

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

(A Not-for-Profit Organization)

Financial Report

Years Ended June 30, 2014 and 2013

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

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Accountants
Consultants
Wealth Advisors

LBA Certified Public Accountants, PA

Report of Independent Certified Public Accountants

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

Report on the Financial Statements

We have audited the accompanying financial statements of American Lung Association of the Southeast, Inc., (a not-for-profit organization) (the Association), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the American Lung Association of the Southeast, Inc., as of June 30, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of State Financial Assistance – Georgia for the year ended June 30, 2014 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 such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2014, on our consideration of the American Lung Association of the Southeast, Inc.'s internal control over financial reporting and on our tests of their 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 the Association's internal control over financial reporting and compliance.

LBA Certified Public Accountants, P.A.

November 7, 2014

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Statement of Financial Position

June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Assets:				
Current assets:				
Cash	\$ 339,907	\$ -	\$ -	\$ 339,907
Accounts receivable	673,935	-	-	673,935
Interest receivable	29,362	-	-	29,362
Prepaid expenses and other assets	<u>114,404</u>	-	-	<u>114,404</u>
Total current assets	1,157,608	-	-	1,157,608
Investments	5,775,807	2,389,839	1,244,881	9,410,527
Beneficial interest in perpetual trust	-	-	320,000	320,000
Trust assets, net	6,003	-	-	6,003
Property and equipment, net	3,445,846	-	-	3,445,846
Investment in LLC	<u>608,172</u>	-	-	<u>608,172</u>
Total assets	<u>\$ 10,993,436</u>	<u>\$ 2,389,839</u>	<u>\$ 1,564,881</u>	<u>\$ 14,948,156</u>
Liabilities:				
Current liabilities:				
Payable to national office	\$ 105,843	\$ -	\$ -	\$ 105,843
Accounts payable	234,898	-	-	234,898
Accrued expenses	136,444	-	-	136,444
Deferred revenue	<u>54,104</u>	-	-	<u>54,104</u>
Total current liabilities	531,289	-	-	531,289
Accrued pension cost	<u>2,303,952</u>	-	-	<u>2,303,952</u>
Total liabilities	<u>2,835,241</u>	-	-	<u>2,835,241</u>
Total net assets	<u>8,158,195</u>	<u>2,389,839</u>	<u>1,564,881</u>	<u>12,112,915</u>
Total liabilities and net assets	<u>\$ 10,993,436</u>	<u>\$ 2,389,839</u>	<u>\$ 1,564,881</u>	<u>\$ 14,948,156</u>

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.
Statement of Financial Position
June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Assets:				
Current assets:				
Cash	\$ 294,794	\$ -	\$ -	\$ 294,794
Accounts receivable	607,229	-	-	607,229
Contribution receivable	-	-	20,000	20,000
Interest receivable	28,721	-	-	28,721
Prepaid expenses and other assets	<u>135,329</u>	-	-	<u>135,329</u>
Total current assets	1,066,073	-	20,000	1,086,073
Investments	6,273,523	1,828,004	1,213,711	9,315,238
Beneficial interest in perpetual trust	-	-	320,000	320,000
Trust assets, net	21,943	-	-	21,943
Property and equipment, net	3,563,041	-	-	3,563,041
Investment in LLC	<u>557,368</u>	-	-	<u>557,368</u>
Total assets	<u>\$ 11,481,948</u>	<u>\$ 1,828,004</u>	<u>\$ 1,553,711</u>	<u>\$ 14,863,663</u>
Liabilities:				
Current liabilities:				
Payable to national office	\$ 49,274	\$ -	\$ -	\$ 49,274
Accounts payable	459,891	-	-	459,891
Accrued expenses	144,234	-	-	144,234
Deferred revenue	<u>221,301</u>	-	-	<u>221,301</u>
Total current liabilities	874,700	-	-	874,700
Accrued pension cost	<u>2,013,679</u>	-	-	<u>2,013,679</u>
Total liabilities	<u>2,888,379</u>	-	-	<u>2,888,379</u>
Total net assets	<u>8,593,569</u>	<u>1,828,004</u>	<u>1,553,711</u>	<u>11,975,284</u>
Total liabilities and net assets	<u>\$ 11,481,948</u>	<u>\$ 1,828,004</u>	<u>\$ 1,553,711</u>	<u>\$ 14,863,663</u>

