



MOODY, FAMIGLIETTI & ANDRONICO  
Certified Public Accountants & Consultants

**AMERICAN LUNG ASSOCIATION  
OF THE NORTHEAST, INC. AND AFFILIATE**

**COMBINED FINANCIAL STATEMENTS AND  
REPORT REQUIRED FOR AUDITS IN  
ACCORDANCE WITH *GOVERNMENT  
AUDITING STANDARDS***

**JUNE 30, 2016 AND 2015**



To the Audit Committee  
American Lung Association of the Northeast, Inc. and Affiliate  
East Hartford, Connecticut

## **INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying combined financial statements of the American Lung Association of the Northeast, Inc. and Affiliate, (collectively referred to as the "Organization") which comprise the combined statements of financial position as of June 30, 2016 and 2015, and the related combined statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the combined financial statements.

### ***Management's Responsibility for the Combined Financial Statements***

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to combined 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 combined financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Organization's preparation and fair presentation of the combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of American Lung Association of the Northeast, Inc. and Affiliate as of June 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



**Correction of Presentation**

As described in Note 17 to the combined financial statements, the combined statements of function expenses have been corrected for amounts that were improperly presented for the years ended June 30, 2016 and 2015.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2016, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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* in considering the Organization's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Moody, Famiglietti &amp; Andronico, LLP".

Moody, Famiglietti & Andronico, LLP  
Tewksbury, Massachusetts  
December 27, 2016

June 30,	2016	2015
<b>Assets</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 2,319,361	\$ 2,507,349
Grants Receivable	592,437	954,855
Contributions Receivable	223,111	212,115
Prepaid Expenses and Other Current Assets	145,888	135,704
<b>Total Current Assets</b>	<b>3,280,797</b>	<b>3,810,023</b>
Investments and Endowment	14,336,079	13,530,497
Gift Annuities Receivable	19,139	35,138
Property and Equipment, Net of Accumulated Depreciation	825,325	695,553
Beneficial Interest in Charitable Remainder Trust	54,550	60,194
Beneficial Interest in Perpetual Trusts	7,330,842	7,770,086
<b>Total Assets</b>	<b>\$ 25,846,732</b>	<b>\$ 25,901,491</b>
<b>Liabilities and Net Assets</b>		
Current Liabilities:		
Current Portion of Note Payable	\$ 12,120	\$ 12,120
Accounts Payable	1,224,147	774,766
Due to National	200,039	125,522
Accrued Expenses and Other Current Liabilities	378,226	541,221
Current Portion of Pension Benefit Obligation	3,320,043	322,000
Gift Annuities Payable	76,567	98,264
Deferred Revenue	451,977	459,466
<b>Total Current Liabilities</b>	<b>5,663,119</b>	<b>2,333,359</b>
Note Payable, Net of Current Portion and Discount	12,228	23,467
Pension Benefit Obligation, Net of Current Portion	-	1,561,109
<b>Total Liabilities</b>	<b>5,675,347</b>	<b>3,917,935</b>
Net Assets:		
Unrestricted:		
Available for Operations	8,985,441	11,074,824
Net Investment in Property and Equipment	800,977	659,966
<b>Total Unrestricted</b>	<b>9,786,418</b>	<b>11,734,790</b>
Temporarily Restricted	557,388	113,711
Permanently Restricted	9,827,579	10,135,055
<b>Total Net Assets</b>	<b>20,171,385</b>	<b>21,983,556</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 25,846,732</b>	<b>\$ 25,901,491</b>

