

**AMERICAN LUNG ASSOCIATION
OF THE MID-ATLANTIC**

FINANCIAL REPORT

JUNE 30, 2012

CONTENTS

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS	1 - 2
---	-------

FINANCIAL STATEMENTS

Statements of Financial Position	3 - 4
Statements of Activities	5 - 8
Statements of Functional Expenses	9 - 12
Statements of Cash Flows	13
Notes to Financial Statements	14 - 31

SUPPLEMENTARY INFORMATION

Schedule of Budgeted and Incurred Costs For New Jersey Department of Health and Senior Services Grant Number EPID11TBC014	32
Schedule of Budgeted and Incurred Costs For New Jersey Department of Health and Senior Services Grant Number EPID12TBC003	33
Schedule of Budgeted and Incurred Costs For New Jersey Department of Health and Senior Services Grant Number DFHS11AST003	34
Schedule of Budgeted and Incurred Costs For New Jersey Department of Health and Senior Services Grant Number DFHS12AST013	35
Statement of Grant Receipts and Expenditures For West Virginia Department of Health and Human Resources Grant Number G120030	36
Statement of Grant Receipts and Expenditures For West Virginia Department of Health and Human Resources Grant Number G110469	37

CONTENTS (Continued)

SUPPLEMENTARY INFORMATION (Continued)

Statement of Grant Receipts and Expenditures For West Virginia Department of Health and Human Resources Grant Number G120167	38
Statement of Grant Receipts and Expenditures For West Virginia Department of Health and Human Resources Grant Number G120078	39
Schedule of Contractual Performance For Pennsylvania Department of Health CDC Funds SAP 4000015263	40
Schedule of Contractual Performance For Pennsylvania Department of Health MSA Funds SAP 4000015263	41
Schedule of Contractual Performance For Pennsylvania Department of Health ARRA-CDC Funds SAP 4000015263	42
Schedule of Contractual Performance For Pennsylvania Department of Health FDA Funds SAP 4000015263	43
Schedule of Contractual Performance For Pennsylvania Department of Health MSA Funds SAP 4000047578	44
Schedule of Contractual Performance For Pennsylvania Department of Health ARRA Funds SAP 4000047578	45

CONTENTS (Continued)

SUPPLEMENTARY INFORMATION (Continued)

Schedule of Contractual Performance For Pennsylvania Department of Health CDC Funds SAP 4000047578	46
Schedule of Contractual Performance For Pennsylvania Department of Health Asthma Grant SAP 4000010698	47 - 48
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	49 - 50
Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and New Jersey Circular 04-04 OMB	51 - 52
Schedule of Findings and Questioned Costs	53 - 54
Schedule of Expenditures of Federal Awards	55 - 56
Notes to Schedule of Expenditures of Federal Awards	57
Summary Schedule of Prior Year's Audit Findings	58

INDEPENDENT AUDITOR'S REPORT

Board of Directors
American Lung Association of the Mid-Atlantic
Camp Hill, Pennsylvania

We have audited the accompanying statements of financial position of the American Lung Association of the Mid-Atlantic as of June 30, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and audit guidelines issued by the Pennsylvania Department of Health, the West Virginia Department of Health and Human Resources, and the New Jersey Department of Health and Senior Services. Those standards and guidelines require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the American Lung Association of the Mid-Atlantic as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

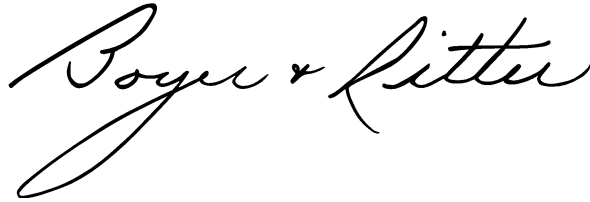
In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2012, on our consideration of the American Lung Association of the Mid-Atlantic's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audits.

Camp Hill, PA • Carlisle, PA • Chambersburg, PA • State College, PA

An Independently Owned Member, McGladrey Alliance

The McGladrey Alliance is a premier affiliation of independent accounting and consulting firms. The McGladrey Alliance member firms maintain their name, autonomy and independence and are responsible for their own client fee arrangements, delivery of services and maintenance of client relationships.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial statement schedules listed in the table of contents as supplementary information are also presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These additional reports are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Boyer & Ritter". The signature is written in black ink and is positioned to the right of the date and location text.

Camp Hill, Pennsylvania
September 28, 2012

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

STATEMENTS OF FINANCIAL POSITION

June 30, 2012 and 2011

ASSETS	2012	2011
Current Assets		
Cash and cash equivalents	\$ 733,338	\$ 917,583
Investments (Note 3)	1,117,074	1,092,124
Accounts receivable (Note 4)	1,507,301	1,643,629
Prepaid expenses	15,605	36,342
Literature and inventories	23,431	30,788
Security deposits	20,867	23,415
Total current assets	3,417,616	3,743,881
Fixed Assets		
Land, buildings and building improvements	762,333	762,333
Furniture, fixtures and equipment	652,184	639,345
Vehicles	23,552	23,552
	1,438,069	1,425,230
Less accumulated depreciation	(838,022)	(807,390)
Total fixed assets - net	600,047	617,840
Other Assets		
Long-term investments - gift annuities (Note 3)	173,703	187,583
Contributions receivable - charitable remainder trusts (Note 5)	216,813	216,813
Total other assets	390,516	404,396
Total assets	\$ 4,408,179	\$ 4,766,117

See Notes to Financial Statements.

LIABILITIES AND NET ASSETS	2012	2011
Current Liabilities		
Accounts payable - trade	\$ 732,119	\$ 884,105
Accounts payable - National	118,596	43,261
Accrued expenses	60,798	144,995
Deferred income	102,658	117,331
	<hr/>	<hr/>
Total current liabilities	1,014,171	1,189,692
Long-Term Liabilities		
Annuity liability	93,951	93,951
Accrued pension (Note 7)	1,376,049	957,378
Accrued employee benefits (Note 8)	31,123	35,123
Total long-term liabilities	1,501,123	1,086,452
	<hr/>	<hr/>
Total liabilities	2,515,294	2,276,144
Net Assets		
Unrestricted	1,485,639	2,057,025
Temporarily restricted (Note 10)	396,545	422,247
Permanently restricted (Note 10)	10,701	10,701
Total net assets	1,892,885	2,489,973
	<hr/>	<hr/>
Total liabilities and net assets	\$ 4,408,179	\$ 4,766,117
	<hr/>	<hr/>

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

STATEMENT OF ACTIVITIES

Year Ended June 30, 2012 (with comparative totals for 2011)

	2012			Total	2011 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Public Support and Revenue					
Contributions and donations					
Direct mail					
Christmas seals	\$ 1,050,440	\$ -	\$ -	\$ 1,050,440	\$ 810,851
Other direct mail	1,961,079	-	-	1,961,079	2,530,120
Residential campaign					
Gross revenue	63,507	-	-	63,507	51,629
Total direct mail	3,075,026	-	-	3,075,026	3,392,600
Golf privilege card	-	-	-	-	741
Vehicle donation program	42,176	-	-	42,176	44,273
Other promotions	50,322	-	-	50,322	50,798
Special events					
Gross revenue (Note 13)	1,488,208	-	-	1,488,208	1,589,385
Direct costs (Note 13)	(533,691)	-	-	(533,691)	(595,785)
Special events - net	954,517	-	-	954,517	993,600
Other contributions					
Workplace giving	67,215	-	-	67,215	74,977
Memorials	217,214	-	-	217,214	229,346
Bequests	830,539	-	-	830,539	1,055,065
Individual gifts	68,586	-	-	68,586	115,228
Corporate gifts	63,633	-	-	63,633	65,448
Foundation gifts	25,964	-	-	25,964	29,774
Donated services, equipment and materials (Note 14)	-	-	-	-	3,385
Donated rent (Note 14)	1,320	-	-	1,320	1,320
Miscellaneous contributions	-	-	-	-	26,294
Revenue					
Government grants	4,593,412	-	-	4,593,412	4,339,690
Other grants	79,000	-	-	79,000	62,735
Interest and dividends (net)	16,914	-	-	16,914	24,754
Program service fees	32,555	-	-	32,555	19,460
Dues	293	-	-	293	7,500
Sale of materials	71,823	-	-	71,823	98,197
Miscellaneous revenue	7,166	-	-	7,166	3,386
Net assets released from restrictions:					
Donor restrictions	25,702	(25,702)	-	-	-
Total public support and revenue	10,223,377	(25,702)	-	10,197,675	10,638,571