See accompanying notes to financial statements.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Statement of Activities
Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Public support and revenue:				
Contributions and donations:				
Direct response:				
Christmas seals	\$ 628,591	\$ -	\$ -	\$ 628,591
Other direct response	<u>1,402,765</u>	<u>-</u>	<u>-</u>	<u>1,402,765</u>
Total direct response	<u>2,031,356</u>	<u>-</u>	<u>-</u>	<u>2,031,356</u>
Vehicle donation program	<u>33,893</u>	<u>-</u>	<u>-</u>	<u>33,893</u>
Special events:				
Special events gross revenue	2,320,387	-	-	2,320,387
Special events direct expenses	<u>(746,196)</u>	<u>-</u>	<u>-</u>	<u>(746,196)</u>
Special events, net	<u>1,574,191</u>	<u>-</u>	<u>-</u>	<u>1,574,191</u>
Other contributions:				
Workplace giving	54,880	-	-	54,880
Memorials	123,765	-	-	123,765
Bequests	801,550	204,182	-	1,005,732
Individual/major gifts and campaigns	233,346	-	-	233,346
Corporate gifts	63,055	-	-	63,055
Foundation gifts	78,364	-	-	78,364
Endowment gifts	<u>-</u>	<u>-</u>	<u>11,170</u>	<u>11,170</u>
Total other contributions	<u>1,354,960</u>	<u>204,182</u>	<u>11,170</u>	<u>1,570,312</u>
Other revenue:				
Corporate grants	48,000	-	-	48,000
Foundation grants	251,208	123,563	-	374,771
Government grants/contracts	981,118	-	-	981,118
Grants from ALA	78,615	-	-	78,615
Interest and dividends	145,600	55,878	-	201,478
Program service fees	183,454	-	-	183,454
Dues	1,230	-	-	1,230
Rental income	47,295	-	-	47,295
Other revenue	<u>513,898</u>	<u>-</u>	<u>-</u>	<u>513,898</u>
Total other revenue	<u>2,250,418</u>	<u>179,441</u>	<u>-</u>	<u>2,429,859</u>
Total public support and revenue	<u>7,244,818</u>	<u>383,623</u>	<u>11,170</u>	<u>7,639,611</u>
Net assets released from restrictions	<u>90,828</u>	<u>(90,828)</u>	<u>-</u>	<u>-</u>

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.
Statement of Activities (Continued)
Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Expenses:				
Program services	\$ 6,423,023	\$ -	\$ -	\$ 6,423,023
Supporting services	1,200,528	-	-	1,200,528
Payments to national headquarters	649,879	-	-	649,879
Total expenses	<u>8,273,430</u>	<u>-</u>	<u>-</u>	<u>8,273,430</u>
Change in net assets from operations	<u>(937,784)</u>	<u>292,795</u>	<u>11,170</u>	<u>(633,819)</u>
Non-operating activities:				
Gain on disposal of assets	28,142	-	-	28,142
Unrealized gain on investments, net	431,101	155,702	-	586,803
Realized gain on investments	319,119	113,338	-	432,457
Loss on investment in LLC	(57,009)	-	-	(57,009)
Pension plan liability adjustment	<u>(218,943)</u>	<u>-</u>	<u>-</u>	<u>(218,943)</u>
Total non-operating activities	<u>502,410</u>	<u>269,040</u>	<u>-</u>	<u>771,450</u>
Change in net assets	<u>(435,374)</u>	<u>561,835</u>	<u>11,170</u>	<u>137,631</u>
Net assets, beginning	<u>8,593,569</u>	<u>1,828,004</u>	<u>1,553,711</u>	<u>11,975,284</u>
Net assets, ending	<u>\$ 8,158,195</u>	<u>\$ 2,389,839</u>	<u>\$ 1,564,881</u>	<u>\$ 12,112,915</u>

See accompanying notes to financial statements.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Statement of Activities
Year Ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Public support and revenue:				
Contributions and donations:				
Direct response:				
Christmas seals	\$ 524,853	\$ -	\$ -	\$ 524,853
Other direct response	1,662,470	-	-	1,662,470
Total direct response	<u>2,187,323</u>	<u>-</u>	<u>-</u>	<u>2,187,323</u>
Vehicle donation program	<u>27,055</u>	<u>-</u>	<u>-</u>	<u>27,055</u>
Special events:				
Special events gross revenue	2,495,240	-	-	2,495,240
Special events direct expenses	<u>(831,163)</u>	<u>-</u>	<u>-</u>	<u>(831,163)</u>
Special events, net	<u>1,664,077</u>	<u>-</u>	<u>-</u>	<u>1,664,077</u>
Other contributions:				
Combined federal campaign	3,247	-	-	3,247
Workplace giving	82,129	-	-	82,129
Memorials	134,600	-	-	134,600
Bequests	1,220,501	2,823	432,000	1,655,324
Individual/major gifts and campaigns	169,270	-	-	169,270
Corporate gifts	75,697	-	-	75,697
Foundation gifts	88,370	-	-	88,370
Endowment gifts	<u>-</u>	<u>-</u>	<u>1,730</u>	<u>1,730</u>
Total other contributions	<u>1,773,814</u>	<u>2,823</u>	<u>433,730</u>	<u>2,210,367</u>
Other revenue:				
Corporate grants	69,110	-	-	69,110
Foundation grants	261,633	-	-	261,633
Government grants/contracts	832,130	-	-	832,130
Grants from ALA	2,500	-	-	2,500
Interest and dividends	227,591	-	-	227,591
Program service fees	213,220	-	-	213,220
Dues	4,400	-	-	4,400
Rental income	29,500	-	-	29,500
Other revenue	<u>199,976</u>	<u>-</u>	<u>-</u>	<u>199,976</u>
Total other revenue	<u>1,840,060</u>	<u>-</u>	<u>-</u>	<u>1,840,060</u>
Total public support and revenue	<u>7,492,329</u>	<u>2,823</u>	<u>433,730</u>	<u>7,928,882</u>
Net assets released from restrictions	<u>66,008</u>	<u>(66,008)</u>	<u>-</u>	<u>-</u>

