

**AMERICAN LUNG ASSOCIATION
OF THE SOUTHEAST, INC.**
(A Not-for-Profit Organization)

FINANCIAL REPORT

Years ended June 30, 2009 and 2008

**AMERICAN LUNG ASSOCIATION
OF THE SOUTHEAST, INC.**

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LBA CERTIFIED PUBLIC ACCOUNTANTS, PA

Report of Independent Certified Public Accountants on the Financial Statements

To the Board of Directors
American Lung Association of the Southeast, Inc.
Jacksonville, Florida

We have audited the accompanying statements of financial position of American Lung Association of the Southeast, Inc., (a not-for-profit organization) (the "Association") as of June 30, 2009 and 2008, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Lung Association of the Southeast, Inc. as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2009, on our consideration of American Lung Association of the Southeast, Inc.'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 on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

THE LBA GROUP

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of American Lung Association of the Southeast, Inc. taken as a whole. The accompanying schedules of State Financial Assistance – Georgia, for the years ended June 30, 2009 and 2008, are presented for purposes of additional analysis as required by Title 50, Chapter 20, Rules of the Auditor General of the State of Georgia and are not a required part of the basic financial statements. Such information has been subjected to auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

LBA Certified Public Accountants, P.A.

October 20, 2009

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Assets:				
Current assets:				
Cash and cash equivalents	\$ 114,044	\$ -	\$ -	\$ 114,044
Accounts receivable	228,610	-	-	228,610
Interest receivable	49,463	-	-	49,463
Prepaid expenses and other assets	442,723	-	-	442,723
Total current assets	834,840	-	-	834,840
Investments	9,283,956	1,483,512	639,430	11,406,898
Beneficial interest in perpetual trust	-	-	320,000	320,000
Property and equipment, net	3,995,530	-	-	3,995,530
Investment in LLC	642,482	-	-	642,482
Total assets	<u>\$ 14,756,808</u>	<u>\$ 1,483,512</u>	<u>\$ 959,430</u>	<u>\$ 17,199,750</u>
Liabilities				
Current liabilities:				
Payable to national office	\$ 9,107	\$ -	\$ -	\$ 9,107
Accounts payable	579,363	-	-	579,363
Accrued expenses	284,412	-	-	284,412
Accrued pension cost	2,289,134	-	-	2,289,134
Trust liabilities	33,457	-	-	33,457
Deferred revenue	55,765	-	-	55,765
Total liabilities	<u>3,251,238</u>	<u>-</u>	<u>-</u>	<u>3,251,238</u>
Net assets:				
Unrestricted	11,505,570	-	-	11,505,570
Temporarily restricted	-	1,483,512	-	1,483,512
Permanently restricted	-	-	959,430	959,430
Total net assets	<u>11,505,570</u>	<u>1,483,512</u>	<u>959,430</u>	<u>13,948,512</u>
Total liabilities and net assets	<u>\$ 14,756,808</u>	<u>\$ 1,483,512</u>	<u>\$ 959,430</u>	<u>\$ 17,199,750</u>

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2008

	Unrestricted	Temporarily Restricted	Restricted	Totals
Assets:				
Current assets:				
Cash and cash equivalents	\$ 188,725	\$ -	\$ -	\$ 188,725
Accounts receivable	245,579	-	-	245,579
Interest receivable	95,730	-	-	95,730
Prepaid expenses and other assets	94,438	-	-	94,438
Total current assets	624,472	-	-	624,472
Investments	13,368,787	1,660,165	639,430	15,668,382
Beneficial interest in perpetual trust	-	-	320,000	320,000
Property and equipment, net	2,793,245	-	-	2,793,245
Investment in LLC	640,854	-	-	640,854
Total assets	<u>\$ 17,427,358</u>	<u>\$ 1,660,165</u>	<u>\$ 959,430</u>	<u>\$ 20,046,953</u>
Liabilities				
Current liabilities:				
Payable to national office	\$ 393,727	\$ -	\$ -	\$ 393,727
Accounts payable	163,398	-	-	163,398
Accrued expenses	258,426	-	-	258,426
Accrued pension cost	1,508,779	-	-	1,508,779
Deferred revenue	51,128	-	-	51,128
Total liabilities	<u>2,375,458</u>	<u>-</u>	<u>-</u>	<u>2,375,458</u>
Net assets:				
Unrestricted	15,051,900	-	-	15,051,900
Temporarily restricted	-	1,660,165	-	1,660,165
Permanently restricted	-	-	959,430	959,430
Total net assets	<u>15,051,900</u>	<u>1,660,165</u>	<u>959,430</u>	<u>17,671,495</u>
Total liabilities and net assets	<u>\$ 17,427,358</u>	<u>\$ 1,660,165</u>	<u>\$ 959,430</u>	<u>\$ 20,046,953</u>

