

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

Financial Report

Years Ended June 30, 2016 and 2015

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Table of Contents

Report of independent certified public accountants	1
Financial statements:	
Statements of financial position	3
Statements of activities	4
Statements of functional expenses	6
Statements of cash flows	7
Notes to financial statements	8
Independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	25
Supplementary information:	
Schedule of state financial assistance - Georgia	27

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 referred to as the Association), which comprise the statements of financial position as of June 30, 2016 and 2015, 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Association'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 Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the

reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Other Matters

Supplementary Information and Other Financial 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, 2016 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 October 19, 2016, on our consideration of the 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 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.

October 19, 2016

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Statement of Financial Position

June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Assets:				
Current assets:				
Cash	\$ 716,036	\$ -	\$ -	\$ 716,036
Accounts receivable	780,958	-	-	780,958
Interest receivable	23,890	-	-	23,890
Prepaid expenses and other assets	<u>106,477</u>	-	-	<u>106,477</u>
Total current assets	1,627,361	-	-	1,627,361
Investments	5,743,491	2,351,222	755,567	8,850,280
Beneficial interest in perpetual trusts	-	-	1,074,144	1,074,144
Trust assets, net	16,723	-	-	16,723
Property and equipment, net	3,244,539	-	-	3,244,539
Investment in LLC	<u>533,291</u>	-	-	<u>533,291</u>
Total assets	<u>\$ 11,165,405</u>	<u>\$ 2,351,222</u>	<u>\$ 1,829,711</u>	<u>\$ 15,346,338</u>
Liabilities:				
Current liabilities:				
Payable to national office	\$ 149,212	\$ -	\$ -	\$ 149,212
Accounts payable	475,788	-	-	475,788
Accrued expenses	174,024	-	-	174,024
Deferred revenue	<u>191,473</u>	-	-	<u>191,473</u>
Total current liabilities	990,497	-	-	990,497
Accrued pension cost	<u>2,722,308</u>	-	-	<u>2,722,308</u>
Total liabilities	3,712,805	-	-	3,712,805
Total net assets	<u>7,452,600</u>	<u>2,351,222</u>	<u>1,829,711</u>	<u>11,633,533</u>
Total liabilities and net assets	<u>\$ 11,165,405</u>	<u>\$ 2,351,222</u>	<u>\$ 1,829,711</u>	<u>\$ 15,346,338</u>

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Statement of Financial Position

June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Assets:				
Current assets:				
Cash	\$ 628,577	\$ -	\$ -	\$ 628,577
Accounts receivable	567,518	-	-	567,518
Interest receivable	27,876	-	-	27,876
Prepaid expenses and other assets	<u>44,171</u>	<u>-</u>	<u>-</u>	<u>44,171</u>
Total current assets	1,268,142	-	-	1,268,142
Investments	6,202,200	2,396,976	705,071	9,304,247
Beneficial interest in perpetual trust	-	-	1,124,640	1,124,640
Trust assets, net	38,492	-	-	38,492
Property and equipment, net	3,344,881	-	-	3,344,881
Investment in LLC	<u>569,227</u>	<u>-</u>	<u>-</u>	<u>569,227</u>
Total assets	<u>\$ 11,422,942</u>	<u>\$ 2,396,976</u>	<u>\$ 1,829,711</u>	<u>\$ 15,649,629</u>
Liabilities:				
Current liabilities:				
Payable to national office	\$ 271,239	\$ -	\$ -	\$ 271,239
Accounts payable	268,900	-	-	268,900
Accrued expenses	174,054	-	-	174,054
Deferred revenue	<u>235,056</u>	<u>-</u>	<u>-</u>	<u>235,056</u>
Total current liabilities	949,249	-	-	949,249
Accrued pension cost	<u>2,309,753</u>	<u>-</u>	<u>-</u>	<u>2,309,753</u>
Total liabilities	3,259,002	-	-	3,259,002
Total net assets	<u>8,163,940</u>	<u>2,396,976</u>	<u>1,829,711</u>	<u>12,390,627</u>
Total liabilities and net assets	<u>\$ 11,422,942</u>	<u>\$ 2,396,976</u>	<u>\$ 1,829,711</u>	<u>\$ 15,649,629</u>