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.
Statement of Activities (Continued)
Year Ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Expenses:				
Program services	\$ 5,904,026	\$ -	\$ -	\$ 5,904,026
Supporting services	1,243,613	-	-	1,243,613
Payments to national headquarters	998,215	-	-	998,215
Total expenses	<u>8,145,854</u>	<u>-</u>	<u>-</u>	<u>8,145,854</u>
Change in net assets from operations	<u>(587,517)</u>	<u>(63,185)</u>	<u>433,730</u>	<u>(216,972)</u>
Non-operating activities:				
Gain on disposal of assets	72,841	-	-	72,841
Unrealized gain on investments, net	267,219	18,609	-	285,828
Realized (loss) gain on investments	(53,363)	255,189	-	201,826
Loss on investment in LLC	(71,336)	-	-	(71,336)
Pension plan liability adjustment	287,084	-	-	287,084
Total non-operating activities	<u>502,445</u>	<u>273,798</u>	<u>-</u>	<u>776,243</u>
Change in net assets	<u>(85,072)</u>	<u>210,613</u>	<u>433,730</u>	<u>559,271</u>
Net assets, beginning	<u>8,678,641</u>	<u>1,617,391</u>	<u>1,119,981</u>	<u>11,416,013</u>
Net assets, ending	<u>\$ 8,593,569</u>	<u>\$ 1,828,004</u>	<u>\$ 1,553,711</u>	<u>\$ 11,975,284</u>

See accompanying notes to financial statements.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Statement of Functional Expenses

Year Ended June 30, 2014

	Program Services				Supporting Services			Total All Funds
	Environmental Health	Smoking Education	Lung Cancer, Asthma, COPD & Other Diseases	Community Health Programs	Research	Fund Raising	Administrative and General Expenses	
Salaries	\$ 141,675	\$ 417,036	\$ 1,176,479	\$ 127,589	\$ 4,533	\$ 198,173	\$ 75,508	\$ 2,140,993
Professional fees and contract payments	41,445	101,155	1,304,000	29,125	30,452	56,148	87,175	1,649,500
Payroll taxes	11,858	34,903	98,464	11,051	-	16,700	6,212	179,188
Employee benefits	37,095	109,190	308,031	34,571	-	52,245	19,434	560,566
Business insurance	6,138	18,069	50,973	5,724	-	8,642	3,216	92,762
Building occupancy	12,145	31,061	89,066	9,820	-	14,766	5,135	161,993
Telephone	6,991	20,581	58,061	6,516	-	9,848	3,663	105,660
Travel	4,235	12,464	35,159	3,946	-	5,963	2,218	63,985
Meetings, conferences and major trips	10,111	29,766	83,977	9,425	-	14,242	5,299	152,820
Office and cleaning supplies	2,538	7,477	21,092	2,369	-	3,576	1,331	38,383
Printing and publications	42,129	50,233	329,862	3,886	126,529	297,419	56,485	906,543
Postage and shipping	22,606	26,602	176,903	1,916	68,499	160,907	30,296	487,729
Media	6,753	14,894	33,176	756	-	18,937	1,114	75,630
Office equipment	5,967	17,488	49,361	5,536	-	8,366	3,106	89,824
Dues and subscriptions	798	2,351	7,073	721	-	1,125	-	12,068
Miscellaneous expenses	6,706	19,151	54,216	6,216	-	8,489	7,301	102,079
Awards and grants - research	-	-	-	-	324,734	-	-	324,734
Assistance to individual patients	-	-	342,322	-	-	-	-	342,322
Depreciation	9,051	26,641	75,156	8,435	-	12,747	4,742	136,772
Payments to national headquarters	368,241	939,062	4,293,371	267,602	554,747	888,293	312,235	7,623,551
	84,485	64,987	116,977	25,996	292,446	25,996	38,992	649,879
Total functional expenses	\$ 452,726	\$ 1,004,049	\$ 4,410,348	\$ 293,598	\$ 847,193	\$ 914,289	\$ 351,227	\$ 8,273,430

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.
Statement of Functional Expenses
Year Ended June 30, 2013

