AMERICAN LUNG ASSOCIATION – NATIONAL OFFICE

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORTS

For the Years Ended
June 30, 2016 and 2015

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AMERICAN LUNG ASSOCIATION – NATIONAL OFFICE
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
American Lung Association – National Office

We have audited the accompanying financial statements of American Lung Association - National Office (National Office), which comprise the statement of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of American Lung Association - National Office as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2016, on our consideration of National Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering National Office's internal control over financial reporting and compliance.

Springfield, Illinois
December 13, 2016

FINANCIAL STATEMENTS

1. NATURE OF BUSINESS

National Office

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

Lung USA

National Office also delivered local programs to the territory that covers the states of Maryland, Virginia and North Carolina, and the territory of the District of Columbia, and was referred to as Lung USA (an operating division of National Office) during fiscal year 2015. Lung USA provided services within the territory to prevent lung disease and promote lung health. Its programs centered 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 was treated as a separate and distinct operating unit.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

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

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

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

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

Cash Equivalents

Cash equivalents include highly liquid investments, including money market funds 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 $5,000 and $11,478 as of June 30, 2016 and 2015, respectively.

Beneficial Interest in Perpetual Trust

The National Office has arrangements with donors classified as charitable trusts, trusts and charitable gift annuities. In general, under these arrangements, the National Office receives a gift from a donor in which it has a remainder interest and agrees to pay the donor-stipulated amounts over the life of the donor. When the agreement reaches the end of its term, remaining assets are retained by the National Office as unrestricted, temporarily restricted or permanently restricted net assets. When a split interest gift noted above is received, it is recorded as a gift at the fair value of the amount expected to be received.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

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

Investments

National Office carries its investments at fair value. Fair value for mutual funds and equities is determined by using quoted market prices, where available. Donated assets are recorded at fair value at the date of donation or, if sold immediately after receipt, at the amount of sales proceeds received (which are considered a fair measure of the value at the date of donation). Investment income or loss and unrealized gains or losses are included in the statement of activities as increases or decreases in unrestricted net assets, unless the income or loss is restricted by donor. Dividend and interest income from National Office's investments are included in operating activities on the statement of activities as those investments are used for National Office's daily cash management activities. All other investment return is considered nonoperating.

Deferred Revenue

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

Contributions and Bequests

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Program Service Contracts and Federal Grants

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

Awards and Grants

National Office makes awards and grants for research and for the training of researchers. By policy, National Office's funding for research is derived from a portion of its overall revenue. National Office's research is also funded by equally matching funds that have been earmarked by Chartered Associations, and by contractual agreements with affiliates restricted to National Office's Airways Clinical Research Centers (ACRC) Network. The ACRC Network consists of 18 airways clinical research centers throughout the United States. Additional funding is provided through investment earnings on endowments and by corporate and foundation grants. Recipients are required to meet certain qualifications and to provide accountability to National Office for funds disbursed. The liability and related expense for awards and grants are recognized at the time of award and notification to, and acceptance by, the recipient. Outstanding awards and grant commitments at June 30, 2016 and 2015, are all payable within one year.

In-Kind Contributions

National Office recognizes advertising costs when incurred. National Office received $10,470,561 and $15,578,611 of billboard, print, and TV and radio advertisement space during the years ended June 30, 2016 and 2015, respectively. The value of such in-kind media, based upon information provided by third-party media services, is reflected on the statements of activities as in-kind contributions and on the statements of functional expenses as in-kind media-advertising.

Contributed goods and services are reported as contributions if such goods or services create or enhance non-financial assets or if they would have been purchased if not provided by contribution, require specialized skills, and are provided by individuals possessing such specialized skills. Contributed goods and services are recognized at their estimated fair values at date of receipt with an equal and offsetting amount in program and supporting services in the statements of activities, resulting in no net impact on the change in net assets during the year. Contributed goods recognized related to drugs for research projects were $277,584 for the year ended June 30, 2015. Contributed services recognized related to consulting work were $459,140 and $656,806 for the years ended June 30, 2016 and 2015, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Licensing Fees and Royalties

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

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

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

Functional Allocation of Expenses

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

The following is a description of National Office's programs for fiscal 2016 and 2015:

