

American Lung Association of the Northeast, Inc.

Independent Auditors' Report,
Consolidated Financial Statements
and Supplemental Information

As of and for the Year Ended
June 30, 2014



Saslow Lufkin & Buggy, LLP
Certified Public Accountants and Consultants

American Lung Association of the Northeast, Inc.
Independent Auditors' Report, Consolidated Financial Statements
and Supplemental Information
As of and for the Year Ended June 30, 2014

Table of Contents

	<u>Page</u>
Independent Auditors' Report.....	1
Consolidated Financial Statements:	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities.....	4
Consolidated Statement of Functional Expenses.....	5
Consolidated Statement of Cash Flows.....	6
Notes to the Consolidated Financial Statements.....	7
Supplemental Information:	
Consolidating Statements of Financial Position	24
Consolidating Statements of Activities	25
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>	26



Independent Auditors' Report

To the Audit Committee of the Board of Directors of
American Lung Association of the Northeast, Inc.:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of American Lung Association of the Northeast, Inc. (the Organization), which comprises the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 Organization'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the American Lung Association of the Northeast, Inc. as of June 30, 2014, and the results of its consolidated operations and consolidated changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information listed within the Table of Contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and changes in net assets of the individual entities, and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations, and cash flows of the individual entities. 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 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated 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 September 30, 2014, on our consideration of American Lung Association of the Northeast, 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 American Lung Association of the Northeast, Inc.'s internal control over financial reporting and compliance.

Saslow Lufkin & Buggy, LLP

Simsbury, Connecticut
September 30, 2014

American Lung Association of the Northeast, Inc.
Consolidated Statement of Financial Position
June 30, 2014

Assets

Current assets:	
Cash and cash equivalents	\$ 3,302,428
Grants receivable	869,482
Contributions receivable	1,639,337
Prepaid expenses and other current assets	<u>134,863</u>
Total current assets	5,946,110
Investments	13,651,659
Gift annuities receivable	67,042
Beneficial interest in charitable remainder trust	64,300
Property and equipment, net	581,988
Beneficial interest in perpetual trusts	<u>9,003,051</u>
Total assets	<u><u>\$29,314,150</u></u>

Liabilities and Net Assets

Current liabilities:	
Accounts payable	\$ 1,234,663
Due to National	342,117
Accrued expenses and other liabilities	244,245
Annuities payable	141,624
Deferred revenue	<u>1,167,906</u>
Total current liabilities	3,130,555
Accrued pension expense	<u>1,889,383</u>
Total liabilities	5,019,938
Net assets:	
Unrestricted:	
Available for operations	11,946,889
Investment in capital assets	581,988
Temporarily restricted	398,877
Permanently restricted	<u>11,366,458</u>
Total net assets	<u>24,294,212</u>
Total liabilities and net assets	<u><u>\$29,314,150</u></u>

See accompanying notes to the consolidated financial statements.

American Lung Association of the Northeast, Inc.
Consolidated Statement of Activities
For the Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenue:				
Public support:				
Bequests	\$ 5,377,069	\$ -	\$ -	\$ 5,377,069
Direct mail	3,417,344	-	-	3,417,344
Special events, net of direct expenses of \$751,302	2,957,792	-	-	2,957,792
Donated professional services	263,920	-	-	263,920
Other contributions	1,101,017	-	-	1,101,017
Total public support	13,117,142	-	-	13,117,142
Revenue:				
Government grants	4,340,946	-	-	4,340,946
Grants from National	391,137	-	-	391,137
Interest and dividend income	349,976	31,583	2,244	383,803
Income from perpetual trusts	366,899	-	-	366,899
Program service fees and other revenue	215,155	-	-	215,155
Corporate and other grants	179,031	-	-	179,031
Total revenue	5,843,144	31,583	2,244	5,876,971
Assets released from restrictions	17,250	(17,250)	-	-
Total public support and revenue	18,977,536	14,333	2,244	18,994,113
Expenses:				
Program services	16,640,400	-	-	16,640,400
Fundraising	1,423,753	-	-	1,423,753
Management and general	586,408	-	-	586,408
Total expenses	18,650,561	-	-	18,650,561
Change in net assets from operations	326,975	14,333	2,244	343,552
Non-operating activities:				
Net asset transfer	575,611	(207,742)	(367,869)	-
Pension-related changes other than net periodic pension cost	(287,559)	-	-	(287,559)
Change in gift annuities, net	27,054	-	-	27,054
Change in value of investments held in trust	-	43,374	829,046	872,420
Realized and unrealized gains on investments, net	1,162,880	148,416	12,517	1,323,813
Total change in net assets	1,804,961	(1,619)	475,938	2,279,280
Net assets, beginning of year	10,723,916	400,496	10,890,520	22,014,932
Net assets, end of year	<u>\$12,528,877</u>	<u>\$ 398,877</u>	<u>\$ 11,366,458</u>	<u>\$24,294,212</u>

See accompanying notes to the consolidated financial statements.

American Lung Association of the Northeast, Inc.
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2014