See accompanying notes to financial statements.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Statement of Activities
Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Public support and revenue:				
Direct response	\$ 2,847,081	\$ -	\$ -	\$ 2,847,081
Vehicle donation program	30,775	-	-	30,775
Special events:				
Special events gross revenue	2,895,742	-	-	2,895,742
Special events direct expenses	<u>(743,784)</u>	<u>-</u>	<u>-</u>	<u>(743,784)</u>
Special events, net	<u>2,151,958</u>	<u>-</u>	<u>-</u>	<u>2,151,958</u>
Other contributions:				
Workplace giving	65,903	-	-	65,903
Memorials	143,625	-	-	143,625
Bequests	1,413,992	215,097	-	1,629,089
Individual/major gifts and campaigns	348,117	-	-	348,117
Corporate gifts	218,505	-	-	218,505
Foundation gifts	<u>268,447</u>	<u>-</u>	<u>-</u>	<u>268,447</u>
Total other contributions	<u>2,458,589</u>	<u>215,097</u>	<u>-</u>	<u>2,673,686</u>
Other revenue:				
Corporate grants	123,012	-	-	123,012
Foundation grants	443,274	-	-	443,274
Government grants/contracts	1,138,093	-	-	1,138,093
Grants from ALA	68,809	-	-	68,809
Interest and dividends	128,482	70,231	-	198,713
Program service fees	306,441	-	-	306,441
Dues	380	-	-	380
Rental income	63,868	-	-	63,868
Other revenue	<u>456,357</u>	<u>-</u>	<u>-</u>	<u>456,357</u>
Total other revenue	<u>2,728,716</u>	<u>70,231</u>	<u>-</u>	<u>2,798,947</u>
Total public support and revenue	<u>10,217,119</u>	<u>285,328</u>	<u>-</u>	<u>10,502,447</u>
Net assets released from restrictions	<u>246,502</u>	<u>(246,502)</u>	<u>-</u>	<u>-</u>

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Statement of Activities (Continued)

Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Expenses:				
Program services	\$ 7,860,183	\$ -	\$ -	\$ 7,860,183
Supporting services	1,653,291	-	-	1,653,291
Payments to national headquarters	<u>918,962</u>	<u>-</u>	<u>-</u>	<u>918,962</u>
Total expenses	<u>10,432,436</u>	<u>-</u>	<u>-</u>	<u>10,432,436</u>
Change in net assets from operations	<u>31,185</u>	<u>38,826</u>	<u>-</u>	<u>70,011</u>
Non-operating activities:				
Unrealized loss on investments, net	(11,124)	(72,823)	-	(83,947)
Realized loss on investments	(20,422)	(11,757)	-	(32,179)
Loss on investment in LLC	(77,380)	-	-	(77,380)
Pension plan liability adjustment	<u>(633,599)</u>	<u>-</u>	<u>-</u>	<u>(633,599)</u>
Total non-operating activities	<u>(742,525)</u>	<u>(84,580)</u>	<u>-</u>	<u>(827,105)</u>
Change in net assets	<u>(711,340)</u>	<u>(45,754)</u>	<u>-</u>	<u>(757,094)</u>
Net assets, beginning	<u>8,163,940</u>	<u>2,396,976</u>	<u>1,829,711</u>	<u>12,390,627</u>
Net assets, ending	<u>\$ 7,452,600</u>	<u>\$ 2,351,222</u>	<u>\$ 1,829,711</u>	<u>\$ 11,633,533</u>

See accompanying notes to financial statements.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Statement of Activities
Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Public support and revenue:				
Direct response	\$ 2,979,022	\$ -	\$ -	\$ 2,979,022
Vehicle donation program	24,177	-	-	24,177
Special events:				
Special events gross revenue	2,611,585	-	-	2,611,585
Special events direct expenses	<u>(800,638)</u>	<u>-</u>	<u>-</u>	<u>(800,638)</u>
Special events, net	<u>1,810,947</u>	<u>-</u>	<u>-</u>	<u>1,810,947</u>
Other contributions:				
Workplace giving	75,303	-	-	75,303
Memorials	213,608	-	-	213,608
Bequests	1,203,829	66,201	20,599	1,290,629
Individual/major gifts and campaigns	310,478	-	-	310,478
Corporate gifts	137,651	-	-	137,651
Foundation gifts	260,291	-	-	260,291
Endowment gifts	<u>-</u>	<u>-</u>	<u>500</u>	<u>500</u>
Total other contributions	<u>2,201,160</u>	<u>66,201</u>	<u>21,099</u>	<u>2,288,460</u>
Other revenue:				
Corporate grants	82,216	-	-	82,216
Foundation grants	685,039	-	-	685,039
Government grants/contracts	1,184,332	-	-	1,184,332
Grants from ALA	49,385	-	-	49,385
Interest and dividends	172,408	62,006	-	234,414
Program service fees	378,009	-	-	378,009
Dues	3,385	-	-	3,385
Rental income	49,075	-	-	49,075
Inherent contribution	994,667	111,400	243,731	1,349,798
Other revenue	<u>310,268</u>	<u>-</u>	<u>-</u>	<u>310,268</u>
Total other revenue	<u>3,908,784</u>	<u>173,406</u>	<u>243,731</u>	<u>4,325,921</u>
Total public support and revenue	<u>10,924,090</u>	<u>239,607</u>	<u>264,830</u>	<u>11,428,527</u>
Net assets released from restrictions	<u>214,473</u>	<u>(214,473)</u>	<u>-</u>	<u>-</u>