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

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses (Continued)

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

Use of Estimates

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Tax Exempt Status

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

3. PROPERTY AND EQUIPMENT, NET

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

	2016	2015
Computer hardware and software	$ 453,066	$ 451,418
Furniture, fixtures and equipment	742,716	742,716
Leasehold improvements	231,008	186,357
Total property and equipment	1,426,790	1,380,491
Less accumulated depreciation and amortization	1,259,695	1,194,849
Property and equipment, net	$ 167,095	$ 185,642

Depreciation expense totaled $64,847 and $129,119 for years ended June 30, 2016 and 2015, respectively.

4. BENEFICIAL INTEREST IN PERPETUAL TRUSTS

In July 2003, National Office entered into an agreement whereby the former American Lung Association of New Hampshire agreed to set aside, as a segregated fund, within its Mary Fuller Russell Trust (Trust), the sum of $1,297,643 and to maintain such segregated fund to be named the Mary Fuller Russell Research Fund intact for the purpose of paying to and allowing National Office to use all of the annual income and net appreciation, if any, in the fair value of the segregated fund (pursuant to the New Hampshire Uniform Prudent Management of Institutional Funds Act) for research purposes determined by National Office. Such segregated fund is to be held for National Office's benefit in perpetuity. This Trust is reflected on the financial statements as part of beneficial interest in perpetual trusts and the principle is included within permanently restricted net assets. Earnings, in excess of corpus including amounts undistributed, and those received by National Office not yet spent, are recorded as temporarily restricted net assets and released from restriction for research purposes in accordance with the terms of the Trust agreement. Underlying assets of the Trust are primarily invested in common stock mutual funds. As of June 30, 2016 and 2015, the fair value of this beneficial interest is $1,634,071 and $1,623,459, respectively.

National Office is an income beneficiary of several trusts. Each trust provides for the distribution of a certain percentage of the net income from each trust to National Office, based on the respective trust's governing document. Distributions from these trusts to National Office are at the discretion of the respective trustees and can be used for the general operations of National Office. National Office will remain a beneficiary of these trusts in perpetuity. As of June 30, 2016 and 2015, the fair value of these beneficial interests totaled $1,963,168 and $2,092,421, respectively.

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

5. 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 National Office 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, 2016.

- Common stock: Valued at the closing quoted price in an active market.
- Mutual funds: 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 National Office 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.

5. FAIR VALUE MEASUREMENTS (Continued)

- Corporate bonds: The investment grade corporate bonds held by National Office 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.
- Foreign equity securities: Valued at the closing quoted price in an active market.
- Beneficial interest in perpetual trust: Valued using the fair value of the assets held in the trust reported by the trustee as of June 30, 2016 and 2015, respectively. The Association considers the measurement of its beneficial interest in the 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, National Office 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 discount factors ranging from 1.5% to 11.7% as of June 30, 2016 and 2015, respectively. As they are unobservable inputs, they are categorized as Level 3.

Investments, which include amounts held on behalf of others (excluding amounts reported under National Office deferred compensation plans (see note 8)) annuity fund investments, and beneficial interests in perpetual trusts are reported at fair value.

5. FAIR VALUE MEASUREMENTS (Continued)

Recurring Measurements

Assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 and 2015 are as follows:

	2016			
	Level 1	Level 2	Level 3	Total
ASSETS				
Investments, amounts held on behalf of others and annuity fund investments:				
Common stock	$ 182,171	$ -	$ -	$ 182,171
Mutual funds – equities	8,059,855	-	-	8,059,855
Mutual funds – fixed income	6,600,427	-	-	6,600,427
United States Treasury notes and bonds	-	400,380	-	400,380
United States Agency bonds	-	87	-	87
Corporate bonds	-	248,222	-	248,222
Foreign stock	10,136	-	-	10,136
Total investments, amounts held on behalf of others and annunity fund investments at fair value	14,852,589	648,689	-	15,501,278
Beneficial interest in perpetual trusts	-	-	3,597,239	3,597,239
Total assets at fair value	$14,852,589	$ 648,689	$3,597,239	19,098,517
Money market funds*				150,761
Total investments, amounts held on behalf of others and annunity fund investments				$19,249,278
LIABILITIES				
Gift annuities obligations	$ -	$ -	$ 63,049	$ 63,049

* Money market funds are recorded at cost and are not based on Level 1, 2, or 3 inputs.