	Program Services					Supporting Activities			Total Expenses
	Lung Cancer, Asthma, COPD and Other Lung Disease	Tobacco Control	Research	Environmental Health	Community Health Services	Total	Fundraising	Management and General	
Salaries and related expenses:									
Salaries	\$ 1,380,524	\$ 1,555,307	\$ 70,390	\$ 597,028	\$ 291,922	\$ 3,895,171	\$ 547,861	\$ 158,656	\$ 4,601,688
Employee benefits	348,087	392,154	17,748	150,535	73,606	982,130	138,138	39,999	1,160,267
Payroll taxes	26,682	293,884	1,361	11,539	5,642	339,108	10,590	3,070	352,768
Total salaries and related expenses	1,755,293	2,241,345	89,499	759,102	371,170	5,216,409	696,589	201,725	6,114,723
Expenses before assessment:									
Direct mail	1,034,852	224,861	387,780	224,861	80,425	1,952,779	241,272	132,374	2,326,425
Program service expenses	319,555	1,189,917	-	184,282	2,830	1,696,584	-	-	1,696,584
Research	-	-	1,693,539	-	-	1,693,539	-	-	1,693,539
Lung Force campaign	1,418,580	-	-	-	-	1,418,580	-	-	1,418,580
Printing, media and advertising	75,704	1,004,026	4,179	21,282	19,133	1,124,324	22,676	1,443	1,148,443
Building and occupancy	311,165	350,561	15,866	134,568	65,798	877,958	123,486	35,759	1,037,203
Professional and contracted services	81,434	127,435	3,702	48,520	27,333	288,424	60,934	41,552	390,910
Fees and dues	50,505	37,798	7,864	28,479	28,548	153,194	55,778	6,284	215,256
Travel and transportation	69,908	44,985	4,022	24,937	16,863	160,715	22,888	6,726	190,329
Equipment	46,898	40,879	2,799	24,442	15,776	130,794	29,549	17,305	177,648
Meetings and conferences	92,844	10,598	555	5,934	7,738	117,669	3,343	3,484	124,496
Business insurance	28,973	24,426	-	17,132	11,421	81,952	11,393	22,843	116,188
Postage and shipping	34,376	21,601	395	12,762	8,156	77,290	9,867	14,526	101,683
Miscellaneous expenses	28,698	32,333	1,464	12,407	6,065	80,967	11,393	3,300	95,660
Supplies	29,508	17,890	1,730	14,314	9,971	73,413	14,651	7,515	95,579
Other expenses	20,208	28,499	1,374	12,077	5,773	67,931	9,589	1,890	79,410
Depreciation	16,320	15,625	967	7,878	4,470	45,260	9,078	4,270	58,608
Total expenses before assessment	3,659,528	3,171,434	2,126,236	773,875	310,300	10,041,373	625,897	299,271	10,966,541
Assessment to National	412,802	170,203	527,538	198,557	73,518	1,382,618	101,267	85,412	1,569,297
Total expenses	\$ 5,827,623	\$ 5,582,982	\$ 2,743,273	\$ 1,731,534	\$ 754,988	\$ 16,640,400	\$ 1,423,753	\$ 586,408	\$ 18,650,561

See accompanying notes to the consolidated financial statements.

American Lung Association of the Northeast, Inc.
Consolidated Statement of Cash Flows
For the Year Ended June 30, 2014

Cash flows from operations:	
Change in net assets	\$ 2,279,280
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	58,608
Realized and unrealized gains on investments, net	(1,323,813)
Change in value of perpetual trusts	(872,420)
Changes in operating assets and liabilities:	
Grants receivable	611,700
Contributions receivable	(1,451,204)
Prepaid expenses and other current assets	446,960
Gift annuities receivable	12,888
Accounts payable	668,616
Due to National	129,338
Accrued expenses and other liabilities	(156,220)
Annuities payable	(39,944)
Deferred revenue	538,889
Accrued pension expense	<u>(161,055)</u>
Net cash provided by operating activities	<u>741,623</u>
Cash flows from investing activities:	
Purchases of investments	(2,327,374)
Proceeds from sales of investments	2,119,903
Purchases of property and equipment	<u>(116,140)</u>
Net cash used in investing activities	<u>(323,611)</u>
Change in cash and cash equivalents	418,012
Cash and cash equivalents, beginning of year	<u>2,884,416</u>
Cash and cash equivalents, end of year	<u><u>\$3,302,428</u></u>

See accompanying notes to the consolidated financial statements.

American Lung Association of the Northeast, Inc.
Notes to the Consolidated Financial Statements
As of and for the Year Ended June 30, 2014

Note 1 - Organization and Significant Accounting Policies

The American Lung Association of the Northeast, Inc. (the Organization) is a not-for-profit organization that works to save lives by improving lung health and preventing lung disease through education, research and advocacy. The Organization's current focus is on healthy air, tobacco control and all lung disease, including lung cancer, asthma and COPD. The Organization serves Connecticut, Maine, Massachusetts, New Hampshire, New York, Rhode Island and Vermont and is a chartered association of the American Lung Association (National), the oldest voluntary health agency in the U.S.

The Organization was formed on July 1, 2012 when the American Lung Association of New England, Inc. (ALANE) and the American Lung Association of New York (ALANY) merged to integrate the operations of the two entities. The merger resulted from a decision by both entities' Board of Directors that a larger, stronger and more diverse organization would ensue. Upon finalization of the merger, the Organization recorded the assets and liabilities of both ALANE and ALANY based on the book value of each entity with the exception of Mass Lung Health (MLH), whose permanently restricted net assets could not be transferred to the Organization due to Massachusetts state law which prohibits a non-profit's permanently restricted net assets from being transferred outside of the state. MLH is included in the consolidated financial statements as it is controlled by the Organization.

Method of Accounting - The consolidated financial statements of the Organization have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The consolidated financial statements include the accounts and transactions of the American Lung Association of the Northeast, Inc. and Mass Lung Health. All significant inter-company balances and transactions have been eliminated in consolidation.

Revenue Recognition - Revenue from grants and contracts is recorded as the related services are rendered and the associated costs incurred. Government contracts are subject to audit by the appropriate governmental agency. It is the position of management that the results of such audits, if any, will not have a material effect on the results of operations or the financial position of the Organization as of and for the year ended June 30, 2014.

Contributions - Contributions, including unconditional promises to give, are recognized as revenues at fair value at the date the promise is received. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the statement of activities.

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class. Contributions received with donor-imposed restrictions that are met subsequent to the year in which they are received are reported as revenues of the temporarily restricted net asset class. A reclassification to unrestricted net assets is made to reflect the expiration of such restrictions in the year in which the restriction is met. Permanently restricted contributions are recorded as permanently restricted revenue at fair value at the date the promise is received.

