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 also provides grants and awards for research and for the training of researchers. The Association 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. The Association is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

Effective July 1, 2017, eight chartered organizations merged with the Association to create a Single Nationwide Organization. Total assets acquired from the eight charters were approximately \$153,975,814 and net assets acquired were approximately \$122,961,436. The Association oversees the operations and activities for the eight charters to facilitate strategic alignment, deliver on the overarching Association-wide strategic objectives and prioritize activities.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP).

The financial statement presentation follows the provisions of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958, *Not-for-Profit Entities*. Under FASB ASC 958, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Unrestricted net assets* – net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the board of directors.

*Temporarily restricted net assets* – net assets that are subject to donor-imposed stipulations that may or will be met by the occurrence of a specific event or the passage of time.

*Permanently restricted net assets* – net assets required to be maintained in perpetuity, due to donor-imposed restrictions. Generally, the donors of these assets permit the Association to use all or part of the income earned on related investments for general or specified purposes.

**AMERICAN LUNG ASSOCIATION**  
NOTES TO THE FINANCIAL STATEMENTS (Continued)

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**2. SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES (Continued)**

Use of Estimates

The preparation of financial statements in conformity with 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; the pension and life insurance benefit obligations; the fair values assigned to certain financial instruments, in-kind contributions, the useful lives assigned to property and equipment and the allocation of functional expenses. Actual results could differ from those estimates.

Cash Equivalents

Cash equivalents include highly liquid investments, including money market funds with original maturities of three months or less at the date of purchase. The Association has classified any cash or money market accounts held by external investment managers as investments as these funds are not intended for current operations.

Receivables and Allowances for Doubtful Accounts

Receivables are primarily related to grants and program service contracts. The Association provides an allowance for uncollectible accounts based upon prior experience and management's assessment of the collectability of specific accounts. Receivables are reflected on the accompanying Statement of Financial Position net of allowance for doubtful accounts of \$20,000.

Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at fair value at the date of receipt, and expenditures for land, buildings and equipment in excess of \$5,000 are capitalized and stated at cost, less accumulated depreciation.

Land, Buildings, and Equipment (Continued)

Depreciation is computed using the straight-line method over the estimated useful lives (5-40 years for buildings and improvements; 3 years for computer hardware and software; 3-15 years for furniture, fixtures and equipment; and 3-5 years for vehicles). Leasehold improvements are amortized over the shorter of the life of the lease or estimated life of the asset.

Deferred revenue

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

Investments and Related Income

The Association carries its investments at fair value with the related gains and losses included in the Statement of Activities. The fair value of equity securities, debt securities, and mutual funds with readily determinable fair values approximates quoted market prices. All investment income is reported as unrestricted unless otherwise restricted by the donor. All appreciation/depreciation earned on investments is reported as a change in unrestricted net assets unless otherwise restricted by the donor. Interest and dividend income from the Association's investments are included in operating activities on the Statement of Activities as those investments are used for the Association's daily cash management activities. All other investment return is considered nonoperating.

**AMERICAN LUNG ASSOCIATION**  
NOTES TO THE FINANCIAL STATEMENTS (Continued)

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**2. SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES (Continued)**

Direct Mail, Contributions, Special Events,  
Bequests and Trust Income

All unconditional monetary gifts collected through direct mail, online contributions, special events, bequests and trusts are recorded when received or when notified through probate. All contributions are considered available for the general programs of the Association, unless specifically restricted by the donor. The Association reports monetary gifts as temporarily restricted support if they are received with donor stipulations that limit their use or are subject to time restrictions. A donor restriction expires when a stipulated time restriction ends or when a purpose restriction is accomplished. Upon expiration of the restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Program Service Contracts and Grants

Revenue from program service contracts and federal, state, corporate and foundation 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.

Research Awards and Grants

The Association makes awards and grants for research and for the training of researchers. The Association's funding for research is derived from a portion of its overall revenue and contractual agreements with affiliates restricted to the Association'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 the Association 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, 2018 are all payable within one year.

