

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, 2013



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, 2013

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Independent Auditors' Report

To 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, 2013, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended.

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, 2013, 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 companies. 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 October 26, 2013, 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

Avon, Connecticut
October 26, 2013

American Lung Association of the Northeast, Inc.
Consolidated Statement of Financial Position
June 30, 2013

Assets	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current assets:				
Cash	\$ 2,845,801	\$ -	\$ -	\$ 2,845,801
Cash equivalents held in investment portfolio	1,991,135	-	-	1,991,135
Accounts receivable	366,160	-	-	366,160
Grants receivable	1,481,182	-	-	1,481,182
Pledges receivable, net	149,379	-	-	149,379
Bequests receivable	38,754	-	-	38,754
Prepaid expenses and other current assets	126,596	-	-	126,596
Total current assets	6,999,007	-	-	6,999,007
Investments	6,937,951	320,566	2,695,588	9,954,105
Investments held in trust	-	-	8,194,932	8,194,932
Certificates of deposit	38,615	-	-	38,615
Security deposits	89,067	-	-	89,067
Gift annuities receivable	-	79,930	-	79,930
Property and equipment, net	699,590	-	-	699,590
Total assets	\$ 14,764,230	\$ 400,496	\$ 10,890,520	\$ 26,055,246
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	\$ 566,047	\$ -	\$ -	\$ 566,047
Due to national	212,779	-	-	212,779
Accrued expenses and other liabilities	336,562	-	-	336,562
Annuities payable	181,568	-	-	181,568
Deferred rent payable	63,903	-	-	63,903
Deferred revenue	629,017	-	-	629,017
Total current liabilities	1,989,876	-	-	1,989,876
Accrued pension expense	2,050,438	-	-	2,050,438
Total liabilities	4,040,314	-	-	4,040,314
Net assets:				
Unrestricted	10,723,916	-	-	10,723,916
Temporarily restricted	-	400,496	-	400,496
Permanently restricted	-	-	10,890,520	10,890,520
Total net assets	10,723,916	400,496	10,890,520	22,014,932
Total liabilities and net assets	\$ 14,764,230	\$ 400,496	\$ 10,890,520	\$ 26,055,246

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, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenue:				
Contributions and donations:				
Direct mail	\$ 3,720,833	\$ -	\$ -	\$ 3,720,833
Special events, net of direct expenses of \$673,476	2,734,745	-	-	2,734,745
Bequests	2,400,033	-	-	2,400,033
Donated professional services	468,145	-	-	468,145
Other contributions:				
Memorials	350,141	-	-	350,141
Individual gifts	201,318	8,565	-	209,883
Workplace giving	205,934	-	-	205,934
Fundraising	191,340	-	-	191,340
Corporate gifts	20,621	-	-	20,621
Total contributions and donations	10,293,110	8,565	-	10,301,675
Revenue:				
Corporate grants	290,997	-	-	290,997
Government grants	3,687,013	-	-	3,687,013
Interest and dividend income	361,567	-	-	361,567
Program service fees	1,219,457	-	-	1,219,457
Income from perpetual trusts	342,662	-	-	342,662
Grants from national	322,917	-	-	322,917
Other revenue	61,942	-	-	61,942
Foundation grants	127,060	-	-	127,060
Total revenue	6,413,615	-	-	6,413,615
Assets released from restrictions	3,500	(3,500)	-	-
Total public support and revenue	<u>\$ 16,710,225</u>	<u>\$ 5,065</u>	<u>\$ -</u>	<u>\$ 16,715,290</u>

See accompanying notes to the consolidated financial statements.

American Lung Association of the Northeast, Inc.
Consolidated Statement of Activities (continued)
For the Year Ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Expenses:				
Program services:				
Environmental health	\$ 1,757,459	\$ -	\$ -	\$ 1,757,459
Tobacco control	6,322,962	-	-	6,322,962
Community health services	1,165,909	-	-	1,165,909
Other lung diseases	1,416,018	-	-	1,416,018
Asthma	2,485,277	-	-	2,485,277
Research	708,482	-	-	708,482
Total program services	13,856,107	-	-	13,856,107
Supporting services:				
Fundraising	1,981,751	-	-	1,981,751
Management and general	535,436	-	-	535,436
Total supporting services	2,517,187	-	-	2,517,187
Total expenses	16,373,294	-	-	16,373,294
Change in net assets from operations	336,931	5,065	-	341,996
Non-operating activities:				
Pension-related changes other than net periodic pension cost	120,576	-	-	120,576
Change in gift annuity obligation	(98,073)	-	-	(98,073)
Change in value of gift annuities	-	(35,505)	-	(35,505)
Change in value of investments held in trust	-	-	466,101	466,101
Realized and unrealized gains on investments, net	385,964	17,928	167,461	571,353
Total change in net assets	745,398	(12,512)	633,562	1,366,448
Net assets, beginning of year	9,978,518	413,008	10,256,958	20,648,484
Net assets, end of year	<u>\$ 10,723,916</u>	<u>\$ 400,496</u>	<u>\$ 10,890,520</u>	<u>\$ 22,014,932</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, 2013