Revenue relating to special events is recognized in the period in which the events take place and is shown net of direct costs of the event and the cost of benefits to donors.

American Lung Association of the Northeast, Inc.
Notes to the Consolidated Financial Statements
As of and for the Year Ended June 30, 2014

Note 1 - Organization and Significant Accounting Policies (continued)

Revenue from bequests is recognized upon receipt, unless advance notice of the Organization's unconditional right to receive the bequest is received and fair value of the contribution is determinable, in which case the revenue is recognized upon notice.

Donated services are recognized as revenue when the services received create or enhance non-financial assets or require specialized skills that would typically need to be purchased if not provided by donation.

Donated assets are recognized as revenue when the asset is unconditionally pledged and the fair value of the asset received is determinable.

Substantial numbers of volunteers have donated significant amounts of their time and energy to the Organization. However, the consolidated financial statements do not include amounts for these donated services as there is no objective basis to measure the value of such services and these services are not specialized as defined in accordance with U.S. GAAP.

Allocation of Expenses - Expenses related directly to a specific program are charged to that program while other general program expenses are allocated to individual programs based upon management's estimate of the percentage attributable to each program. Certain costs are allocated among program services, management and general and fundraising based on activity as determined by management.

Fair Value - 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 and 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:

Level 1 - Observable inputs that reflect quoted prices for identical assets in active markets that the Organization has the ability to access at the measurement date.

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; or
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has specified (contractual) terms, 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.

American Lung Association of the Northeast, Inc.
Notes to the Consolidated Financial Statements
As of and for the Year Ended June 30, 2014

Note 1 - Organization and Significant Accounting Policies (continued)

Classification and Reporting of Net Assets - The Organization reports information regarding its consolidated financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. A description of the three net asset classes follows:

Unrestricted net assets represent the portion of the Organization's net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Unrestricted net assets include expendable funds available for support of the Organization as well as funds invested in property and equipment.

Temporarily restricted net assets represent contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

Permanently restricted net assets represent contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

Cash and Cash Equivalents - Cash consists of cash on hand and cash held at various financial institutions. Cash equivalents held by the Organization represent repurchase agreements with maturities of less than seven days and money market funds. Cash and cash equivalents held in investment accounts are classified as investments. As of June 30, 2014, the collateral associated with the repurchase agreement held by the Organization amounted to \$3,136,297 and consisted of bonds issued by the Federal Home Loan Mortgage Corporation. The value of the collateral exceeded the value of repurchase agreement.

Concentrations of Credit Risk - The Organization maintains its cash with a high-credit quality financial institution. To ensure that its cash balances do not exceed the insured Federal Deposit Insurance Corporation (FDIC) limit of \$250,000 per depositor, per bank, the Organization has an arrangement in place to sweep all of the available funds in excess of \$250,000 in its main operating account into a repurchase agreement at the close of each business day. As a result, the Organization does not generally maintain cash balances in excess of the FDIC insurance limit. While management believes the risk is minimal, the Organization's cash deposits are still subject to investment risk.

The Organization derives significant revenue from the State of New York. During the year ended June 30, 2014, this revenue represented approximately 18% of the Organization's total support and revenue. The State of New York also represented approximately 67% of grants receivable as of June 30, 2014.

Grants, bequests and pledges receivable are carried at the outstanding principal balance, less an estimate made for doubtful receivable, if any. Management determines the allowance for doubtful accounts by identifying troubled receivables and by using historical experience and assessment of credit worthiness. Receivables are written off when deemed uncollectible. Recoveries of receivable previously written off are recorded when received.

Investments and Investment Income - The Organization's realized gains and losses are recorded on the trade date based on the specific identification method. Unrealized gains and losses are recorded based on the fair market value of investments.

American Lung Association of the Northeast, Inc.
Notes to the Consolidated Financial Statements
As of and for the Year Ended June 30, 2014

Note 1 - Organization and Significant Accounting Policies (continued)

The Organization's investments are reported at fair value at the statement of financial position date. Realized and unrealized gains and losses are reflected in the accompanying consolidated statement of activities. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in unrestricted net assets unless the income or loss is restricted by donor use or state law.

The Organization allocates investment income in accordance with donor restrictions and Connecticut law including the provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA requires the investment of donor restricted funds in good faith with the care that an ordinarily prudent person in a like position would exercise under similar circumstances. It requires prudence in incurring investment costs, authorizing only costs that are appropriate and reasonable. Factors to be considered in investing are expanded to include, for example, the effects of inflation. UPMIFA emphasizes that investment decision be made in relation to the overall resources of the Organization.

Investment income consists of interest and dividends and is presented exclusive of investment advisory fees which are included in the accompanying consolidated statements of activities. Interest and dividend income is recorded when received.

Endowment - The endowments include those net assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period. The Organization's endowment consists of a number of funds, some of which have restrictions as to the use of income generated by the underlying investments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Other Than Temporary Impairments on Investments - Other than temporary impairment losses result in a permanent reduction of the cost basis of the underlying investment and as a result are reflected as a realized loss. In evaluating potential impairment, management considers, among other criteria, the current fair value compared to cost, as appropriate; the length of time the security's fair value has been below cost; management's intent to sell the security; specific credit issues related to the issuer; and current economic conditions. The Organization continually assesses its investment portfolio for declines in market value that are considered other than temporary. During 2014, there were no other than temporary impairments recognized by the Organization.

Investments Held in Trust - The Organization is one of several beneficiaries named to receive income earned in various trusts of which the original principal endowment is invested and maintained by independent trustees. In accordance with U.S. GAAP, the Organization has recorded its beneficial interest in these trusts on the accompanying consolidated statement of financial position and the income distributed by these trusts on the accompanying consolidated statement of activities.