Contributed Media, Services and Materials

The Association recognizes advertising costs when incurred. During the year ended June 30, 2018 the Association received \$26,598,106 of billboard, print, and TV and radio advertisement space. The value of such contributed media, based upon information provided by third-party media services, is reflected on the Statement of Activities as contributed media, services and materials and on the Statement of Functional Expenses as in-kind media.

The Association recognizes contributions of services if such services (a) create or enhance nonfinancial assets, or (b) require specialized skills, and are provided by individuals possessing those skills and would typically need to be purchased if not contributed. Contributed services recognized related to consulting work was \$930,473 for the year ended June 30, 2018.

The Association recognizes contributions of materials and facility space at their estimated fair value at the date of donation. Donated materials and facility space was \$966,958 for the year ended June 30, 2018.

Licensing Fees and Royalties

The Association 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.

**AMERICAN LUNG ASSOCIATION**  
NOTES TO THE FINANCIAL STATEMENTS (Continued)

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Licensing Fees and Royalties (Continued)

Health Partners pay fees for use of the American Lung Association logo and approved informational content under strict usage terms that require the Association'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 the Association 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.

Licensing Fees and Royalties (Continued)

The Association 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. Licensing fees and royalties are reported as corporate support revenue on the Statement of Activities.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services are summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on an allocation of personnel costs.

Income Taxes

National Office 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.

Concentrations of Credit Risk

Cash, cash equivalents and investments are exposed to various risks, such as interest rate, market and credit risks. To minimize such risks, the Association has diversified investment portfolios managed by independent investment managers in a variety of asset classes. The Association regularly evaluates its investments including performance thereof. Due to inherent risks and potential volatility in investment valuations, the amounts reported on the accompanying financial statements can vary substantially from year to year. The Association maintains its cash and cash equivalents in various bank deposit accounts which, at times may exceed federally insured limits. At June 30, 2018, the Association's cash accounts exceeded federally insured limits by \$36,532,985. The Association's cash and investment accounts were placed with high credit quality financial institutions and accordingly, the Association does not expect nonperformance.

**3. NOTES RECEIVABLE**

The Association received several grants to provide gas stations with funding to provide E-85 fueling. The funds were advanced to the gas stations upon completion of the project and the Association executed a note agreement with each station. The total amount advanced to gas stations was \$1,344,322 during the year ended June 30, 2018. 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, 2018, \$573,386 of the notes receivable was forgiven.

**AMERICAN LUNG ASSOCIATION**  
NOTES TO THE FINANCIAL STATEMENTS (Continued)

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**4. LAND, BUILDINGS AND EQUIPMENT, NET**

Land, buildings and equipment, net, consists of the following:

Land	\$ 2,793,914
Buildings and improvements	13,176,494
Computer hardware and software	351,583
Furniture, fixtures and equipment	3,428,050
Vehicles	217,230
Leasehold improvements	<u>323,974</u>
Total property and equipment	20,291,245
Less: accumulated depreciation and amortization	<u>9,724,634</u>
Property and equipment, net	<u>\$ 10,566,611</u>

Depreciation expense for the year totaled \$513,611.

**5. FAIR VALUE MEASUREMENTS**

GAAP establishes a framework for measuring fair value. That framework uses a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. GAAP requires the Association to maximize the use of observable inputs when measuring fair value. The hierarchy describes three levels of inputs, which are as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in inactive markets; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Significant unobservable inputs.

In many cases, a valuation technique used to measure fair value includes inputs from more than one level of the fair value hierarchy. The lowest level of significant input determines the placement

of the entire fair value measurement in the hierarchy. The categorization of an investment within the hierarchy reflects the relative ability to observe the fair value measure and does not necessarily correspond to the perceived risk of that investment.