See accompanying notes.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Public support revenue				
Contributions and donations:				
Direct mail:				
Christmas seals	\$ 872,768	\$ -	\$ -	\$ 872,768
Other direct mail	2,108,615	-	-	2,108,615
Total direct mail	2,981,383	-	-	2,981,383
Golf privilege card	102,841	-	-	102,841
Vehicle donation program	128,865	-	-	128,865
Special events:				
Special events gross revenue	1,881,117	-	-	1,881,117
Special events direct expenses	(423,030)	-	-	(423,030)
Special events, net	1,458,087	-	-	1,458,087
Other contributions:				
Combined federal campaign	9,968	-	-	9,968
Workplace giving	135,535	-	-	135,535
Memorials	158,603	-	-	158,603
Bequests	2,752,672	64,982	-	2,817,654
Individual/major gifts and campaigns	203,768	6,805	-	210,573
Corporate gifts	100,179	6,100	-	106,279
Foundation gifts	224,073	19,607	-	243,680
Total other contributions	3,584,798	97,494	-	3,682,292
Other revenue:				
Corporate grants	104,382	-	-	104,382
Foundation grants	253,644	-	-	253,644
Government grants/contracts	693,841	-	-	693,841
Grants from ALA	46,795	-	-	46,795
Interest and dividends	417,368	-	-	417,368
Program service fees	217,042	-	-	217,042
Dues	9,456	-	-	9,456
Rental income	19,395	-	-	19,395
Other revenue	58,578	-	-	58,578
Total other revenue	1,820,501	-	-	1,820,501
Total public support and revenue	10,076,475	97,494	-	10,173,969
Net assets released from restrictions	242,904	(242,904)	-	-

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.
STATEMENT OF ACTIVITIES (Continued)
YEAR ENDED JUNE 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Expenses:				
Program services	\$ 8,078,271	\$ -	\$ -	\$ 8,078,271
Supporting services	2,135,693	-	-	2,135,693
Payments to national headquarters	<u>964,637</u>	<u>-</u>	<u>-</u>	<u>964,637</u>
 Total expenses	 <u>11,178,601</u>	 <u>-</u>	 <u>-</u>	 <u>11,178,601</u>
 Change in net assets from operations	 (859,222)	 (145,410)	 -	 (1,004,632)
 Non-operating activities:				
Gain on disposal of assets	224,675	-	-	224,675
Realized loss on investments	(1,201,784)	-	-	(1,201,784)
Unrealized loss on investments	(929,644)	(31,243)	-	(960,887)
Pension liability adjustment	<u>(780,355)</u>	<u>-</u>	<u>-</u>	<u>(780,355)</u>
 Change in net assets	 (3,546,330)	 (176,653)	 -	 (3,722,983)
 Net assets, beginning	 <u>15,051,900</u>	 <u>1,660,165</u>	 <u>959,430</u>	 <u>17,671,495</u>
 Net assets, ending	 <u>\$ 11,505,570</u>	 <u>\$ 1,483,512</u>	 <u>\$ 959,430</u>	 <u>\$ 13,948,512</u>

See accompanying notes.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Public support revenue				
Contributions and donations:				
Direct mail:				
Christmas seals	\$ 793,057	\$ -	\$ -	\$ 793,057
Other direct mail	2,582,877	-	-	2,582,877
Total direct mail	3,375,934	-	-	3,375,934
Golf privilege card	168,275	-	-	168,275
Vehicle donation program	168,739	-	-	168,739
Special events:				
Special events gross revenue	1,976,690	-	-	1,976,690
Special events direct expenses	(604,903)	-	-	(604,903)
Special events, net	1,371,787	-	-	1,371,787
Other contributions:				
Combined federal campaign	11,527	-	-	11,527
Workplace giving	67,004	-	-	67,004
Memorials	186,703	-	-	186,703
Bequests	4,301,670	56,582	-	4,358,252
Individual/major gifts and campaigns	319,545	1,284	-	320,829
Corporate gifts	139,164	20,975	-	160,139
Foundation gifts	57,479	37,551	-	95,030
Total other contributions	5,083,092	116,392	-	5,199,484
Other Revenue:				
Corporate grants	33,194	-	-	33,194
Foundation grants	333,845	-	-	333,845
Government grants/contracts	680,456	-	-	680,456
Grants from ALA	88,942	-	-	88,942
Interest and dividends	568,416	-	-	568,416
Program service fees	259,956	-	-	259,956
Dues	14,141	-	-	14,141
Rental income	19,270	-	-	19,270
Other revenue	44,318	-	-	44,318
Total other revenue	2,042,538	-	-	2,042,538
Total public support and revenue	12,210,365	116,392	-	12,326,757
Net assets released from restrictions	509,149	(509,149)	-	-