5. FAIR VALUE MEASUREMENTS (Continued)

	2015			
	Level 1	Level 2	Level 3	Total
ASSETS				
Investments, amounts held on behalf of others and annuity fund investments:				
Common stock	$ 211,706	$ -	$ -	$ 211,706
Mutual funds – equities	7,729,024	-	-	7,729,024
Mutual funds – fixed income	7,173,679	-	-	7,173,679
United States Treasury notes and bonds	-	414,751	-	414,751
United States Agency bonds	-	244	-	244
Corporate bonds	-	253,759	-	253,759
Foreign stock	10,326	-	-	10,326
Total investments, amounts held on behalf of others and annunity fund investments at fair value	15,124,735	668,754	-	15,793,489
Beneficial interest in perpetual trusts	-	-	3,715,880	3,715,880
Total assets at fair value	$ 15,124,735	$ 668,754	$ 3,715,880	19,509,369
Money market funds*				242,416
Total investments, amounts held on behalf of others and annunity fund investments				$ 19,751,785
LIABILITIES				
Gift annuities obligations	$ -	$ -	$ 82,247	$ 82,247

* Money market funds are recorded at cost and are not based on Level 1, 2, or 3 inputs.

Investment management and custodial fees incurred during the years ended June 30, 2016 and 2015, totaled $41,730 and $57,645, respectively, and are included within professional fees on the accompanying statements of functional expenses.

The change in assets measured at fair value using Level 3 inputs for the years ended June 30, 2016 and 2015 are as follows:

	2016	2015
Balance, beginning of the year	$3,715,880	$3,915,341
Change in value of beneficial interests in perpetual trusts	(118,641)	(199,461)
Balance, end of the year	$3,597,239	$3,715,880

5. FAIR VALUE MEASUREMENTS (Continued)

The change in liabilities measured at fair value using Level 3 inputs for the years ended June 30, 2016 and 2015 are as follows:

	2016	2015
Balance, beginning of the year	$ (82,247)	$ (106,845)
Total gains included in change in net assets	19,198	24,598
Balance, end of the year	$ (63,049)	$ (82,247)

6. LINE OF CREDIT

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

During the year ended June 30, 2016 and 2015 no amounts were borrowed under the line of credit.

7. DEFINED BENEFIT PENSION PLAN

Defined Benefit Plan

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

All of Retirement Plan D's investments are in a trust that was established for the investment of assets of the American Lung Association Retirement Plan D, which includes National Office and other Chartered Associations. 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, 2016 and 2015, National Office's interest in the net assets of the trust were approximately 31% and 26%, respectively.

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

7. DEFINED BENEFIT PENSION PLAN (Continued)

Defined Benefit Plan (Continued)

Information as of and for the years ended June 30, 2016 and 2015, regarding National Office's Retirement Plan D follows:

	2016	**2015**
Change in benefit obligation:		
Benefit obligation, beginning of year	$ 16,332,295	$ 16,977,170
Interest cost	710,068	705,092
Actuarial loss	1,392,493	509,679
Settlements	-	(1,355,274)
Benefits paid	(686,563)	(504,372)
Benefit obligation, end of year	$ 17,748,293	$ 16,332,295
Change in plan assets:		
Fair value of plan assets, beginning of year	$ 11,489,757	$ 12,920,123
Actual return on plan assets	635,352	8,743
Employer contributions	375,000	558,000
Settlements	-	(1,355,274)
Benefits paid	(686,563)	(504,372)
Plan expenses paid	-	(137,463)
Fair value of plan assets, end of year	$ 11,813,546	$ 11,489,757
Funded status, end of year	$ (5,934,747)	$ (4,842,538)

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 $6,580,442 and $5,342,767 as of June 30, 2016 and 2015.