	Program Services					Supporting Activities			Total Expenses
	Asthma	Environmental Health	Tobacco Control	Community Health Services	Other Lung Disease	Research	Fundraising	Management and General	
Salaries and related expenses:									
Salaries	\$ 846,729	\$ 597,032	\$ 1,492,521	\$ 443,946	\$ 507,579	\$ 53,963	\$ 467,094	\$ 180,378	\$ 4,589,242
Employee benefits	175,404	123,678	309,183	91,966	105,147	11,179	96,761	37,366	950,684
Payroll taxes	63,066	44,468	111,167	33,066	37,806	4,019	34,790	13,435	341,817
Total salaries and related expenses	1,085,199	765,178	1,912,871	568,978	650,532	69,161	598,645	231,179	5,881,743
Expenses before assessment:									
Direct mail	323,541	228,130	570,302	169,635	193,949	20,620	831,959	151,126	2,489,262
Professional and contracted services	99,542	256,975	387,614	34,894	46,131	3,512	95,570	10,427	934,665
Building and occupancy	158,112	84,600	348,303	71,173	81,866	8,626	74,893	28,742	856,315
Printing, media and advertising	187,577	109,039	2,107,189	76,932	110,811	9,161	97,362	8,183	2,706,254
Research	-	-	-	-	-	472,220	-	-	472,220
Other direct expenses	97,056	36,412	150,454	27,385	32,733	3,253	64,045	8,558	419,896
Equipment rental and maintenance	22,948	14,408	47,171	10,613	12,134	1,290	10,455	4,312	123,331
Meetings and conferences	43,398	7,558	28,387	15,125	52,659	355	17,288	1,023	165,793
Travel and transportation	45,506	18,376	101,583	16,677	18,578	993	41,918	2,641	246,272
Postage and shipping	23,452	7,393	27,621	5,440	9,050	655	17,628	2,181	93,420
Supplies	106,413	24,501	109,704	9,384	21,048	661	49,212	2,145	323,068
Business insurance	25,255	16,529	48,899	12,291	14,053	1,494	12,932	4,994	136,447
Depreciation	15,483	10,917	33,052	8,118	9,281	987	8,541	3,298	89,677
Dues and subscriptions	3,584	2,429	10,587	8,125	1,995	198	3,552	543	31,013
Awards and grants	-	-	1,707	1,000	-	-	1,000	-	3,707
Total expenses before assessment	1,151,867	817,267	3,972,573	466,792	604,288	524,025	1,326,355	228,173	9,091,340
Assessment to national	248,211	175,014	437,518	130,139	161,198	115,296	56,751	76,084	1,400,211
Total expenses	<u>\$ 2,485,277</u>	<u>\$ 1,757,459</u>	<u>\$ 6,322,962</u>	<u>\$ 1,165,909</u>	<u>\$ 1,416,018</u>	<u>\$ 708,482</u>	<u>\$ 1,981,751</u>	<u>\$ 535,436</u>	<u>\$ 16,373,294</u>

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, 2013

Cash flows from operations:	
Change in net assets	\$ 1,366,448
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	89,677
Bad debt expense	47,541
Realized and unrealized gains on investments	(571,353)
Change in value of perpetual trusts	(466,101)
Changes in operating assets and liabilities:	
Accounts receivable	(227,048)
Grants receivable	(456,134)
Pledges receivable	(143,473)
Bequests receivable	508,270
Prepaid expenses and other current assets	13,364
Gift annuities receivable	35,505
Accounts payable	101,666
Due to national	76,889
Accrued expenses and other liabilities	182,463
Annuities payable	98,070
Deferred rent payable	42,347
Deferred revenue	407,276
Accrued pension expense	(195,435)
	909,972
Net cash provided by operating activities	909,972
Cash flows from investing activities:	
Security deposits	(9,908)
Purchases of investments	(311,016)
Sales of investments	720,863
Purchases of property and equipment	(71,176)
	328,763
Net cash provided by investing activities	328,763
Change in cash and cash equivalents	1,238,735
Cash and cash equivalents, beginning of year	3,598,201
Cash and cash equivalents, end of year	\$ 4,836,936

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, 2013

Note 1 - Organization

The American Lung Association of the Northeast, Inc. (the Organization), a not-for-profit organization, is a constituent of the American Lung Association (ALA). The Organization provides services in keeping with its mission to prevent lung disease and promote lung health. Its principal programs encompass respiratory concerns such as emphysema, bronchitis, asthma, lung cancer, smoking (including cessation programs and issues of involuntary smoking) and environmental health including indoor and outdoor air quality.

On July 1, 2007, the American Lung Association of New England, Inc. (ALANE) was formed when ALA Maine, ALA Vermont, Mass Lung Health (formerly known as ALA Massachusetts at the time), ALA Rhode Island and ALA Connecticut all merged due to an ALA mandate, which required all Lung Associations to form regional, multi-state organizations.

