



Financial Statements and Report of Independent
Certified Public Accountants

The American Lung Association - National Office

June 30, 2014 and 2013

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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 statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, functional expenses and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our 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 National Office'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 National Office'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, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Chicago, Illinois
January 5, 2015

American Lung Association - National Office
STATEMENTS OF FINANCIAL POSITION
June 30,

	2014	2013
ASSETS		
Cash and cash equivalents	\$ 9,318,597	\$ 4,888,481
Receivables, net of allowance for doubtful accounts	1,945,960	1,595,565
Due from Chartered Associations, net of allowance for doubtful accounts	1,597,232	1,904,246
Prepaid expenses	1,007,824	374,472
Investments	15,165,612	13,221,341
Amounts held on behalf of others	1,822,800	1,940,809
Annuity fund investments	158,911	167,183
Property and equipment, net	215,805	258,491
Beneficial interest in perpetual trusts	3,915,341	3,480,087
TOTAL ASSETS	\$ 35,148,082	\$ 27,830,675
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 3,327,278	\$ 1,507,275
Awards and grants payable	3,443,045	3,889,180
Deferred revenue	6,988,384	5,041,036
Due to Chartered Associations	908,856	1,619,448
Amounts held on behalf of others	1,822,800	1,940,809
Annuity fund obligations	106,845	119,919
Pension and life insurance benefit plan obligations	4,089,366	3,978,040
Other liabilities	2,022,511	1,296,330
Total liabilities	22,709,085	19,392,037
NET ASSETS		
Unrestricted	6,970,520	3,631,338
Temporarily restricted	1,415,412	1,004,215
Permanently restricted	4,053,065	3,803,085
Total net assets	12,438,997	8,438,638
TOTAL LIABILITIES AND NET ASSETS	\$ 35,148,082	\$ 27,830,675

The accompanying notes are an integral part of these financial statements.

American Lung Association - National Office
STATEMENTS OF ACTIVITIES
Year ended June 30, 2014 (with comparative totals for 2013)

	2014				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2013
Operating revenues					
Contributions from individuals, corporations and foundations	\$ 3,818,732	\$ -	\$ -	\$ 3,818,732	\$ 4,079,366
Program service contracts	6,496,661	-	-	6,496,661	6,664,527
Allocable share of direct response activities and bequest share revenue from Chartered Associations (note I)	2,291,310	-	-	2,291,310	2,353,459
Chartered Association assessments (note I)	4,675,015	-	-	4,675,015	4,819,918
In-kind contributions (note B)	8,133,419	-	-	8,133,419	22,594,960
Federal grants	1,331,126	-	-	1,331,126	1,420,957
Bequests	950,880	30,130	-	981,010	734,464
Program reimbursements from Chartered Associations (note I)	21,080,383	-	-	21,080,383	23,387,124
Total operating revenues	48,777,526	30,130	-	48,807,656	66,054,775
Other support					
Interest and dividends	403,612	63,339	-	466,951	398,196
Licensing fees and royalties	705,933	-	-	705,933	554,195
Strategic cause support	3,957,738	-	-	3,957,738	-
Other	1,344,285	-	-	1,344,285	545,692
Net assets released from restrictions (note L)	108,541	(108,541)	-	-	-
Total other support	6,520,109	(45,202)	-	6,474,907	1,498,083
Total operating revenues and other support	55,297,635	(15,072)	-	55,282,563	67,552,858
Program and supporting services					
Program services (note B)	49,509,172	-	-	49,509,172	64,821,321
Supporting services	2,628,214	-	-	2,628,214	5,734,538
Total program and supporting services	52,137,386	-	-	52,137,386	70,555,859
Changes in net assets from operating activities	3,160,249	(15,072)	-	3,145,177	(3,003,001)
Nonoperating activities					
Realized gains on investments	282,714	69,666	-	352,380	681,546
Unrealized gains (losses) on investments	966,207	171,329	-	1,137,536	(110,474)
Loss on sublease	(716,563)	-	-	(716,563)	-
Change in fair value of beneficial interest in trusts	-	185,274	249,980	435,254	334,299
Change in value of split-interest agreements	4,851	-	-	4,851	56,188
Benefit-related changes other than net periodic benefit cost	(358,276)	-	-	(358,276)	143,338
Changes in net assets	3,339,182	411,197	249,980	4,000,359	(1,898,104)
Net assets, beginning of year	3,631,338	1,004,215	3,803,085	8,438,638	10,336,742
Net assets, end of year	\$ 6,970,520	\$ 1,415,412	\$ 4,053,065	\$ 12,438,997	\$ 8,438,638

The accompanying notes are an integral part of these financial statements.