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Statement of Activities (Continued)

Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Expenses:				
Program services	\$ 8,437,650	\$ -	\$ -	\$ 8,437,650
Supporting services	1,787,102	-	-	1,787,102
Payments to national headquarters	<u>1,052,554</u>	<u>-</u>	<u>-</u>	<u>1,052,554</u>
Total expenses	<u>11,277,306</u>	<u>-</u>	<u>-</u>	<u>11,277,306</u>
 Change in net assets from operations	 <u>(138,743)</u>	 <u>25,134</u>	 <u>264,830</u>	 <u>151,221</u>
 Non-operating activities:				
Unrealized loss on investments, net	(210,965)	(150,223)	-	(361,188)
Realized gain on investments	307,671	132,226	-	439,897
Loss on investment in LLC	(84,448)	-	-	(84,448)
Pension plan liability adjustment	<u>132,230</u>	<u>-</u>	<u>-</u>	<u>132,230</u>
Total non-operating activities	<u>144,488</u>	<u>(17,997)</u>	<u>-</u>	<u>126,491</u>
 Change in net assets	 <u>5,745</u>	 <u>7,137</u>	 <u>264,830</u>	 <u>277,712</u>
 Net assets, beginning	 <u>8,158,195</u>	 <u>2,389,839</u>	 <u>1,564,881</u>	 <u>12,112,915</u>
 Net assets, ending	 <u>\$ 8,163,940</u>	 <u>\$ 2,396,976</u>	 <u>\$ 1,829,711</u>	 <u>\$ 12,390,627</u>

See accompanying notes to financial statements.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Statement of Functional Expenses

Year Ended June 30, 2016

	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
Assistance to individual patients	\$ -	\$ -	\$ 437,211	\$ -	\$ -	\$ -	\$ -	\$ 437,211
Awards and grants	-	-	-	3,500	316,344	-	-	319,844
Building occupancy	18,212	45,531	122,934	9,106	-	22,765	9,106	227,654
Business insurance	5,912	14,779	39,904	2,956	-	7,390	2,956	73,897
Depreciation	10,011	25,028	67,577	5,006	-	12,514	5,006	125,142
Dues and subscriptions	1,083	3,898	2,103	3,308	-	389	999	11,780
Employee benefits	50,617	126,541	341,662	25,307	-	63,271	25,307	632,705
Media	3,015	28,361	56,113	-	-	16,574	-	104,063
Meetings, conferences and major trips	13,040	38,572	255,470	-	-	12,830	5,885	325,797
Miscellaneous expenses	11,964	24,023	58,633	17,886	-	11,763	5,903	130,172
Office and cleaning supplies	4,422	26,942	89,148	-	-	2,368	1,504	124,384
Office equipment	6,734	15,986	55,123	-	-	8,642	3,995	90,480
Payroll taxes	18,862	47,156	127,323	9,431	-	23,580	9,431	235,783
Postage and shipping	36,983	38,139	232,533	17,316	124,596	248,204	39,940	737,711
Printing and publications	58,700	110,970	394,289	7,676	204,801	397,195	59,179	1,232,810
Professional fees and contract payments	124,302	192,062	789,280	131,664	46,814	181,845	36,566	1,502,533
Salaries	241,003	602,508	1,636,772	120,501	-	291,256	120,501	3,012,541
Telephone	9,266	23,166	62,547	4,633	-	11,583	4,633	115,828
Travel	6,344	14,612	38,435	3,537	-	7,354	2,857	73,139
	620,470	1,378,274	4,807,057	361,827	692,555	1,319,523	333,768	9,513,474
Payments to national headquarters	82,706	91,896	202,171	27,568	422,722	36,761	55,138	918,962
Total functional expenses	\$ 703,176	\$ 1,470,170	\$ 5,009,228	\$ 389,395	\$ 1,115,277	\$ 1,356,284	\$ 388,906	\$ 10,432,436

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Statement of Functional Expenses