	Program Services				Supporting Services			Total All Funds
	Environment Health	Smoking Education	Lung Cancer, Asthma, COPD & Other Diseases	Community Health Programs	Research	Fund Raising	Administrative and General Expenses	
Salaries	\$ 144,348	\$ 424,901	\$ 1,198,670	\$ 129,948	\$ 4,667	\$ 203,218	\$ 75,625	\$ 2,181,377
Professional fees and contract payments	86,088	131,938	326,502	229,816	-	111,588	26,373	912,305
Payroll taxes	11,677	34,372	96,966	10,890	-	16,439	6,118	176,462
Employee benefits	44,971	132,379	373,446	41,939	-	63,313	23,563	679,611
Business insurance	5,942	17,490	49,339	5,541	-	8,365	3,112	89,789
Building occupancy	11,140	32,791	92,504	10,389	-	15,683	5,836	168,343
Telephone	5,765	16,970	47,873	5,376	-	8,116	3,022	87,122
Travel	2,141	10,351	29,372	1,838	-	12,621	7,511	63,834
Meetings, conferences and major trips	10,007	25,048	103,782	8,583	-	13,664	5,655	166,739
Office and cleaning supplies	11,414	7,997	25,709	2,864	-	5,666	4,523	58,173
Printing and publications	44,722	133,652	372,659	42,164	-	297,915	54,688	945,800
Postage and shipping	23,148	64,075	193,199	21,699	-	156,525	28,932	487,578
Media	736	18,805	25,497	653	-	17,812	771	64,274
Office equipment	7,377	21,712	61,252	6,880	-	10,385	3,860	111,466
Dues and subscriptions	611	3,250	2,856	574	-	746	1,527	9,564
Miscellaneous expenses	6,446	14,763	42,193	6,141	-	30,591	2,178	102,312
Awards and grants - research	-	-	-	-	299,845	-	-	299,845
Assistance to individual patients	-	-	404,792	-	-	-	-	404,792
Depreciation	9,149	26,930	75,970	8,532	-	12,880	4,792	138,253
Payments to national headquarters	425,682	1,117,424	3,522,581	533,827	304,512	985,527	258,086	7,147,639
	45,983	135,352	631,838	42,883	74,822	22,444	44,893	998,215
Total functional expenses	\$ 471,665	\$ 1,252,776	\$ 4,154,419	\$ 576,710	\$ 379,334	\$ 1,007,971	\$ 302,979	\$ 8,145,854

See accompanying notes to financial statements.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Statements of Cash Flows

Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 137,631	\$ 559,271
Adjustments to reconcile change in net assets to net cash (used) provided in operating activities:		
Depreciation	136,772	138,253
Gain on disposal of assets	(28,142)	(72,841)
Unrealized gain on investments	(586,803)	(285,828)
Realized gain on investments	(432,457)	(201,826)
Loss on investment in LLC	57,009	71,336
Net changes in:		
Receivables	(47,347)	(167,066)
Prepaid expenses and other assets	20,925	(15,659)
Trust assets, net	15,940	3,352
Payables and accrued expenses	(176,214)	247,873
Deferred revenue	(167,197)	48,734
Accrued pension cost	<u>290,273</u>	<u>(237,139)</u>
Net cash (used) provided in operating activities	<u>(779,610)</u>	<u>88,460</u>
Cash flows from investing activities:		
Proceeds from sale of investments	3,248,859	1,212,975
Purchases of investments	(2,324,888)	(1,107,949)
Proceeds from sales of property and equipment	95,000	97,900
Purchases of property and equipment	(86,435)	(94,885)
Additional investment in LLC	<u>(107,813)</u>	<u>(59,632)</u>
Net cash provided by investing activities	<u>824,723</u>	<u>48,409</u>
Net increase in cash	45,113	136,869
Cash, beginning	<u>294,794</u>	<u>157,925</u>
Cash, ending	<u>\$ 339,907</u>	<u>\$ 294,794</u>

See accompanying notes to financial statements.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Notes to Financial Statements
Years Ended June 30, 2014 and 2013

1. Nature of Organization

The American Lung Association of the Southeast, Inc., (the Association) is a not-for-profit voluntary health organization dedicated to saving lives by improving lung health and preventing lung disease through education, community service, advocacy and research. The Association serves the states of Florida, Georgia and South Carolina. Our programs and strategies for fighting lung disease center on tobacco control and prevention, asthma education, COPD and other lung diseases, environmental health, community health services, community health advocacy, professional education and research.

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.

2. Summary of Significant Accounting Policies

This summary of significant accounting policies of the Association is presented to assist in understanding the financial statements. The financial statements and accompanying notes are representations of the Association's management. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the presentation of the financial statements.

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 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.

Basis of Presentation

The Association reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted Net Assets – Net assets representing resources generated from operations that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets are subject to donor-imposed stipulations that will be met by actions of the Association and/or the passage of time.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that must be 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.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Notes to Financial Statements
Years Ended June 30, 2014 and 2013

2. Summary of Significant Accounting Policies (Continued)

Investments

Investments are carried at fair value (see note 3 for fair value measurements). Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Realized and unrealized gains and losses are included in the statements of activities.

Investment in LLC

In 2006, the Association formed Australian, LLC (Australian) with Quantum Foundation. The purpose of Australian is to own and manage land and a building occupied by the two founding organizations. The Association accounts for the Investment in LLC under the equity method.

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 on the fair value of assets donated less any applicable liabilities (see note 3 for fair value measurements).