	2016	**2015**
Components of net periodic benefit cost:		
Interest cost	$ 710,068	$ 705,092
Expected return on plan assets	(597,772)	(693,907)
Recognized loss due to settlements	-	443,349
Amortization of net actuarial loss	117,238	93,936
Net periodic benefit cost	$ 229,534	$ 548,470
Benefit-related changes other than net periodic benefit cost:		
Net actuarial loss arising during the year	$ 1,354,913	$ 1,332,306
Amortization of net actuarial loss	(117,238)	(537,285)
Total benefit-related changes other than net periodic benefit cost	$ 1,237,675	$ 795,021

7. DEFINED BENEFIT PENSION PLAN (Continued)

Defined Benefit Plan (Continued)

The following are the weighted-average assumptions used to determine benefit obligations as of June 30, 2016 and 2015:

	2016	2015
Discount rate	4.00%	4.50%
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, 2016 and 2015:

	2016	2015
Discount rate	4.50%	4.25%
Rate of compensation increase	N/A	N/A
Expected rate of return on plan assets	5.50%	5.50%

The following are major categories of National Office's interest in the plan assets reported at fair value as of June 30, 2016 and 2015:

	2016		
	Level 1	Level 2	Total
Money market funds	$ 752,277	$ -	$ 752,277
Equity securities	2,377,958	-	2,377,958
Debt securities	-	6,480,945	6,480,945
Municipal obligations	-	158,888	158,888
U.S. Government Agencies	-	213,928	213,928
U.S. Treasury obligations	-	1,829,550	1,829,550
Total	$3,130,235	$ 8,683,311	$11,813,546

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

7. DEFINED BENEFIT PENSION PLAN (Continued)

Defined Benefit Plan (Continued)

Pension plan asset allocation – as of June 30, 2016 and 2015

	2016	
Asset categories	**Actual**	**Target**
Debt securities	65.70%	67.00%
Equity securities	19.97%	30.00%
Real estate	7.22%	0.00%
Cash and cash equivalents	7.11%	3.00%

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

Rate of Return on Assets Assumption

Effective July 1, 2016, the expected long-term rate of return on pension plan assets assumption is 5.50% (previously 5.50%). This assumption represents the rate of return on plan assets reflecting the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the benefit obligation. The assumption has been determined by reflecting expectations regarding future rates of return for the investment portfolio, with consideration given to the distribution of investments by asset category and historical rates of return for each individual asset category.

Investment Strategy

In order to meet its needs, the investment strategy of National Office's Retirement Plan D emphasizes total return, that is, the aggregate return from capital appreciation and dividend and interest income. Specifically, the primary objective in the investment management for the Plan is income and growth to achieve a balanced return of current income and appropriate growth over the long-term.

The secondary objective in the investment management of pension plan assets is preservation of purchasing power after spending to achieve returns in excess of the rate of inflation, plus spending over the investment horizon in order to preserve the purchasing power of plan assets.

Additional objectives for the National Office are preservation of capital and minimization of costs.

7. DEFINED BENEFIT PENSION PLAN (Continued)

Investment Strategy (Continued)

Risk control is an important element in the investment of Retirement Plan D assets and is achieved through a diversified target allocation and the prohibition of investing in derivative instruments, private placements, limited partnerships, and venture-capital investments. In addition, short selling and margin transactions are prohibited.

Investments in companies that derive their revenue from the manufacture and sale of tobacco products are strictly prohibited.

Management will make contributions to satisfy minimum funding requirements at their discretion. Funding requirements for subsequent years are uncertain and will significantly depend on whether the plan's actuary changes any assumptions used to calculate plan funding levels, the actual return on plan assets, changes in the employee groups covered by the plan, and any legislative or regulatory changes affecting plan funding requirements. For tax planning, financial planning, cash flow management or cost reduction purposes the National Office may increase, accelerate, decrease or delay contributions to the plan to the extent permitted by law.