(Continued)

	2012			Total	2011
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
Expenses and Losses					
Program services					
Asthma	1,009,876	-	-	1,009,876	1,344,365
Environmental health	275,546	-	-	275,546	371,028
Tobacco control	5,341,194	-	-	5,341,194	4,720,633
Community health services	752,547	-	-	752,547	744,081
Other lung disease	704,028	-	-	704,028	704,794
Research	254,712	-	-	254,712	377,176
Total program services	8,337,903	-	-	8,337,903	8,262,077
Supporting services					
Fundraising	1,348,942	-	-	1,348,942	1,532,681
Management and general	391,640	-	-	391,640	352,073
Total supporting services	1,740,582	-	-	1,740,582	1,884,754
Total expenses	10,078,485	-	-	10,078,485	10,146,831
Changes in net assets from operations	144,892	(25,702)	-	119,190	491,740
Non-Operating Activities					
Realized gain on sale of investments	2,438	-	-	2,438	12,476
Net gain on sale of assets	-	-	-	-	284,018
Unrealized gain (loss) on investments	5,694	-	-	5,694	(4,569)
Changes in unfunded accrued pension costs	(710,531)	-	-	(710,531)	120,476
Loss on gift annuity contracts	(13,879)	-	-	(13,879)	(129,934)
Total non-operating activities	(716,278)	-	-	(716,278)	282,467
Changes in net assets	(571,386)	(25,702)	-	(597,088)	774,207
Net Assets - July 1, 2011	2,057,025	422,247	10,701	2,489,973	1,715,766
Net Assets - June 30, 2012	\$ 1,485,639	\$ 396,545	\$ 10,701	\$ 1,892,885	\$ 2,489,973

See Notes to Financial Statements.

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

STATEMENT OF ACTIVITIES
Year Ended June 30, 2011

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Public Support and Revenue				
Contributions and donations				
Direct mail				
Christmas seals	\$ 810,851	\$ -	\$ -	\$ 810,851
Other direct mail	2,530,120	-	-	2,530,120
Residential campaign				
Gross revenue	51,629	-	-	51,629
Total direct mail	3,392,600	-	-	3,392,600
Golf privilege card	741	-	-	741
Vehicle donation program	44,273	-	-	44,273
Other promotions	50,798	-	-	50,798
Special events				
Gross revenue (Note 13)	1,589,385	-	-	1,589,385
Direct costs (Note 13)	(595,785)	-	-	(595,785)
Special events - net	993,600	-	-	993,600
Other contributions				
Workplace giving	74,977	-	-	74,977
Memorials	229,346	-	-	229,346
Bequests	1,055,065	-	-	1,055,065
Individual gifts	115,228	-	-	115,228
Corporate gifts	65,448	-	-	65,448
Foundation gifts	29,774	-	-	29,774
Donated services, equipment and materials (Note 14)	3,385	-	-	3,385
Donated rent (Note 14)	1,320	-	-	1,320
Miscellaneous contributions	26,294	-	-	26,294
Revenue				
Government grants	4,339,690	-	-	4,339,690
Other grants	62,735	-	-	62,735
Interest and dividends (net)	24,754	-	-	24,754
Program service fees	19,460	-	-	19,460
Dues	7,500	-	-	7,500
List leasing	98,197	-	-	98,197
Miscellaneous revenue	3,386	-	-	3,386

(Continued)

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

STATEMENT OF ACTIVITIES (Continued)
Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support and Revenue (Continued)				
Net assets released from restrictions:				
Grantor restrictions	38,580	(38,580)	-	-
Donor restrictions	139,352	(139,352)	-	-
Total public support and revenue	10,816,503	(177,932)	-	10,638,571
Expenses and Losses				
Program services				
Asthma	1,344,365	-	-	1,344,365
Environmental health	371,028	-	-	371,028
Tobacco control	4,720,633	-	-	4,720,633
Community health services	744,081	-	-	744,081
Other lung disease	704,794	-	-	704,794
Research	377,176	-	-	377,176
Total program services	8,262,077	-	-	8,262,077
Supporting services				
Fundraising	1,532,681	-	-	1,532,681
Management and general	352,073	-	-	352,073
Total supporting services	1,884,754	-	-	1,884,754
Total expenses	10,146,831	-	-	10,146,831
Changes in net assets from operations	669,672	(177,932)	-	491,740
Non-Operating Activities				
Realized gain on sale of investments	12,476	-	-	12,476
Gain on sale of assets	284,018	-	-	284,018
Unrealized loss on investments	(4,569)	-	-	(4,569)
Changes in unfunded accrued pension costs	120,476	-	-	120,476
Loss on gift annuity contracts	(129,934)	-	-	(129,934)
Total non-operating activities	282,467	-	-	282,467
Changes in net assets	952,139	(177,932)	-	774,207
Net Assets - July 1, 2010	1,104,886	600,179	10,701	1,715,766
Net Assets - June 30, 2011	\$ 2,057,025	\$ 422,247	\$ 10,701	\$ 2,489,973

See Notes to Financial Statements.

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2012

	Program			
	Asthma	Environmental Health	Tobacco Control	Community Health Services
Salaries	\$ 437,299	\$ 50,122	\$ 1,101,898	\$ 64,893
Payroll taxes and benefits	108,952	13,707	292,492	24,008
Awards and grants, research	-	-	-	-
Professional fees/tobacco control program subcontractors	40,468	55,420	443,821	61,702
Occupancy	45,895	5,231	111,210	12,363
Business insurance	10,897	1,290	25,735	3,048
Equipment rental/maint.	20,128	7,641	38,731	149,506
Furniture/equipment	408	44	15,126	10,589
Supplies	15,714	36,967	38,930	3,867
Postage/shipping	28,728	21,842	219,934	16,293
Printing, publications and media	82,694	33,631	654,252	83,421
Telephone	7,421	665	33,700	15,757
Travel and meetings	10,499	30,516	89,884	22,389
Program/event expenses	125,559	3,788	2,101,466	5,107
Affiliations/subscriptions	363	484	1,738	1,488
Miscellaneous	1,324	100	7,664	3,146
Interest	5	53	53	15
Depreciation	4,861	576	14,302	1,360
Total before assessments to National	941,215	262,077	5,190,936	478,952
Total assessments to National	68,661	13,469	150,258	273,595
	\$ 1,009,876	\$ 275,546	\$ 5,341,194	\$ 752,547

See Notes to Financial Statements.

Services		Supporting Activities		Total
Other Lung Disease	Research	Fundraising	Management and General	All Funds
\$ 174,322	\$ -	\$ 196,799	\$ 194,677	\$ 2,220,010
39,332	-	58,617	57,976	595,084
-	184,836	-	-	184,836
158,912	-	94,670	11,105	866,098
28,444	-	37,117	36,715	276,975
7,033	-	9,246	9,145	66,394
10,635	-	14,914	14,153	255,708
102	-	316	313	26,898
8,646	-	1,611	1,758	107,493
25,535	-	226,570	2,820	541,722
74,293	-	674,523	(181)	1,602,633
5,448	-	5,012	4,743	72,746
1,723	-	1,679	1,126	157,816
149,464	-	2,880	4	2,388,268
99	-	808	305	5,285
225	-	9,939	621	23,019
1	-	4	4	135
1,329	-	4,124	4,080	30,632
685,543	184,836	1,338,829	339,364	9,421,752
18,485	69,876	10,113	52,276	656,733
<u>\$ 704,028</u>	<u>\$ 254,712</u>	<u>\$ 1,348,942</u>	<u>\$ 391,640</u>	<u>\$10,078,485</u>

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2011

	Program			
	Asthma	Environmental Health	Tobacco Control	Community Health Services
Salaries	\$ 413,388	\$ 66,967	\$ 999,902	\$ 41,627
Payroll taxes and benefits	121,324	22,245	315,611	15,352
Awards and grants, research	-	-	-	-
Professional fees/tobacco control program subcontractors	103,868	71,088	605,549	100,363
Occupancy	44,622	8,541	106,666	8,300
Business insurance	9,529	1,863	22,444	1,810
Equipment rental/maint.	20,175	8,470	37,624	145,510
Furniture/equipment	408	2	18,304	5,935
Supplies	4,330	24,712	40,049	3,444
Postage/shipping	135,494	36,718	162,810	30,977
Printing, publications and media	271,718	56,667	301,783	115,027
Telephone	7,683	829	30,317	23,808
Travel and meetings	12,515	33,318	94,067	10,433
Program/event expenses	131,695	26,347	1,832,583	3,368
Affiliations/subscriptions	237	46	1,285	1,395
Miscellaneous	967	196	2,150	2,462
Interest	4,204	822	9,185	799
Depreciation	8,610	1,684	23,008	1,636
Total before assessments to National	1,290,767	360,515	4,603,337	512,246
Total assessments to National	53,598	10,513	117,296	231,835
	\$ 1,344,365	\$ 371,028	\$ 4,720,633	\$ 744,081

See Notes to Financial Statements.