If an investment that is measured using net asset value (NAV) has a readily determinable fair value (that is, it can be traded at the measurement date at its published NAV), it is included in Level 1 of the hierarchy. Otherwise, investments measured using NAVs are not included in Level 1, 2, or 3, but are separately reported.

Valuation Techniques

Following is a description of the valuation techniques used for assets and liabilities measured at fair value on a recurring basis. There have been no changes to the techniques used during the year ended June 30, 2018.

- Common stock: Valued at the closing quoted price in an active market.
- Mutual funds, exchange-traded and closed-end funds and real estate investment trusts: Valued at the NAV of shares on the last trading day of the fiscal year.
- U.S. government securities: U.S. Treasury notes and bonds in which the Association invests are usually “off the run” on the measurement date. Thus, they are valued by a pricing service using a model that incorporates market observable data such as reported sales of similar securities, broker quotes, yields, bids, offers, and reference data. U.S. Treasury notes and bonds that are “on the run” are measured at quoted prices in active markets for the same security.
- U.S. agency bonds: Valued by a pricing service using a model that incorporates market observable data such as reported sales of similar securities, broker quotes, yields, bids, offers, and reference data.

**AMERICAN LUNG ASSOCIATION**  
NOTES TO THE FINANCIAL STATEMENTS (Continued)

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**5. FAIR VALUE MEASUREMENTS**  
**(Continued)**

Valuation Techniques (Continued)

- Corporate and foreign bonds: The investment grade corporate bonds held by the Association generally do not trade in active markets on the measurement date. Therefore, corporate bonds are valued using inputs including yields currently available on comparable securities of issuers with similar credit ratings, recent market price quotations (where observable), bond spreads, and fundamental data relating to the issuer.
- Beneficial interest in charitable trusts and gift annuities: Valued using the fair value of the assets held in the trust reported by the trustee as of June 30, 2018. The Association considers the measurement of its beneficial interest in trusts and gift annuities to be a Level 2 measurement within the hierarchy because the measurement is based on the unadjusted fair value of trust assets reported by the trustee and the Association will receive those assets in a future period.
- Beneficial interest in perpetual trusts: Valued using the fair value of the assets held in the trust reported by the trustee as of June 30, 2018. The Association considers the measurement of its beneficial interest in perpetual charitable trust to be a Level 3 measurement within the hierarchy because even though that measurement is based on the unadjusted fair value of trust assets reported by the trustee, the Association will never receive those assets or have the ability to direct the trustee to redeem them.
- Gift annuities obligations: Valued based on the present value of discounted expected cash flows and life expectancies. The present value was calculated using a discount rate of 3%. These are categorized as Level 2.



**AMERICAN LUNG ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**5. FAIR VALUE MEASUREMENTS (Continued)**

Recurring Measurements

Assets and liabilities measured at fair value on a recurring basis as of June 30, 2018 are as follows:

	Level 1	Level 2	Level 3	Total
<b>ASSETS</b>				
Investments:				
Common stock	\$ 30,022,308	\$ -	\$ -	\$ 30,022,308
Mutual funds	46,033,398	-	-	46,033,398
Exchange-traded & closed-end funds	3,042,090	-	-	3,042,090
United States Treasury notes and bonds	-	2,878,172	-	2,878,172
United States Agency bonds	-	56,225	-	56,225
Corporate bonds	-	8,462,973	-	8,462,973
Foreign bonds	-	307,736	-	307,736
Real estate investment trusts	350,242	-	-	350,242
Cash and cash equivalents*				11,817,045
Other investments (cost)*				1,244,487
Pooled funds**				197,921
Total investments	<u>\$ 79,448,038</u>	<u>\$ 11,705,106</u>	<u>\$ -</u>	<u>#####</u>
Other Assets:				
Beneficial interest in charitable and perpetual trusts	-	1,989,580	31,698,267	33,687,847
Beneficial interest in gift annuities	-	1,078,190	-	1,078,190
Total other assets	<u>\$ -</u>	<u>\$ 3,067,770</u>	<u>\$ 31,698,267</u>	<u>\$ 34,766,037</u>
<b>LIABILITIES</b>				
Gift annuities obligations	<u>\$ -</u>	<u>\$ 1,059,228</u>	<u>\$ -</u>	<u>\$ 1,059,228</u>