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.
STATEMENT OF ACTIVITIES (Continued)
YEAR ENDED JUNE 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Expenses:				
Program services	\$ 8,731,081	\$ -	\$ -	\$ 8,731,081
Supporting services	2,162,017	-	-	2,162,017
Payments to national headquarters	<u>1,353,746</u>	<u>-</u>	<u>-</u>	<u>1,353,746</u>
Total expenses	<u>12,246,844</u>	<u>-</u>	<u>-</u>	<u>12,246,844</u>
Change in net assets from operations	472,670	(392,757)	-	79,913
Non-operating activities:				
Realized gain on investments	662,498	-	-	662,498
Unrealized loss on investments	(859,306)	(37,113)	-	(896,419)
Loss on disposal of assets	(5,359)	-	-	(5,359)
Pension liability adjustment	<u>(7,621)</u>	<u>-</u>	<u>-</u>	<u>(7,621)</u>
Change in net assets	<u>262,882</u>	<u>(429,870)</u>	<u>-</u>	<u>(166,988)</u>
Net assets, beginning before merger	14,305,291	1,240,463	500,000	16,045,754
Adjustments to net assets for effect of merger	<u>483,727</u>	<u>849,572</u>	<u>459,430</u>	<u>1,792,729</u>
Net assets, beginning after merger	<u>14,789,018</u>	<u>2,090,035</u>	<u>959,430</u>	<u>17,838,483</u>
Net assets, ending	<u>\$ 15,051,900</u>	<u>\$ 1,660,165</u>	<u>\$ 959,430</u>	<u>\$ 17,671,495</u>

See accompanying notes.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2009

	Program Services					Supporting Services			Total All Funds 2009
	Environmental Health	Smoking Education	Asthma	Lung Disease	Community Health Programs	Research	Fund Raising	Administrative and General Expenses	
Salaries	\$ 311,515	\$ 396,997	\$ 709,910	\$1,180,659	\$ 260,640	\$ -	\$ 424,473	\$ 144,517	\$ 3,428,711
Professional fees and contract payments	91,726	112,124	191,096	307,487	80,819	-	181,929	34,909	1,000,090
Payroll taxes	30,903	37,957	65,183	105,469	26,893	-	35,092	11,950	313,447
Employee benefits	23,606	68,274	121,320	230,654	45,181	-	72,177	24,853	586,065
Business insurance	20,599	23,214	32,450	32,383	20,410	-	2,456	1,403	132,915
Building occupancy	33,880	40,977	59,171	91,071	35,616	-	9,659	3,393	273,767
Telephone	17,192	24,926	38,611	59,364	20,504	-	2,188	1,107	163,892
Travel	8,481	12,025	32,686	31,868	7,295	-	12,395	3,854	108,604
Meetings, conferences, major trips	20,615	42,534	45,847	157,198	23,218	-	30,069	5,699	325,180
Office and cleaning supplies	6,289	21,019	44,621	26,109	6,772	-	7,796	1,715	114,321
Printing and publications	88,823	153,274	203,962	304,467	66,289	-	647,655	25,040	1,489,510
Postage and shipping	49,127	62,608	111,956	186,194	40,419	-	366,651	21,694	838,649
Media	7,618	9,709	17,361	28,874	6,374	-	10,382	3,534	83,852
Office equipment	14,545	22,774	37,089	52,436	16,391	-	7,723	2,428	153,386
Dues and subscriptions	2,177	2,484	4,794	5,620	2,579	-	1,243	532	19,429
Miscellaneous expenses	5,306	6,702	11,851	20,423	4,549	-	6,561	2,491	57,883
Awards and grants - research	-	-	-	-	1,157	593,434	-	-	594,591
Assistance to individual patients	5,586	5,296	86,747	257,120	5,442	-	-	-	360,191
Depreciation	15,398	19,624	35,091	58,360	12,883	-	20,981	7,144	169,481
	<u>753,386</u>	<u>1,062,518</u>	<u>1,849,746</u>	<u>3,135,756</u>	<u>683,431</u>	<u>593,434</u>	<u>1,839,430</u>	<u>296,263</u>	<u>10,213,964</u>
Payments to national headquarters	60,772	147,589	73,313	128,297	31,833	452,414	-	70,419	964,637
	<u>\$ 814,158</u>	<u>\$ 1,210,107</u>	<u>\$ 1,923,059</u>	<u>\$3,264,053</u>	<u>\$ 715,264</u>	<u>\$ 1,045,848</u>	<u>\$ 1,839,430</u>	<u>\$ 366,682</u>	<u>\$ 11,178,601</u>