American Lung Association - National Office
STATEMENT OF ACTIVITIES
Year ended June 30, 2013

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues				
Contributions from individuals, corporations and foundations	\$ 3,985,584	\$ 93,782	\$ -	\$ 4,079,366
Program service contracts	6,664,527	-	-	6,664,527
Allocable share of direct response activities and bequest share revenue from Chartered Associations (note I)	2,353,459	-	-	2,353,459
Chartered Association assessments (note I)	4,819,918	-	-	4,819,918
In-kind contributions (note B)	22,594,960	-	-	22,594,960
Federal grants	1,420,957	-	-	1,420,957
Bequests	734,464	-	-	734,464
Program reimbursements from Chartered Associations (note I)	23,387,124	-	-	23,387,124
Total operating revenues	65,960,993	93,782	-	66,054,775
Other support				
Interest and dividends	391,896	6,300	-	398,196
Licensing fees and royalties	554,195	-	-	554,195
Other	545,692	-	-	545,692
Net assets released from restrictions (note L)	340,738	(340,738)	-	-
Total other support	1,832,521	(334,438)	-	1,498,083
Total operating revenues and other support	67,793,514	(240,656)	-	67,552,858
Program and supporting services				
Program services (note B)	64,821,321	-	-	64,821,321
Supporting services	5,734,538	-	-	5,734,538
Total program and supporting services	70,555,859	-	-	70,555,859
Changes in net assets from operating activities	(2,762,345)	(240,656)	-	(3,003,001)
Nonoperating activities				
Realized gains on investments	563,392	118,154	-	681,546
Unrealized (losses) gains on investments	(233,688)	123,214	-	(110,474)
Change in fair value of beneficial interest in trusts	-	171,015	163,284	334,299
Change in value of split-interest agreements	56,188	-	-	56,188
Benefit-related changes other than net periodic benefit cost	143,338	-	-	143,338
Changes in net assets	(2,233,115)	171,727	163,284	(1,898,104)
Net assets, beginning of year	5,864,453	832,488	3,639,801	10,336,742
Net assets, end of year	<u>\$ 3,631,338</u>	<u>\$ 1,004,215</u>	<u>\$ 3,803,085</u>	<u>\$ 8,438,638</u>

The accompanying notes are an integral part of this financial statement.

American Lung Association - National Office
STATEMENTS OF FUNCTIONAL EXPENSES
Year ended June 30, 2014 (with comparative totals for 2013)