Services		Supporting Activities		Total
Other Lung Disease	Research	Fundraising	Management and General	All Funds
\$ 154,004	\$ -	\$ 235,072	\$ 148,146	\$ 2,059,106
44,172	-	86,620	54,580	659,904
-	189,360	-	-	189,360
154,190	-	197,551	11,137	1,243,746
28,301	-	46,294	29,175	271,899
16,500	-	10,221	6,442	68,809
10,895	-	19,072	11,796	253,542
3	-	10	6	24,668
6,332	-	1,982	1,241	82,090
46,010	-	312,697	2,113	726,819
83,779	-	577,573	315	1,406,862
4,836	-	4,428	2,823	74,724
3,495	-	1,022	454	155,304
129,399	-	6,198	1,247	2,130,837
769	-	726	142	4,600
1,615	-	8,140	462	15,992
1,127	-	1,121	6,231	23,489
4,939	-	9,966	5,821	55,664
690,366	189,360	1,518,693	282,131	9,447,415
14,428	187,816	13,988	69,942	699,416
<u>\$ 704,794</u>	<u>\$ 377,176</u>	<u>\$ 1,532,681</u>	<u>\$ 352,073</u>	<u>\$10,146,831</u>

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2012 and 2011

	2012	2011
Cash Flows From Operating Activities		
Changes in net assets	\$ (597,088)	\$ 774,207
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Depreciation	30,632	55,664
Net realized and unrealized loss on investments and gift annuity contracts	5,747	122,027
Gain on disposal of fixed assets	-	(284,018)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	136,328	164,158
Prepaid expenses and security deposits	23,285	(16,310)
Literature and inventories	7,357	11,740
(Decrease) increase in:		
Accounts payable - Trade and National	(76,651)	236,266
Accrued expenses	(84,197)	16,204
Deferred income	(14,673)	(12,199)
Annuity liability	-	(73,900)
Accrued pension and employee benefits	414,671	(171,327)
Net cash provided by (used in) operating activities	(154,589)	822,512
Cash Flows From Investing Activities		
Purchase of investments	(498,000)	-
Proceeds from liquidation of investments	481,183	171,216
Purchase of fixed assets	(12,839)	-
Proceeds from the sale of assets	-	342,047
Net cash provided by (used in) investing activities	(29,656)	513,263
Cash Flows From Financing Activities		
Payments on long-term debt	-	(1,013,995)
Increase (decrease) in cash and cash equivalents	(184,245)	321,780
Cash and Cash Equivalents:		
Beginning	917,583	595,803
Ending	\$ 733,338	\$ 917,583
Supplementary Disclosures of Cash Flow Information		
Cash payments for interest	\$ 146	\$ 23,489

See Notes to Financial Statements.

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activities

The American Lung Association of the Mid-Atlantic (Association) is a nonprofit voluntary health agency dedicated to the conquest of lung disease and the promotion of lung health. The Association's principal program areas include: Asthma - education on asthma, Environmental Health - education on air pollution and occupational health; Tobacco Control - education on smoking prevention and cessation; Community Health Services - programs for the improvement of community health practices and facilities; Other Lung Disease - education on the prevention of other lung diseases, support for individuals who have other lung diseases, and Research into the causes and cures of lung disease. The Association participates in nationally directed fundraising activities as well as conducting its own local events.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation: These financial statements, which are prepared on the accrual basis of accounting, have been prepared to focus on the Association as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions, in accordance with accounting principles generally accepted in the United States of America. Accounting principles generally accepted in the United States of America require the reporting of total assets, liabilities and net assets in a Statement of Financial Position; reporting the change in net assets in a Statement of Activities and reporting the source and use of cash and cash equivalents in a Statement of Cash Flows. Net assets and revenue, gains, expenses and losses are classified as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor-imposed restrictions as follows:

Permanently restricted - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Association. Generally, the donors of these assets permit the Association to use all or part of the income earned on these assets.

Temporarily restricted - Net assets whose use by the Association is subject to donor-imposed stipulations that can be fulfilled by actions of the Association pursuant to those stipulations or that expire by the passage of time.

Unrestricted - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued): Revenue is reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as reclassifications between applicable classes of net assets.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: For purposes of the Statements of Cash Flows, the Association considers all highly-liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

Concentrations of Credit Risk: The Association maintains cash accounts that, at times, may exceed federally insured limits. The Association has not experienced any losses from maintaining cash accounts in excess of federally insured limits. Management believes it is not exposed to any significant credit risks on its cash accounts.

Trade Receivables: Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a regular basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history and current economic conditions. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received. Trade receivables are considered to be past due based on how payments are received compared to the customer's payment history. Interest is not generally charged on trade receivables.

Investments and Income Recognition and Fair Value: Investments consist of certificates of deposits, corporate and government bonds, stocks and shares of mutual funds. Management determines the appropriate classification of the investments at the time they are acquired and evaluates the appropriateness of the classification at each balance sheet date.

The Association follows the provisions of Financial Accounting Standards Board, *Fair Value Measurements and Disclosures Topic*, of the Accounting Standards Codification (ASC) for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

Office Furniture, Fixtures and Equipment: Office furniture, fixtures and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the individual assets. The Association follows the practice of capitalizing expenditures for property and equipment with useful lives greater than one year and generally costing in excess of \$500. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. The cost of maintenance and repairs is charged against operations as incurred, whereas significant renewals and betterments are capitalized.

Functional Allocation of Expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Functional Expenses. Costs have been allocated among the programs and supporting services benefited based upon time analysis.

Contributions: Contributions, including unconditional promises to give, must be recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Donated Materials and Services: The Association records the value of the donated goods or services when there is an objective basis to measure their value. Donated marketable securities and other noncash donations are recorded as contributions in the financial statements at their estimated value at the date of donation. Donated services that create or enhance nonfinancial assets or require specialized skills, provided by individuals possessing those skills, and that would typically be purchased if not provided by donation, are recorded as contributions in the financial statements.

Advertising Costs: The Association expenses all advertising costs as incurred.

Income Taxes: The Internal Revenue Service has determined that the Association is an exempt organization under Section 501 (c)(3) and is exempt from Federal income tax on all activities related to its exempt purpose. Accordingly, no provision for income tax has been made in the financial statements.

The Association follows the provisions of *Risks and Uncertainties Topic* of the ASC which requires an assessment of the Association's exposure to income taxes at the entity level as a result of uncertain tax positions taken in current and previously-filed tax returns. Examples of tax positions taken at the entity level include continuing qualification as a tax-exempt organization and whether there is any taxable unrelated business income activities conducted. Any tax benefits associated with uncertain tax positions that are in excess of a realization threshold must be recorded as a liability for unrecognized tax benefits in the financial statements, along with any associated interest and penalties. Presently, management believes that it is more likely than not that its tax positions will be sustained upon examination, including any appeals and litigation, and therefore believes that the Organization has no exposure to income taxes from uncertain tax positions. With few exceptions, the Association is no longer subject to tax examinations by tax authorities for years before 2009.

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

Defined Benefit Pension Plan: Under the ASC's *Compensation - Retirement Benefits - Defined Benefit Plans – Pension Topic*, employers are required to (1) recognize in their statements of financial position an asset for a plan's overfunded status or liability for a plan's underfunded status; (2) measure a plan's assets and its obligations that determined its funded status as of the end of the employer's fiscal year (eliminating the alternative of a measurement date that could be up to three months earlier under prior standards); and (3) recognize changes in the funded status of a plan through changes in net assets in the year in which the changes occur.

The ASC requires information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains for losses, prior service cost or credits, and transition asset or obligation.

Subsequent Events: The Association had evaluated subsequent events through September 28, 2012, the date the financial statements were available to be issued.