Endowment Investment and Spending Policies

The State of Florida enacted the Florida Uniform Prudent Management of Institutional Funds Act (FUPMIFA) effective July 31, 2012, the provisions of which apply to endowment funds existing on or established after that date. 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 Association has interpreted the law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard prudence prescribed by FUPMIFA. In accordance with FUPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purpose of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Association, and (7) the Association's investment policies.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Notes to Financial Statements
Years Ended June 30, 2014 and 2013

2. Summary of Significant Accounting Policies (Continued)

The Association engages a professional investment advisor to handle the investment of the endowed and other funds, and has adopted investment and spending policies, devised and recommended by the Finance Committee and approved by the Board of Directors, for endowment assets. The Association's spending and investment policies are designed to invest its cash assets in securities and depositories that will yield the maximum total return and it is consistent with the safety of principal and liquidity needs. 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.

Accounts Receivable

Accounts receivable consist primarily of direct mail, grant, and contract receivables. The Association determines the allowance on its accounts receivable based on historical experience and a review of specific accounts. The Association charges off delinquent accounts when it exhausts its normal collection procedures and it is probable that collection is unlikely. The allowance for doubtful accounts was zero at June 30, 2014 and 2013. The Association does not accrue interest on past due receivables.

Contribution Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of assets other than cash are recorded at their estimated fair value at the date received. Contributions of cash or other assets to be used to acquire property and equipment are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Contribution of 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

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Notes to Financial Statements
Years Ended June 30, 2014 and 2013

2. Summary of Significant Accounting Policies (Continued)

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.

Property and Equipment

Property and equipment with values of \$500 or more, and a useful life longer than one year are recorded at cost. Donations of property and equipment are recorded as contributions at their estimated fair market value. Maintenance and repairs are charged to expense as incurred. When items of property and equipment are sold or otherwise disposed of, the asset and related accumulated depreciation accounts are eliminated, and any gain or loss is included in operations.

Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements recorded at the inception of the lease are depreciated over the life of the lease or the useful life of the improvement, whichever is shorter; for improvements made during the lease term, the depreciation period is the shorter of the useful life or the remaining lease term (including any renewal periods that are deemed to be reasonably assured). Asset lives for financial statement reporting of depreciation are:

Buildings and improvements	10 – 50 years
Office furniture and equipment	3 – 10 years
Vehicles	5 years

The Association reviews the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability of long-lived assets is measured by comparing the carrying amount of the asset or asset group to the undiscounted cash flows that the asset or asset group is expected to generate. If the undiscounted cash flows of such assets are less than the carrying amount, the impairment to be recognized is measured by the amount by which the carrying amount, if any, exceeds its fair value. No impairments were deemed to exist at June 30, 2014 and 2013.

Income Taxes

The Association has received a tax determination letter from the Internal Revenue Service and is exempt from federal and state income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code and Chapter 220.13 of the Florida Statutes, respectively. As such, only unrelated business income is subject to income tax.

The Association evaluates its tax positions for any uncertainties based on the technical merits of the position taken. The Association recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be upheld on examination by taxing authorities. The Association has analyzed the tax positions taken and has concluded that as of June 30, 2014 and 2013, there were no uncertain tax positions taken, or expected to be taken, that would require recognition of a liability or disclosure in the financial statements.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Notes to Financial Statements
Years Ended June 30, 2014 and 2013

2. Summary of Significant Accounting Policies (Continued)

Management is required to analyze all open tax years, as defined by the Statute of Limitations, for all major jurisdictions, including federal and certain state taxing authorities. At June 30, 2014, the Association is no longer subject to federal income tax examinations by taxing authorities for years before 2011. As of and for the years ended June 30, 2014 and 2013, the Association did not have a liability for any unrecognized taxes. The Association has no examinations in progress and is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax liabilities will significantly change in the next twelve months.

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 revenue less direct response expense and 13% of all unrestricted bequests where the donor died or the bequest became irrevocable prior to July 1, 2009. A yearly assessment is paid monthly, replacing the payment of 13% of all other shareable revenue collected.

Allocation of Joint Costs

Authoritative guidance 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.

The Association incurred joint costs for informational materials and activities that included fund raising appeals. These costs consisted of the following as of June 30:

	2014	2013
Environmental health	\$ 76,593	\$ 58,336
Smoking education	93,985	171,720
Lung cancer, asthma, COPD and other lung diseases	600,430	565,589
Community health programs	8,340	54,403
Research	225,480	-
Fund raising	538,723	789,684
	<u>\$ 1,543,551</u>	<u>\$ 1,639,732</u>

Reclassifications

Certain 2013 amounts have been reclassified to conform to the 2014 presentation.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Notes to Financial Statements
Years Ended June 30, 2014 and 2013

2. Summary of Significant Accounting Policies (Continued)

Subsequent Events

The Association has evaluated events through the date of the report of the independent certified public accountants, the date the financial statements were available to be issued.

3. Fair Value Measurements

Authoritative guidance 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 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.
- 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.