On July 1, 2012, the Organization was formed when ALANE and American Lung Association of the 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, 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. Mass Lung Health is included in the consolidated financial statements as it is controlled by the Organization.

Note 2 - Significant Accounting Policies

Basis of Presentation - The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). 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.

Net Assets - The Organization's net assets and activities that increase or decrease net assets have been classified into the following three classifications:

Unrestricted Net Assets - consists of those amounts that are available for operations and support in carrying out the purpose of the Organization. Unrestricted net assets are assets without any donor-imposed restrictions as to their use.

Temporarily Restricted Net Assets - consists of those amounts that are donor restricted for a specific time period or purpose. When a donor restriction expires, either by the passage of a stipulated time restriction or by the accomplishment of a specific purpose restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. The Organization has elected, however, to show those restricted contributions whose restrictions are met in the same reporting period as they are received as unrestricted support. Temporarily restricted net assets were \$400,496 as of June 30, 2013.

American Lung Association of the Northeast, Inc.
Notes to the Consolidated Financial Statements
As of and for the Year Ended June 30, 2013

Note 2 - Significant Accounting Policies (continued)

Permanently Restricted Net Assets - consists of the Organization's beneficial interest in certain trusts and resources of which the original principal is restricted by the donors for investment in perpetuity. Generally, the donor of these assets permits the Organization to use the income earned on any related investments for operations. Permanently restricted net assets were \$10,890,520 as of June 30, 2013.

The majority of the permanently restricted net assets are held in a trust by independent third party trustees. These trustees are responsible for investment decisions and determining the amount of the annual distribution to the Organization.

Accrual Basis - The consolidated financial statements have been prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables and other liabilities.

Use of Estimates - The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - The Organization classifies certain securities with original maturity dates of three months or less from the date of purchase as cash equivalents. Cash equivalents are comprised of money market funds and certificates of deposit. The Federal Deposit Insurance Corporation (FDIC) insures cash balances up to \$250,000 per depositor, per bank. Amounts in excess of the FDIC limit are uninsured. It is the Organization's policy to monitor the financial strength of the banks that hold its deposits on an ongoing basis. During the normal course of business, the Organization maintains cash balances in excess of the FDIC insurance limit. The Organization's uninsured amount of cash, cash equivalents and investments is \$13,710,431 as of June 30, 2013.

Money market funds are not insured by the FDIC and are not a risk-free investment. Money market funds invest in a variety of instruments including mortgage-backed and asset-backed securities. Although a money market fund seeks to preserve its one dollar per share value, it is possible that a money market fund's value can decrease below one dollar per share.

Certificates of Deposit - The Organization holds certificates of deposit with varying maturity dates. These certificates of deposit are carried based on the amount deposited in the account, plus interest, which approximates fair value. The certificates of deposit are subject to early withdrawal penalties. These certificates of deposit are insured by the FDIC and are subject to the \$250,000 limit per depositor, per bank.

Accounts and Grants Receivable - The Organization has accounts and grants receivable balances due from various contributors. Management reviews the accounts and grants receivable balances for collectability and may record an allowance for doubtful accounts based on historical information and current economic conditions. No allowance for doubtful accounts was recorded as of June 30, 2013 as management deemed all receivable balances to be fully collectible.

As of June 30, 2013, approximately 67% of all accounts and grants receivable were due from the State of New York Department of Health (DOH). Additionally, for the year ended June 30, 2013, approximately 18% of the Organization's total support and revenue was earned under contracts with New York State.

American Lung Association of the Northeast, Inc.
Notes to the Consolidated Financial Statements
As of and for the Year Ended June 30, 2013

Note 2 - Significant Accounting Policies (continued)

Pledges and Bequests Receivable - Pledges and bequests receivable are recorded in the period received. Pledges and bequests expected to be received in more than one year are discounted to their present value. Management reviews the pledges receivable balance for collectability and may record an allowance for uncollectible pledges based on historical information and current economic conditions. As of June 30, 2013, the Organization recorded an allowance for uncollectible pledges of \$8,590. Pledges receivable consists of unconditional pledges received from individuals and are all due in fiscal 2013.

Property and Equipment - Property and equipment with a value greater than \$500 is stated at cost if purchased or at fair market value on the date of the gift if donated. Repairs and maintenance that do not significantly extend the useful lives of property and equipment are expensed as incurred.

Depreciation is calculated on a straight-line basis over the expected useful lives of the assets as follows:

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

The Organization reviews long-lived assets for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

Investments - The Organization reports its investments at fair value. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the consolidated statement of activities as an increase or decrease in unrestricted net assets, unless the income or loss is restricted by donor or state law.

Deferred Revenue - Fees from special events are deferred and recognized as revenue in the period in which the events take place. In addition, revenue from grants is deferred and recognized in the period in which the services are performed.

Deferred Rent Payable - Deferred rent payable represents the difference between rental expense determined on a straight-line basis, in accordance with accounting principles generally accepted in the United States of America, and the stated amount per the lease agreement. The Organization has one lease with various payment escalations for increases in real estate taxes and other operating expenses.