	Program Services							Supporting Services			2014 total	2013 total
	Lung Cancer, Asthma and Lung Disease	Research	Advocacy and Environment	Tobacco Control	Field Program Development	Field Support Services	Total Program Services	Management and General	Fund- raising	Total Supporting Services		
Salaries	\$ 950,545	\$ 313,903	\$ 888,302	\$ 557,256	\$ 1,033,555	\$ 177,691	\$ 3,921,252	\$ 475,087	\$ 121,502	\$ 596,589	\$ 4,517,841	\$ 6,626,868
Payroll taxes and benefits	259,525	88,529	248,283	152,404	286,577	39,268	1,074,586	112,670	33,657	146,327	1,220,913	1,806,519
Total compensation	1,210,070	402,432	1,136,585	709,660	1,320,132	216,959	4,995,838	587,757	155,159	742,916	5,738,754	8,433,387
Awards and grants, net	14,780	8,299,275	367,500	250,543	-	-	8,932,098	408	-	408	8,932,506	10,877,520
Program consulting	4,411,391	50,783	1,808,473	368,274	184,077	34,855	6,857,853	74,783	6,449	81,232	6,939,085	4,081,656
Professional fees	162,013	26,394	78,598	59,446	77,290	58,927	462,668	80,876	34,529	115,405	578,073	799,729
Occupancy	134,368	36,546	157,682	75,386	204,909	69,085	677,976	226,140	6,734	232,874	910,850	1,105,698
Printing	36,297	3,017	7,356	31,371	3,696	687	82,424	1,534	153	1,687	84,111	119,271
Office supplies and equipment	107,072	1,549	4,554	5,297	5,567	4,030	128,069	6,821	422	7,243	135,312	40,053
Equipment rental and maintenance	7,939	2,159	6,579	4,454	6,205	4,082	31,418	9,112	588	9,700	41,118	52,340
Postage and shipping	7,261	690	458	1,661	515	17	10,602	19,591	19	19,610	30,212	48,024
Telecommunication	36,989	5,239	16,396	13,941	28,039	10,373	110,977	24,157	2,076	26,233	137,210	125,764
Staff travel	67,624	13,560	21,321	23,188	26,544	7,011	159,248	14,525	7,725	22,250	181,498	280,640
Volunteer travel	37,516	39,569	12,852	15,355	10,096	6,528	121,916	20,336	940	21,276	143,192	197,134
Conferences, affiliations and subscriptions	84,908	57,438	27,198	19,013	12,948	33,666	235,171	15,875	1,024	16,899	252,070	385,980
Depreciation and amortization	12,769	3,473	10,103	7,164	90,105	6,565	130,179	14,655	945	15,600	145,779	219,614
Insurance	21,818	5,935	17,263	12,242	17,052	11,219	85,529	25,185	1,615	26,800	112,329	107,093
Processing fees	148,427	30,320	88,302	62,543	589,833	58,065	977,490	127,936	16,953	144,889	1,122,379	1,253,911
Service charges	3,178	516	1,501	3,010	4,144	1,524	13,873	2,177	4,298	6,475	20,348	5,745
In-kind media and program consulting	467,206	-	-	353,820	7,312,393	-	8,133,419	-	-	-	8,133,419	22,594,960
Miscellaneous	38,039	33,003	420	15,373	38,280	42	125,157	3,538	99	3,637	128,794	109,146
Bad debt expense	-	-	-	-	-	-	-	32,829	-	32,829	32,829	608,222
Residential campaign	1,195,061	-	-	-	-	677,201	1,872,262	119,506	-	119,506	1,991,768	2,187,230
Direct mail - materials	9,807,450	-	-	-	-	5,557,555	15,365,005	980,745	-	980,745	16,345,750	16,922,742
Total expenses	<u>\$ 18,012,176</u>	<u>\$ 9,011,898</u>	<u>\$ 3,763,141</u>	<u>\$ 2,031,741</u>	<u>\$ 9,931,825</u>	<u>\$ 6,758,391</u>	<u>\$ 49,509,172</u>	<u>\$ 2,388,486</u>	<u>\$ 239,728</u>	<u>\$ 2,628,214</u>	<u>\$ 52,137,386</u>	<u>\$ 70,555,859</u>

The accompanying notes are an integral part of these financial statements.

American Lung Association - National Office
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2013