Benefits expected to be paid in future fiscal years are as follows at June 30, 2016:

2017	$1,136,509
2018	$1,173,343
2019	$1,067,440
2020	$1,379,095
2021	$1,086,087
2022-2026	$4,619,345

8. POST-RETIREMENT BENEFITS OTHER THEN PENSIONS

Life Insurance Benefit Plan

National Office offers postretirement life insurance to employees who retire directly from service and are participants in the Retirement Plan D Pension Plan (described above). National Office carries term life insurance to cover the total benefits due to all retired persons covered under this plan. Employees are eligible if they are vested in Retirement Plan D with a minimum of 5 years of eligible service and are at least 55 years of age. This plan is not funded.

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

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

Life Insurance Benefit Plan (Continued)

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.

	2016	2015
Change in benefit obligation:		
Benefit obligation, beginning of year	$ 26,925	$ 32,319
Service cost	7	129
Interest cost	1,013	1,234
Actual distribution	(98)	(99)
Experience gain	(251)	(6,658)
Benefit obligation, end of year	$ 27,596	$ 26,925
Change in plan assets:		
Fair value of plan assets, beginning of year	$ -	$ -
Employer contributions	98	99
Actual distribution	(98)	(99)
Fair value of plan assets, end of year	$ -	$ -
Funded status, end of year	$ (27,596)	$ (26,925)

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:

	2016	2015
Transition asset	$ 11,603	$ 15,703
Actuarial gain	(132,115)	(165,598)
Prior service cost	(17,878)	(19,397)
Net periodic benefit (credit)	$ (138,390)	$ (169,292)

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

Life Insurance Benefit Plan (Continued)

	2016	2015
Components of net periodic benefit cost:		
Service cost	$ 7	$ 129
Interest cost	1,013	1,234
Amortization of net actuarial loss	(31,153)	(4,749)
Net periodic benefit cost	$ (30,133)	$ (3,386)
Benefit-related changes other than net periodic benefit cost:		
Net gain arising during the year	$ (251)	$ (6,658)
Amortization of actuarial gain	3,503	7,330
Amortization of prior service cost	1,519	1,519
Amortization of transition obligation	(4,100)	(4,100)
Total benefit-related changes other than net periodic benefit cost	$ 671	$ (1,909)

Benefits expected to be paid in future fiscal years are as follows at June 30, 2016:

2017	$ 2,636
2018	$ 2,445
2019	$ 2,276
2020	$ 2,130
2021	$ 1,991
2022-2026	$ 8,193

The net post-retirement benefit cost for 2015-2016 was determined based on a 3.5% and 4.5% discount rate and a rate of compensation increase of 4.0% per year as of June 30, 2016 and 2015, respectively.

Defined Contribution Plans

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 $205,893 and $165,776 for the matching contribution and $277,518 and $244,072 for discretionary contributions for the years ended June 30, 2016 and 2015, respectively.

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

Deferred Compensation Plans (Continued)

National Office provides deferred compensation plans for certain of its employees. The obligations under these plans are fully funded and totaled $306,720 and $312,473 as of June 30, 2016 and 2015, respectively. The obligations and underlying assets are recorded in amounts held on behalf of others on the statements of financial position at June 30, 2016 and 2015.

9. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Contributions with donor-imposed restrictions expended in the year of receipt are reported as part of unrestricted net assets. Temporarily restricted net assets are donor-restricted for medical research. Investment return from permanently restricted net assets is primarily to be used to support research scholars in interstitial related lung diseases and is recorded as part of temporarily restricted net assets until appropriated for expenditure. For the year ended June 30, 2016 and 2015, $96,704 and $107,893, respectively, of temporarily restricted net assets, related to these programs, were released from restrictions.

10. ENDOWMENT

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

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

National Office has interpreted the relevant UPMIFA as requiring the preservation of the fair value of the original gift, as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. As a result of this interpretation, National Office classifies as permanently restricted net assets: (a) the original value of gifts donated to its permanent endowment, (b) the original value of subsequent gifts to its permanent endowment; and, (c) accumulations to its permanent endowment made in accordance with the direction of the applicable donor gift instrument, at the time the accumulation is added to the fund.