Gift Annuities - The Organization holds life annuities, classified as temporarily restricted net assets, 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. All of the life annuities become unrestricted net assets upon the annuitant's death.

Contributions - Contributions are recognized when received and are considered available for unrestricted use unless specifically restricted by the donor. Nongovernmental contributions and cash grants are recorded as temporarily restricted support if they are received with donor stipulations that limit their use. When the donor restriction has been satisfied by the passage of time or the accomplishment of a specific purpose, temporarily restricted net assets are reclassified to unrestricted net assets. The satisfied amount is reported in the consolidated statement of activities as net assets released from restriction.

American Lung Association of the Northeast, Inc.
Notes to the Consolidated Financial Statements
As of and for the Year Ended June 30, 2013

Note 2 - Significant Accounting Policies (continued)

The Organization reports gifts of land, buildings and equipment as unrestricted support. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Revenue - Revenue from private charitable organizations, other unrestricted grants and contributions are recorded when unconditionally committed or received.

Functional Allocation of Expenses - The cost of providing the various programs and other activities has been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising Costs - The Organization expenses the cost of advertising as incurred. Advertising expense was \$2,706,254 for the year ended June 30, 2013. Included within advertising expenses was \$468,145 of donated advertising services during the year ended June 30, 2013, which has been recognized as donated professional services revenue on the accompanying statement of activities in accordance with GAAP.

Income Taxes - The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified by the Internal Revenue Service (IRS) as a publicly supported organization, which is not a private foundation.

The Organization accounts for income taxes in accordance with FASB ASC 740, "Income Taxes." FASB ASC 740 is an asset and liability method, which requires the recognition of deferred tax assets and liabilities. The Organization, under certain provisions of FASB ASC 740, accounts for how uncertain tax positions should be recognized, measured, presented and disclosed within their financial statements. The Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

The Organization did not have any uncertain tax positions as of June 30, 2013. As of June 30, 2013, the Organization did not record any penalties or interest associated with uncertain tax positions. The past three years are open and subject to IRS examination.

Subsequent Events - Subsequent events have been evaluated through October 26, 2013, which is the date the consolidated financial statements were available to be issued. Management 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, 2013

Note 3 - Investments

Investments consisted of the following as of June 30, 2013:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
Cash equivalents	\$ 1,991,135	\$ 1,991,135	\$ -
Fixed income:			
U.S. government bonds	466,235	484,014	17,779
Foreign government bonds	1,430,301	1,387,586	(42,715)
Corporate bonds	1,404,729	1,500,860	96,131
Government asset-backed	19,115	19,115	-
Common stocks	4,736,022	6,533,397	1,797,375
Real Estate	14,377	19,898	5,521
Investment in Foundation Global Fund	7,912	9,235	1,323
	<u>\$ 10,069,826</u>	<u>\$ 11,945,240</u>	<u>\$ 1,875,414</u>

Investment return consisted of the following for the year ended June 30, 2013:

Interest and dividend income	\$ 361,567
Realized and unrealized gains, net	571,353
Investment expenses	<u>(3,140)</u>
Total investment return	<u>\$ 929,780</u>

The Organization's investment management policy is designed to preserve capital and control risk while also achieving a balanced return of current income and principal growth. The Organization's net realized gains amounted to \$76,100 for the year ended June 30, 2013.

Note 4 - 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 GAAP, the Organization has recorded its beneficial interest in these trusts of \$8,194,932 on the accompanying consolidated statement of financial position as of June 30, 2013. Income distributed to the Organization during the year ended June 30, 2013 was \$342,662.

American Lung Association of the Northeast, Inc.
Notes to the Consolidated Financial Statements
As of and for the Year Ended June 30, 2013

Note 5 - Fair Values of Financial Instruments

The Organization measures fair value in accordance with FASB ASC 820, “*Fair Value Measurements and Disclosures*.” FASB ASC 820 provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels 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 in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs other than quoted prices that are observable for the asset; or
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset has specified (contractual) terms, the Level 2 input must be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs reflecting the Organization’s estimates of the assumptions that market participants would use in pricing the asset (including assumptions about risk).

The asset’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.

Financial assets carried at fair value as of June 30, 2013 are classified as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash & cash equivalents	\$ 4,836,936	\$ -	\$ -
Certificates of deposit	38,615	-	-
Investments:			
U.S. government bonds	-	484,014	-
Foreign government bonds	-	1,387,586	-
Corporate bonds	-	1,500,860	-
Government asset-backed	-	19,115	-
Common stocks:			
Consumer and services	3,193,933	-	-
Science and technology	998,848	-	-
Basic industries	2,340,616	-	-
Real estate		19,898	
Investment in Foundation Global Fund	-	9,235	-
Gift annuities receivable	-	-	79,930
Investments held in trust	-	-	8,194,932
	<u>\$ 11,408,948</u>	<u>\$ 3,420,708</u>	<u>\$ 8,274,862</u>

During 2013, the Organization’s Level 3 investments, which consisted of the investments held in trust, increased by \$466,101 for changes in market values of the underlying investment and trust assets and decreased by \$342,662 for distributions from the trusts.