Note 3. Investments

Investments, reported at fair value (See Note 6), consist of the following at June 30:

	2012		2011	
	Market Value	Aggregate Cost	Market Value	Aggregate Cost
Money Market	\$ 627,467	\$ 627,468	\$ 626,878	\$ 626,878
Certificates of Deposit	248,763	249,000	199,873	200,000
Common Stocks	4,673	2,478	5,660	2,488
Government Securities	67,276	57,464	83,987	80,375
Corporate Bonds	152,722	93,130	159,223	102,225
Annuities	173,703	222,306	187,583	222,306
Mutual Funds	16,173	16,173	16,503	16,503
	<u>\$ 1,290,777</u>	<u>\$ 1,268,019</u>	<u>\$ 1,279,707</u>	<u>\$ 1,250,775</u>

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

NOTES TO FINANCIAL STATEMENTS

Note 3. Investments (Continued)

Investment activity consists of the following at June 30:

	2012		2011	
Investments, at beginning of year	\$	1,279,707	\$	1,572,950
Contributions		-		-
Investment Returns				
Interest and dividends		16,914		25,027
Net unrealized (losses)		(8,185)		(134,504)
Net realized gains		2,438		12,476
Fees		-		(272)
Distributions		(97)		(195,970)
Investments, at end of year	\$	1,290,777	\$	1,279,707

Investments, reported by Custodian:

	2012		2011	
	Market Value	Aggregate Cost	Market Value	Aggregate Cost
Merrill Lynch				
Money Market	\$ 598,774	\$ 598,775	\$ 598,289	\$ 598,289
Certificates of Deposit	248,763	249,000	199,873	200,000
Common Stocks	4,673	2,478	5,660	2,488
Government Securities	67,276	57,464	83,987	80,375
Corporate Bonds	152,722	93,130	159,223	102,225
Mutual Funds	16,173	16,173	16,503	16,503
PNC Bank				
Money Market	13,319	13,319	13,319	13,319
American Lung Association				
Annuities	173,703	222,306	187,583	222,306
First Investors				
Money Market	15,374	15,374	15,270	15,270
	\$ 1,290,777	\$ 1,268,019	\$ 1,279,707	\$ 1,250,775

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

NOTES TO FINANCIAL STATEMENTS

Note 4. Accounts Receivable

Accounts receivable consist of the following at June 30:

	2012	2011
Grants	\$ 959,688	\$ 792,408
Bequests and Trusts	257,013	616,534
Refunds	-	1,633
Direct mail (including residential campaign)	214,921	183,882
Workplace giving	106	-
Special events	63,307	11,109
Sales of program literature	8,501	12,297
Other	3,765	25,766
	<u>\$ 1,507,301</u>	<u>\$ 1,643,629</u>

Note 5. Charitable Remainder Trusts

		2012	2011
Verna M. Dissinger Charitable Remainder Trust	(A)	\$ 58,424	\$ 58,424
Virginia Guarino Charitable Remainder Trust	(B)	50,000	50,000
Margaret Workman Charitable Remainder Trust	(C)	32,800	32,800
Edmund Champane Charitable Remainder Trust	(D)	75,589	75,589
		<u>\$ 216,813</u>	<u>\$ 216,813</u>

(A) Under the will of Verna M. Dissinger, deceased, a trust was established with two income beneficiaries upon whose death, the principal will be distributed to various charitable organizations in accordance with the will. The Association has a one-sixth remainder interest in the principal of the trust.

(B) Under the will of Virginia Guarino, deceased, a trust was established with one income beneficiary upon whose death, the principal will be distributed to various charitable organizations in accordance with the will. The Association has a one-twelfth remainder interest in the principal of the trust.

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

NOTES TO FINANCIAL STATEMENTS

Note 5. Charitable Remainder Trusts (Continued)

(C) Under the will of Margaret Workman, deceased, a trust was established with one income beneficiary upon whose death, the principal will be distributed to various charitable organizations in accordance with the will. The Association has a five percent remainder interest in the principal of the trust.

(D) Under the will of Edmund Champagne, deceased, a trust was established with one income beneficiary upon whose death, the principal will be distributed to various charitable organizations in accordance with the will. The Association has a twenty-five percent remainder interest in the principal of the trust after his son is deceased.

Note 6. Fair Value Measurements

The *Fair Value Measurements and Disclosures Topic* of the ASC establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the ASC are described below:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets the plan has the ability to access.
Level 2	Inputs to the valuation methodology include: <ul style="list-style-type: none">• Quoted prices for similar assets or liabilities in active markets• Quoted prices for identical or similar assets or liabilities in inactive markets• Inputs other than quoted prices that are observable for the asset or liability• Inputs that are derived principally from or corroborated by observable market data by correlation or other means If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

NOTES TO FINANCIAL STATEMENTS

Note 6. Fair Value Measurements (Continued)

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.

The table below presents the balances of assets and liabilities measured at fair value as of June 30, 2012:

Assets at Fair Value as of June 30, 2012

	Level 1	Level 2	Level 3	Total
Investments				
Money Market	\$ 627,467	\$ -	\$ -	\$ 627,467
Certificates of Deposit	-	248,763	-	248,763
Common Stocks	4,673	-	-	4,673
Government Securities	-	67,276	-	67,276
Corporate Bonds	-	152,722	-	152,722
Annuities	-	-	173,703	173,703
Mutual Funds	16,173	-	-	16,173
	<u>648,313</u>	<u>468,761</u>	<u>173,703</u>	<u>1,290,777</u>
Contributions receivable - charitable remainder trusts	-	-	216,813	216,813
Annuity Liability	-	-	(93,951)	(93,951)
	<u>-</u>	<u>-</u>	<u>(93,951)</u>	<u>(93,951)</u>
Total financial assets and liabilities, net at fair value	<u>\$ 648,313</u>	<u>\$ 468,761</u>	<u>\$ 296,565</u>	<u>\$ 1,413,639</u>

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

NOTES TO FINANCIAL STATEMENTS

Note 6. Fair Value Measurements (Continued)

The table below presents the balances of assets and liabilities measured at fair value as of June 30, 2011:

Assets at Fair Value as of June 30, 2011

	Level 1	Level 2	Level 3	Total
Investments				
Money Market	\$ 626,878	\$ -	\$ -	\$ 626,878
Certificates of Deposit	-	199,873	-	199,873
Common Stocks	5,660	-	-	5,660
Government Securities	-	83,987	-	83,987
Corporate Bonds	-	159,223	-	159,223
Annuities	-	-	187,583	187,583
	16,503	-	-	16,503
	649,041	443,083	187,583	1,279,707
Contributions receivable - charitable remainder trusts	-	-	216,813	216,813
Annuity Liability	-	-	(93,951)	(93,951)
Total financial assets and liabilities, net at fair value	\$ 649,041	\$ 443,083	\$ 310,445	\$ 1,402,569

Following is a description of the valuation methodologies used for the financial assets and liabilities measured at fair value. There have been no changes in the methodologies in use at June 30, 2012 and 2011.

Level 1

Money Market Funds, Common Stocks and Mutual Funds: The fair value of money market funds, common stocks and mutual funds is based on closing market prices for the identical security as reported in active markets.

Level 2

Certificates of Deposit: The fair value of certificates of deposit is based upon quoted market prices for similar investment vehicles having identical or similar interest rates and/or yield-to-maturity curves.

Government Securities and Corporate Bonds: Fixed income securities do not always trade on a daily basis so the fair values of each security are dependent upon various pricing models that incorporate benchmark yields, interest rates, credit risk, broker-dealer quotes and other valuation processes.

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

NOTES TO FINANCIAL STATEMENTS

Note 6. Fair Value Measurements (Continued)

Level 3

Contributions Receivable - Charitable Remainder Trusts: The fair value of the Association's interest in charitable remainder trusts reflects the anticipated benefit of irrevocable trust assets for which the Association is a beneficiary. As beneficiary payments are made to third parties, the Association evaluates various inputs including the life expectancy of the beneficiary, discount rates, and the fair market value of the underlying investments which comprise the irrevocable trust assets. The fair market value of the underlying investments is determined based on the nature of the assets, which are typically investments such as money market funds, fixed income securities, equity securities, etc.

Annuities and Annuity Liability: The Association, through a program established and coordinated by the National office, issues annuity agreements to donors as part of its fund-raising efforts. The fair value of the annuity assets is the market value determined by the Trustee and is based on the undistributed remaining gift amount, life expectancy of the gift annuitant and discount rates. The fair value of the Association's annuity liabilities is determined by the Trustee's actuaries and is based on a 3.2% rate and the 2000CM mortality table.