Property and Equipment - Property and equipment acquisitions are recorded at cost if purchased or at fair market value at the time of donation, if donated. Depreciation is computed using the straight-line method over the following estimated useful lives of the related assets:

Furniture, fixtures and equipment	3 - 10 years
Building and improvements	10 - 39 years

During 2014, the Organization changed its capitalization policy for property and equipment prospectively.

American Lung Association of the Northeast, Inc.
Notes to the Consolidated Financial Statements
As of and for the Year Ended June 30, 2014

Note 1 - Organization and Significant Accounting Policies (continued)

Gift Annuities - The Organization holds life annuities which represent assets made available to the Organization, whereby, the Organization is obligated to pay stipulated amounts, on an annual basis, to the designated individuals. Assets of annuity funds belong to the Organization subject to the liability for future payments to annuitants. Payments terminate, as specified in the agreement, upon death of the annuitant.

Pension Plans - The Organization sponsors two non-contributory defined benefit pension plans. The Organization's policy is to fund the required contribution necessary to meet the present and future obligations of the plans.

Income Taxes - The Organization is a nonprofit organization as defined in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state taxes. As a result, no provision for income taxes is presented in these financial statements. However, in certain circumstances, the Organization may be subject to federal and state income taxes for profits generated from unrelated trade or business income. As of June 30, 2014, management has determined that the Organization does not have any liabilities associated with unrelated business income.

The Organization assesses the recording of uncertain tax positions by evaluating the minimum recognition threshold and measurement requirements a tax position must meet before being recognized as a benefit in the financial statements.

The Organization has not recognized any liabilities for uncertain tax positions or unrecognized benefits as of June 30, 2014. The Organization does not expect any material change in uncertain tax benefits within the next twelve months.

As of June 30, 2014, the Organization is not currently under examination by any taxing authority but is generally open to examination for three years from the date of filing.

Operating Measure - The Organization has defined the change in net assets from operations to include all support, revenue and expenses except for changes in the value of gift annuities and investments held in trust, realized and unrealized gains and losses on investments, changes in the pension benefit obligation and gains or losses resulting from unusual or infrequent transactions.

Advertising and Promotional Costs - The Organization expenses advertising and promotional costs as incurred. During the year ended June 30, 2014, advertising expense was \$1,003,806. Included within advertising expenses was \$263,920 of donated advertising services during the year ended June 30, 2014, which has been recognized as donated professional services revenue on the accompanying consolidated statement of activities.

Use of Estimates - Management has used estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities in its preparation of the consolidated financial statements in conformity with U.S. GAAP. Actual results experienced by the Organization may differ from those estimates.

Subsequent Events - Management has evaluated subsequent events spanning the period from June 30, 2014 through September 30, 2014, the latter representing the issuance date of these consolidated financial statements, and believes there are no subsequent events having a material impact on the consolidated financial statements.

American Lung Association of the Northeast, Inc.
Notes to the Consolidated Financial Statements
As of and for the Year Ended June 30, 2014

Note 2 - Investments

Investments as of June 30, 2014 are stated at fair value and consist of the following:

	<u>Cost</u>	<u>Market Value</u>	<u>Net Unrealized Gain</u>
Cash equivalents	\$ 1,110,059	\$ 1,110,059	\$ -
Fixed income:			
U.S. government bonds	655,269	716,555	61,286
Foreign government bonds	1,579,440	1,584,087	4,647
Corporate bonds	1,469,679	1,568,390	98,711
Common stocks	5,711,128	8,651,617	2,940,489
Real estate investment trust	13,516	20,951	7,435
	<u>10,539,091</u>	<u>13,651,659</u>	<u>3,112,568</u>
Total	<u>\$10,539,091</u>	<u>\$13,651,659</u>	<u>\$3,112,568</u>

Investment return consisted of the following for the year ended June 30, 2014:

Interest and dividend income	\$ 381,168
Realized gains, net	258,634
Unrealized gains, net	<u>1,065,179</u>
Total investment return	<u>\$1,704,981</u>

Investment management fees for the year ended June 30, 2014 were \$40,793 and are included within the consolidated statement of activities.

Note 3 - Endowment

The change in endowment balance for the year ended June 30, 2014 consists of the following:

Balance, beginning of year	\$ 2,695,589
Net asset transfer	(346,943)
Dividend and interest income	2,244
Realized gains	2,424
Unrealized gains	<u>10,093</u>
Balance, end of year	<u>\$2,363,407</u>

American Lung Association of the Northeast, Inc.
Notes to the Consolidated Financial Statements
As of and for the Year Ended June 30, 2014

Note 3 - Endowment (continued)

Interpretation of Relevant Law: Management of the Organization has interpreted UPMIFA as requiring the preservation of the fair value of the original gift, as of the gift date, of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, permanently restricted net assets include: (a) the original value of gifts donated to establish the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment funds, if any, 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 donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until these amounts are appropriated for expenditure by the Organization in a manner consistent with the standard prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- Duration and preservation of the fund
- Purposes of the Organization and the donor-restricted endowment funds
- General economic conditions
- Possible effects of inflation and deflation
- Expected total return from income and the appreciation of investments
- Organization's other resources
- Organizations' investment policies

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 or UPMIFA requires in order to maintain the perpetual duration of the fund. Deficiencies of this nature are reported in unrestricted net assets and generally result from unfavorable market fluctuations. There were no deficiencies of this type as of June 30, 2014.

Return Objectives and Risk Parameters: The Organization's investment and spending policies for endowment assets attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets are invested in a manner that is intended to produce results that exceed the rate of inflation and allow spending of income in accordance with donor restrictions. To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Spending Policy: The Organization appropriates income from donor restricted endowment funds for expenditure in accordance with donor purpose and time restrictions. The Organization has not appropriated funds for expenditure from endowment funds for the year ended June 30, 2014.