	Program Services							Supporting Services				
	Other Lung Disease and Health Education	Field Support Services	Research	Advocacy and Environment	Field Program Development	Tobacco Control	Asthma	Total Program Services	Management and General	Fund- raising	Total supporting services	2013 total
Salaries	\$ 176,527	\$ 1,007,978	\$ 393,819	\$ 1,224,707	\$ 1,634,396	\$ 457,672	\$ 179,515	\$ 5,074,614	\$ 706,431	\$ 845,823	\$ 1,552,254	\$ 6,626,868
Payroll taxes and benefits	53,143	275,263	114,208	326,526	422,122	140,623	46,729	1,378,614	213,722	214,183	427,905	1,806,519
Total compensation	229,670	1,283,241	508,027	1,551,233	2,056,518	598,295	226,244	6,453,228	920,153	1,060,006	1,980,159	8,433,387
Awards and grants, net	33,333	7,118	8,720,886	501,750	-	1,556,350	55,000	10,874,437	3,083	-	3,083	10,877,520
Program consulting	1,126,651	105,016	149,983	1,356,239	448,566	236,144	76,397	3,498,996	277,205	305,455	582,660	4,081,656
Professional fees	43,294	92,558	32,866	98,986	139,147	42,781	14,562	464,194	226,445	109,090	335,535	799,729
Occupancy	19,699	114,048	44,559	220,001	238,405	47,466	18,811	702,989	307,007	95,702	402,709	1,105,698
Printing	9,501	5,039	12,835	21,265	10,098	39,064	2,851	100,653	13,331	5,287	18,618	119,271
Office supplies and equipment	748	4,083	1,180	4,996	6,470	5,118	6,611	29,206	8,127	2,720	10,847	40,053
Equipment rental and maintenance	1,065	6,163	2,408	7,368	9,993	2,565	1,017	30,579	16,590	5,171	21,761	52,340
Postage and shipping	1,781	5,198	3,465	5,669	9,129	3,699	1,114	30,055	12,967	5,002	17,969	48,024
Telecommunication	8,562	12,975	4,081	14,802	28,179	17,133	1,830	87,562	27,985	10,217	38,202	125,764
Staff travel	13,195	30,619	35,525	49,213	50,003	40,122	11,342	230,019	30,863	19,758	50,621	280,640
Volunteer travel	7,415	18,380	50,671	21,805	21,179	31,111	2,460	153,021	33,630	10,483	44,113	197,134
Affiliations and subscriptions	6,753	55,327	55,702	91,621	33,573	87,449	8,570	338,995	34,530	12,455	46,985	385,980
Depreciation and amortization	2,716	15,725	6,144	17,975	105,623	6,544	2,594	157,321	49,098	13,195	62,293	219,614
Insurance	2,191	12,682	4,955	14,497	20,617	5,278	2,092	62,312	34,139	10,642	44,781	107,093
Processing fees	11,406	67,971	25,799	75,482	793,021	27,482	10,891	1,012,052	177,750	64,109	241,859	1,253,911
Service charges	116	674	318	771	1,093	281	111	3,364	1,815	566	2,381	5,745
In-kind - donated media	22,594,960	-	-	-	-	-	-	22,594,960	-	-	-	22,594,960
Miscellaneous	-	21	-	-	29,922	20	1,475	31,438	77,688	20	77,708	109,146
Bad debt expense	-	-	-	-	-	-	-	-	608,222	-	608,222	608,222
Residential campaign	1,305,552	750,738	-	-	-	-	-	2,056,290	130,940	-	130,940	2,187,230
Direct mail - materials	10,101,143	5,808,507	-	-	-	-	-	15,909,650	1,013,092	-	1,013,092	16,922,742
Total expenses	\$ 35,519,751	\$ 8,396,083	\$ 9,659,404	\$ 4,053,673	\$ 4,001,536	\$ 2,746,902	\$ 443,972	\$ 64,821,321	\$ 4,004,660	\$ 1,729,878	\$ 5,734,538	\$ 70,555,859

The accompanying notes are an integral part of this financial statement.

American Lung Association - National Office
STATEMENTS OF CASH FLOWS
Years ended June 30,

	2014	2013
Cash flows from operating activities		
Changes in net assets	\$ 4,000,359	\$ (1,898,104)
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	145,779	219,614
Disposal of equipment	-	2,074
Realized and unrealized gain on investments	(1,489,916)	(571,072)
Bad debt expense	32,829	608,222
Distribution of assets held in trusts	-	93,087
Change in fair value of beneficial interest in perpetual trust	(435,254)	(334,299)
Changes in operating assets and liabilities:		
Receivables	(383,224)	(135,045)
Bequest receivables	-	85,500
Prepaid expenses	(633,352)	88,841
Inventory	-	62,566
Accounts payable and accrued expenses	1,820,003	(333,653)
Awards and grants payable	(446,135)	652,327
Deferred revenue	1,947,348	1,391,563
Pension and life insurance benefit plan obligations	111,326	(342,788)
Other liabilities	726,181	(290,575)
Due from/to Chartered Associations	(403,578)	1,145,760
Annuity fund obligations	(13,074)	48,772
Net cash provided by operating activities	4,979,292	492,790
Cash flows from investing activities		
Purchase of investments	(29,604,211)	(12,336,715)
Sale of investments	29,158,129	11,895,405
Purchase of property and equipment	(103,094)	(2,336)
Net cash used in investing activities	(549,176)	(443,646)
Cash flows from financing activities		
Principal payments on line of credit	-	(2,086,108)
Net cash used in financing activities	-	(2,086,108)
Net increase (decrease) in cash and cash equivalents	4,430,116	(2,036,964)
Cash and cash equivalents, beginning of year	4,888,481	6,925,445
Cash and cash equivalents, end of year	\$ 9,318,597	\$ 4,888,481
Supplemental disclosure of cash flow information		
Interest paid	\$ -	\$ 53,788

The accompanying notes are an integral part of these financial statements.