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 Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth a summary of changes in the fair value of the Association's Level 3 financial assets and liabilities for the year ended June 30, 2012:

	Annuities	Annuity Liability	Contribution Receivable Charitable Remainder Trusts
Beginning balance, July 1, 2011	\$ 187,583	\$ (93,951)	\$ 216,813
Realized and unrealized gains (losses)	(13,880)	-	-
Ending balance, June 30, 2012	<u>\$ 173,703</u>	<u>\$ (93,951)</u>	<u>\$ 216,813</u>

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plan

The Association participates in the American Lung Association Retirement Plan D (the Plan), a multiple-employer pension plan. The Plan is a defined benefit pension plan covering approximately 80% of the Association's full-time employees. The benefits are based on years of service and the employee's compensation during the last five years of employment. Under the aggregate liability funding method used by the Association, the entire unfunded cost of future pension benefits (based on both past and future service) will be spread over the average future lives of active employees. The policy of the Association is to contribute the maximum allowable under ERISA and the Internal Revenue Code.

Effective June 30, 2010, the Association froze the defined benefit pension plan.

The Association uses a June 30 measurement date for its defined benefit pension plan for the years ended June 30, 2012 and 2011, respectively. The following table sets forth the defined benefit pension plan's funded status at June 30:

	2012	2011
Obligations and funded status:		
Projected benefit obligation	\$ (4,709,262)	\$ (3,866,675)
Fair value of plan assets	3,333,213	2,909,297
	<hr/>	<hr/>
Funded status	\$ (1,376,049)	\$ (957,378)
	<hr/> <hr/>	<hr/> <hr/>
Amounts recognized in the Statements of Financial Position consist of:		
Accrued benefit liability - noncurrent	\$ (1,376,049)	\$ (957,378)
	<hr/> <hr/>	<hr/> <hr/>

The following table sets forth the defined benefit pension plan's obligations at June 30:

	2012	2011
Amounts recognized in the Statements of Activities consist of:		
Net loss (income)	\$ 710,531	\$ (70,251)
Other	-	(50,225)
	<hr/>	<hr/>
Net amount recognized	\$ 710,531	\$ (120,476)
	<hr/> <hr/>	<hr/> <hr/>
Accumulated Benefit Obligation (ABO) at June 30	\$ 4,709,262	\$ 3,866,675
	<hr/> <hr/>	<hr/> <hr/>

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plan (Continued)

The components of the Plan's net periodic benefit cost are as follows for the years ended June 30:

	2012	2011
Interest cost	\$ 220,189	\$ 237,862
Expected return on plan assets	(186,849)	(212,638)
Recognition due to settlement or curtailment	-	50,225
Net periodic benefit cost	<u>\$ 33,340</u>	<u>\$ 75,449</u>

The components of other changes in plan assets and benefit obligations recognized in the changes in net assets are as follows for the years ended June 30:

	2012	2011
Other changes in plan assets recognized as changes in unrestricted net assets arising from a defined benefit plan but not yet included in net periodic benefit cost:		
New net loss (gain)	\$ 710,531	\$ (70,251)
Recognition of prior service cost due to curtailment	-	(50,225)
Total recognized in changes in net assets	<u>\$ 710,531</u>	<u>\$ (120,476)</u>
Total recognized in net periodic benefit cost and changes in net assets	<u>\$ 743,871</u>	<u>\$ (45,027)</u>

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plan (Continued)

The following table summarizes the change in the Projected Benefit Obligation and plan assets for the years ended June 30:

	2012	2011
Benefit obligation at beginning of year	\$ 3,866,675	\$ 4,449,910
Interest cost	220,189	237,862
Actuarial (gain) loss	722,112	(127,231)
Benefit payments	(99,714)	(693,866)
Benefit obligation at end of year	<u>\$ 4,709,262</u>	<u>\$ 3,866,675</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 2,909,297	\$ 3,321,205
Employer contribution	325,200	126,300
Actual return on plan assets	198,430	212,141
Benefits paid	(99,714)	(693,866)
Expenses paid	-	(56,483)
Fair value of plan assets at end of year	<u>\$ 3,333,213</u>	<u>\$ 2,909,297</u>

The following are weighted-average assumptions used to determine net periodic benefit cost and benefit obligations at June 30:

	2012	2011
Discount rate*	5.75%	5.50%
Annual compensation increases	3.00%	3.00%
Expected return on plan assets	6.00%	6.50%

*-The actual discount rate for the year's ended June 30, 2012 and 2011 was 4.25% and 5.75% respectively.

The expected long-term rate of return on assets represents the rate of return on plan assets reflecting the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the benefit obligation. The assumption has been determined by reflecting expectations regarding future rates of return for the investment portfolio, with consideration given to the distribution of investments by asset class and historical rates of return for each individual asset class.

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plan (Continued)

The Association's asset allocation, by asset category, is as follows at June 30:

Asset Category	2012	2011
Equity securities	15.5%	17.1%
Debt securities	78.6%	76.5%
Real estate	3.4%	5.1%
Cash and cash equivalents	2.5%	1.3%
	<u>100.0%</u>	<u>100.0%</u>

In order to meet its needs, the investment strategy of the Association emphasizes total return; that is, the aggregate return from capital appreciation, dividend income, and interest income. Specifically, the primary objective in the investment management for the plan is Income and Growth - to achieve a balanced return of current income and appropriate growth of principal. The secondary objective is Preservation of Purchasing Power after Spending. This objective is to achieve returns in excess of the rate of inflation plus spending over the investment horizon in order to preserve the purchasing power of plan assets. Additional objectives of the Association are preservation of capital and minimization of costs.

Risk control is an important element in the investment of plan assets. This is achieved through a diversified target allocation and the prohibition of investing in derivative instruments, private placements, limited partnerships, and venture-capital investments. Short selling and margin transactions are prohibited. Lastly, investment in companies that derive their revenue from the manufacture and sale of tobacco products are strictly prohibited.

The Association expects to contribute to the pension plan during the fiscal year of July 1, 2012 through June 30, 2013; anticipated contributions are approximately \$266,000.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Year	Amount
July 1, 2012 - June 30, 2013	\$ 202,682
July 1, 2013 - June 30, 2014	239,407
July 1, 2014 - June 30, 2015	59,484
July 1, 2015 - June 30, 2016	342,726
July 1, 2016 - June 30, 2017	314,302
July 1, 2017 - June 30, 2021	1,558,727
	<u>\$ 2,717,328</u>

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

NOTES TO FINANCIAL STATEMENTS

Note 8. Postretirement Benefits Other than Pensions

Certain prior affiliates of the Association offered life insurance, hospitalization and medical insurance for full-time employees who retired, based upon years of service. Upon the merger of these affiliates, the Association assumed the obligations of this plan. These benefits do not extend to current employees of the Association after the date of the previous mergers. Prior to the year ended June 30, 2008, these benefits were provided via the American Lung Association's Post-Retirement Life Insurance Plan. During the year ended June 30, 2008, the Association terminated the plan. The Association remains committed in providing these benefits despite termination. The Association has established a reserve of \$31,123 and \$35,123 at June 30, 2012 and 2011, respectively, to cover these anticipated costs.

Note 9. 403(b) Retirement Plan

The Association maintains a 403(b) pension plan. All employees, except those who normally work less than 20 hours per week, are eligible to participate in the Plan. Employees are eligible to participate in salary reduction contributions commencing on their date of hire. After completing one year of service, employees are eligible to receive matching contributions paid by the Association. The Association matches 100% of employee contributions up to 3% of salary, and matches 50% of amounts in excess of 3% up to a maximum of 5% of salary.

The Association can also make discretionary contributions to the Plan that are based on the participants' salaries at a rate approved annually. The approved rate was 3% for 2012. Employees must be twenty-one years of age and have completed one year of service before they become eligible for discretionary employer contributions. Total pension expense under this plan for the years ended June 30, 2012 and 2011, was \$100,717 and \$108,880 respectively.