American Lung Association of the Northeast, Inc.
Notes to the Consolidated Financial Statements
As of and for the Year Ended June 30, 2013

Note 5 - Fair Values of Financial Instruments (continued)

The following is a description of the valuation methodologies used for investments measured at fair value as of June 30, 2013:

Money market funds and equity securities: Valued at the closing price reported on the active market on which the individual securities are traded.

United States treasury and government agencies/ foreign governments: Primary inputs also include observations of credit default swap curves related to the issuer and political events in emerging markets.

Corporate bonds: Primary inputs also include observations of credit default swap curves related to the issuer.

Real estate and investment in Foundation Global Fund: Valued based on quoted market prices or model driven valuations using significant inputs derived from or corroborated by observable market data.

Investments held in trust: Valued based on the Organization's beneficial percentage share of the aggregate fair market value of the underlying securities held in the trust as determined by the closing price reported on the active market on which identical or similar securities are traded.

Note 6 - Gift Annuities Receivable

The Organization has several donor established gift annuities with original contributed principal of \$503,289. 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, 2013, the fair value of investments held from gift annuities was \$79,930. The obligations due under gift annuities are classified as annuities payable on the Organization's statement of financial position and amounted to \$181,568 as of June 30, 2013.

Note 7 - Property and Equipment

Property and equipment consisted of the following as of June 30, 2013:

Land	\$	53,348
Buildings and improvements		1,399,477
Property and equipment		489,985
		1,942,810
Less: accumulated depreciation		(1,243,220)
Property and equipment, net	\$	699,590

American Lung Association of the Northeast, Inc.
Notes to the Consolidated Financial Statements
As of and for the Year Ended June 30, 2013

Note 8 - Net Assets

Temporarily restricted net assets are restricted for the following as of June 30, 2013:

Research	\$	132,375
Asthma education		23,872
Fellowships		144,534
Time		19,785
Gift annuities receivable		79,930
		79,930
		\$ 400,496

Net assets were released from donor restrictions by satisfying the restrictions specified by the donor in the amount of \$3,500 for the year ended June 30, 2013.

Permanently restricted net assets consisted of the following as of June 30, 2013:

Investments in perpetuity, the income from which is unrestricted	\$	2,603,847
Investments, the income from which is restricted as to purpose		39,372
Investments, the income from which is restricted		52,369
Beneficial interest in perpetual trusts		8,194,932
		8,194,932
		\$ 10,890,520

Permanently restricted net assets as of June 30, 2013 consist of contribution funds, the principal of which must be held perpetually, and perpetual trusts. From the perpetual trusts, the Organization receives annual income distributions, unrestricted as to use.

Permanently restricted net assets totaling \$52,369 have a stipulation that the income be accumulated and recorded as restricted net assets until 2089. Thereafter, the accumulated income can be expended on general operations. Permanently restricted net assets totaling \$39,372 stipulate that the income earned on these net assets be used for library purchases, patient services and lung health for children in Maine.

The Organization's endowment consists of a few investments that are permanently restricted. As required by GAAP, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor restrictions. The Organization has interpreted the relevant laws as allowing the Organization to appropriate for expenditure or accumulate earnings as the Organization determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor restricted assets until appropriated for expenditure by the Organization. Net assets associated with permanent endowments are classified as permanently restricted at historical value.

The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the Organization and the donor-restricted endowment fund; (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 Organization; and (7) the investment policies of the Organization.

American Lung Association of the Northeast, Inc.
Notes to the Consolidated Financial Statements
As of and for the Year Ended June 30, 2013

Note 8 - Net Assets (continued)

Changes in permanently restricted endowment net assets for the year ended June 30, 2013 are as follows:

Balance, beginning of year	\$	2,528,127
Unrealized gains		167,461
Balance, end of year	\$	2,695,588

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 relevant law requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of June 30, 2013, there were no funds that were below the level required by donor or law.

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.

Strategies Employed for Achieving Objectives - 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, 2013.

Note 9 - Operating Leases

The Organization has various operating lease agreements for its facilities and certain equipment. These leases have monthly payments ranging from \$60 to \$14,883 with various expiration dates between September 2013 and October 2023.

Future minimum lease payments on the aforementioned leases as of June 30, 2013 on a fiscal year basis are as follows:

2014	\$	492,516
2015		432,989
2016		316,044
2017		260,270
2018		226,580
Thereafter		761,375
	\$	2,489,774

Rent expense for the year ended June 30, 2013 was \$540,621.

American Lung Association of the Northeast, Inc.
Notes to the Consolidated Financial Statements
As of and for the Year Ended June 30, 2013

Note 10 - Related Party Transactions

The Organization is a Chartered Association of ALA and thus is required to pay an annual assessment fee. The Organization is also required to remit thirty percent (30%) of its net direct mail revenue to ALA, as well as thirteen percent (13%) of shareable bequests where the donor was deceased prior to June 30, 2009. During the year ended June 30, 2013, the Organization remitted \$353,139 under the terms of this agreement, which pertains only to direct mail and shareable bequests. As of June 30, 2013, the Organization had accounts payable to ALA totaling \$212,779. This amount is recorded in due to national in the consolidated statement of financial position.