For the Year Ended June 30,

2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Public Support and Revenue:				
Contributions and Donations:				
Direct Mail	\$ 3,116,598	\$ -	\$ -	\$ 3,116,598
Special Events, Net of Direct Expenses of \$838,905	3,114,304	-	-	3,114,304
Bequests	1,651,619	400,000	-	2,051,619
Other Contributions	928,103	25,000	125,000	1,078,103
<b>Total Contributions and Donations</b>	<b>8,810,624</b>	<b>425,000</b>	<b>125,000</b>	<b>9,360,624</b>
Other Operating Revenue:				
Government Grants	3,421,805	-	-	3,421,805
Corporate and Other Grants	474,569	-	-	474,569
Interest and Investment Income, Net	353,815	29,313	3,068	386,196
Income from Perpetual Trusts	384,356	-	-	384,356
Program Service Fees and Other Income	217,736	-	-	217,736
Grants from National	98,810	-	-	98,810
<b>Total Other Operating Revenue</b>	<b>4,951,091</b>	<b>29,313</b>	<b>3,068</b>	<b>4,983,472</b>
Net Assets Released from Restrictions	20,714	(20,714)	-	-
<b>Total Operating Public Support and Revenue</b>	<b>13,782,429</b>	<b>433,599</b>	<b>128,068</b>	<b>14,344,096</b>
Operating Expenses and Losses:				
Operating Expenses:				
Program Services	12,521,322	-	-	12,521,322
Fundraising	2,110,279	-	-	2,110,279
Management and General	521,485	-	-	521,485
<b>Total Operating Expenses</b>	<b>15,153,086</b>	<b>-</b>	<b>-</b>	<b>15,153,086</b>
Loss on Disposal of Property and Equipment	34,473	-	-	34,473
<b>Total Operating Expense and Losses</b>	<b>15,187,559</b>	<b>-</b>	<b>-</b>	<b>15,187,559</b>
<b>(Decrease) Increase in Net Assets from Operations</b>	<b>(1,405,130)</b>	<b>433,599</b>	<b>128,068</b>	<b>(843,463)</b>
Non-Operating Revenues (Expenses):				
Change in Pension Benefit Obligation	(797,094)	-	-	(797,094)
Net Change in Value of Gift Annuities	5,699	-	-	5,699
Net Change in Value of Investments Held in Trust	-	(5,644)	(439,244)	(444,888)
Net Realized and Unrealized				
Gains on Investments	248,153	15,722	3,700	267,575
<b>Total Non-Operating Revenues (Expenses)</b>	<b>(543,242)</b>	<b>10,078</b>	<b>(435,544)</b>	<b>(968,708)</b>
<b>Increase (Decrease) in Net Assets</b>	<b>(1,948,372)</b>	<b>443,677</b>	<b>(307,476)</b>	<b>(1,812,171)</b>
Net Assets at Beginning of Year	11,734,790	113,711	10,135,055	21,983,556
<b>Net Assets at End of Year</b>	<b>\$ 9,786,418</b>	<b>\$ 557,388</b>	<b>\$ 9,827,579</b>	<b>\$ 20,171,385</b>

For the Year Ended June 30,

2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Public Support and Revenue:				
Contributions and Donations:				
Direct Mail	\$ 3,277,957	\$ -	\$ -	\$ 3,277,957
Special Events, Net of Direct Expenses of \$821,398	2,933,952	-	-	2,933,952
Bequests	2,442,147	-	-	2,442,147
Other Contributions	1,114,657			1,114,657
<b>Total Contributions and Donations</b>	<b>9,768,713</b>	<b>-</b>	<b>-</b>	<b>9,768,713</b>
Other Operating Revenue:				
Government Grants	3,526,268	-	-	3,526,268
Corporate and Other Grants	1,909,176	-	-	1,909,176
Interest and Investment Income, Net	338,153	31,847	2,413	372,413
Income from Perpetual Trusts	332,589	-	-	332,589
Program Service Fees and Other Income	245,470	-	-	245,470
Grants from National	92,932	-	-	92,932
<b>Total Other Operating Revenue</b>	<b>6,444,588</b>	<b>31,847</b>	<b>2,413</b>	<b>6,478,848</b>
Net Assets Released from Restrictions	296,637	(296,637)	-	-
<b>Total Operating Public Support and Revenue</b>	<b>16,509,938</b>	<b>(264,790)</b>	<b>2,413</b>	<b>16,247,561</b>
Operating Expenses:				
Program Services	14,048,904	-	-	14,048,904
Fundraising	2,172,749	-	-	2,172,749
Management and General	535,488	-	-	535,488
<b>Total Operating Expenses</b>	<b>16,757,141</b>	<b>-</b>	<b>-</b>	<b>16,757,141</b>
<b>(Decrease) Increase in Net Assets from Operations</b>	<b>(247,203)</b>	<b>(264,790)</b>	<b>2,413</b>	<b>(509,580)</b>
Non-Operating Revenues (Expenses):				
Change in Pension Benefit Obligation	29,176	-	-	29,176
Net Change in Value of Gift Annuities	11,456	-	-	11,456
Net Change in Value of Investments Held in Trust	-	(4,106)	(254,773)	(258,879)
Net Realized and Unrealized Losses on Investments	(587,516)	(16,270)	(851)	(604,637)
<b>Total Non-Operating Revenues (Expenses)</b>	<b>(546,884)</b>	<b>(20,376)</b>	<b>(255,624)</b>	<b>(822,884)</b>
<b>Increase (Decrease) in Net Assets</b>	<b>(794,087)</b>	<b>(285,166)</b>	<b>(253,211)</b>	<b>(1,332,464)</b>
Net Assets at Beginning of Year	12,528,877	398,877	10,388,266	23,316,020
Net Assets at End of Year	\$ 11,734,790	\$ 113,711	\$ 10,135,055	\$ 21,983,556