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

\*\* Reported at NAV

Investments measured at NAV

The following table represents the category, fair value, redemption frequency, and redemption notice period for investments, the fair values of which are estimated using net asset value per share as of June 30, 2018:

Investment	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Pooled funds (a)	\$197,921	\$ -	Quarterly	90 days

**AMERICAN LUNG ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**5. FAIR VALUE MEASUREMENTS**  
**(Continued)**

Investments measured at NAV (Continued)

(a) Pooled Fund investments include investments held with the Community Foundation of Louisville, Inc. and the San Diego Foundation. Pooled fund investments are valued at contract value, which approximates fair value. Contract value represents contributions made under the contract, plus earnings, less withdrawals and administrative expenses. The pooled fund investment strategy strives to maximize annual return while prudently mitigating risk within a long-term time horizon.

Investment management and custodial fees incurred during the fiscal year totaled \$444,502 and are included within professional fees on the accompanying Statement of Functional Expenses.

The following table presents a reconciliation of Level 3 assets measured at fair value on a recurring basis for the year ended June 30, 2018.

	Beneficial Interest in Perpetual Trusts
Beginning balance, July 1, 2017	\$ 3,364,400
Transfer from charters	27,638,162
Total gains (losses) included in change in net assets	695,705
Receipt of principal distribution	-
Ending balance, June 30, 2018	<u>\$ 31,698,267</u>

**6. CHARITABLE TRUSTS, PERPETUAL TRUSTS AND GIFT ANNUITIES**

The Association is a beneficiary of charitable and perpetual trusts administered by independent organizations. Under the terms of the trusts, the Association has irrevocable rights to receive portions of the income earned on the trust assets. Portions of income earned on the perpetual trusts is earned in perpetuity. The Association's beneficial

interest in charitable and perpetual trusts, at fair value, totaled \$32,918,439 at June 30, 2018.

The Association is the beneficiary of charitable remainder unit trusts which are held by independent organizations. Upon the death of the donors, the Association will receive a portion of the remaining assets in the trust. The value at June 30, 2018, was \$769,408.

The Association also has charitable gift annuity arrangements in which donors have contributed assets to the Association in exchange for a promise to pay a fixed amount for a specified period of time back to the donor. Gift annuity obligations represent the present value of future cash flows expected to be paid by the Association to the donors under these arrangements. Assets held for the gift annuities at June 30, 2018 are \$1,078,190.

Gift annuity liabilities of \$1,059,228 at June 30, 2018, are reported as their own line on the Statement of Financial Position.

**7. LINE OF CREDIT**

The Association 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 Association's investment portfolio.

During the year ended June 30, 2018 no amounts were borrowed under the line of credit.

**8. DEFINED BENEFIT PENSION PLAN**

The Association 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. The Association's Board of Directors voted to freeze this plan effective July 1, 2011.

**AMERICAN LUNG ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**8. DEFINED BENEFIT PENSION PLAN**  
**(Continued)**

The Association 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. The assets of the trust are held by First State Trust Company.

Information regarding the Association's Retirement Plan D follows:

Change in benefit obligation:	
Benefit obligation, beginning of year	\$ 18,278,072
Interest cost	1,990,312
Actuarial loss (gain)	187,177
Transfer in at July 1, 2017	30,588,883
Settlements	(2,684,202)
Special/contractual termination benefits	(634,191)
Benefits paid	<u>(1,655,398)</u>
Benefit obligation, end of year	<u>\$ 46,070,653</u>
Change in plan assets:	
Fair value of plan assets, beginning of year	\$ 12,259,966
Actual return on plan assets	(92,258)
Employer contributions	3,124,809
Transfer in at July 1, 2017	20,671,490
Settlements	(3,318,393)
Benefits paid	<u>(1,655,398)</u>
Fair value of plan assets, end of year	<u>\$ 30,990,216</u>
Funded status, end of year	<u>\$ (15,080,437)</u>

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 \$9,549,884.