American Lung Association - National Office
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE A - ORGANIZATION

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.

NOTE B - 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

American Lung Association - National Office
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2014 and 2013

donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

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.

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 Asthma Clinical Research Centers (ACRC) Network. The ACRC Network consists of 18 asthma 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. Unspent grant funds totaled approximately \$79,000 and \$54,000 as of June 30, 2014 and 2013, respectively, and are recorded as a reduction to grant expense. Outstanding awards and grant commitments at June 30, 2014 and 2013, are all payable within one year.

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 2014:

Lung Cancer, Asthma, COPD 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.

American Lung Association - National Office
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2014 and 2013

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.

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.

The National Office combined certain categories for functional expense presentation for fiscal year 2014. Asthma is now combined with other lung disease and health education to comprise lung cancer, asthma, COPD and lung disease.

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 \$72,887 and \$247,472 as of June 30, 2014 and 2013, respectively.

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

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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.

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. Also included in Level 3 are investments measured using a net asset value (NAV) per share, or its equivalent, that can never be redeemed at NAV or for which redemption at NAV is uncertain due to lockup periods or other investment restrictions.

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 carrying amounts of cash and cash equivalents, accounts receivable, due from/to Chartered Associations, prepaid expenses, accounts payable and accrued expenses, awards and grants payable, deferred revenue, and other liabilities approximate fair value due to the short maturity of these financial instruments.

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.

Investments

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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED
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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.

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.

In-Kind Contributions

National Office recognizes advertising costs when incurred. National Office received \$7,666,213 and \$22,594,960 of billboard, print, and TV and radio advertisement space during the years ended June 30, 2014 and 2013, 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.

Contributed services are reported as contributions if such 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 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 services recognized related to consulting work were \$467,206 and \$-0- for the years ended June 30, 2014 and 2013, respectively.

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.

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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.

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.

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 2011, 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, 2014 and 2013.

Reclassifications

Certain amounts in the 2013 financial statements have been reclassified to conform to the 2014 presentation. None of these reclassifications, however, affected the prior year change in net assets.

NOTE C - SUBSEQUENT EVENTS

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.

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In August 2014, National Office executed an agreement to lease office space in Wisconsin for three years, starting October 2014, at monthly payments of \$1,500. Future minimum lease payments are reflected in note M.

National Office has evaluated all other subsequent events for disclosure and/or recognition through January 5, 2015, the date that the financial statements were available to be issued and there are no other items to report.

NOTE D - CONCENTRATION 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, National Office has a diversified investment portfolio managed by independent investment managers in a variety of asset classes. 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. National Office maintains its cash and cash equivalents in various bank deposit accounts which, at times may exceed federally insured limits. National Office's cash and investment accounts were placed with high credit quality financial institutions and accordingly, National Office does not expect nonperformance.

NOTE E - INVESTMENTS

Investments, which include amounts held on behalf of others (excluding amounts reported under National Office deferred compensation plans (see note K)) and 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 and the interest in trusts consist of the following at June 30, 2014 and 2013:

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	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	<u>20,373</u>	<u>-</u>	<u>-</u>	<u>20,373</u>
Total investments, amounts held on behalf of others and annuity fund investments	15,907,313	891,685	-	16,798,998
Beneficial interest in perpetual trusts	<u>-</u>	<u>-</u>	<u>3,915,341</u>	<u>3,915,341</u>
Total assets at fair value	<u>\$15,907,313</u>	<u>\$891,685</u>	<u>\$3,915,341</u>	<u>\$20,714,339</u>
	2013			
	Level 1	Level 2	Level 3	Total
Investments, amounts held on behalf of others and annuity fund investments				
Money market funds	\$ 662,431	\$ -	\$ -	\$ 662,431
Common stock	4,870,806	-	-	4,870,806
Mutual funds - equities	113,737	-	-	113,737
Mutual funds - fixed income	797,330	-	-	797,330
United States Treasury notes and bonds	-	2,979,897	-	2,979,897
Corporate bonds	<u>-</u>	<u>5,579,385</u>	<u>-</u>	<u>5,579,385</u>
Total investments, amounts held on behalf of others and annuity fund investments	6,444,304	8,559,282	-	15,003,586
Beneficial interest in perpetual trusts	<u>-</u>	<u>-</u>	<u>3,480,087</u>	<u>3,480,087</u>
Total assets at fair value	<u>\$6,444,304</u>	<u>\$8,559,282</u>	<u>\$3,480,087</u>	<u>\$18,483,673</u>

Investment management and custodial fees incurred during the years ended June 30, 2014 and 2013, totaled \$49,510 and \$57,642, respectively, and are included within professional fees on the accompanying statements of functional expenses.