Combined Statements of Functional Expenses

American Lung Association of the Northeast, Inc.  
and Affiliate

For the Year Ended June 30,

2016

	Program Services						Supporting Services		Total Expenses
	Lung Cancer, Asthma, COPD and Other Lung Disease	Tobacco Control	(As Corrected) Research	(As Corrected) Environmental Health	Community Health Services	Total	Fundraising	Management and General	
Payroll and Related:									
Salaries	\$ 1,581,482	\$ 1,823,989	\$ 91,669	\$ 549,660	\$ 337,288	\$ 4,384,088	\$ 688,623	\$ 172,723	\$ 5,245,434
Employee Benefits	495,878	571,916	28,743	172,347	105,759	1,374,643	215,921	54,155	1,644,719
Payroll Taxes	24,418	377,271	1,416	8,487	5,207	416,799	10,633	2,664	430,096
<b>Total Payroll and Related</b>	<b>2,101,778</b>	<b>2,773,176</b>	<b>121,828</b>	<b>730,494</b>	<b>448,254</b>	<b>6,175,530</b>	<b>915,177</b>	<b>229,542</b>	<b>7,320,249</b>
Other:									
Direct Mail	736,817	107,135	415,413	80,457	-	1,339,822	667,159	110,311	2,117,292
Program Service Expenses	333,205	650,260	-	435,293	5,644	1,424,402	-	-	1,424,402
Building and Occupancy	207,689	239,514	12,055	72,192	44,293	575,743	90,446	22,663	688,852
Research	-	-	491,196	-	-	491,196	-	-	491,196
Printing, Media and Advertising	175,027	25,490	4,464	15,578	29,013	249,572	28,086	1,410	279,068
Professional and Contracted Services	53,135	100,181	1,055	45,204	12,283	211,858	27,827	28,931	268,616
Fees and Dues	51,894	34,732	8,174	29,988	21,789	146,577	58,464	7,208	212,249
Meetings and Conferences	142,298	18,871	1,029	8,107	18,692	188,997	5,419	3,452	197,868
Travel and Transportation	67,176	53,068	3,554	15,950	16,470	156,218	21,879	6,291	184,388
Insurance	26,396	15,838	-	15,838	10,559	68,631	15,838	21,116	105,585
Depreciation	26,924	26,766	2,648	11,292	7,215	74,845	17,920	2,532	95,297
Postage and Shipping	42,546	23,794	1,376	7,906	5,266	80,888	10,582	2,455	93,925
Equipment	26,978	30,352	1,810	9,900	6,198	75,238	13,444	2,851	91,533
Other Expenses	17,587	11,742	2,257	8,974	6,597	47,157	14,802	2,402	64,361
Supplies	24,093	15,706	1,290	5,946	4,398	51,433	9,110	1,399	61,942
<b>Total Other</b>	<b>1,931,765</b>	<b>1,353,449</b>	<b>946,321</b>	<b>762,625</b>	<b>188,417</b>	<b>5,182,577</b>	<b>980,976</b>	<b>213,021</b>	<b>6,376,574</b>
Total Expenses before Assessment to National	4,033,543	4,126,625	1,068,149	1,493,119	636,671	11,358,107	1,896,153	442,563	13,696,823
Assessment to National	284,782	130,561	592,523	116,357	38,992	1,163,215	214,126	78,922	1,456,263
<b>Total Operating Expenses</b>	<b>\$ 4,318,325</b>	<b>\$ 4,257,186</b>	<b>\$ 1,660,672</b>	<b>\$ 1,609,476</b>	<b>\$ 675,663</b>	<b>\$ 12,521,322</b>	<b>\$ 2,110,279</b>	<b>\$ 521,485</b>	<b>\$ 15,153,086</b>

The accompanying notes are an integral part of these combined financial statements.