American Lung Association of the Northeast, Inc.
Notes to the Consolidated Financial Statements
As of and for the Year Ended June 30, 2014

Note 4 - Fair Value

Financial assets which are measured at fair value as of June 30, 2014 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Cash and cash equivalents	\$ 1,110,059	\$ -	\$ -	\$ 1,110,059
U.S. government bonds	-	716,555	-	716,555
Foreign government bonds	-	1,584,087	-	1,584,087
Corporate bonds	-	1,568,390	-	1,568,390
Common stocks:				
Consumer and services	3,828,864	-	-	3,828,864
Science and technology	1,350,992	-	-	1,350,992
Basic industries	3,471,761	-	-	3,471,761
Real estate investment trust	-	20,951	-	20,951
Gift annuities receivable	-	-	67,042	67,042
Investments held in trust	-	-	9,067,351	9,067,351
	<u>\$ 9,761,676</u>	<u>\$ 3,889,983</u>	<u>\$ 9,134,393</u>	<u>\$ 22,786,052</u>

The following is a description of the valuation methodologies used for investments measured at fair value as of June 30, 2014:

The Organization's valuation techniques used to measure the fair value of cash and cash equivalents and common stocks were derived from quoted prices in active markets for identical assets or liabilities. The valuation techniques used to measure the fair value of all other financial instruments, all of which have counterparties with high credit ratings, were valued based on quoted market prices for similar instruments or model driven valuations using significant inputs derived from or corroborated by observable market data.

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 Organization 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 measurement at the reporting date.

The following are the changes within the gift annuities receivable and beneficial interest in trusts held by others for the years ended June 30, 2014, which are classified as Level 3 instruments within the fair value hierarchy:

Balance as of June 30, 2013	\$ 8,274,861
Change in market value	1,226,431
Trust distributions	<u>(366,899)</u>
Balance as of June 30, 2014	<u>\$9,134,393</u>

For the year ended June 30, 2014, there were no transfers in or out of Levels 1, 2 or 3.

American Lung Association of the Northeast, Inc.
Notes to the Consolidated Financial Statements
As of and for the Year Ended June 30, 2014

Note 4 - Fair Value (continued)

As of June 30, 2014, the Organization's other financial instruments included grants receivable, contributions receivable, prepaid expenses and other current assets, accounts payable, due to National, accrued expenses and other liabilities and deferred revenue. The carrying amounts reported in the consolidated statement of financial position for these financial instruments approximate their fair value.

The fair values assigned to annuity fund investments are based on the quoted fair values of the underlying securities as of the measurement date.

Note 5 - Gift Annuities Receivable

The Organization has several donor established gift annuities with original contributed principal of \$391,289. Upon death of the donor, the beneficiary interest remaining shall be paid to the Organization. The gifts have been designated for general operations and are held by a third party trustee. The Organization has valued the annuities based on the donor's life expectancy and the current market value of the gifts. As of June 30, 2014, the fair value of investments held from gift annuities was \$67,042. The obligations due under gift annuities are classified as annuities payable on the Organization's consolidated statement of financial position and amounted to \$141,624 as of June 30, 2014.

Note 6 - Property and Equipment

Property and equipment as of June 30, 2014 consists of the following:

Land	\$ 53,348
Buildings and improvements	1,262,895
Property and equipment	<u>172,709</u>
	1,488,952
Less: accumulated depreciation	<u>(906,964)</u>
Property and equipment, net	<u><u>\$581,988</u></u>

Depreciation expense for the year ended June 30, 2014 amounted to \$58,608.

Note 7 - Line of Credit

The Organization maintains a \$1,000,000 secured revolving line of credit with a bank. Interest on borrowings is payable monthly and is based upon the bank's base rate plus 0.50% (3.75% as of June 30, 2014). Principal is due on demand and the line is secured by substantially all of the Organization's unrestricted assets. The line of credit remains in effect until such time as the Organization and the bank agree to terminate the line of credit. There were no draw downs on the line of credit during the year ended June 30, 2014 and there was a zero balance as of June 30, 2014.

American Lung Association of the Northeast, Inc.
Notes to the Consolidated Financial Statements
As of and for the Year Ended June 30, 2014

Note 8 - Net Assets

Changes in net assets for temporary restricted and permanently restricted funds for the year ended June 30, 2014, were as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Balance as of July 1, 2013	\$ 400,496	\$ 10,890,520
Investment return:		
Interest and dividend income	31,583	2,244
Net change in market value	191,790	841,563
Net asset transfer	(207,742)	(367,869)
Expenditures	<u>(17,250)</u>	<u>-</u>
Balance as of June 30, 2014	<u>\$398,877</u>	<u>\$11,366,458</u>

Temporarily restricted net assets as of June 30, 2014 consist of the following:

Fellowships	\$ 165,480
Research	119,485
Time restriction	64,300
Lung health	43,578
Other as specified	<u>6,034</u>
	<u>\$398,877</u>

Net assets were released from donor restrictions by satisfying the restrictions specified by the donor in the amount of \$17,250 for the year ended June 30, 2014.

During 2014, management performed an extensive review of net asset classifications by reviewing and researching original documentation to properly and accurately reflect the current net assets. The net asset categories in the consolidated financial statements were reclassified by transferring \$207,742 from temporarily restricted net assets to unrestricted net assets.

Permanently restricted net assets as of June 30, 2014 consist of the following:

Investments in perpetuity, the income from which is unrestricted	\$ 1,246,312
Investments, the income from which is restricted as to purpose	1,016,984
Investments, the income from which is restricted	100,111
Beneficial interest in perpetual trusts	<u>9,003,051</u>
	<u>\$11,366,458</u>

American Lung Association of the Northeast, Inc.
Notes to the Consolidated Financial Statements
As of and for the Year Ended June 30, 2014

Note 8 - Net Assets (continued)

The majority of the permanently restricted net assets are held in trusts by independent third-party trustees. These trustees are responsible for investment decisions and determining the amount of the annual distributions to the Organizations which are available for unrestricted use.