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The change in assets measured at fair value using Level 3 inputs for the years ended June 30, 2014 and 2013 are as follows:

	2014	2013
Balance, beginning of the year	\$3,480,087	\$3,238,875
Change in value of beneficial interests in perpetual trusts	<u>435,254</u>	<u>241,212</u>
Balance, end of the year	<u>\$3,915,341</u>	<u>\$3,480,087</u>

NOTE F - 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, 2014 and 2013, the fair value of this beneficial interest is \$1,659,919 and \$1,474,645, respectively.

Lung USA 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 Lung USA, based on the respective trust's governing document. Distributions from these trusts to Lung USA are at the discretion of the respective trustees and can be used for the general operations of Lung USA. Lung USA will remain a beneficiary of these trusts in perpetuity.

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.

As of June 30, 2014 and 2013, the fair value of these beneficial interests totaled \$2,255,422 and \$2,005,442, respectively.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED
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NOTE G - PROPERTY AND EQUIPMENT, NET

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

	2014	2013
Computer hardware and software	\$ 447,418	\$ 1,942,086
Furniture, fixtures and equipment	653,516	944,478
Leasehold improvements	<u>180,602</u>	<u>211,648</u>
Total property and equipment	1,281,536	3,098,212
Less accumulated depreciation and amortization	<u>(1,065,731)</u>	<u>(2,839,721)</u>
Property and equipment, net	<u>\$ 215,805</u>	<u>\$ 258,491</u>

Depreciation and amortization expense totaled \$145,779 and \$219,614 for the years ended June 30, 2014 and 2013, respectively.

NOTE H - LINE OF CREDIT

National Office had a \$5,000,000 secured revolving line of credit with a bank that bore interest at a rate of 3.125%. Amounts borrowed were secured by National Office's investment portfolio. In August 2013, National Office terminated its line of credit and entered into a new \$5,000,000 secured revolving line of credit with a new bank. Amounts borrowed under the line of credit will bear interest at a rate of 2% plus the one-month LIBOR then in effect. Amounts borrowed will be secured by National Office' investment portfolio.

At June 30, 2014 and 2013, no amounts were borrowed under the lines of credit.

NOTE I - 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. 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, 2014 and 2013, program reimbursements approximated \$21,100,000 and \$23,400,000, respectively.

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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, 2014 and 2013, Chartered Associations' assessments revenue approximated \$4,700,000 and \$4,800,000, respectively.

Additionally, per National Office's agreement with each Chartered Association, National Office receives 30% of direct response revenues, less direct response expenses and 13% of all unrestricted bequests in those instances when the donor died prior to July 1, 2009. This revenue is recognized in the period when contributions are collected. For the years ended June 30, 2014 and 2013, the allocable share of direct response activities and bequest share revenue from Chartered Associations approximated \$2,300,000 and \$2,400,000, respectively.

During fiscal year 2014, the Chartered Associations were assessed additional amounts to reimburse National Office for costs related to the strategic cause campaign. These reimbursements are shown as other support on the accompanying statements of activities. This revenue is recognized as expenses are incurred. For the years ended June 30, 2014 and 2013, these amounts approximated \$4,000,000 and \$-0-, respectively.

Receivables from Chartered Associations at June 30, 2014 and 2013, approximated \$1,600,000 and \$1,900,000, respectively. Included in this receivable balance as of June 30, 2013, are amounts due to National Office from two former affiliates in the amount of \$96,242. These amounts were deemed uncollectible and written off during the year ended June 30, 2014. There were no amounts considered uncollectible as of June 30, 2014.

At June 30, 2014 and 2013, annuity and pooled income fund assets, deferred compensation plan assets and related liabilities pertaining to Chartered Associations administered by National Office approximating \$1,800,000 and \$1,900,000, 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 K). In relation to these transactions, National Office has receivables from the Retirement Plan D trust of \$127,485 and \$383,784 as of June 30, 2014 and 2013, respectively.