10. ENDOWMENT (Continued)

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 an emphasis on both equity and fixed income 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, 2016 and 2015, which consists of permanently restricted net assets and excludes its beneficial interest in perpetual trusts for which National Office is not the trustee, and the changes in the endowment fund for the year then ended:

	2016		
	Temporarily restricted	Permanently restricted	Total
Balance, beginning of year	$ 737,670	$ 500,000	$ 1,237,670
Interest and dividends	50,972	-	50,972
Realized losses, net	(32,715)	-	(32,715)
Unrealized losses, net	(45,208)	-	(45,206)
Investment fees	(4,521)	-	(4,523)
Appropriation for expenditure	(92,182)	-	(92,182)
Balance end of year	$ 614,016	$ 500,000	$ 1,114,016

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

11. RELATED PARTY TRANSACTIONS

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, 2016 and 2015, program reimbursements approximated $20,000,000 and $22,000,000, respectively.

Each Chartered Association is also required to remit a monthly assessment, which National Office uses in a variety of ways including, but not limited to, providing national leadership, assistance and guidance in the areas of Field Program Development, Field Fundraising and Field Management Advisory and other activities. This revenue is recognized over the assessment period. For the years ended June 30, 2016 and 2015, Chartered Associations' assessments revenue approximated $5,700,000 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. This revenue is recognized in the period when contributions are collected. For the years ended June 30, 2016 and 2015, the allocable share of direct response activities from Chartered Associations approximated $2,300,000 and $2,200,000, respectively.

Receivables from Chartered Associations at June 30, 2016 and 2015, approximated $1,600,000, respectively. There were no amounts considered uncollectible as of June 30, 2016 and 2015.

At June 30, 2016 and 2015, annuity and pooled income fund assets, deferred compensation plan assets and related liabilities pertaining to Chartered Associations administered by National Office approximating $1,200,000 and $1,300,000, respectively, are reflected as amounts held on behalf of others on the accompanying statements of financial position.

National Office's processes certain administrative costs relating to American Lung Association's defined benefit pension plan - Retirement Plan D (see note 7). In relation to these transactions, National Office has receivables from the Retirement Plan D trust of $19,940 and $55,518 as of June 30, 2016 and 2015, respectively.

12. JOINT COSTS

During the year ended June 30, 2015, National Office incurred joint costs of $599,959 for informational materials and activities that included development appeals which pertained to Lung USA. Of those costs, for the year ended June 30, 2015, $185,987 was allocated to fundraising and $35,998 allocated to management and general and $377,974 was allocated to program services. No joint costs were incurrent for the year ended June 30, 2016 due to the National Office reassigning the Lung USA territories to other American Lung Association Charters.

13. COMMITMENTS AND CONTINGENCIES

Government Contracts

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

Operating Leases

National Office leases office space in New York, District of Columbia, Wisconsin and Illinois. These leases expire at varying dates through April 2027. The annual rentals are subject to escalation agreements and periodic rate increases. Beginning in fiscal year 2014, National Office subleases office space in New York and District of Columbia. As a result of signing the sublease of the New York office space, a loss of $716,563 was recognized for the year ended June 30, 2014, which will be amortized straight-line against rental expense over the term of the lease. Sublease revenue for the years ended June 30, 2016 and 2015 was $361,554 and $302,505, respectively. Net rental expense for the years ended June 30, 2016 and 2015 totaled $636,148 and $764,373, respectively.

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

2017	$ 749,696
2018	814,910
2019	819,404
2020	605,599
2021	342,826
Thereafter	1,472,453
	$4,804,888

14. SUBSEQUENT EVENTS

National Office has evaluated subsequent events through December 13, 2016, which was the date that these financial statements were available for issuance, and determined that there were no significant non-recognized subsequent events through that date.