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

NOTES TO FINANCIAL STATEMENTS

Note 10. Restrictions of Net Assets

	2012	2011
Temporarily restricted:		
Charitable remainder trusts and bequests	\$ 216,813	\$ 216,813
Burns Fund (emphysema)	12,287	12,287
Pulmonary Fibrosis research fund	62,178	62,178
PACT Partner Funds	40,267	40,267
American Legacy Foundation fund	-	25,702
Other research	65,000	65,000
Total temporarily restricted net assets	\$ 396,545	\$ 422,247
Permanently restricted:		
Friedman	\$ 5,000	\$ 5,000
Chester non-smoking education	5,701	5,701
Total permanently restricted net assets	\$ 10,701	\$ 10,701

Note 11. Sharing Public Support

The Association has a contractual agreement with the American Lung Association whereby it remits a percentage of its shareable income (as defined in the agreement) to the National Office for research and other national uses. The Association pays 30% of the direct mail receipts and then makes fixed payments to the National Office to cover National's expenses that are allocated to the regional associations. The Association owes 13% on certain bequests of individuals who died prior to 7/1/09. As of June 30, 2012 and 2011, \$87,711 and \$14,480 was due to the National Office for sharing public support, respectively.

The following table sets forth the detail of the total amounts due to the National Office as of June 30:

	2012	2011
Share payment for year ended June 30	\$ 87,711	\$ 14,480
Share payment for future receipts of accrued income	30,885	28,781
	\$ 118,596	\$ 43,261

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

NOTES TO FINANCIAL STATEMENTS

Note 12. Allocation of Joint Information Costs

During the year ended June 30, 2012, the Association incurred joint costs of \$2,534,388, for informational materials and activities that included fundraising appeals. Of those costs, \$126,719 was allocated to Asthma; \$50,688 was allocated to Environmental Health; \$1,013,755 was allocated to Tobacco Control; \$76,032 was allocated to Community Health, \$126,719 was allocated to Other Lung Disease; and \$1,140,475 was allocated to Fundraising.

During the year ended June 30, 2011, the Association incurred joint costs of \$2,228,446, for informational materials and activities that included fundraising appeals. Of those costs, \$85,795 was allocated to Asthma; \$465,745 was allocated to Environmental Health; \$428,976 was allocated to Tobacco Control; \$147,077 was allocated to Community Health, \$98,052 was allocated to Other Lung Disease; and \$1,002,801 was allocated to Fundraising.

Note 13. Special Events

The following schedules of events are classified as Special Events in the Statements of Activities. The amounts shown are net of direct expenses.

	2012		
	Gross Revenue	Direct Expenses	Net Revenue
Super spellers	\$ 73,913	\$ 21,212	\$ 52,701
Asthma walks	339,778	56,025	283,753
Runs and climbs	612,842	211,796	401,046
Galas	306,246	175,261	130,985
Other	155,429	69,397	86,032
	<u>\$ 1,488,208</u>	<u>\$ 533,691</u>	<u>\$ 954,517</u>

	2011		
	Gross Revenue	Direct Expenses	Net Revenue
Super spellers	\$ 95,237	\$ 22,628	\$ 72,609
Asthma walks	362,275	80,856	281,419
Runs and climbs	575,405	234,184	341,221
Galas	450,186	210,870	239,316
Other	106,282	47,247	59,035
	<u>\$ 1,589,385</u>	<u>\$ 595,785</u>	<u>\$ 993,600</u>

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

NOTES TO FINANCIAL STATEMENTS

Note 14. Donated Services, Equipment, and Materials

The Association pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Association with specific programs, campaign solicitations and various committee assignments which are not required to be recorded as donated services as described in the FASB ASC *Accounting for Contributions Received and Contributions Made Topic*.

The Association also receives donated materials, equipment and services. These donations are recorded at estimated fair value at the date they are received. Total estimated in-kind contributions included in the Statement of Activities is approximately \$255,000 and \$319,000 for the years ended June 30, 2012 and 2011, respectively.

The Association received donated space for one and two of its office locations in 2012 and 2011, respectively. The donated space is recorded as an in-kind donation at fair market value. The value of the donated rent for the years ended June 30, 2012 and 2011, was approximately \$1,300, respectively.

Note 15. Commitments

The Association leases office space, treatment facilities and office equipment under various non-cancelable operating leases. Rental expense for the years ended June 30, 2012 and 2011, was \$231,191 and \$224,506, respectively.

Aggregate minimum lease payments under the non-cancelable operating leases as of June 30, 2012, are as follows:

Year	Amount
2013	\$ 238,267
2014	230,984
2015	154,369
2016	152,312
2017	128,999
Later years	64,140
	<u>\$ 969,071</u>

SUPPLEMENTARY INFORMATION

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

SCHEDULE OF BUDGETED AND INCURRED COSTS
NEW JERSEY DEPARTMENT OF HEALTH AND SENIOR SERVICES
For the Grant Period from January 1, 2011 to December 31, 2011
Grant Number: EPID11TBC014
Year Ended June 30, 2012

Cost Category	Final Approved Budget	Expenditure Report	Audited Expenditures	Questioned Costs
Salaries/Wages	\$ 35,961	\$ 38,745	\$ 38,745	\$ -
Fringe Benefits	10,429	10,173	10,173	-
Office Expense & Related Costs	2,836	-	-	-
Program Expense	78,240	28,074	28,074	-
Total Direct Cost	127,466	76,992	76,992	-
Indirect Cost	14,034	8,477	8,477	-
Total Cost	141,500	85,469	85,469	-
Less: Program Income	-	-	-	-
Net Total Cost	\$ 141,500	\$ 85,469	\$ 85,469	\$ -

Reconciliation of revenues recorded by fiscal period

Year ended June 30, 2011	\$ 37,377
Year ended June 30, 2012	48,092
Total revenues	<u>\$ 85,469</u>

Reconciliation to grant award:

Total grant expenditures	\$ 85,469
Funds payable to NJ DOH/SS	56,031
Total grant award	<u>\$ 141,500</u>

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

SCHEDULE OF BUDGETED AND INCURRED COSTS
NEW JERSEY DEPARTMENT OF HEALTH AND SENIOR SERVICES
For the Grant Period from January 1, 2012 to December 31, 2012
Grant Number: EPID12TBC003
Year Ended June 30, 2012

Cost Category	Final Approved Budget	Expenditure Report	Audited Expenditures	Questioned Costs
Salaries/Wages	\$ 39,534	\$ 23,220	\$ 23,220	\$ -
Fringe Benefits	10,279	5,574	5,574	-
Program Expense	23,300	25,632	25,632	-
Total Direct Cost	73,113	54,426	54,426	-
Indirect Cost	6,887	5,127	5,127	-
Total Cost	80,000	59,553	59,553	-
Less: Program Income	-	-	-	-
Net Total Cost	\$ 80,000	\$ 59,553	\$ 59,553	\$ -

Reconciliation of revenues recorded by fiscal period

Year ended June 30, 2012	\$ 59,553
Total revenues	<u>\$ 59,553</u>

Reconciliation to grant award:

Total grant expenditures	\$ 59,553
Funds available as of June 30, 2012	20,447
Total grant award	<u>\$ 80,000</u>

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

SCHEDULE OF BUDGETED AND INCURRED COSTS
NEW JERSEY DEPARTMENT OF HEALTH AND SENIOR SERVICES
For the Grant Period from September 1, 2010 to August 31, 2011
Grant Number: DFHS11AST003
Year Ended June 30, 2012

Cost Category	Final Approved Budget	Expenditure Report	Audited Expenditures	Questioned Costs
Salaries/Wages/Fringe Benefits	\$ 75,797	\$ 75,797	\$ 75,797	\$ -
Consultant/Professional Svcs	19,828	17,695	17,695	-
Program Expense	10,753	12,391	12,391	-
Travel, Conference & Meetings	700	1,275	1,275	-
Facility Cost	1,020	940	940	-
Total Direct Cost	108,098	108,098	108,098	-
Indirect Cost	11,902	11,902	11,902	-
Total Cost	120,000	120,000	120,000	-
Less: Program Income	-	-	-	-
Net Total Cost	\$ 120,000	\$ 120,000	\$ 120,000	\$ -

Reconciliation of revenues recorded by fiscal period

Year ended June 30, 2011	\$ 93,648
Year ended June 30, 2012	26,352
Total revenues	<u>\$ 120,000</u>

Reconciliation to grant award:

Total grant expenditures	\$ 120,000
Unspent grand funds	-
Total grant award	<u>\$ 120,000</u>

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

SCHEDULE OF BUDGETED AND INCURRED COSTS
NEW JERSEY DEPARTMENT OF HEALTH AND SENIOR SERVICES
For the Grant Period from September 1, 2011 to August 31, 2012
Grant Number: DFHS12AST013
Year Ended June 30, 2012