Year Ended June 30, 2015

	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	
Assistance to individual patients	\$ -	\$ -	\$ 422,446	\$ -	\$ -	\$ -	\$ -	\$ 422,446
Awards and grants	-	20,476	-	-	499,571	-	-	520,047
Building occupancy	15,216	39,126	121,727	10,869	-	21,736	8,695	217,369
Business insurance	7,268	18,691	58,151	5,192	-	10,384	4,154	103,840
Depreciation	9,612	24,714	76,888	6,865	-	13,730	5,492	137,301
Dues and subscriptions	957	3,425	3,259	801	-	2,654	1,817	12,913
Employee benefits	63,529	163,362	508,238	45,379	-	90,757	36,303	907,568
Media	6,213	79,490	91,769	1,066	-	14,474	810	193,822
Meetings, conferences and major trips	20,451	52,589	261,875	14,607	-	29,217	11,687	390,426
Miscellaneous expenses	7,866	20,222	62,915	5,618	-	11,235	4,493	112,349
Office and cleaning supplies	2,394	6,159	111,628	1,711	-	3,421	1,369	126,682
Office equipment	7,023	18,063	64,884	5,016	-	10,035	4,014	109,035
Payroll taxes	15,553	39,994	124,425	11,110	-	22,219	8,887	222,188
Postage and shipping	37,171	41,170	277,611	1,818	138,502	258,617	41,182	796,071
Printing and publications	61,551	70,792	498,359	4,200	222,685	420,966	67,235	1,345,788
Professional fees and contract payments	88,042	250,014	789,050	143,401	49,603	199,954	57,451	1,577,515
Salaries	197,142	506,938	1,577,139	140,816	-	281,632	112,653	2,816,320
Telephone	7,861	20,211	62,879	5,614	-	11,229	4,491	112,285
Travel	7,057	18,141	56,440	5,040	-	10,078	4,031	100,787
	554,906	1,393,577	5,169,683	409,123	910,361	1,412,338	374,764	10,224,752
Payments to national headquarters	126,307	94,730	210,511	42,102	473,649	42,102	63,153	1,052,554
Total functional expenses	\$ 681,213	\$ 1,488,307	\$ 5,380,194	\$ 451,225	\$ 1,384,010	\$ 1,454,440	\$ 437,917	\$ 11,277,306

See accompanying notes to financial statements.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Statements of Cash Flows

Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ (757,094)	\$ 277,712
Adjustments to reconcile change in net assets to net cash changes in operating activities:		
Depreciation	125,142	137,301
Unrealized loss on investments	83,947	361,188
Realized loss (gain) on investments	32,179	(439,897)
Loss on investment in LLC	77,380	84,448
Assets donated in acquisition	-	(812,569)
Net changes in:		
Interest and accounts receivable	(209,454)	107,903
Prepaid expenses and other assets	(62,306)	70,233
Trust assets, net	21,769	(32,489)
Payables and accrued expenses	84,831	237,008
Deferred revenue	(43,583)	180,952
Accrued pension cost	<u>412,555</u>	<u>5,801</u>
Net cash change in operating activities	<u>(234,634)</u>	<u>177,591</u>
Cash flows from investing activities:		
Proceeds from sale of investments	600,000	1,100,000
Purchases of investments	(211,663)	(907,082)
Purchases of property and equipment	(24,800)	(36,336)
Additional investment in LLC	<u>(41,444)</u>	<u>(45,503)</u>
Net cash change in investing activities	<u>322,093</u>	<u>111,079</u>
Net change in cash	87,459	288,670
Cash, beginning	<u>628,577</u>	<u>339,907</u>
Cash, ending	<u>\$ 716,036</u>	<u>\$ 628,577</u>

See accompanying notes to financial statements.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Notes to Financial Statements
Years Ended June 30, 2016 and 2015

1. Nature of Association

The American Lung Association of the Southeast, Inc., (the Association) is a not-for-profit voluntary health Association 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 Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina and South Carolina. The Association's programs and strategies for fighting lung disease center on lung cancer, 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 or 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 that 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 that are 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, 2016 and 2015

2. Summary of Significant Accounting Policies (Continued)

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, 2016 and 2015. The Association does not accrue interest on past due receivables.

Investments

Investments are carried at fair value (see Note 4 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 Associations. 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 4 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

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Notes to Financial Statements
Years Ended June 30, 2016 and 2015

2. Summary of Significant Accounting Policies (Continued)

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.

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 the policies are 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.

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

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, 2016 and 2015.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Notes to Financial Statements
Years Ended June 30, 2016 and 2015

2. Summary of Significant Accounting Policies (Continued)

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 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.

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 positions 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, 2016 and 2015, 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.

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. With few exceptions, at June 30, 2016, the Association is no longer subject to federal, state or local income tax examinations by taxing authorities for years before 2013. As of and for the years ended June 30, 2016 and 2015, 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.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Notes to Financial Statements
Years Ended June 30, 2016 and 2015

2. Summary of Significant Accounting Policies (Continued)

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. In addition, an annual assessment is paid monthly.