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2008

	Program Services					Supporting Services			Total All Funds 2008
	Environmental Health	Smoking Education	Asthma	Lung Disease	Community Health Programs	Research	Fund Raising	Administrative and General Expenses	
Salaries	\$ 338,773	\$ 404,805	\$ 833,142	\$1,026,968	\$ 336,782	\$ -	\$ 451,124	\$ 163,016	\$ 3,554,610
Professional fees and contract payments	123,415	134,506	228,178	274,964	127,083	-	88,226	40,438	1,016,810
Payroll taxes	28,015	33,724	63,584	87,617	27,853	-	36,837	15,518	293,148
Employee benefits	92,241	112,603	175,831	224,983	94,653	-	56,135	86,588	843,034
Business insurance	15,972	16,260	28,079	30,594	14,675	-	8,798	4,996	119,374
Building occupancy	43,185	51,978	92,681	90,998	39,076	-	18,504	25,404	361,826
Telephone	15,368	18,606	28,429	43,060	15,728	-	2,003	2,383	125,577
Travel	5,585	14,948	41,843	35,311	9,210	-	32,937	11,010	150,844
Meetings, conferences, major trips	26,318	41,673	58,968	192,201	26,077	-	30,955	9,690	385,882
Office and cleaning supplies	11,401	28,284	80,418	43,692	11,178	-	13,423	1,613	190,009
Printing and publications	82,639	233,435	199,071	215,139	140,209	-	455,620	155,188	1,481,301
Postage and shipping	35,338	123,104	120,531	133,291	88,010	-	284,882	98,139	883,295
Media	11,578	14,085	18,042	25,945	12,977	-	7,861	9,779	100,267
Office equipment	13,425	20,491	34,978	49,449	15,961	-	7,353	5,440	147,097
Dues and subscriptions	2,132	2,231	4,356	4,955	2,200	-	2,321	2,351	20,546
Miscellaneous expenses	9,533	11,485	20,612	23,607	9,929	-	9,913	3,508	88,587
Awards and grants - research	-	-	-	-	7,810	664,460	-	-	672,270
Assistance to individual patients	6,057	8,045	86,317	239,759	6,283	-	-	-	346,461
Depreciation	10,565	12,737	25,862	32,339	10,593	-	14,824	5,240	112,160
	<u>871,540</u>	<u>1,283,000</u>	<u>2,140,922</u>	<u>2,774,872</u>	<u>996,287</u>	<u>664,460</u>	<u>1,521,716</u>	<u>640,301</u>	<u>10,893,098</u>
Payments to national headquarters	<u>82,579</u>	<u>185,464</u>	<u>87,993</u>	<u>152,974</u>	<u>37,904</u>	<u>499,533</u>	<u>155,680</u>	<u>151,619</u>	<u>1,353,746</u>
Total functional expenses	<u>\$ 954,119</u>	<u>\$ 1,468,464</u>	<u>\$ 2,228,915</u>	<u>\$2,927,846</u>	<u>\$1,034,191</u>	<u>\$ 1,163,993</u>	<u>\$ 1,677,396</u>	<u>\$ 791,920</u>	<u>\$ 12,246,844</u>

See accompanying notes.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.
STATEMENTS OF CASH FLOWS
JUNE 30, 2009 AND 2008

	2009	2008
Cash flows from operating activities:		
Change in net assets	\$ (3,722,983)	\$ (166,988)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	169,481	112,251
(Gain) loss on disposal of assets	(224,675)	5,359
Realized loss (gain) on investments	1,201,784	(662,498)
Unrealized loss on investments	960,887	896,419
Net changes in:		
Receivables	63,236	71,146
Prepaid expenses and other assets	(348,285)	(8,744)
Payables and accrued expenses	57,331	134,266
Accrued pension cost	780,355	7,721
Trust liabilities	33,457	-
Deferred revenue	4,637	(33,663)
	(1,024,775)	355,269
 Cash flows from investing activities:		
Proceeds from sale of investments	6,397,238	2,838,659
Proceeds from sale of property and equipment	483,702	-
Purchases of investments	(4,298,425)	(812,525)
Purchases of property and equipment	(1,630,793)	(2,169,681)
Additional investment in LLC	(1,628)	(333,824)
	950,094	(477,371)
 Net cash provided (used) by investing activities		
	(74,681)	(122,102)
 Net decrease in cash and cash equivalents		
	188,725	310,827
Cash and cash equivalents, beginning		
	188,725	310,827
Cash and cash equivalents, ending	\$ 114,044	\$ 188,725

See accompanying notes.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

1. Nature of Organization

Nature of Organization

The American Lung Association of the Southeast, Inc., (the "Association") works to prevent lung disease and promote lung health in the States of Florida, Georgia, and South Carolina through education, research and advocacy. It funds research on the causes of and treatments for lung disease, is a defender of the Clean Air Act and laws that protect citizens from secondhand smoke, teaches children the dangers of tobacco use and helps teenage and adult smokers overcome addiction. In addition, the Association educates children and adults living with lung disease on managing their condition.

The Association receives the majority of its revenue through contributions and grants. Contributions are generally received through fundraising events, corporate and individual donations or giving performed through direct mail. Contributions can be in such forms as memorials and gifts, planned giving, workplace giving, and vehicle donations. The Association receives corporate, foundation, and government grants.