Note 11 - Pension Plans

The Organization has two noncontributory, defined benefit pension plans, which are part of the ALA National plan covering substantially all of its employees of the former ALANY and ALANE. The plans have been frozen effective June 30, 2010, and participants are no longer accruing further benefits. Plan assets primarily consist of listed securities. Changes in these values attributable to differences between actual and assumed returns on plan assets are deferred as unrecognized gains or losses and amortized in the determination of net pension expense over time.

The following table sets forth the plans' funded status reconciled with the amounts recognized in the Organization's consolidated statement of financial position as of June 30, 2013:

Change in projected benefit obligation:	
Benefit obligation, beginning of year	\$ 8,434,200
Interest cost	336,400
Actuarial gain	(306,237)
Settlements	(420,035)
Benefits paid	<u>(149,874)</u>
Benefit obligation, end of year	<u><u>\$ 7,894,454</u></u>
Change in plan assets:	
Fair value of plan assets, beginning of year	\$ 6,188,327
Actual return on plan assets	(402)
Employer contributions prior to measurement date	226,000
Settlements	(420,035)
Benefits paid	<u>(149,874)</u>
Fair value of plan assets, end of year	<u><u>\$ 5,844,016</u></u>
Unfunded status of the plans, end of year	<u><u>\$ 2,050,438</u></u>

American Lung Association of the Northeast, Inc.
Notes to the Consolidated Financial Statements
As of and for the Year Ended June 30, 2013

Note 11 - Pension Plans (continued)

Net periodic benefit costs recognized within employee benefit expenses are as follows as of June 30, 2013:

Interest cost	\$ 336,400
Recognized net loss	16,311
Settlement/curtailment recognition	85,585
Expected return on plan assets	<u>(287,155)</u>
	<u>\$ 151,141</u>

The plans' accumulated benefit obligation was \$2,050,438 as of June 30, 2013.

The assumptions used in the measurement of the Organization's benefit obligation are as follows as of June 30, 2013:

Discount rate	4.75%
Rate of compensation increase	3.00%

Weighted average assumptions used to measure the Organization's net periodic pension cost for the year ended June 30, 2013:

Discount rate	4.25%
Rate of compensation increase	3.00%
Expected return on plan assets	6.00%

Amounts recorded in unrestricted net assets as of June 30, 2013 not yet amortized as a component of net periodic benefit cost represent unamortized actuarial losses of \$1,269,266.

The fair values of the plans' assets by asset category are as follows as of June 30, 2013:

	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 261,812	\$ -	\$ -
Debt securities	4,232,821	-	-
Real estate	-	215,644	-
Equity securities	<u>1,133,739</u>	<u>-</u>	<u>-</u>
	<u>\$ 5,628,372</u>	<u>\$ 215,644</u>	<u>\$ -</u>

The plans' asset allocation allows the Organization to focus on income and growth while also preserving capital and minimizing plan expenses. The Organization monitors the allocation of assets on a regular basis and allocations are periodically rebalanced as deemed necessary to maintain target ranges. The expected long-term rate of return on assets assumption is estimated based on expected plan returns due to specific asset allocations and comparing this to the historical return on plan assets.

American Lung Association of the Northeast, Inc.
Notes to the Consolidated Financial Statements
As of and for the Year Ended June 30, 2013

Note 11 - Pension Plans (continued)

Future Benefit Payments - The benefits expected to be paid by the plans over the next ten fiscal years, as estimated based on the same assumptions used to measure the Organization's benefit obligation at year end are as follows as of June 30, 2013:

2014	\$	575,529
2015	\$	347,591
2016	\$	544,932
2017	\$	498,714
2018	\$	377,708
2019 - 2022	\$	2,071,136

Contributions to the plans and the actuarial present value of accumulated plan benefits are prepared based on certain assumptions related to interest rates, inflation rates and demographics. Due to the changing nature of these assumptions, it is at least reasonably possible that changes in these assumptions will occur in the near term and, due to the uncertainties inherent in setting assumptions, the effect of such changes could be material to the consolidated financial statements.

Note 12 - Defined Contribution Plan

The Organization offers a defined contribution savings and investment plan under Section 403(b) of the Internal Revenue Code. The Plan allows for employee contributions and does not require an employer contribution. Employer contributions of \$113,841 were accrued for as of June 30, 2013 and are included within accrued expenses and other liabilities within the consolidated statement of financial position.

Note 13 - Allocation of Joint Costs

Joint costs of \$2,489,262 for the year ended June 30, 2013 were incurred for informational materials and activities that included fundraising appeals.

The following is an allocation of these costs in accordance with FASB ASC 958, "Not-for-profit entities."