Allocation of Joint Costs

Certain criteria (purpose, audience and content) must 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:

	<u>2016</u>	<u>2015</u>
Environmental health	\$ 104,503	\$ 102,698
Smoking education	104,503	102,698
Lung cancer, asthma, COPD and other lung diseases	689,719	753,115
Research	376,211	410,790
Fundraising	725,343	761,063
	<u>\$ 2,000,279</u>	<u>\$ 2,130,364</u>

Financial Accounting Standards Board Accounting Standards Updates

In August of 2016, The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958). These amendments will have an impact on the Association's financial statement presentation. These amendments are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Management is evaluating the impact of this ASU on the Association's financial reporting.

In February 2016, FASB issued ASU 2016-02, Leases (Topic 842). This guidance amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheet. It also makes targeted changes to lessor accounting, including a change to the treatment of initial direct leasing costs, which no longer considers fixed internal leasing salaries as capitalizable costs. The standard is effective for the Association beginning July 2019.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Notes to Financial Statements
Years Ended June 30, 2016 and 2015

2. Summary of Significant Accounting Policies (Continued)

The Association is currently evaluating the alternative methods of adoption and the impact that it will have on its financial statements and related disclosures.

Reclassifications

Certain 2015 amounts have been reclassified to conform to the 2016 presentation.

Subsequent Events

The Association has evaluated events through the date of the report of independent certified public accountants, the date the financial statements were available to be issued, and has determined that there are no subsequent events to disclose.

3. Acquisition

On July 1, 2014, the Association received a portion of the American Lung Association of the Plains Gulf Region, Inc. (ALAPGR). As a result of the acquisition, the Association entered into a new Charter Agreement with the National Association to expand its services to Alabama, Arkansas, Louisiana, Mississippi and North Carolina (Charter Agreement). The primary purpose was to distribute the net assets based on the Dissolution and Distribution of Assets plan adopted by the ALAPGR. The following table summarizes the amounts of the assets acquired and liabilities assumed recognized at the acquisition date.

At July 1, 2014:

Consideration	\$ <u> -</u>
---------------	-----------------------

Recognized amounts of identifiable assets acquired and liabilities assumed:

Cash	\$ 537,229
Beneficial interests in trust	<u>812,569</u>
Total identifiable net assets	1,349,798
Inherent contribution received	<u>(1,349,798)</u>
	<u>\$ -</u>
Acquisition-related costs	<u>\$ -</u>

On the statement of activities, as of June 30, 2015, the inherent contribution received is recorded as the excess of the fair value of net assets acquired over consideration paid in the acquisition of the new Charter Agreement.

4. Fair Value Measurements

The framework for measuring fair value 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 as follows:

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Notes to Financial Statements
Years Ended June 30, 2016 and 2015

4. Fair Value Measurements (Continued)

- 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, 2016 and 2015. 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 interests in perpetual trusts*: Valued at the fair value of the underlying assets held by the trust.
- *Trust assets*: Valued at the net present value of future cash flows.

The preceding methods described may produce fair value calculations that may not be indicative of net realizable values 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 different fair value measurements at the reporting date.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Notes to Financial Statements
Years Ended June 30, 2016 and 2015

4. 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, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Money market funds	\$ 534,073	\$ -	\$ -	\$ 534,073
Common stocks:				
Consumer discretionary	708,087	-	-	708,087
Consumer staples	432,365	-	-	432,365
Energy	353,165	-	-	353,165
Financials	1,031,763	-	-	1,031,763
Healthcare	863,235	-	-	863,235
Industrials	512,410	-	-	512,410
IT	1,031,500	-	-	1,031,500
Materials	136,212	-	-	136,212
Telecommunications	45,175	-	-	45,175
Utilities	151,769	-	-	151,769
Total common stocks	<u>5,265,681</u>	<u>-</u>	<u>-</u>	<u>5,265,681</u>
Bonds:				
Government	-	109,226	-	109,226
Corporate	-	2,941,300	-	2,941,300
Total bonds	<u>-</u>	<u>3,050,526</u>	<u>-</u>	<u>3,050,526</u>
Beneficial interests in perpetual trusts	-	-	1,074,144	1,074,144
Trust assets, net	<u>-</u>	<u>-</u>	<u>16,723</u>	<u>16,723</u>
Total assets at fair value	<u>\$ 5,799,754</u>	<u>\$ 3,050,526</u>	<u>\$ 1,090,867</u>	<u>\$ 9,941,147</u>

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Notes to Financial Statements
Years Ended June 30, 2016 and 2015