Merger

On January 1, 2008, American Lung Association - Southeast Region, Inc. merged into American Lung Association of Florida, Incorporated. Upon the consummation of the merger, American Lung Association of Florida, Incorporation changed its name to American Lung Association of the Southeast, Inc., and American Lung Association – Southeast Region, Inc. ceased to exist. The merger was accounted for as “pooling of interests”. The accompanying financial statements reflect the combined assets, liabilities, and net assets of the two organizations at June 30, 2009 and 2008, and the support, revenue, expenses, and changes in net assets, and functional expenses for the years ended June 30, 2009 and 2008.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting and in accordance with the accounting and reporting procedures recommended for non-for-profit organizations in the American Institute of Certified Public Accountants' Industry Audit Guide, Audits of Not-For-Profit Organizations, and substantially follow the accounting and financial reporting procedures prescribed by the American Lung Association (the "National Association").

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. The Association records all temporarily restricted revenues and gains that are spent in the same fiscal year as unrestricted revenue. Any amounts not spent in the same fiscal year are recorded as temporarily restricted revenue if donor imposed restrictions exist. Accordingly, net assets of the Association and changes therein are classified and reported as follows:

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

2. **Summary of Significant Accounting Policies (Continued)**

- *Unrestricted net assets* - Net assets that are not subject to donor-imposed stipulations.
- *Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Association and/or the passage of time.
- *Permanently restricted net assets* - Net assets subject to donor-imposed stipulations are maintained permanently by the Association. Generally, the donors of these assets permit the Association to use all or part of the income earned on related investments for general or specific purposes.

Cash and Cash Equivalents

The Association considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents, except for certain money market funds held within the investments portfolio. The Association places its temporary cash investments with FDIC insured financial institutions. At times, such investments may be in excess of FDIC insurance limits. The Association does not believe it is exposed to any significant credit risk with respect to cash and cash equivalents.

Investments

Investments are classified as available-for-sale and consist of money market funds, U.S. Treasury notes and bonds, equity securities and corporate bonds. Available-for-sale securities are carried at fair value (see note 4 for discussion of fair value measurements). Unrealized gains and losses, realized gains and losses and interest and dividends are reported in the statement of activities.

Beneficial Interest in Perpetual Trust

American Lung Association of the Southeast Region, Inc. received a contribution in which the organization retains a perpetual interest. The assets are invested and administered by a trustee, and distributions are made to the beneficiaries. These funds are invested in debt and equity securities and the interest in this trust is recorded at fair value based on estimated future cash receipts discounted at 5%. Initial recognition and subsequent adjustments to the assets' carrying value is recognized as contribution revenue and changes in value of beneficial interest in perpetual trust, respectively.

Split Interest Agreements

The Association accepts gifts subject to split interest agreements. These gifts may be in the form of annuities or charitable remainder trusts. At the time of receipt, a gift is recorded based upon the fair value of assets donated less any applicable liabilities. The trust liabilities include the present value of projected future distributions to the annuity or trust beneficiary.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

2. Summary of Significant Accounting Policies (Continued)

Endowment Investment and Spending Policies

The Association has a written Investment Policy Statement to which it closely adheres. The Association engages a professional investment advisor to handle the investment of the endowed and other funds, and a committee of individuals qualified to review the investment performance and strategies meets quarterly.

The Association adheres to the Uniform Management of Institutional Funds Act of 1972 (UMIFA) and its own governing documents. UMIFA requires the preservation of the historical dollar amount (HDA) of donor-restricted funds when the donor restrictions include such a provision. In the absence of donor restrictions relative to HDA, the net appreciation of a donor-restricted endowment fund is spendable under UMIFA.

The Association's Management and the Board of Directors have determined that the majority of the contributions received by the Association are subject to the terms and conditions of its governing documents. Certain contributions are received subject to other gift instruments, or are subject to specific agreements with the Association.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standards of prudence prescribed by the endowment.

The Association has adopted investment and spending policies, devised and recommended by the Finance Committee, and approved by the Board of Directors, for endowment assets. Such policies are designed to invest its cash assets in securities and depositories that will yield the maximum total return consistent with the safety of principal and liquidity needs. The Association's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is in line with not-for-profit industry management and investment of endowment funds. Actual returns in any given year may vary. Management believes the investment philosophy of the Association is conservative in nature and balances the return of the investment along with the liquidity. The Association also strictly invests in companies and funds that do not conflict with the stated objectives of the Association.

Investment in LLC

The Association accounts for the Investment in LLC under the equity method (see note 6).