Components of net periodic benefit cost:	
Interest cost	\$ 1,990,312
Expected return on plan assets	(1,721,733)
Recognized loss due to settlements	995,969
Amortization of net actuarial loss	389,663
Net periodic benefit cost	<u>\$ 1,654,211</u>
Benefit-related changes other than net periodic benefit cost:	
Transfer of actuarial (gain)/loss due to Plan Merger at July 1, 2017	\$ 9,549,884
Net actuarial loss arising during the year	2,001,168
Amortization of net actuarial loss	<u>(1,385,632)</u>
Total benefit-related changes other than net periodic benefit cost	<u>\$ 10,165,420</u>

The following is the weighted-average assumptions used to determine benefit obligations:

Discount rate	4.50%
Rate of compensation increase	N/A

The following are the weighted-average assumptions used to determine net periodic benefit cost:

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

**9. RETIREMENT PLAN**

The Association currently sponsors multiple defined contribution employee retirement plans that match employee contributions. Some of the plans also allow for a discretionary contribution regardless of an employee's participation in the matching portion of the plan. All full-time employees and most part-time employees are eligible to participate based on date of hire. The Association's expense totaled \$758,171 for the matching contribution and \$1,353,121 for discretionary contributions for the year ended June 30, 2018.

**10. RESTRICTED NET ASSETS**

	Temporarily Restricted
Research Programs	\$ 1,124,590
Time restrictions	2,916,068
Operations	923,276
Total temporarily restricted net assets	<u>47,558</u>
	Permanently Restricted
Beneficial interest in charitable and perpetual trusts	\$ 31,698,267
Investments in community foundations	143,925
Endowment funds	5,974,776
Total permanently restricted net assets	<u>\$37,816,968</u>
Total restricted net assets	<u>\$42,828,460</u>

## **11. ENDOWMENTS**

The Association's endowment program consists of donor-restricted endowment funds, and does not include any funds designated by the Board of Directors to function as endowments.

The Association 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.

The Association 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, the Association 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 the Association 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 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 the Association; and, the investment policy of the Association.

To satisfy its long-term 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 targets a diverse asset allocation that places an emphasis on both equity and fixed income investments to achieve its long-term return objectives within prudent risk constraints.

**AMERICAN LUNG ASSOCIATION**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

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**11. ENDOWMENTS (Continued)**

The following tables summarize the changes in the Association's endowment net assets which consists of permanently restricted net assets and excludes its beneficial interest in perpetual trusts for which the Association is not the trustee, and the changes in the endowment fund for the year then ended:

	Temporarily restricted	Permanently restricted	Total
Balance, beginning of year	\$ 707,060	\$ 500,000	\$ 1,207,060
Transfer from charters	1,914,375	5,466,455	7,380,831
Interest and dividends	171,985	3,012	175,019
Realized losses, net	299,753	(1,566)	298,187
Unrealized gains, net	(12,431)	6,875	(5,556)
Investment fees	(20,973)	-	(20,996)
Appropriation for expenditure	(1,261,111)	-	(1,261,111)
Balance end of year	<u>\$ 1,798,658</u>	<u>\$ 5,974,776</u>	<u>\$ 7,773,434</u>

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 state law requires the Association to retain as a fund or perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. There was no deficiency as of June 30, 2018.

**12. LEASES**

The Association has operating lease agreements for office space and equipment. Future annual minimum lease payments due under noncancelable leases as of June 30, 2018 are as follows:

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

2019	\$ 2,545,664
2020	1,944,102
2021	1,336,788
2022	878,562
2023	665,636
Thereafter	1,917,716
Total	<u>\$ 9,288,468</u>

Total operating lease expense was \$3,006,264 for the year ended June 30, 2018.