4. 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, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Money market funds	\$ 895,135	\$ -	\$ -	\$ 895,135
Common stocks:				
Consumer discretionary	763,863	-	-	763,863
Consumer staples	326,576	-	-	326,576
Energy	316,050	-	-	316,050
Financials	1,080,909	-	-	1,080,909
Healthcare	817,230	-	-	817,230
Industrials	579,315	-	-	579,315
IT	979,039	-	-	979,039
Materials	170,591	-	-	170,591
Telecommunications	48,055	-	-	48,055
Utilities	133,535	-	-	133,535
Total common stocks	<u>5,215,163</u>	<u>-</u>	<u>-</u>	<u>5,215,163</u>
Bonds:				
Government	-	1,002,716	-	1,002,716
Corporate	-	2,191,233	-	2,191,233
Total bonds	<u>-</u>	<u>3,193,949</u>	<u>-</u>	<u>3,193,949</u>
Beneficial interests in perpetual trusts	-	-	1,124,640	1,124,640
Trust assets, net	<u>-</u>	<u>-</u>	<u>38,492</u>	<u>38,492</u>
Total assets at fair value	<u>\$ 6,110,298</u>	<u>\$ 3,193,949</u>	<u>\$ 1,163,132</u>	<u>\$ 10,467,379</u>

There were no transfers between Level 1, Level 2 or Level 3 investments during the years ended June 30, 2016 and 2015.

The non-equity portion of the investment portfolio at June 30, 2016, consists of bonds that mature as follows:

2016	\$ 202,480
2017	354,931
2018	362,081
2019	750,583
2020	1,020,146
Thereafter	360,305
	<u>\$ 3,050,526</u>

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Notes to Financial Statements
Years Ended June 30, 2016 and 2015

4. Fair Value Measurements (Continued)

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

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 1,163,132	\$ 343,144
Donation of Wheeler Trust	-	812,569
Unrealized (loss) gain, net	<u>(72,265)</u>	<u>7,419</u>
Balance, end of year	<u>\$ 1,090,867</u>	<u>\$ 1,163,132</u>

5. Endowment Net Assets

Endowment net assets were composed of the following at June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ 7,292,174	\$ 1,355,515	\$ 1,829,711	\$ 10,477,400
Contributions, net	38,806	66,201	-	105,007
Investment income	150,049	70,231	-	222,280
Change in market value	(133,449)	(34,084)	-	(167,533)
Amounts appropriated for expenditure	<u>(600,000)</u>	<u>-</u>	<u>-</u>	<u>(600,000)</u>
Endowment net assets, end of year	<u>\$ 6,747,580</u>	<u>\$ 1,457,863</u>	<u>\$ 1,829,711</u>	<u>\$ 10,035,154</u>

Endowment net assets were composed of the following at June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ 6,934,268	\$ 1,271,910	\$ 1,564,881	\$ 9,771,059
Contributions, net	1,644,845	111,400	264,830	2,021,075
Investment income	139,537	62,006	-	201,543
Change in market value	18,538	(17,997)	-	541
Amounts appropriated for expenditure	<u>(1,445,014)</u>	<u>(71,804)</u>	<u>-</u>	<u>(1,516,818)</u>
Endowment net assets, end of year	<u>\$ 7,292,174</u>	<u>\$ 1,355,515</u>	<u>\$ 1,829,711</u>	<u>\$ 10,477,400</u>

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

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Notes to Financial Statements
Years Ended June 30, 2016 and 2015

5. Endowment Net Assets (Continued)

perpetual donation. 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, 2016, there was a \$19,683 deficiency related to a permanently restricted endowment investment. At June 30, 2015 there was no deficiency.

6. Property and Equipment

Property and equipment consisted of the following June 30:

	<u>2016</u>	<u>2015</u>
Land	\$ 468,291	\$ 468,291
Buildings and improvements	3,830,875	3,817,047
Office furniture and equipment	<u>783,816</u>	<u>933,702</u>
Total property and equipment	5,082,982	5,219,040
Less: accumulated depreciation	<u>(1,838,443)</u>	<u>(1,874,159)</u>
Net property and equipment	<u>\$ 3,244,539</u>	<u>\$ 3,344,881</u>

7. Restricted Net Assets

At June 30, 2016 and 2015, temporarily restricted net assets of \$2,351,222 and \$2,396,976, 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, 2016 and 2015, permanently restricted net assets of \$1,829,711 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 \$362,346 in contributions, 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, \$20,103 in additional contributions from which the income is temporarily restricted for Lung Cancer research, \$10,354 in additional contributions from which the income is temporarily restricted for Asthma education and advocacy, \$10,000 in additional contributions from which the income is temporarily restricted for COPD, \$169,785 in additional contributions from which the income is temporarily restricted for Anti-Smoking and Research, and \$617,693 in contributions of which the earnings are temporarily restricted until appropriated for expenditure by the Board of Directors.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Notes to Financial Statements
Years Ended June 30, 2016 and 2015

7. Restricted Net Assets (Continued)

In 2016 and 2015, additional contributions of \$ - and \$264,830, were made to endowment funds, of which the earnings are temporarily restricted until appropriated for expenditure by the Board.