SUPPLEMENTARY INFORMATION

AMERICAN LUNG ASSOCIATION – NATIONAL OFFICE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2016

	Federal CFDA Number	Grant ID Number	Expenditures	Amounts provided to Subrecipients	
U.S. Environment Protection Agency (EPA)					
Office of Air and Radiation					
Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act					
Expanding National Radon Action	66.034	XA-83576901	$ 20,165	$ -	
Expanding National Radon Action	66.034	XA-83576901	127,928	52,500	
Total for CFDA 66.034			148,093	52,500	
Total U.S. EPA			148,093	52,500	
U.S. Department of Health and Human Services					
Centers for Disease Control and Prevention					
PPHF: Community Transformation Grants and National Dissemination and Support for Community Transformation Grant financed solely by Prevention and Public Health Funds					
Environmental Public Health and Emergency Response - Year 4	93.070	1UE1EH001305	88,244	-	
Building Capacity of the Public Health System to Improve Population Health through National Nonprofit Organizations - financed in part by Prevention and Public Health Funds (NON-ACA/PPHF)					
Enhancing Use and Availability of Asthma Inhalers	93.424	5U38OT000224-02	11,343	-	
PPHF 2013: OSTLTS Partnerships - CBA of the Public Health System	93.424	5U38OT000224-03	123,808	-	
PPHF 2013: OSTLTS Partnerships - CBA of the Public Health System	93.424	5U38OT000224-03	176,447	-	
PPHF 2013: OSTLTS Partnerships - CBA of the Public Health System	93.424	5U38OT000224-03	37,057	-	
Total for CFDA 93.424			348,655	-	(M)
Building Capacity of the Public Health System to Improve Population Health Health through National Nonprofit Organizations - financed in part by Prevention and Public Health Funds (NON-ACA/PPHF)					
PPHF 2013: OSTLTS Partnerships - CBA of the Public Health System	93.524	3U38OT000224-03S1	112,809	-	
Consortium for Tobacco Use Cessation Technical Assistance Financed Solely by Prevention and Public Health Funds	93.759	5NU58DP004966-03-00	142,599	-	
Assistance Programs for Chronic Disease Prevention and Control - Year 1	93.945	1U58DP004966	8,855	-	
Assistance Programs for Chronic Disease Prevention and Control - Year 2	93.945	1U58DP004966	48,486	-	
Total for CFDA 93.945			57,341	-	
Total Centers for Disease Control and Prevention			607,049	-	
Total U.S. Department of Health and Human Services			607,049	-	
Total expenditure of federal awards			$ 755,142	$ 52,500	

(M) - Audited as a major program

See accompanying Independent Auditor's Report and notes to Schedule of Expenditures of Federal Awards

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of American Lung Association - National Office (National Office) for the year ended June 30, 2016. The information presented on this schedule has been prepared using the accrual basis of accounting and is in accordance with the requirements of *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained the Uniform Guidance, wherein certain types of expenditures are not allowed or limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NON-CASH ASSISTANCE, INSURANCE, AND LOANS

The National Association did not receive any non-cash assistance through federal awards during the year ended June 30, 2016. In addition, there was no federal insurance in effect during the year, nor any federal loans or loan guarantees outstanding at year end.

DE MINIMIS RATE

The Association did not elect to use the de minimis rate of 10 percent for the year ended June 30, 2016.

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of American Lung Association - National Office (National Office), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 13, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Springfield, Illinois
December 13, 2016

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Independent Auditor's Report on Compliance for Each Major Program and On Internal Control Over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited American Lung Association - National Office's (National Office) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the National Office's major federal programs for the year ended June 30, 2016. The National Office's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the National Office's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the National Office's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, National Office complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

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

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

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

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

Springfield, Illinois
December 13, 2016

AMERICAN LUNG ASSOCIATION – NATIONAL OFFICE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2016

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: *unmodified*

Internal control over financial reporting:
- Material weakness(es) identified? _____ yes __X__ no
- Significant deficiency(s) identified that are not considered to be material weaknesses? _____ yes __X__ none reported

Noncompliance material to financial statements noted? _____ yes __X__ no

Federal Awards

Internal Control over major programs:
- Material weakness(es) identified? _____ yes __X__ no
- Significant deficiency(s) identified that are not considered to be material weaknesses? _____ yes __X__ no

Type of auditor's report issued on compliance for major programs: *unmodified*

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance? _____ yes __X__ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.424	Building Capacity of the Public Health System to Improve Population Health through National Nonprofit Organizations

Dollar threshold used to distinguish between Type A and Type B programs: $ 750,000

Auditee qualified as low-risk auditee? __X__ yes _____ no

Financial Statement Findings

None.

Federal Award Findings

None.

Prior Audit Findings

Note: The prior audit contained no findings.