There have been no changes in the methodologies used at June 30, 2014 and 2013. Following is a description of the valuation methodologies used for assets measured at fair value:

- *Mutual funds*: Valued at the net asset value of the units reported on the active market on which the individual investments are traded.
- *Common stocks*: Valued at the closing price reported on the active market on which the individual securities are traded.
- *Bonds*: Valued using matrix pricing. Matrix pricing is a mathematical technique used without relying exclusively on quoted prices for the specific securities, but rather on the securities' relationship to other benchmark quoted securities.
- *Beneficial interest in perpetual trusts*: Valued at the net present value of future cash flows.
- *Trust assets*: Valued at the net present value of future cash flows.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Notes to Financial Statements
Years Ended June 30, 2014 and 2013

3. Fair Value Measurements (Continued)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although 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 financial instruments at fair value as of June 30, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Money market funds	\$ 402,124	\$ -	\$ -	\$ 402,124
Total mutual funds	<u>402,124</u>	<u>-</u>	<u>-</u>	<u>402,124</u>
Common stocks:				
Consumer discretionary	787,407	-	-	787,407
Consumer staples	371,151	-	-	371,151
Energy	661,736	-	-	661,736
Financials	1,060,172	-	-	1,060,172
Healthcare	617,908	-	-	617,908
Industrials	742,855	-	-	742,855
IT	857,584	-	-	857,584
Materials	245,500	-	-	245,500
Telecommunications	66,887	-	-	66,887
Utilities	184,337	-	-	184,337
Total common stocks	<u>5,595,537</u>	<u>-</u>	<u>-</u>	<u>5,595,537</u>
Bonds:				
Government	-	493,015	-	493,015
Corporate	-	2,902,710	-	2,902,710
Total bonds	<u>-</u>	<u>3,395,725</u>	<u>-</u>	<u>3,395,725</u>
Beneficial interests in perpetual trusts	-	-	337,141	337,141
Trust assets, net	-	-	6,003	6,003
Total assets at fair value	<u>\$ 5,997,661</u>	<u>\$ 3,395,725</u>	<u>\$ 343,144</u>	<u>\$ 9,736,530</u>

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Notes to Financial Statements
Years Ended June 30, 2014 and 2013

3. Fair Value Measurements (Continued)

The following table sets forth by level, within the fair value hierarchy, the Association's financial instruments at fair value as of June 30, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Money market funds	\$ 373,352	\$ -	\$ -	\$ 373,352
Total mutual funds	<u>373,352</u>	<u>-</u>	<u>-</u>	<u>373,352</u>
Common stocks:				
Consumer discretionary	582,915	-	-	582,915
Consumer staples	443,506	-	-	443,506
Energy	667,911	-	-	667,911
Financials	998,255	-	-	998,255
Healthcare	463,631	-	-	463,631
Industrials	678,231	-	-	678,231
IT	665,055	-	-	665,055
Materials	288,651	-	-	288,651
Telecommunications	191,861	-	-	191,861
Utilities	200,386	-	-	200,386
Total common stocks	<u>5,180,402</u>	<u>-</u>	<u>-</u>	<u>5,180,402</u>
Bonds:				
Government	-	986,151	-	986,151
Corporate	-	2,789,554	-	2,789,554
Total bonds	<u>-</u>	<u>3,775,705</u>	<u>-</u>	<u>3,775,705</u>
Beneficial interests in perpetual trusts	-	-	305,779	305,779
Trust assets, net	<u>-</u>	<u>-</u>	<u>21,943</u>	<u>21,943</u>
Total assets at fair value	<u>\$ 5,553,754</u>	<u>\$ 3,775,705</u>	<u>\$ 327,722</u>	<u>\$ 9,657,181</u>

There were no transfers between Level 1, Level 2 or Level 3 investments during the years ended June 30, 2014 and 2013.

The non-equity portion of the investment portfolio at June 30, 2014, consists of bonds that mature as follows:

2014	\$ 709,044
2015	309,251
2016	440,462
2017	531,703
2018	383,718
Thereafter	<u>1,021,547</u>
	<u>\$ 3,395,725</u>

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Notes to Financial Statements
Years Ended June 30, 2014 and 2013

3. Fair Value Measurements (Continued)

The following tables are a summary of changes in fair value of the Association's Level 3 assets and liabilities for the year ended June 30:

	2014	2013
Balance, beginning of year	\$ 327,722	\$ 318,568
Unrealized gain, net	15,422	9,154
Balance, end of year	<u>\$ 343,144</u>	<u>\$ 327,722</u>

4. Endowment Net Assets

Endowment net asset composition consisted of the following at June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	\$ 7,183,256	\$ 946,992	\$ 1,533,711	\$ 9,663,959
Contributions, net	7,058	-	20,000	27,058
Investment income, net of fees	161,380	55,878	-	217,258
Change in market value	682,574	269,040	-	951,614
Expenses meeting donor restriction	<u>(1,100,000)</u>	<u>-</u>	<u>-</u>	<u>(1,100,000)</u>
Endowment net assets, end of year	<u>\$ 6,934,268</u>	<u>\$ 1,271,910</u>	<u>\$ 1,553,711</u>	<u>\$ 9,759,889</u>

Endowment net asset composition consisted of the following at June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	\$ 7,439,208	\$ 243,591	\$ 1,097,526	\$ 8,780,325
Contributions, net	-	-	436,185	436,185
Reclassification relating to implementation of FUPMIFA	(718,315)	718,315	-	-
Investment income, net of fees	170,657	59,960	-	230,617
Change in market value	306,268	123,058	-	429,326
Expenses meeting donor restriction	<u>(14,562)</u>	<u>(197,932)</u>	<u>-</u>	<u>(212,494)</u>
Endowment net assets, end of year	<u>\$ 7,183,256</u>	<u>\$ 946,992</u>	<u>\$ 1,533,711</u>	<u>\$ 9,663,959</u>

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Notes to Financial Statements
Years Ended June 30, 2014 and 2013

4. Endowment Net Assets (Continued)

Funds with Deficiencies

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 donation. In accordance with authoritative guidance, deficiencies of this nature are reported in unrestricted net assets. These deficiencies can result from unfavorable market fluctuations that can occur shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Board of Directors.