NOTE J - JOINT COSTS

During the years ended June 30, 2014 and 2013, National Office incurred joint costs of \$1,351,203 and \$1,611,693, respectively, for informational materials and activities that included development appeals which pertain to Lung USA. Of those costs, for the years ended June 30, 2014 and 2013, \$466,327, and \$553,192, respectively, was allocated to fundraising, \$76,618 and \$96,485 allocated to management and general and \$808,258 and \$962,016, respectively, allocated to program services.

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NOTE K - PENSION AND LIFE INSURANCE BENEFIT PLANS

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, 2014 and 2013, National Office's interest in the net assets of the trust were approximately 26% and 24%, respectively. 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, 2014 and 2013, regarding National Office's Retirement Plan D follows:

	2014	2013
Change in benefit obligation		
Benefit obligation, beginning of year	\$16,099,007	\$16,831,707
Interest cost	738,270	703,194
Actuarial loss (gain)	1,140,252	(475,156)
Benefits paid	<u>(1,000,359)</u>	<u>(960,738)</u>
Benefit obligation, end of year	16,977,170	16,099,007
Change in plan assets		
Fair value of plan assets, beginning of year	12,155,711	12,544,351
Actual return on plan assets	1,459,911	382,843
Employer contributions	400,000	379,000
Benefits paid	(1,000,359)	(960,738)
Plan expenses paid	<u>(95,140)</u>	<u>(189,745)</u>
Fair value of plan assets, end of year	<u>12,920,123</u>	<u>12,155,711</u>
Funded status, end of year	<u>\$ (4,057,047)</u>	<u>\$ (3,943,296)</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 \$4,547,746 and \$4,187,750 as of June 30, 2014 and 2013, respectively.

American Lung Association - National Office
NOTES TO FINANCIAL STATEMENTS - CONTINUED
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	2014	2013
Components of net periodic benefit cost		
Interest cost	\$ 738,270	\$ 703,194
Expected return on plan assets	(659,595)	(607,982)
Amortization of net actuarial loss	<u>75,080</u>	<u>84,867</u>
Net periodic benefit cost	<u>\$ 153,755</u>	<u>\$ 180,079</u>
Benefit-related changes other than net periodic benefit cost		
Net actuarial loss (gain) arising during the year	435,076	\$ (60,272)
Amortization of net actuarial loss	<u>(75,080)</u>	<u>(84,867)</u>
Total benefit-related changes other than net periodic benefit cost	<u>\$ 359,996</u>	<u>\$(145,139)</u>

The following are the weighted-average assumptions used to determine benefit obligations as of June 30, 2014 and 2013:

	2014	2013
Discount rate	4.25%	4.75%
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, 2014 and 2013:

	2014	2013
Discount rate	4.75%	4.25%
Rate of compensation increase	N/A	N/A
Expected rate of return on plan assets	5.50%	5.00%

The following are major categories of National Office's interest in the plan assets reported at fair value as of June 30, 2014 and 2013:

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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED
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	2013		
	Level 1	Level 2	Total
Debt securities	\$ 9,297,011	\$ -	\$ 9,297,011
Equity securities	2,351,918	21,005	2,372,923
Real estate - limited partnership	-	20,955	20,955
Cash equivalents	<u>464,822</u>	<u>-</u>	<u>464,822</u>
Total	<u>\$12,113,751</u>	<u>\$41,960</u>	<u>\$12,155,711</u>

National Office uses the NAV per share, or its equivalent, to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists investments by major category that were valued at NAV as of June 30, 2013. There were no investments valued at NAV as of June 30, 2014.

2013							
Alternative investment strategy	Number of funds	NAV in funds	Remaining life	Amount of unfunded commitments	Timing to draw down commitments	Redemption terms	Redemption restrictions
Real estate	1	\$20,955	N/A	None	N/A	Quarterly with 65 days notification.	None

Pension plan asset allocation - as of June 30, 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	<u>2.61</u>	<u>3.00</u>
	<u>100.00%</u>	<u>100.00%</u>

Pension plan asset allocation - as of June 30, 2013:

Asset categories	Actual	Target
Debt securities	76.49%	80.00%
Equity securities	19.52	20.00
Real estate	0.17	0.00
Cash and cash equivalents	<u>3.82</u>	<u>0.00</u>
	<u>100.00%</u>	<u>100.00%</u>

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Rate of Return on Assets Assumption

Effective July 1, 2013, the expected long-term rate of return on pension plan assets assumption is 5.50% (previously 5.00%). 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 Association 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.