Program services	\$	1,544,869
Administration		944,393
Total	\$	2,489,262

Note 14 - Line of Credit

In August 2012, the Organization obtained a line of credit with a financial institution totaling \$500,000. Interest on advances under the line of credit is payable at the prime rate, 3.25% as of June 30, 2013, plus 1.00%, not to fall below 4.25% per year. The line of credit expires on November 30, 2013. There were no borrowings under the line of credit as of June 30, 2013.

American Lung Association of the Northeast, Inc.
Notes to the Consolidated Financial Statements
As of and for the Year Ended June 30, 2013

Note 15 - 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, 2013

	American Lung Association of the Northeast, Inc.				Mass Lung Health			Eliminations	Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Permanently Restricted	Total		
Assets									
Current assets:									
Cash	\$ 2,845,801	\$ -	\$ -	\$ 2,845,801	\$ -	\$ -	\$ -	\$ -	\$ 2,845,801
Cash equivalents held in investment portfolio	1,991,135	-	-	1,991,135	-	-	-	-	1,991,135
Accounts receivable	366,160	-	-	366,160	-	-	-	-	366,160
Due from related party	-	-	-	-	123,332	-	123,332	(123,332)	-
Grants receivable	1,481,182	-	-	1,481,182	-	-	-	-	1,481,182
Pledges receivable, net	149,379	-	-	149,379	-	-	-	-	149,379
Bequests receivable	38,754	-	-	38,754	-	-	-	-	38,754
Prepaid expenses and other current assets	126,596	-	-	126,596	-	-	-	-	126,596
Total current assets	<u>6,999,007</u>	<u>-</u>	<u>-</u>	<u>6,999,007</u>	<u>123,332</u>	<u>-</u>	<u>123,332</u>	<u>(123,332)</u>	<u>6,999,007</u>
Investments	6,928,716	320,566	1,770,968	9,020,250	9,235	924,620	933,855	-	9,954,105
Investments held in trust	-	-	7,084,213	7,084,213	-	1,110,719	1,110,719	-	8,194,932
Certificates of deposit	38,615	-	-	38,615	-	-	-	-	38,615
Security deposit	89,067	-	-	89,067	-	-	-	-	89,067
Gift annuities receivable	-	79,930	-	79,930	-	-	-	-	79,930
Property and equipment, net	613,198	-	-	613,198	86,392	-	86,392	-	699,590
Total assets	<u>\$ 14,668,603</u>	<u>\$ 400,496</u>	<u>\$ 8,855,181</u>	<u>\$ 23,924,280</u>	<u>\$ 218,959</u>	<u>\$ 2,035,339</u>	<u>\$ 2,254,298</u>	<u>\$ (123,332)</u>	<u>\$ 26,055,246</u>
Liabilities and Net Assets									
Current liabilities:									
Accounts payable	\$ 566,047	\$ -	\$ -	\$ 566,047	\$ -	\$ -	\$ -	\$ -	\$ 566,047
Due to national	212,779	-	-	212,779	-	-	-	-	212,779
Due to related party	123,332	-	-	123,332	-	-	-	(123,332)	-
Accrued expenses and other liabilities	336,562	-	-	336,562	-	-	-	-	336,562
Annuities payable	181,568	-	-	181,568	-	-	-	-	181,568
Deferred rent payable	63,903	-	-	63,903	-	-	-	-	63,903
Deferred revenue	629,017	-	-	629,017	-	-	-	-	629,017
Total current liabilities	<u>2,113,208</u>	<u>-</u>	<u>-</u>	<u>2,113,208</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(123,332)</u>	<u>1,989,876</u>
Accrued pension expense	2,050,438	-	-	2,050,438	-	-	-	-	2,050,438
Total liabilities	<u>4,163,646</u>	<u>-</u>	<u>-</u>	<u>4,163,646</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(123,332)</u>	<u>4,040,314</u>
Net assets:									
Unrestricted	10,504,957	-	-	10,504,957	218,959	-	218,959	-	10,723,916
Temporarily restricted	-	400,496	-	400,496	-	-	-	-	400,496
Permanently restricted	-	-	8,855,181	8,855,181	-	2,035,339	2,035,339	-	10,890,520
Total net assets	<u>10,504,957</u>	<u>400,496</u>	<u>8,855,181</u>	<u>19,760,634</u>	<u>218,959</u>	<u>2,035,339</u>	<u>2,254,298</u>	<u>-</u>	<u>22,014,932</u>
Total liabilities and net assets	<u>\$ 14,668,603</u>	<u>\$ 400,496</u>	<u>\$ 8,855,181</u>	<u>\$ 23,924,280</u>	<u>\$ 218,959</u>	<u>\$ 2,035,339</u>	<u>\$ 2,254,298</u>	<u>\$ (123,332)</u>	<u>\$ 26,055,246</u>