Subsequent gains that restored the fair value of assets of the endowment fund to the required level were classified as an increase in unrestricted net assets. At June 30, 2014 and 2013, the deficiencies relating to permanently restricted endowment investments were zero.

5. Property and Equipment

Property and equipment consisted of the following June 30:

	<u>2014</u>	<u>2013</u>
Land	\$ 468,291	\$ 498,509
Buildings and improvements	3,802,145	4,147,716
Office furniture and equipment	<u>1,166,532</u>	<u>1,302,167</u>
Total property and equipment	5,436,968	5,948,392
Less: accumulated depreciation	<u>(1,991,122)</u>	<u>(2,385,351)</u>
Net property and equipment	<u>\$ 3,445,846</u>	<u>\$ 3,563,041</u>

6. Restricted Net Assets

At June 30, 2014 and 2013, temporarily restricted net assets of \$2,389,939 and \$1,828,004, respectively, include investments and amounts related to services and special events to be provided or sponsored by the Association in the future.

At June 30, 2014 and 2013, permanently restricted net assets of \$1,564,881 and \$1,553,711 include 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.

Permanently restricted net assets also include \$320,000 of a beneficial interest in a perpetual trust, from which the income is temporarily restricted until appropriated for expenditure by the Board, \$139,430 in additional contributions from which the income is temporarily restricted for Tuberculosis related matters in South Carolina, \$16,760 in additional contributions from which the income is temporarily restricted for Lung Cancer research, \$10,354 in additional

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Notes to Financial Statements
Years Ended June 30, 2014 and 2013

6. Restricted Net Assets (Continued)

contributions from which the income is temporarily restricted for Asthma education and advocacy, and \$133,437 in contributions of which the earnings are temporarily restricted until appropriated for expenditure by the Board. In 2014 and 2013, additional contributions of \$11,170 and \$433,730, were made to endowment funds, of which the earnings are temporarily restricted until appropriated for expenditure by the Board.

7. Share of Revenue to National Association

As described in Note 2, the National Association receives 30% of the Association's direct response revenue less direct response expense and 13% of all unrestricted bequests where the donor died or the bequest became irrevocable prior to July 1, 2009. For the years ended June 30, 2014 and 2013, 45% and 81% are allocated to program services, 45% and 10% are allocated to research activities, 6% and 6% are allocated to general operations and 4% and 3% are allocated to fundraising, respectively.

For the years ended June 30, 2014 and 2013, 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, 2014 and 2013 is allocated as follows:

	<u>2014</u>	<u>2013</u>
Program services	\$ 292,445	\$ 856,056
Research activities	292,446	74,822
General operations	38,992	44,893
Fund raising	25,996	22,444
	<u>\$ 649,879</u>	<u>\$ 998,215</u>

8. Contributions In-Kind

During the years ended June 30, 2014 and 2013, the Association received the following non-cash contributions:

	<u>2014</u>	<u>2013</u>
Special events - media	\$ 309,697	\$ 440,280
Special events - fundraising supplies	205,955	133,277
Media contribution	204,206	-
Other	3,088	2,416
	<u>\$ 722,946</u>	<u>\$ 575,973</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

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Notes to Financial Statements
Years Ended June 30, 2014 and 2013

9. Pension Plan (Continued)

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.

In order to meet its needs, the investment strategy of the Plan emphasizes total return; that is, the aggregate return from capital appreciation, dividend income 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 of principal. The secondary objective in the investment management of 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.

Risk control is an important element in the investment of plan 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.

The following table sets forth the Plan's funded status and amounts recognized in the Association's financial statements at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Change in benefit obligation:		
Benefit obligation at end of year	\$ 8,012,825	\$ 8,124,607
Service cost	129,601	156,270
Interest cost	377,247	329,944
Actuarial loss (gain)	728,233	(371,423)
Benefits paid	<u>(514,103)</u>	<u>(226,573)</u>
Benefit obligation at end of year	<u>\$ 8,733,803</u>	<u>\$ 8,012,825</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 5,999,146	\$ 5,873,789
Actual return on plan assets	734,808	55,930
Employer contributions prior to measurement date	210,000	296,000
Benefits paid	<u>(514,103)</u>	<u>(226,573)</u>
Fair value of plan assets at end of year	<u>\$ 6,429,851</u>	<u>\$ 5,999,146</u>
Funded status	<u>\$ (2,303,952)</u>	<u>\$ (2,013,679)</u>