National Office expects to contribute approximately \$740,000 to the Retirement Plan D in fiscal 2015. National Office expects \$87,157 of net actuarial loss will be amortized into the net periodic benefit cost during fiscal 2015.

Benefits expected to be paid in future fiscal years are as follows at June 30, 2014:

2015	\$1,160,727
2016	1,395,600
2017	1,048,259
2018	1,600,763
2019	954,014
2020-2024	5,114,267

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

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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.

	2014	2013
Net periodic benefit cost (credit)		
Service cost	\$ 228	\$ 341
Interest cost	1,397	1,803
Amortization of actuarial gain	(7,590)	(8,034)
Amortization of prior service cost	(1,519)	(1,519)
Amortization of transition obligation	<u>4,100</u>	<u>4,100</u>
Net periodic benefit cost (credit)	\$ <u>(3,384)</u>	\$ <u>(3,309)</u>
Amounts to be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year		
Transition obligation	\$ 4,100	\$ 4,100
Expected gain	(7,909)	(8,210)
Prior service cost	(1,519)	(1,519)
Accumulated life insurance benefit obligation	\$ 32,319	\$ 37,381
Fair value of plan assets	<u>-</u>	<u>-</u>
Funded status	\$ <u>(32,319)</u>	\$ <u>(37,381)</u>

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 the following as of June 30:

	2014	2013
Transition obligation	\$ 19,803	\$ 23,903
Actuarial gain	(166,270)	(167,131)
Prior service cost	<u>(20,916)</u>	<u>(22,435)</u>
Total	\$ <u>(167,383)</u>	\$ <u>(165,663)</u>

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	2014	2013
Benefit-related changes other than net periodic benefit cost		
Net gain arising during the year	(6,729)	(3,583)
Amortization of net actuarial gain	7,590	8,034
Amortization of prior service cost	1,519	1,519
Amortization of transition obligation	<u>(4,100)</u>	<u>(4,100)</u>
Total benefit-related changes other than net periodic benefit cost	<u>\$<u>(1,720)</u></u>	<u>\$<u>1,870</u></u>

Benefits expected to be paid in future fiscal years are as follows at June 30, 2014:

2015	\$4,132
2016	6,504
2017	2,762
2018	2,556
2019	2,367
2020-2024	9,261

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 \$129,324 and \$209,576 for the matching contribution and \$210,197 and \$218,475 for discretionary contributions for the years ended June 30, 2014 and 2013, 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 \$348,325 and \$325,747, respectively, as of June 30, 2014 and 2013. The obligations and underlying assets are recorded in amounts held on behalf of others on the statements of financial position at June 30, 2014 and 2013.

NOTE L - 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 years ended June 30, 2014 and 2013, \$108,541 and \$340,738, respectively, of temporarily restricted net assets, related to these programs, were released from restrictions.

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NOTE M - 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 2019. 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 year ended June 30, 2014, was \$229,917. Net rental expense for the years ended June 30, 2014 and 2013, totaled \$702,896 and \$1,102,411, respectively.

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

2015	\$1,228,097
2016	877,725
2017	498,143
2018	486,438
2019	483,733
2020	<u>210,456</u>
	<u>\$3,784,592</u>

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.

NOTE N - 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.

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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.

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, 2014 and 2013, 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 years then ended:

	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	<u>(95,089)</u>	<u>-</u>	<u>(95,089)</u>
Balance, end of year	<u>\$905,053</u>	<u>\$500,000</u>	<u>\$1,405,053</u>

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	2013		
	Temporarily restricted	Permanently restricted	Total
Balance, beginning of year	\$530,809	\$500,000	\$1,030,809
Interest and dividends	18,039	-	18,039
Realized gains	118,154	-	118,154
Unrealized gains	123,214	-	123,214
Investment fees	(11,739)	-	(11,739)
Appropriation for expenditure	<u>(77,218)</u>	<u>-</u>	<u>(77,218)</u>
Balance, end of year	<u>\$701,259</u>	<u>\$500,000</u>	<u>\$1,201,259</u>