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method with estimated useful lives of 40 to 50 years for buildings and improvements and 3 to 10 years for office furniture and equipment.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

2. Summary of Significant Accounting Policies (Continued)

Property and Equipment

Upon retirement or disposal, the cost of the asset and related accumulated depreciation or amortization are removed from the books and a gain or loss is recognized in the Statement of Activities. The Association periodically reviews property and equipment for indicators of potential impairment. If this review indicates that the carrying amount of these assets may not be recoverable, the Association estimates the future cash flows expected to result from the operations of the asset and its eventual disposition. If the sum of these future cash flow (undiscounted and without interest charges) is less than the carrying amount of the asset, a write-down to estimated fair value is recorded.

Contributed Services

A substantial number of unpaid volunteers have made significant contributions of their time to the Association. No amounts have been reflected in the statements for these contributed services since the contribution of these services did not create or enhance non-financial assets or require specialized skills. When professional services are provided, in-kind values are recorded as contributions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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. Actual results could differ from those estimates.

Allocation of Revenues and Expenses

The Association has a Charter agreement with the American Lung Association ("National Association"). The National Association receives 30% of direct response income revenue less direct response expense and 13% of all other shareable revenue collected, exclusive of the following:

- Investment income
- Rental income
- Proceeds from the sale of equipment, securities or real estate
- Refunds
- Service fees
- Grants from health organizations and governmental agencies
- Restricted bequests

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

2. Summary of Significant Accounting Policies (Continued)

Revenue Recognition

The Association recognizes contributions received, including unconditional promises to give, as assets and revenue in the period received at their fair values. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support. When donor restrictions expire, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Income Taxes

The Association is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code, Chapter 220.13 of the Florida Statutes, Chapter 33.31 of the South Carolina Statutes, and Chapter 14.3 of the Georgia Statutes.

Allocation of Joint Costs

The Association has adopted Statement of Position ("SOP") 98-2, *Accounting for Costs of Activities of Not for-Profit Organizations and State and Local Government Entities that Include Fund Raising*; which requires certain criteria (purpose, audience and content) to be met in order to allocate joint costs between fund raising and program services. Any costs which do not meet these criteria are reported as fund raising costs. Costs of activities, including fund raising, are allocated to program services to the extent such activities are intended to inform or educate the public concerning lung health or to supporting services to the extent such activities are intended to induce the contribution of financial resources or to enhance the image of the Association. Expenses which cannot be directly attributed to specific functions are allocated based on the estimated proportionate salary cost of the function.

During the years ended June 30, 2009 and 2008, the Association incurred joint costs of \$2,180,170 and \$1,783,889, respectively, for informational materials and activities that included fund raising appeals. Of these costs, \$111,917 and \$117,514 were allocated to environmental health, \$149,223 and \$170,971 to smoking education, \$261,140 and \$201,688 to asthma, \$522,280 and \$340,002 to lung disease, \$1,136,150 and \$754,802 to fund raising in 2009 and 2008, respectively. In addition, the Association allocated \$198,912 to management and general expenses during 2008.

Subsequent Events

The Association has evaluated the events that have occurred subsequent to year end through October 20, 2009, the date that financial statements were available to be issued. The Association has determined that no events have occurred during this period that requires adjustment to or disclosure in the financial statements. The Association has no responsibility to update these financial statements for events and circumstances occurring after this date.

Reclassifications

Certain 2008 balances have been reclassified to conform to 2009 presentation.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

3. Investments

The cost and fair value of investments as of June 30, 2009 and 2008 are as follows:

	2009	
	Cost	Fair Value
Permanently restricted funds included in investments	\$ 959,430	\$ 878,842
Temporarily restricted funds included in investments	1,483,512	1,483,512
Unrestricted funds included in investments:	9,511,655	9,364,544
Total investments	\$ 11,954,597	\$ 11,726,898
	2008	
	Cost	Fair Value
Permanently restricted funds included in investments	\$ 959,430	\$ 952,832
Temporarily restricted funds included in investments	1,660,165	1,660,165
Unrestricted funds included in investments:	12,413,791	13,375,385
Total investments	\$ 15,033,386	\$ 15,988,382

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Association to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$80,588 and \$6,598 as of June 30, 2009 and 2008. These deficiencies resulted from unfavorable market fluctuations. Subsequent gains that restore the fair value of the assets of the endowment fund will subsequently be classified as an increase in unrestricted net assets.

4. Fair Value Measurements

Financial Accounting Standards Board Statement No. 157, *Fair Value Measurements* ("FASB 157"), establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB 157 are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

4. Fair Value Measurements (Continued)

- Level 2 Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
 - If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

Mutual funds are valued at the net asset value of the shares held by the Association at year end.