8. 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, 2016 and 2015, the direct response expenses are allocated 45% to program services, 45% to research activities, 6% to general operations and 4% to fundraising, respectively.

For the years ended June 30, 2016 and 2015, 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, 2016 and 2015 is allocated as follows:

	<u>2016</u>	<u>2015</u>
Program services	\$ 413,533	\$ 473,650
Research activities	413,533	473,649
General operations	55,138	42,102
Fundraising	36,758	63,153
	<u>\$ 918,962</u>	<u>\$ 1,052,554</u>

9. Contributions In-Kind

During the years ended June 30, 2016 and 2015, the Association received the following non-cash contributions included in special events and other revenue on the statements of activities:

	<u>2016</u>	<u>2015</u>
Special events - media	\$ 262,398	\$ 400,670
Special events - fundraising supplies	172,429	196,834
Media contribution	159,089	25,820
Other	14,736	11,768
	<u>\$ 608,652</u>	<u>\$ 635,092</u>

10. 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, 2016 and 2015

10. Pension Plan (Continued)

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 Plan was frozen for all participants effective June 30, 2015. The freeze was recognized for purposes of year-end disclosure. A plan freeze is a curtailment event. Since all future service is being curtailed, the unamortized Prior Service Cost amount of \$80,466 was fully recognized and added to the Net Periodic Pension Cost for fiscal year end June 30, 2015. Since the liability gain as a result of the plan freeze is less than the unrecognized loss there is no special curtailment charge related to unrecognized losses. Instead, it was treated the same as any liability gain.

The plan was amended to provide for a “lump-sum window.” Participants who terminated with a vested benefit prior to January 1, 2015 were provided with a temporary election period to commence payments even if they were not yet retirement eligible under the current plan provisions. All payments under this window were made prior to June 30, 2015. All participants who received a lump sum (including those who took a lump sum without regards to the special window) were not included in the June 30, 2015 liabilities.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Notes to Financial Statements
Years Ended June 30, 2016 and 2015

10. Pension Plan (Continued)

The following table sets forth the Plan's funded status and amounts recognized in the Association's financial statements at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 8,105,199	\$ 8,733,803
Service cost	-	129,295
Interest cost	348,368	365,864
Actuarial loss	688,380	177,457
Curtailments	-	(360,646)
Settlements	-	(686,301)
Benefits paid	<u>(534,003)</u>	<u>(254,273)</u>
Benefit obligation at end of year	<u>\$ 8,607,944</u>	<u>\$ 8,105,199</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 5,795,446	\$ 6,429,851
Actual return on plan assets	309,193	(83,831)
Employer contributions prior to measurement date	315,000	390,000
Settlements	-	(686,301)
Benefits paid	<u>(534,003)</u>	<u>(254,273)</u>
Fair value of plan assets at end of year	<u>\$ 5,885,636</u>	<u>\$ 5,795,446</u>
Funded status	<u>\$ (2,722,308)</u>	<u>\$ (2,309,753)</u>
Amounts recognized in the statements of financial position consist of:		
Noncurrent liabilities	<u>\$ (2,722,308)</u>	<u>\$ (2,309,753)</u>
Amounts recognized as changes in unrestricted net assets but not yet reclassified as components of net periodic benefit cost consist of:		
Net loss	\$ 2,674,845	\$ 2,042,133
Net initial asset	<u>-</u>	<u>(887)</u>
Total	<u>\$ 2,674,845</u>	<u>\$ 2,041,246</u>
Information for pension plans with an accumulated benefit obligation in excess of plan assets:		
Projected benefit obligation	<u>\$ 8,607,944</u>	<u>\$ 8,105,199</u>
Accumulated benefit obligation	<u>\$ 8,607,944</u>	<u>\$ 8,105,199</u>
Fair value of plan assets	<u>\$ 5,885,636</u>	<u>\$ 5,795,446</u>

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Notes to Financial Statements
Years Ended June 30, 2016 and 2015