Permanently restricted net assets totaling \$100,111 have a stipulation that the income and appreciation be accumulated and recorded as restricted net assets until 2089. Thereafter, the future earnings of the then principle may be expended on general operations.

Permanently restricted net assets, the income from which is restricted as to purpose consist of the following:

Research, study and treatment of lung disease	\$ 505,604
Fellowship grants to physicians for study and research in academic medicine involving pulmonary disease	195,540
Support of lung research in Connecticut	169,510
Fellowships or partial fellowships for the research, study and treatment of lung disease	106,449
Lung health for children in Maine	20,000
Purchase of library/educational materials	15,248
Activities in Rhode Island	<u>4,633</u>
	<u><u>\$1,016,984</u></u>

During 2014, management performed an extensive review of net asset classifications by reviewing and researching original documentation to properly and accurately reflect the current net assets. The net asset categories in the consolidated financial statements were reclassified by transferring \$367,869 from permanently restricted net assets to unrestricted net assets.

Note 9 - In-Kind and Other Contributions

In-kind contributions for the year ended June 30, 2014 consist of \$263,920 in radio, television and other advertising. Other contributions for the year ended June 30, 2014 consist of the following:

Individual Gifts	\$ 344,274
Memorials	302,525
Workplace Giving	161,229
Promotions	141,267
Other Contributions	109,474
In-kind Donations	<u>42,248</u>
	<u><u>\$ 1,101,017</u></u>

American Lung Association of the Northeast, Inc.
Notes to the Consolidated Financial Statements
As of and for the Year Ended June 30, 2014

Note 10 - Operating Leases

The Organization leases several of its facilities and certain equipment under operating lease agreements that expire at various dates through 2024. The facility leases require the Organization to maintain certain insurance coverage and in several cases pay its proportionate share of operating expenses. Certain facility leases contain rent escalation clauses tied to changes in the United States Department of Labor Bureau of Statistics Consumer Price Index.

Rent expense for facilities and equipment for the year ended June 30, 2014 was \$481,629 and \$65,710, respectively.

Future minimum lease payments due under these noncancelable operating lease obligations as of June 30, 2014 are as follows:

2015	\$ 462,063
2016	343,063
2017	305,220
2018	307,619
2019	275,475
Thereafter	<u>609,075</u>
	<u><u>\$2,302,515</u></u>

Note 11 - Pension Plans

The Organization offers two noncontributory, defined benefit pension plans, which are part of the National plan covering substantially all of its employees of the former ALANY and ALANE (the Plans). Benefits under the Plans are based on certain service requirements and were frozen as of June 30, 2010. Benefits earned up until June 30, 2010 were based on years of service and amount of compensation.

The Organization's Plans each have fewer than 500 participants and, therefore, management expects that the Plans will not be subject to the "at risk" funding requirements under the Pension Protection Act (PPA).

Benefit Obligation and Funded Status: A summary of the changes in the benefit obligation, the Plans' assets and funded status for the year ended June 30, 2014 follows:

	<u>ALANE</u>	<u>ALANY</u>	<u>Combined</u>
Change in projected benefit obligation:			
Benefit obligation, beginning of year	\$ 4,162,841	\$ 3,731,613	\$ 7,894,454
Interest cost	183,228	169,766	352,994
Benefits paid	(7,753)	(82,306)	(90,059)
Actuarial loss	507,038	311,317	818,355
Settlements	<u>(966,654)</u>	<u>-</u>	<u>(966,654)</u>
Benefit obligation, end of year	<u><u>\$3,878,700</u></u>	<u><u>\$4,130,390</u></u>	<u><u>\$8,009,090</u></u>

American Lung Association of the Northeast, Inc.
Notes to the Consolidated Financial Statements
As of and for the Year Ended June 30, 2014

Note 11 - Pension Plans (continued)

	<u>ALANE</u>	<u>ALANY</u>	<u>Combined</u>
Change in plan assets:			
Fair value of plan assets at beginning of year	\$ 3,059,211	\$ 2,784,805	\$ 5,844,016
Actual return on plan assets	280,664	296,332	576,996
Employer contributions	434,844	320,564	755,408
Benefits paid	(7,753)	(82,306)	(90,059)
Settlements	(966,654)	-	(966,654)
	<u>\$ 2,800,312</u>	<u>\$ 3,319,395</u>	<u>\$ 6,119,707</u>
Fair value of plan assets at end of year			
	<u>\$ 2,800,312</u>	<u>\$ 3,319,395</u>	<u>\$ 6,119,707</u>
Unfunded status of the plan at year end	<u>\$ 1,078,388</u>	<u>\$ 810,995</u>	<u>\$ 1,889,383</u>

The following tables summarize the Plans' funded status and amount recognized in the Organization's consolidated statement of financial position as of June 30, 2014:

	<u>ALANE</u>	<u>ALANY</u>	<u>Combined</u>
Projected benefit obligation	\$ 3,878,700	\$ 4,130,390	\$ 8,009,090
Fair value of plans' assets	<u>2,800,312</u>	<u>3,319,395</u>	<u>6,119,707</u>
Funded status	<u>\$ 1,078,388</u>	<u>\$ 810,995</u>	<u>\$ 1,889,383</u>
Accrued benefit obligation recognized in the consolidated statement of financial position	<u>\$ 1,078,388</u>	<u>\$ 810,995</u>	<u>\$ 1,889,383</u>

Weighted average assumptions used in determining the benefit obligation and the net periodic benefit cost for both plans as of June 30, 2014 were as follows:

Discount rate	4.75%
Expected return on plan assets	5.50%
Rate of compensation increase	n/a

The expected long-term rate of return on the Plans' assets was determined based on the average rate of earnings expected to be earned on the current and target asset allocations.