Common stocks, U.S. Treasury notes and bonds and Corporate bonds are valued at the closing price reported on the active market on which the individual securities are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Association's assets at fair value as of June 30, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Mutual Funds	\$ 3,533,785	\$ -	\$ 3,533,785
Common stock	4,377,289	-	4,377,289
U.S. treasury notes and bonds	-	1,549,870	1,549,870
Corporate bonds	-	<u>265,954</u>	<u>2,265,954</u>
Total assets at fair value	<u>\$ 7,911,074</u>	<u>\$ 3,815,824</u>	<u>\$ 11,726,898</u>

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

4. Fair Value Measurements (Continued)

The non-equity portion of the investment portfolio as of June 30, 2009, consists of U.S. Treasury notes and bonds and corporate bonds that mature in various increments as follows:

<u>Years Ending</u>	
2010	\$ 526,238
2011	878,788
2012	791,883
2013	1,077,442
2014	409,300
Thereafter	<u>132,173</u>
	<u>\$ 3,815,824</u>

5. Property and Equipment

Property and equipment by major class of asset at June 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Land	\$ 503,509	\$ 253,509
Buildings and improvements	4,167,918	3,195,324
Office furniture and equipment	1,441,320	1,390,595
Vehicles	<u>54,771</u>	<u>54,771</u>
	6,167,518	4,894,199
Less: accumulated depreciation	<u>(2,171,988)</u>	<u>(2,100,954)</u>
Net property and equipment	<u>\$ 3,995,530</u>	<u>\$ 2,793,245</u>

6. Investment in LLC

In 2006, the Association formed Australian, LLC ("Australian") with Quantum Foundation as described in Note 2. The purpose of Australian is to own and manage land and a building occupied by the two founding organizations.

In 2009 and 2008, the Association contributed additional capital of approximately \$1,600 and \$330,000, respectively, for renovations on the building. The building was completed during 2008 when activity in the LLC commenced.

7. Restricted Net Assets

As of June 30, 2009 and 2008 temporarily restricted net assets of \$1,450,055 and \$1,660,165, respectively, include trust liabilities and amounts related to services/special events to be provided/sponsored by the Association in the future.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

7. Restricted Net Assets (Continued)

As of June 30, 2009 and 2008, permanently restricted net assets of \$959,430 includes a gift of \$500,000 that has been contributed by a donor with the stipulation that the gift be invested in perpetuity. The primary purpose of the fund is to provide assistance to individual patients with lung diseases, and/or their families as referred by the local medical community and within the funding criteria set by the Association. The annual earnings and growth of the fund over and above the principle sum of the endowment, net of fees and expenses, will be committed, granted and expended only for purposes set forth by the donor. The remaining permanently restricted assets of \$459,430, consists of a \$320,000 beneficial interest in a perpetual trust from which the income is unrestricted, and \$139,430 in investments from which the income is restricted for Tuberculosis related matters in South Carolina.

8. Share of Revenue to National Association

As discussed in Note 2, the National Association receives 30% of the Association's net direct response revenue and 13% of the Association's other shareable revenue. For the years ended June 30, 2009 and 2008, 6.1% and 3.3% are allocated to research activities and 6.9% and 9.7% is allocated to general operations, respectively.

For the years ended June 30, 2009 and 2008, the Association functionalized 100% of the share of income based on percentages provided by the National Association. The share of income to the National Association for the years ended June 30, 2009 and 2008 is allocated as follows:

	2009	2008
Program services	\$ 441,803	\$ 961,160
Research activities	452,415	108,300
General operations	70,419	148,912
Fund raising	-	135,374
	<u>\$ 964,637</u>	<u>\$ 1,353,746</u>

9. Pension Plan

The Association has a non-contributory defined benefit pension plan (the "Plan") sponsored by the National Association covering substantially all of its employees. The benefits are based on years of service and the employee's compensation during the last five years of employment. The Association's funding policy is to contribute annually to the Plan amounts recommended by the Plan's actuary which at least meet minimum funding standards but do not exceed the maximum amount permitted under the Internal Revenue Code. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

9. Pension Plan (Continued)

Association contributions approximated \$130,000 and \$289,000 and for the years ended June 30, 2009 and 2008, respectively. Total benefit payments approximated \$361,000 and \$445,000 and for the years ended June 30, 2009 and 2008, respectively.

The following table sets forth the Plan's funded status and amounts recognized in the Association's financial statements at June 30, 2009 and 2008, after the adoption of recognition and measurement date provision of SFAS 158:

	<u>2009</u>	<u>2008</u>
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 6,042,159	\$ 6,622,023
Service cost	317,588	272,804
Interest cost	486,178	352,205
Actuarial loss	(198,960)	(523,043)
Benefits paid	(361,482)	(445,366)
Curtailments, settlements and special termination benefits	<u>(116,002)</u>	<u>(236,464)</u>
Benefit obligation at end of year	<u>6,169,481</u>	<u>6,042,159</u>
Change in plan assets		
Fair value of plan assets at beginning of year	4,533,380	5,120,965
Actual return on plan assets	(354,251)	(131,629)
Employer contributions	130,000	289,100
Benefits paid	(361,482)	(445,366)
Expenses paid	(70,069)	(63,226)
Curtailments, settlements and special termination benefits	<u>2,769</u>	<u>(236,464)</u>
Fair value of assets at end of year	<u>3,880,347</u>	<u>4,533,380</u>
Funded status at end of year (accrued pension cost)	<u>\$ (2,289,134)</u>	<u>\$ (1,508,779)</u>
Amounts recognized in the statement of financial position consist of:		
Non-current liabilities	<u>\$ (2,289,134)</u>	<u>\$ (1,508,779)</u>