10. Pension Plan (Continued)

	<u>2016</u>	<u>2015</u>
Components of net benefit cost and other changes in unrestricted net assets:		
Service cost	\$ -	\$ 129,295
Interest cost	348,368	365,864
Expected return on plan assets	(296,853)	(343,316)
Amortization of net loss	43,328	109,923
Amortization of prior service cost	-	14,101
Amortization of net initial asset	(887)	(1,143)
Recognized prior service cost due to curtailments	-	80,466
Recognized net initial asset due to settlements	-	(75)
Recognized loss due to settlements	-	172,916
Net periodic benefit cost	<u>\$ 93,956</u>	<u>\$ 528,031</u>
Net loss	\$ 676,040	\$ 243,958
Recognized loss	(43,328)	(282,839)
Recognized prior service credit	-	(94,567)
Recognized net initial asset	887	1,218
Total recognized loss (gain)	<u>\$ 633,599</u>	<u>\$ (132,230)</u>
Total amounts recognized as changes in unrestricted net assets arising from the defined benefit plan	<u>\$ 727,555</u>	<u>\$ 395,801</u>

The weighted average discount rate used to determine net periodic benefit cost was 4.50% and 4.25% for the years ended June 30, 2016 and 2015, respectively. The weighted average discount rate used to determine net benefit obligation was 4.00% and 4.50% for the years ended June 30, 2016 and 2015, 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 not present due to the freeze for the year ended June 30, 2016 and 0-3.00% for the year ended June 30, 2015. The expected long-term rate of return on assets was 5.50% and 5.50% for 2016 and 2015, respectively.

The Plan's asset allocations at June 30, 2016 and 2015 by asset category were as follows:

	<u>2016</u>	<u>2015</u>
Debt securities	65.70 %	63.75 %
Equity securities	19.97	21.94
Real estate	7.22	11.95
Cash and cash equivalents	7.11	2.36
	<u>100.00 %</u>	<u>100.00 %</u>

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Notes to Financial Statements
Years Ended June 30, 2016 and 2015

10. Pension Plan (Continued)

Following are the future benefits expected to be paid for the Plan during the next 10 years, as indicated:

2017	\$ 658,321
2018	620,273
2019	634,023
2020	581,599
2021	502,487
2022 - 2026	2,474,777

As of June 30, 2016 and 2015, the fair value of the Plan's assets available for benefits was \$5,885,636 and \$5,795,446, respectively. As discussed in the Fair Value Measurements note, the Association, as well as the National Association, follows a three-level hierarchy to categorize assets and liabilities measured at fair value. In accordance with this hierarchy, as of June 30, 2016, 27%, 73%, and 0% of the Plan's assets that are measured at fair value on a recurring basis were categorized as Level 1, Level 2, and Level 3, respectively. Additionally, as of June 30, 2015, 24%, 76%, and 0% of the Plan's assets that are measured at fair value on a recurring basis were categorized as Level 1, Level 2, and Level 3, respectively.

11. Defined Contribution Plan

The Association maintains a defined contribution plan (the Plan) under Section 403(b) of the Internal Revenue Code. The Association contributes 4% of all participant's compensation to the Plan. Total expense for the years ended June 30, 2016 and June 30, 2015, was \$180,706 and \$33,649.

12. Commitments and Contingencies

Concentrations of Credit Risk

The Association places its cash and temporary cash investments with FDIC insured financial institutions. At times, such investments may be in excess of the FDIC insurance limits. The Association does not believe it is exposed to any significant credit risk with respect to cash.

Accounts Receivable

Accounts receivable from two donors accounted for 19% and 13% of the total accounts receivable balance at June 30, 2016. Accounts receivable from two donors accounted for 26% and 23% of the total accounts receivable balance at June 30, 2015.

Operating Leases

The Association leases office space and office equipment under non-cancelable operating lease agreements that expire at various dates between August 2017 and September 2020. Lease expense was \$191,943 and \$175,486 for the years ended June 30, 2016 and 2015, respectively.

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Notes to Financial Statements
Years Ended June 30, 2016 and 2015

12. Commitments and Contingencies (Continued)

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, 2016:

2017	\$ 112,189
2018	98,949
2019	96,301
2020	<u>41,404</u>
Total minimum lease payments	<u>\$ 348,843</u>

LBA Certified Public Accountants, PA

**Independent Auditors' 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 Association) (the Association) which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated October 19, 2016.

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 Association'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.

October 19, 2016

Supplementary Information

AMERICAN LUNG ASSOCIATION OF THE SOUTHEAST, INC.

Schedule of State Financial Assistance - Georgia

Year Ended June 30, 2016

<u>State Program Name</u>	<u>CFDA/Contract Number</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Receivable at June 30, 2016</u>
Statewide Short-term Housing and Case Management Services for Infectious Homeless TB Patients	40500-046-16161562	\$ 324,591	\$ 324,591	\$ 100,877
Statewide Short-term Housing and Case Management Services for Non-Infectious Homeless TB Patients	40500-046-16161563	\$ 183,114	\$ 183,114	\$ 33,040
Housing Opportunities for Persons with AIDS	14.241/250131963 and 250132000	\$ 55,478	\$ 55,478	\$ 5,453