The Organization expects to contribute at least \$140,000 and \$94,000 to the ALANE and ALANY Plans, respectively, for the year ended June 30, 2015.

American Lung Association of the Northeast, Inc.
Notes to the Consolidated Financial Statements
As of and for the Year Ended June 30, 2014

Note 11 - Pension Plans (continued)

The following benefits payments, as appropriate, are expected to be paid over the next ten years:

<u>Year Ending June 30,</u>	<u>ALANE</u>	<u>ALANY</u>	<u>Combined</u>
2015	\$ 189,262	\$ 193,897	\$ 383,159
2016	\$ 291,474	\$ 290,755	\$ 582,229
2017	\$ 146,175	\$ 343,663	\$ 489,838
2018	\$ 152,616	\$ 225,909	\$ 378,525
2019	\$ 250,501	\$ 282,697	\$ 533,198
2020 - 2024	\$ 942,895	\$ 613,295	\$ 1,556,190

Unamortized actuarial losses recorded in unrestricted net assets as of June 30, 2014, not yet amortized as components of net periodic benefit cost amounted to \$973,263 for the ALANE plan and \$583,562 for the ALANY plan.

The Plans' funding is actuarially determined and is subject to certain tax law limitations. Substantially all the Plans' assets are actively managed. The weighted-average asset allocations for each major category of the Plans' assets as of June 30, 2014 are as follows:

	<u>Actual Allocation</u>	<u>Target Allocation</u>
Equity	23.86%	30.00%
Debt	65.58%	67.00%
Real estate	7.95%	0.00%
Cash and cash equivalents	2.61%	3.00%
	<u>100.00%</u>	<u>100.00%</u>

National seeks to achieve and maintain a fully funded status for the Plans while mitigating the funded status volatility. In order to meet its needs, the investment strategy of National 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 Plans is to match the risk characteristics of the pension liability.

American Lung Association of the Northeast, Inc.
Notes to the Consolidated Financial Statements
As of and for the Year Ended June 30, 2014

Note 11 - Pension Plans (continued)

Net periodic pension benefits cost includes the following for the year ended June 30, 2014:

	<u>ALANE</u>	<u>ALANY</u>	<u>Combined</u>
Interest cost	\$ 183,228	\$ 169,766	\$ 352,994
Recognized net loss	13,406	788	14,194
Settlement/curtailment recognition	242,558	-	242,558
Expected return on plan assets	<u>(154,647)</u>	<u>(148,305)</u>	<u>(302,952)</u>
	<u>\$ 284,545</u>	<u>\$ 22,249</u>	<u>\$ 306,794</u>

The following table presents information about the Plans' assets measured at fair value as of June 30, 2014, aggregated by the level in the fair value hierarchy within which those investments fall:

	<u>ALANE</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 73,088	\$ -	\$ -
Debt securities	-	1,836,445	-
Real estate	-	222,625	-
Equity securities	<u>668,154</u>	<u>-</u>	<u>-</u>
	<u>\$741,242</u>	<u>\$ 2,059,070</u>	<u>\$ -</u>
	<u>ALANY</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 86,636	\$ -	\$ -
Debt securities	-	2,176,859	-
Real estate	-	263,892	-
Equity securities	<u>792,008</u>	<u>-</u>	<u>-</u>
	<u>\$878,644</u>	<u>\$ 2,440,751</u>	<u>\$ -</u>

American Lung Association of the Northeast, Inc.
Notes to the Consolidated Financial Statements
As of and for the Year Ended June 30, 2014

Note 11 - Pension Plans (continued)

Defined Contribution Plan: The Organization sponsors a defined contribution plan covering substantially all of its employees who meet certain eligibility requirements. The Organization may make contributions to the plan as periodically determined. The Organization paid or accrued \$240,381 in matching and discretionary contributions to the Plan during the year ended June 30, 2014. These amounts are reflected in the consolidated statement of activities.

Note 12 - Joint Costs

The Organization has allocated the joint costs of providing educational materials that include a fundraising appeal. Only those joint activities that include programmatic, fundraising and management and general components are included in this allocation; therefore, the amounts reflected below do not include the total expenses presented in the accompanying consolidated statements of activities. For the year ended June 30, 2014, the allocation of joint costs is summarized as follows:

Program services	\$ 1,389,850
Fundraising	804,130
Administration	<u>132,446</u>
Total	<u><u>\$2,326,426</u></u>

Note 13 - Related Party Transactions

The Organization is a Chartered Association of and pays an annual assessment to National. The Organization is also required to pay National a percentage of its net direct mail revenue. The total paid to National during the year ended June 30, 2014 for the assessment and direct mail percentage was \$997,802 and \$326,611, respectively.

National coordinates substantially all of the research funded by the Organization and the other chartered associations. During the year ended June 30, 2014 the Organization paid National \$1,689,789 for research based activities. The Organization also paid National \$1,418,580 during the year ended June 30, 2014 for its share of the nationwide Lung Force Campaign.

National provides certain administrative services and functions to the charters on a reimbursable basis. The Organization paid \$244,884 during the year ended June 30, 2014 for these services. As of June 30, 2014, the Organization had accounts payable to National totaling \$342,117. This amount is recorded in due to National in the consolidated statement of financial position.

Note 14 - Deferred Revenue

As of June 30, 2014, \$749,000 of the deferred revenue balance was for advances received by the Organization. These funds are restricted for use in funding a woodstove change out rebate program and are classified within cash and cash equivalents on the consolidated statement of financial position.

American Lung Association of the Northeast, Inc.
Notes to the Consolidated Financial Statements
As of and for the Year Ended June 30, 2014

Note 15 - Indemnification

In the ordinary course of business, the Organization enters into various agreements containing standard indemnification provisions. June 30, 2014, no amounts have been accrued related to such indemnification provisions.

Note 16 - Risks and Uncertainties

Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statement of financial position.

In addition, the pension plans invest in various investments securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statement of financial position.