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

9. Pension Plan (Continued)

	2009	2008
Transition asset	\$ (7,820)	\$ (9,249)
Prior service cost	(251)	(287)
Net actuarial loss	1,726,196	1,270,726
 Total	 \$ 1,718,125	 \$ 1,261,190

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

Projected benefit obligation	\$ 6,169,481	\$ 6,042,159
Accumulated benefit obligation	\$ 5,403,569	\$ 5,310,800
Fair value of plan assets	\$ 3,880,347	\$ 4,533,380

Components of Net Periodic Benefit Cost

Service cost	\$ 254,070	\$ 272,804
Interest cost	391,769	352,115
Expected return on plan assets	(350,271)	(391,516)
Amortization of transition obligation	(1,143)	(1,143)
Amortization of prior service cost	(29)	(29)
Recognized net loss	81,120	11,019
Recognition due to settlement or curtailment	-	140,240
 Net periodic benefit cost	 375,516	 383,490

Other changes in plan assets and benefit obligations:

New net loss (gain) (includes recognition due to settlement/curtailments)	779,523	(78,199)
Amortization of transition obligation	1,143	1,143
Amortization of prior service cost	29	29
Amortization of net loss/ gain	(81,120)	11,019
 Total recognized in statements of activities	 699,575	 (88,046)
 Total recognized in net periodic benefit cost	 \$ 1,075,091	 \$ 295,444

The weighted average discount rate was 6.25% and 6.00% for the years ended June 30, 2009 and 2008, respectively. The rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation was 3.00% for the years ended June 30, 2009 and 2008. The expected long-term rate of return on assets was 8.00% and 8.25% for 2009 and 2008, respectively.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

9. Pension Plan (Continued)

The Plan's asset allocations at June 30, 2009 and 2008 by asset category were as follows:

	2009	2008
Equity securities	22.82%	50.91%
Debt securities	70.20	41.94
Real estate	5.16	-
Cash and cash equivalents	1.82	7.15
	<u>100.00%</u>	<u>100.00%</u>

Following are the future benefits expected to be paid for the Plan during the years indicated:

2010	\$ 2,427,628
2011	83,334
2012	355,941
2013	650,299
2014	474,652
2015-2019	2,681,240
	<u>\$ 6,673,094</u>

10. Commitments

The Association leases office space and office equipment under non-cancelable operating leases. Rental expense under these operating leases was \$166,324 and \$290,878 for the years ended June 30, 2009 and 2008. Future minimum lease payments on operating leases with initial or remaining lease terms of 12 months or more as of June 30, 2009 are as follows:

2010	\$ 181,138
2011	155,548
2012	59,240
2013	34,688
2014	599
	<u>\$ 431,213</u>

11. Concentrations

During the year ended June 30, 2008, the Association received a single bequest of approximately \$2.5 million. No concentration exists for the year ended June 30, 2009.

Other Financial Information

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST INC.
 SCHEDULE OF STATE FINANCIAL ASSISTANCE - GEORGIA
 YEAR ENDED JUNE 30, 2009

State Program Name	CFDA/Contract Number	Revenues	Expenses	Receivable at June 30, 2009
Statewide Short-term Housing and Case Management Services for Infectious Homeless TB Patients	93.116 / 948-34-1001	\$ 277,926	\$ 277,926	\$ 60,371
Statewide Short-term Housing and Case Management Services for Non-Infectious Homeless Patients	93.116 / 948-34-1002	193,150	193,150	42,690
Asthma Management Education Grant	66.034 / 7007	28,176	28,176	-
Pediatric Asthma Grant	93.838 / 5-40460-G1	3,479	3,479	-

LBA CERTIFIED PUBLIC ACCOUNTANTS, PA

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
American Lung Association of the Southeast, Inc.
Jacksonville, Florida

We have audited the financial statements of American Lung Association of the Southeast, Inc. (a nonprofit organization) (the "Association") as of and for the years ended June 30, 2009 and 2008, and have issued our report thereon dated October 20, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Association's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Association's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Association's financial statements that is more than inconsequential will not be prevented or detected by the Association's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Association's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free of 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*.

This report is intended solely for the information and use of the American Lung Association of the Southeast, Inc.'s Management, the Board of Directors, federal and state awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than those specified parties.

LBA Certified Public Accountants, P.A.

October 20, 2009