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, 2013

	<u>American Lung Association of the Northeast, Inc.</u>				<u>Mass Lung Health</u>			<u>Eliminations</u>	<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>		
Public support and revenue:									
Contributions and donations:									
Direct mail	\$ 3,720,833	\$ -	\$ -	\$ 3,720,833	\$ -	\$ -	\$ -	\$ -	\$ 3,720,833
Special events, net of direct expenses of \$673,476	2,734,745	-	-	2,734,745	-	-	-	-	2,734,745
Bequests	2,400,033	-	-	2,400,033	-	-	-	-	2,400,033
Donated professional services	468,145	-	-	468,145	-	-	-	-	468,145
Other contributions:									
Memorials	350,141	-	-	350,141	-	-	-	-	350,141
Individual gifts	201,318	8,565	-	209,883	-	-	-	-	209,883
Workplace giving	205,934	-	-	205,934	-	-	-	-	205,934
Fundraising	191,340	-	-	191,340	-	-	-	-	191,340
Corporate gifts	20,621	-	-	20,621	-	-	-	-	20,621
Total contributions and donations	10,293,110	8,565	-	10,301,675	-	-	-	-	10,301,675
Revenue:									
Corporate grants	290,997	-	-	290,997	-	-	-	-	290,997
Government grants	3,687,013	-	-	3,687,013	-	-	-	-	3,687,013
Interest and dividend income	361,357	-	-	361,357	210	-	210	-	361,567
Program service fees	1,219,457	-	-	1,219,457	-	-	-	-	1,219,457
Income from perpetual trusts	305,260	-	-	305,260	37,402	-	37,402	-	342,662
Grants from National	322,917	-	-	322,917	-	-	-	-	322,917
Other revenue	61,942	-	-	61,942	12,000	-	12,000	(12,000)	61,942
Foundation grants	127,060	-	-	127,060	-	-	-	-	127,060
Total revenue	6,376,003	-	-	6,376,003	49,612	-	49,612	(12,000)	6,413,615
Assets released from restrictions	3,500	(3,500)	-	-	-	-	-	-	-
Total public support and revenue	<u>\$ 16,672,613</u>	<u>\$ 5,065</u>	<u>\$ -</u>	<u>\$ 16,677,678</u>	<u>\$ 49,612</u>	<u>\$ -</u>	<u>\$ 49,612</u>	<u>\$ (12,000)</u>	<u>\$ 16,715,290</u>

See accompanying independent auditors' report on supplementary information.

American Lung Association of the Northeast, Inc.
Consolidating Statement of Activities (continued)
For the Year Ended June 30, 2013

	American Lung Association of the Northeast, Inc.			Mass Lung Health			Eliminations	Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Permanently Restricted			Total
Expenses:									
Program services:									
Environmental health	\$ 1,757,669	\$ -	\$ -	\$ 1,757,669	\$ 976	\$ -	\$ 976	\$ (1,186)	\$ 1,757,459
Tobacco control	6,324,887	-	-	6,324,887	2,956	-	2,956	(4,881)	6,322,962
Community health services	1,166,180	-	-	1,166,180	726	-	726	(997)	1,165,909
Other lung diseases	1,416,335	-	-	1,416,335	830	-	830	(1,147)	1,416,018
Asthma	2,486,108	-	-	2,486,108	1,385	-	1,385	(2,216)	2,485,277
Research	708,515	-	-	708,515	88	-	88	(121)	708,482
Total program services	13,859,694	-	-	13,859,694	6,961	-	6,961	(10,548)	13,856,107
Supporting services:									
Fundraising	1,982,037	-	-	1,982,037	764	-	764	(1,050)	1,981,751
Management and general	535,350	-	-	535,350	488	-	488	(402)	535,436
Total supporting services	2,517,387	-	-	2,517,387	1,252	-	1,252	(1,452)	2,517,187
Total expenses	16,377,081	-	-	16,377,081	8,213	-	8,213	(12,000)	16,373,294
Change in net assets from operations	295,532	5,065	-	300,597	41,399	-	41,399	-	341,996
Non-operating activities:									
Pension-related changes other than net periodic pension cost	120,576	-	-	120,576	-	-	-	-	120,576
Change in gift annuity obligation	(98,073)	-	-	(98,073)	-	-	-	-	(98,073)
Change in value of gift annuities	-	(35,505)	-	(35,505)	-	-	-	-	(35,505)
Change in value of investments held in trust	-	-	369,596	369,596	-	96,505	96,505	-	466,101
Realized and unrealized gains on investments, net	384,658	17,928	-	402,586	1,306	167,461	168,767	-	571,353
Total change in net assets	702,693	(12,512)	369,596	1,059,777	42,705	263,966	306,671	-	1,366,448
Net assets, beginning of year	9,802,264	413,008	8,485,585	18,700,857	176,254	1,771,373	1,947,627	-	20,648,484
Net assets, end of year	<u>\$ 10,504,957</u>	<u>\$ 400,496</u>	<u>\$ 8,855,181</u>	<u>\$ 19,760,634</u>	<u>\$ 218,959</u>	<u>\$ 2,035,339</u>	<u>\$ 2,254,298</u>	<u>\$ -</u>	<u>\$ 22,014,932</u>

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 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, 2013, 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 October 26, 2013.

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

Avon, Connecticut
October 26, 2013