Cost Category	Final Approved Budget	Expenditure Report	Audited Expenditures	Questioned Costs
Salaries/Wages	\$ 77,313	\$ 63,581	\$ 63,581	\$ -
Fringe Benefits	20,271	13,240	13,240	-
Consultants/Professional Service Costs	10,682	5,341	5,341	-
Travel, Conference & Meetings	1,947	1,223	1,223	-
Program Expense	31,749	6,846	6,846	-
Facility Cost	1,020	765	765	-
Total Direct Cost	142,982	90,996	90,996	-
Indirect Cost	13,681	8,572	8,572	-
Total Cost	156,663	99,568	99,568	-
Less: Program Income	-	-	-	-
Net Total Cost	\$ 156,663	\$ 99,568	\$ 99,568	\$ -

Reconciliation of revenues recorded by fiscal period

Year ended June 30, 2012	\$ 99,568
Total revenues	<u>\$ 99,568</u>

Reconciliation to grant award:

Total grant expenditures	\$ 99,568
Funds available as of June 30, 2012	57,095
Total grant award	<u>\$ 156,663</u>

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

STATEMENT OF GRANT RECEIPTS AND EXPENDITURES
WEST VIRGINIA DEPARTMENT OF HEALTH AND HUMAN SERVICES
For the Grant Period from July 1, 2011 to June 30, 2012
Year Ended June 30, 2012

Grant Number: G120030
 Grant Period: 7/1/11 - 6/30/12
 Grant Award: \$97,220

	Budget	Actual	Variance Over/(Under) Budget
Personnel and fringe benefits	\$ 51,868	\$ 46,113	\$ (5,755)
Materials and supplies	1,982	5,595	3,613
Other	14,683	12,100	(2,583)
Contractual	20,317	18,042	(2,275)
Indirect cost	8,370	7,747	(623)
Total grant expenditures	<u>\$ 97,220</u>	<u>\$ 89,597</u>	<u>\$ (7,623)</u>

Reconciliation of revenues recorded by fiscal period

Year ended June 30, 2012	\$ 89,597
Total revenues	<u>\$ 89,597</u>

Reconciliation to grant award:

Total grant expenditures	\$ 89,597
Unspent grant funds	7,623
Total grant award	<u>\$ 97,220</u>

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

STATEMENT OF GRANT RECEIPTS AND EXPENDITURES
WEST VIRGINIA DEPARTMENT OF HEALTH AND HUMAN SERVICES
For the Grant Period from October 1, 2010 to August 31, 2011
Year Ended June 30, 2012

Grant Number: G110469
 Grant Period: 10/01/10-08/31/11
 Grant Award: \$74,011

	Budget	Actual	Variance Over/(Under) Budget
Personnel and fringe benefits	\$ 44,168	\$ 41,906	\$ (2,262)
Materials and supplies	7,120	6,157	(963)
Professional service costs	3,000	-	(3,000)
Other	12,995	10,727	(2,268)
Indirect cost	6,728	6,728	-
Total grant expenditures	<u>\$ 74,011</u>	<u>\$ 65,518</u>	<u>\$ (8,493)</u>

Reconciliation of revenues recorded by fiscal period

Year ended June 30, 2012	\$ 55,834
Year ended June 30, 2011	9,684
Total revenues	<u>\$ 65,518</u>

Reconciliation to grant award:

Total grant expenditures	\$ 65,518
Unspent grant funds	8,493
Total grant award	<u>\$ 74,011</u>

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

STATEMENT OF GRANT RECEIPTS AND EXPENDITURES
WEST VIRGINIA DEPARTMENT OF HEALTH AND HUMAN SERVICES
For the Grant Period from July 1, 2011 to June 30, 2012
Year Ended June 30, 2012

Grant Number: G120167
 Grant Period: 7/1/11 - 6/30/12
 Grant Award: \$650,000

	Budget	Actual	Variance Over/(Under) Budget
Personnel and fringe benefits	\$ 175,923	\$ 175,851	\$ (72)
Materials and supplies	21,585	14,422	(7,163)
Professional service costs	15,600	12,000	(3,600)
Other	380,940	302,895	(78,045)
Indirect cost	55,952	47,584	(8,368)
Total grant expenditures	<u>\$ 650,000</u>	<u>\$ 552,752</u>	<u>\$ (97,248)</u>

Reconciliation of revenues recorded by fiscal period

Year ended June 30, 2012	\$ 552,752
Total revenues	<u>\$ 552,752</u>

Reconciliation to grant award:

Total grant expenditures	\$ 552,752
Unspent grant funds	97,248
Total grant award	<u>\$ 650,000</u>

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

STATEMENT OF GRANT RECEIPTS AND EXPENDITURES
WEST VIRGINIA DEPARTMENT OF HEALTH AND HUMAN SERVICES
For the Grant Period from July 1, 2011 to June 30, 2012
Year Ended June 30, 2012

Grant Number: G120078
 Grant Period: 7/1/11 - 6/30/12
 Grant Award: \$25,000

	Budget	Actual	Variance Over/(Under) Budget
Personnel and fringe benefits	\$ 9,122	\$ 9,114	\$ (8)
Materials and supplies	8,095	7,557	(538)
Other	5,630	5,454	(176)
Indirect cost	2,153	2,074	(79)
Total grant expenditures	<u>\$ 25,000</u>	<u>\$ 24,199</u>	<u>\$ (801)</u>

Reconciliation of revenues recorded by fiscal period

Year ended June 30, 2012	\$ 24,199
Total revenues	<u>\$ 24,199</u>

Reconciliation to grant award:

Total grant expenditures	\$ 24,199
Unspent grant funds	801
Total grant award	<u>\$ 25,000</u>

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

SCHEDULE OF CONTRACTUAL PERFORMANCE CDC FUNDS

PENNSYLVANIA DEPARTMENT OF HEALTH

SAP 4000015263

For the Grant Period from July 1, 2011 to June 30, 2012

Year Ended June 30, 2012

	Budget	Actual
Personnel services	\$ -	\$ 707
Subcontract services	6,000	-
Supplies	1,517	810
Travel	209	209
Other	202	202
Total grant expenditures	<u>\$ 7,928</u>	<u>\$ 1,928</u>

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

**SCHEDULE OF CONTRACTUAL PERFORMANCE MSA FUNDS
PENNSYLVANIA DEPARTMENT OF HEALTH**

SAP 4000015263

For the Grant Period from July 1, 2011 to June 30, 2012

Year Ended June 30, 2012

	Budget	Actual
Personnel services	\$ 115,004	\$ 107,027
Consultant services	18,040	18,031
Subcontract services	1,051,417	1,046,000
Supplies	12,497	11,071
Travel	8,500	7,763
Other	173,345	165,554
Total grant expenditures	<u>\$ 1,378,803</u>	<u>\$ 1,355,446</u>

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

SCHEDULE OF CONTRACTUAL PERFORMANCE ARRA-CDC FUNDS

PENNSYLVANIA DEPARTMENT OF HEALTH

SAP 4000015263

For the Grant Period from July 1, 2011 to June 30, 2012

Year Ended June 30, 2012

	Budget	Actual
Personnel services	\$ -	\$ -
Consultant services	-	-
Subcontract services	-	-
Supplies	-	-
Travel	-	-
Other	12,892	12,060
Total grant expenditures	<u>\$ 12,892</u>	<u>\$ 12,060</u>

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

SCHEDULE OF CONTRACTUAL PERFORMANCE FDA FUNDS

PENNSYLVANIA DEPARTMENT OF HEALTH

SAP 4000015263

For the Grant Period from July 1, 2011 to June 30, 2012

Year Ended June 30, 2012

	Budget	Actual
Personnel services	\$ -	\$ -
Consultant services	-	-
Subcontract services	71,979	71,979
Supplies	-	-
Travel	-	-
Other	-	-
Total grant expenditures	<u>\$ 71,979</u>	<u>\$ 71,979</u>

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

SCHEDULE OF CONTRACTUAL PERFORMANCE MSA FUNDS

PENNSYLVANIA DEPARTMENT OF HEALTH

SAP 4000047578

For the Grant Period from July 1, 2011 to June 30, 2012

Year Ended June 30, 2012

	Budget	Actual
Personnel services	\$ 132,978	\$ 132,978
Consultant services	30,000	30,000
Subcontract services	115,000	115,000
Supplies	37,238	37,238
Travel	13,000	13,000
Other	146,981	146,981
Total grant expenditures	\$ 475,197	\$ 475,197