American Lung Association of the Northeast, Inc.
Consolidating Statement of Financial Position
June 30, 2014

American Lung Association of the Northeast, Inc.				
	ALANE	MLH	Eliminations	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 3,302,428	\$ -	\$ -	\$ 3,302,428
Due from related party	-	179,488	(179,488)	-
Grants receivable	869,482	-	-	869,482
Contributions receivable	1,639,337	-	-	1,639,337
Prepaid expenses and other current assets	134,863	-	-	134,863
Total current assets	5,946,110	179,488	(179,488)	5,946,110
Investments	12,592,198	1,059,461	-	13,651,659
Gift annuities receivable	67,042	-	-	67,042
Beneficial interest in charitable remainder trust	64,300	-	-	64,300
Property and equipment, net	521,941	60,047	-	581,988
Beneficial interest in perpetual trusts	7,747,084	1,255,967	-	9,003,051
Total assets	\$ 26,938,675	\$ 2,554,963	\$ (179,488)	\$ 29,314,150
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	\$ 1,234,663	\$ -	\$ -	\$ 1,234,663
Due to National	342,117	-	-	342,117
Due to related party	179,488	-	(179,488)	-
Accrued expenses and other liabilities	244,245	-	-	244,245
Annuities payable	141,624	-	-	141,624
Deferred revenue	1,167,906	-	-	1,167,906
Total current liabilities	3,310,043	-	(179,488)	3,130,555
Accrued pension obligation	1,889,383	-	-	1,889,383
Total liabilities	5,199,426	-	(179,488)	5,019,938
Net assets:				
Unrestricted:				
Available for operations	11,300,379	646,510	-	11,946,889
Investment in capital assets	521,941	60,047	-	581,988
Temporarily restricted	398,877	-	-	398,877
Permanently restricted	9,518,052	1,848,406	-	11,366,458
Total net assets	21,739,249	2,554,963	-	24,294,212
Total liabilities and net assets	\$26,938,675	\$2,554,963	(\$179,488)	\$29,314,150

See accompanying independent auditors' report on supplementary information.

American Lung Association of the Northeast, Inc.
Consolidating Statement of Activities
For the Year Ended June 30, 2014

	American Lung Association of the Northeast, Inc.				Mass Lung Health			Eliminations	Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Permanently Restricted	Total		
Public support and revenue:									
Public support:									
Bequests	\$ 5,377,069	\$ -	\$ -	\$ 5,377,069	\$ -	\$ -	\$ -	\$ -	\$ 5,377,069
Direct mail	3,417,344	-	-	3,417,344	-	-	-	-	3,417,344
Special events, net of direct expenses of \$751,302	2,957,792	-	-	2,957,792	-	-	-	-	2,957,792
Donated professional services	263,920	-	-	263,920	-	-	-	-	263,920
Other contributions	1,101,017	-	-	1,101,017	-	-	-	-	1,101,017
Total contributions and donations	13,117,142	-	-	13,117,142	-	-	-	-	13,117,142
Revenue:									
Government grants	4,340,946	-	-	4,340,946	-	-	-	-	4,340,946
Grants from National	391,137	-	-	391,137	-	-	-	-	391,137
Interest and dividend income	326,526	31,583	-	358,109	23,450	2,244	25,694	-	383,803
Income from perpetual trusts	332,817	-	-	332,817	34,082	-	34,082	-	366,899
Program service fees and other revenue	215,155	-	-	215,155	12,000	-	12,000	(12,000)	215,155
Corporate and other grants	179,031	-	-	179,031	-	-	-	-	179,031
Total revenue	5,785,612	31,583	-	5,817,195	69,532	2,244	71,776	(12,000)	5,876,971
Assets released from restrictions	17,250	(17,250)	-	-	-	-	-	-	-
Total public support and revenue	18,920,004	14,333	-	18,934,337	69,532	2,244	71,776	(12,000)	18,994,113
Expenses:									
Program services	16,639,537	-	-	16,639,537	11,588	-	11,588	(10,725)	16,640,400
Fundraising	1,417,180	-	-	1,417,180	7,490	-	7,490	(917)	1,423,753
Management and general	579,509	-	-	579,509	7,257	-	7,257	(358)	586,408
Total expenses	18,636,226	-	-	18,636,226	26,335	-	26,335	(12,000)	18,650,561
Change in net assets from operations	283,778	14,333	-	298,111	43,197	2,244	45,441	-	343,552
Non-operating activities:									
Net asset transfer	228,668	(207,742)	(20,926)	-	346,943	(346,943)	-	-	-
Pension-related changes other than net periodic pension cost	(287,559)	-	-	(287,559)	-	-	-	-	(287,559)
Change in gift annuities, net	27,054	-	-	27,054	-	-	-	-	27,054
Change in value of investments held in trust	-	43,374	683,797	727,171	-	145,249	145,249	-	872,420
Realized and unrealized gains on investments, net	1,065,422	148,416	-	1,213,838	97,458	12,517	109,975	-	1,323,813
Total change in net assets	1,317,363	(1,619)	662,871	1,978,615	487,598	(186,933)	300,665	-	2,279,280
Net assets, beginning of year	10,504,957	400,496	8,855,181	19,760,634	218,959	2,035,339	2,254,298	-	22,014,932
Net assets, end of year	\$ 11,822,320	\$ 398,877	\$ 9,518,052	\$ 21,739,249	\$ 706,557	\$ 1,848,406	\$ 2,554,963	\$ -	\$ 24,294,212

See accompanying independent auditors' report on supplementary information.



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 Audit Committee of the Board of Directors of
American Lung Association of the Northeast, Inc.:

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 consolidated financial statements of American Lung Association of the Northeast, Inc. (the Organization), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 30, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 consolidated 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 Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Saslow Lufkin & Buggy, LLP

Simsbury, Connecticut

September 30, 2014