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Notes to Financial Statements
Years Ended June 30, 2014 and 2013

9. Pension Plan (Continued)

	<u>2014</u>	<u>2013</u>
Amounts recognized in the statements of financial position consist of:		
Noncurrent liabilities	\$ <u>(2,303,952)</u>	\$ <u>(2,013,679)</u>
Amounts recognized as changes in unrestricted net assets but not yet reclassified as components of net periodic benefit cost consist of:		
Net loss	2,081,014	1,849,113
Prior service cost	94,567	108,668
Net initial asset	<u>(2,105)</u>	<u>(3,248)</u>
Total	\$ <u>2,173,476</u>	\$ <u>1,954,533</u>
Information for pension plans with an accumulated benefit obligation in excess of plan assets:		
Projected benefit obligation	\$ <u>8,733,803</u>	\$ <u>8,012,825</u>
Accumulated benefit obligation	\$ <u>8,389,147</u>	\$ <u>7,526,265</u>
Fair value of plan assets	\$ <u>6,429,851</u>	\$ <u>5,999,146</u>
Components of net benefit cost and other changes in unrestricted net assets:		
Service cost	\$ 129,601	\$ 156,270
Interest cost	377,247	329,944
Expected return on plan assets	(324,535)	(286,906)
Amortization of net loss	86,059	133,679
Amortization of prior service cost	14,101	14,101
Amortization of net initial asset	<u>(1,143)</u>	<u>(1,143)</u>
Net periodic benefit cost	\$ <u>281,330</u>	\$ <u>345,945</u>
Net loss (gain)	\$ 317,960	\$ (140,447)
Recognized gain	(86,059)	(133,679)
Recognized prior service cost	(14,101)	(14,101)
Recognized net initial asset	<u>1,143</u>	<u>1,143</u>
Total recognized loss (gain)	\$ <u>218,943</u>	\$ <u>(287,084)</u>
Total amounts recognized as changes in unrestricted net assets arising from the defined benefit plan	\$ <u>500,273</u>	\$ <u>58,861</u>

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Notes to Financial Statements
Years Ended June 30, 2014 and 2013

9. Pension Plan (Continued)

The weighted average discount rate used to determine net periodic benefit cost was 4.75% and 4.25% for the years ended June 30, 2014 and 2013, respectively. The weighted average discount rate used to determine net benefit obligation was 4.25% and 4.75% for the years ended June 30, 2014 and 2013, respectively. The rate of increase in future compensation levels used in determining the actuarial present value of the net periodic benefit cost and benefit obligation was 2.00% for the years ended June 30, 2014 and 2013. The expected long-term rate of return on assets was 5.50% and 5.00% for 2014 and 2013, respectively.

The Plan's asset allocations at June 30, 2014 and 2013 by asset category were as follows:

	<u>2014</u>	<u>2013</u>
Debt securities	65.58%	72.43%
Equity securities	23.86	19.40
Real estate	7.95	3.69
Cash and cash equivalents	2.61	4.48
	<u>100.00%</u>	<u>100.00%</u>

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

2015	\$ 625,341
2016	839,527
2017	529,648
2018	638,826
2019	787,042
2020-2023	2,349,276

10. Commitments

The Association leases office space and office equipment under non-cancelable operating lease agreements that expire at various dates between December 2014 and September 2019. The lease expense was \$128,335 and \$110,024 for the years ended June 30, 2014 and 2013, respectively. Future minimum lease payments on operating leases with initial or remaining lease terms in excess of one year consisted of the following at June 30, 2014:

2015	\$ 34,108
2016	33,701
2017	33,015
2018	34,005
2019	35,027
Thereafter	<u>20,786</u>
Total minimum lease payments	<u>\$ 190,642</u>

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Notes to Financial Statements
Years Ended June 30, 2014 and 2013

11. Subsequent Event

On July 1, 2014, the Association entered into a new Charter Agreement with the National Association to expand its services to Alabama, Arkansas, Louisiana, Mississippi and North Carolina. Through the Charter Agreement, the Association is authorized to utilize the American Lung Association's name, logo and intellectual property to carry on programs and activities to further their mission within the Association's territory.

LBA Certified Public Accountants, PA

**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 of the Southeast, Inc.
Jacksonville, Florida

We have audited, in accordance with the 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 of the Southeast, Inc. (a not-for-profit organization) (the Association) which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated November 7, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Association'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 the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 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*.

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 Association'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 Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

LBA Certified Public Accountants, P.A.

November 7, 2014

Supplementary Information

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.
Schedule of State Financial Assistance - Georgia
Year Ended June 30, 2014

<u>State Program Name</u>	<u>CFDA/Contract Number</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Receivable at June 30, 2014</u>
Statewide Short-term Housing and Case Management Services for Infectious Homeless TB Patients	41900-046- 11110294	\$ 299,049	\$ 299,049	\$ 64,578
Statewide Short-term Housing and Case Management Services for Non-Infectious Homeless TB Patients	41900-046- 11110298	183,127	183,127	25,820