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

SCHEDULE OF CONTRACTUAL PERFORMANCE ARRA FUNDS

PENNSYLVANIA DEPARTMENT OF HEALTH

SAP 4000047578

For the Grant Period from July 1, 2011 to June 30, 2012

Year Ended June 30, 2012

	Budget	Actual
Personnel services	\$ -	\$ -
Consultant services	-	-
Subcontract services	-	-
Supplies	-	-
Travel	-	-
Other	18,878	18,878
Total grant expenditures	\$ 18,878	\$ 18,878

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

SCHEDULE OF CONTRACTUAL PERFORMANCE CDC FUNDS

PENNSYLVANIA DEPARTMENT OF HEALTH

SAP 4000047578

For the Grant Period from July 1, 2011 to June 30, 2012

Year Ended June 30, 2012

	Budget	Actual
Personnel services	\$ -	\$ -
Consultant services	-	-
Subcontract services	25,000	25,000
Supplies	-	-
Travel	-	-
Other	56,803	56,803
Total grant expenditures	\$ 81,803	\$ 81,803

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

SCHEDULE OF CONTRACTUAL PERFORMANCE

PENNSYLVANIA DEPARTMENT OF HEALTH

SAP 4000010698

For the Grant Period from July 1, 2011 to August 31, 2011

Year Ended June 30, 2012

	Budget	Actual
Personnel services	\$ 9,411	\$ 9,343
Consultant services	2,550	2,805
Subcontract services	13,730	13,557
Supplies	25	11
Travel	246	217
Other	886	915
Total grant expenditures	\$ 26,848	\$ 26,848

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

SCHEDULE OF CONTRACTUAL PERFORMANCE

PENNSYLVANIA DEPARTMENT OF HEALTH

SAP 4000010698

For the Grant Period from September 1, 2011 to June 30, 2012

Year Ended June 30, 2012

	Budget	Actual
Personnel services	\$ 41,516	\$ 41,516
Subcontract services	8,582	-
Supplies	476	148
Travel	1,152	935
Other	5,600	4,515
Total grant expenditures	\$ 57,326	\$ 47,114

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
American Lung Association of the Mid-Atlantic
Camp Hill, Pennsylvania

We have audited the financial statements of the American Lung Association of the Mid-Atlantic as of and for the year ended June 30, 2012, and have issued our report thereon dated September 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and audit guidelines issued by the Pennsylvania Department of Health, the New Jersey Department of Health and Senior Services and the West Virginia Department of Health and Human Resources.

Internal Control over Financial Reporting

Management of the American Lung Association of the Mid-Atlantic is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Association's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

A 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and audit guidelines issued by the Pennsylvania Department of Health, the New Jersey Department of Health and Senior Services and the West Virginia Department of Health and Human Resources.

We noted certain matters that we reported to management of the Association in a separate letter dated September 28, 2012.

This report is intended solely for the information and use of management, Board of Directors, federal awarding agencies, pass-through entities, and state awarding agencies, and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in cursive script that reads "Boyer & Ritter". The signature is written in black ink and is centered on the page.

Camp Hill, Pennsylvania
September 28, 2012

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133 AND NEW JERSEY CIRCULAR 04-04 OMB**

Board of Directors
American Lung Association of the Mid-Atlantic
Camp Hill, Pennsylvania

Compliance

We have audited the compliance of the American Lung Association of the Mid-Atlantic, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. American Lung Association of the Mid-Atlantic's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of American Lung Association of the Mid-Atlantic's management. Our responsibility is to express an opinion on American Lung Association of the Mid-Atlantic's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; New Jersey Circular 04-04 OMB; audit guidelines issued by the Pennsylvania Department of Health, the New Jersey Department of Health and Senior Services and the West Virginia Department of Health and Human Resources. Those standards, OMB Circular A-133, New Jersey Circular 04-04 OMB and guidelines require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about American Lung Association of the Mid-Atlantic's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on American Lung Association of the Mid-Atlantic's compliance with those requirements.

In our opinion, American Lung Association of the Mid-Atlantic complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

The management of American Lung Association of the Mid-Atlantic is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered American Lung Association of the Mid-Atlantic's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but, not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of American Lung Association of the Mid-Atlantic's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies, pass-through entities, and state awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Boyer & Ritter". The signature is written in black ink and is positioned in the center-right of the page.

Camp Hill, Pennsylvania
September 28, 2012

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Section I -- Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None Reported

Type of auditor's report issued on compliance for the major programs: Unqualified

- Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133? Yes No

**AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

Identification of the major programs:

CFDA Number	Name of Federal Program
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance
93.723	ARRA - Prevention and Wellness-State, Territories and Pacific Islands

Dollar threshold used to distinguish between type A and type B programs \$300,000

Auditee qualified as low-risk auditee? X Yes No

Section II -- Financial Statement Findings

A. Significant Deficiencies in Internal Control

There were no significant deficiencies in internal control relating to the financial statement audit required to be reported.

B. Compliance Findings

There was no compliance findings relating to the financial statement audit required to be reported.

Section III -- Federal Award Findings and Questioned Costs

A. Compliance Findings

There were no findings relating to the Federal awards as required to be reported in accordance with Section .510(a) of OMB Circular A-133.

B. Significant Deficiencies in Internal Control

There were no findings relating to the Federal awards as required to be reported in accordance with Section .510(a) of OMB Circular A-133.

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

Federal Grantor/Pass Through/ Grantor Program Title	Federal CFDA Number	Pass- Through Contract Number	Federal Expenditures
U.S. Department of Health and Human Services			
Passed through the State of Delaware Department of Health and Social Services			
Division of Public Health			
ARRA-Community Outreach for Tobacco Prevention and Control Programs	93.723	11-131	\$ 137,958
Community Outreach for Tobacco Prevention and Control Programs	93.283	11-131	115,337
Youth Tobacco Prevention and Education Programs	93.283	12-049	50,000
Passed through Commonwealth of Pennsylvania Department of Health			
Tobacco Use Prevention and Cessation	93.283	4100047578	81,803
Passed through Commonwealth of Pennsylvania Department of Health			
ARRA-Community Outreach for Tobacco Prevention and Control Programs	93.723	4100047578	18,878
Passed through Commonwealth of Pennsylvania Department of Health			
ARRA-South Central Tobbaco Control	93.723	4000015263	12,060
South Central Tobbaco Control	93.520	4000015263	1,928
Passed through Commonwealth of Pennsylvania Department of Health			
Addressing Asthma from a Public Health Pespective	93.070	4000010698	26,848
Addressing Asthma from a Public Health Pespective	93.070	4000010698	47,472

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
Year Ended June 30, 2012

Federal Grantor/Pass Through/ Grantor Program Title	Federal CFDA Number	Pass- Through Contract Number	Federal Expenditures
U.S. Department of Health and Human Services (Continued)			
Passed through State of New Jersey Department of Health and Senior Services			
Pediatric/Adult Asthma Coalition	93.283	DFHS11AST003	26,352
Pediatric/Adult Asthma Coalition	93.283	DFHS12AST013	99,568
Tuberculosis Control Program	93.116	EPID11TBC014	48,092
Tuberculosis Control Program	93.116	EPID12TBC003	59,553
Passed through State of West Virginia Department of Health and Human Resources Bureau for Public Health Epidemiology and Health Promotion			
Asthma Prevention Program	93.070	G110469	18,307
Asthma Prevention Program	93.070	G120464	43,141
Regional Tobacco Prevention Coalition	93.283	G120030	39,933
Total U.S. Department of Health and Human Services			827,230
U.S. Environmental Protection Agency			
Indoor Air Quality Tools for Schools	66.034	XA97390301-2	42,854
Pediatric/Adult Asthma Coalition	66.034	XA-97250908-4	56,247
Subtotal Direct Programs			99,101
Passed through the Commonwealth of Pennsylvania Department of Environmental Protection Bureau of Radiation Protection			
Radon Awareness & Risk Reduction	66.032	4100051240	8,236
Radon Awareness & Risk Reduction	66.032	DEP OCC LOG# 12-0111	24,976
Total U.S. Environmental Protection Agency			132,313
Total expenditures of Federal awards			\$ 959,543

See Note to Schedule of Expenditures of Federal Awards.

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the Federal-grant activity of the Association under programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because this schedule presents only a selected portion of the operations of the Association, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Association.

Note 2. Significant Accounting of Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
Year Ended June 30, 2012

There were no prior year audit findings.