**13. ALLOCATION OF JOINT COSTS**

The Association conducts joint activities (activities benefiting multiple programs and/or supporting services) that include fundraising appeals. Those activities primarily include direct mail campaigns for the year ended June 30, 2018. These costs were allocated as follows:

Program	\$ 7,793,564
Management and general	649,463
Fundraising	4,546,246
Total	<u>\$ 12,989,273</u>

**AMERICAN LUNG ASSOCIATION**  
NOTES TO THE FINANCIAL STATEMENTS (Continued)

**14. ACQUIRED NET ASSETS**

The Association acquired eight chartered organizations during fiscal year 2018 as a result of a merger. No consideration was provided as a result of the transaction.

For fiscal year 2018, the following table summarizes the estimated fair values of the assets and liabilities at the acquisition date:

Cash and cash equivalents	\$ 15,043,848
Accounts and grants receivable, net	12,022,980
Notes receivable	1,267,728
Prepaid expenses	708,546
Inventories	88,611
Investments	82,320,854
Other assets	828,279
Land, buildings, and equipment, net	11,799,653
Beneficial interest in gift annuities	839,611
Beneficial interest in charitable and perpetual trusts	29,055,704
Total identifiable assets acquired	<u>\$ 153,975,814</u>
Accounts payable and accrued expenses	(11,071,047)
Deferred revenue	(8,144,093)
Amounts held on behalf of others	(94,013)
Accrued pension and postretirement plan liabilities	(10,824,609)
Gift annuities obligations	(880,616)
Net assets acquired	<u>\$ 122,961,436</u>

As a result, the net value is recorded as an acquisition of merged charters during fiscal year 2018 in the Statement of Activities.

**15. COMMITMENTS AND CONTINGENCIES**

During the normal course of business, the Association is involved in various claims and lawsuits. In the opinion of management, the potential loss on any claims and lawsuits, net of insurance proceeds, will not be significant to the Association's financial position or changes in net assets.

**16. FUTURE ACCOUNTING PRONOUNCEMENTS**

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers," as amended by ASU 2015-14, which supersedes or replaces nearly all GAAP revenue recognition guidance. This standard establishes a new contract and control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time and will expand disclosures about revenue. ASU 2014-09, as amended, is effective for non-public companies for annual reporting periods beginning after December 15, 2018 and interim periods within the annual period beginning after December 15, 2019. The Association is currently assessing the impact of this new standard.

In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), to increase the transparency and comparability about leases among entities. The new guidance requires lessees to recognize a lease liability and a corresponding lease asset for virtually all lease contracts. It also requires additional disclosures about leasing arrangements. ASU 2016-02 is effective for annual periods beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020 and requires a modified retrospective approach to adoption. The Association is currently assessing the impact of this new standard.

In August 2016, The Financial Accounting Standards Board issued ASU No. 2016-14, "Not-for-Profit Entities (Subtopic 958): Presentation of Financial Statements of Not-for-Profit Entities".

**16. FUTURE ACCOUNTING  
PRONOUNCEMENTS (Continued)**

The new guidance is intended to simplify and improve current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, expense classifications and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The Association is currently assessing the impact of this new standard.

FASB has issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU No. 2018-08 is intended to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of contribution accounting guidance, or as exchange (reciprocal) transactions subject to other guidance, and (2) determining whether a contribution is conditional.

ASU No. 2018-08 is effective for fiscal years beginning after December 15, 2018, for transactions in which the entity serves as a resource recipient, and for fiscal years beginning after December 15, 2019, for transactions in which the entity serves as a resource provider. Early adoption is permitted. The Association is currently assessing the impact of this new standard.

**17. SUBSEQUENT EVENTS**

The Association evaluated subsequent events through January 18, 2019, which was the date that these financial statements were available for issuance and determined that there were no additional significant non-recognized subsequent events through that date.