Combined Statements of Functional Expenses (Continued)

American Lung Association of the Northeast, Inc.  
and Affiliate

For the Year Ended June 30,

2015

	Program Services						Supporting Services		Total Expenses
	Lung Cancer, Asthma, COPD and Other Lung Disease	Tobacco Control	(As Corrected) Research	(As Corrected) Environmental Health	Community Health Services	Total	Fundraising	Management and General	
Payroll and Related:									
Salaries	\$ 1,544,121	\$ 1,835,043	\$ 89,340	\$ 599,485	\$ 337,240	\$ 4,405,229	\$ 681,312	\$ 175,756	\$ 5,262,297
Employee Benefits	411,988	489,608	23,837	159,950	89,979	1,175,362	181,781	46,887	1,404,030
Payroll Taxes	34,776	367,039	2,012	13,501	7,596	424,924	15,347	3,959	444,230
<b>Total Payroll and Related</b>	<b>1,990,885</b>	<b>2,691,690</b>	<b>115,189</b>	<b>772,936</b>	<b>434,815</b>	<b>6,005,515</b>	<b>878,440</b>	<b>226,602</b>	<b>7,110,557</b>
Other:									
Direct Mail	764,643	104,342	416,913	104,342	-	1,390,240	760,107	117,951	2,268,298
Program Service Expenses	260,744	618,744	-	1,724,146	4,950	2,608,584	-	-	2,608,584
Building and Occupancy	220,443	261,991	12,773	85,577	48,161	628,945	97,298	25,095	751,338
Research	-	-	771,811	-	-	771,811	-	-	771,811
Printing, Media and Advertising	147,015	63,377	3,809	14,229	14,219	242,649	23,173	1,252	267,074
Professional and Contracted Services	53,955	101,845	428	41,686	16,637	214,551	25,410	28,349	268,310
Fees and Dues	52,007	32,825	8,111	29,624	19,833	142,400	56,467	5,843	204,710
Meetings and Conferences	105,948	13,868	836	7,396	12,257	140,305	4,125	2,609	147,039
Travel and Transportation	87,898	78,571	3,629	20,229	15,883	206,210	23,121	6,725	236,056
Insurance	28,475	17,085	-	17,085	11,390	74,035	17,085	22,778	113,898
Depreciation	21,987	21,939	2,272	10,004	6,122	62,324	15,373	2,120	79,817
Postage and Shipping	47,838	34,949	1,946	11,796	7,406	103,935	14,596	3,330	121,861
Equipment	29,805	33,378	1,815	11,952	7,271	84,221	15,782	3,915	103,918
Other Expenses	28,911	20,139	3,150	16,641	11,983	80,824	27,470	4,742	113,036
Supplies	41,167	26,909	1,329	7,404	5,795	82,604	10,156	2,167	94,927
<b>Total Other</b>	<b>1,890,836</b>	<b>1,429,962</b>	<b>1,228,822</b>	<b>2,102,111</b>	<b>181,907</b>	<b>6,833,638</b>	<b>1,090,163</b>	<b>226,876</b>	<b>8,150,677</b>
Total Expenses before Assessment to National	3,881,721	4,121,652	1,344,011	2,875,047	616,722	12,839,153	1,968,603	453,478	15,261,234
Assessment to National	269,357	122,323	602,926	161,204	53,941	1,209,751	204,146	82,010	1,495,907
<b>Total Operating Expenses</b>	<b>\$ 4,151,078</b>	<b>\$ 4,243,975</b>	<b>\$ 1,946,937</b>	<b>\$ 3,036,251</b>	<b>\$ 670,663</b>	<b>\$ 14,048,904</b>	<b>\$ 2,172,749</b>	<b>\$ 535,488</b>	<b>\$ 16,757,141</b>

The accompanying notes are an integral part of these combined financial statements.

For the Year Ended June 30,	2016	2015
Cash Flows from Operating Activities:		
Decrease in Net Assets	\$ (1,812,171)	\$ (1,332,464)
Adjustments to Reconcile Decrease in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	95,297	79,817
Amortization of Debt Discount	881	735
Net Realized and Unrealized (Gains) Losses on Investments	(267,575)	604,637
Net Change in Value of Investments Held in Trust	444,888	258,879
Cash Payments to Reduce Pension Benefit Obligation	(85,000)	(540,000)
Loss on Disposal of Property and Equipment	34,473	-
Actuarial Change in Pension Benefit Obligation	1,521,934	533,726
Decrease (Increase) in Grants Receivable	362,418	(85,373)
(Increase) Decrease in Contributions Receivable	(10,996)	1,427,222
Increase in Prepaid Expenses and Other Current Assets	(10,184)	(841)
Decrease in Gift Annuities Receivable	15,999	31,904
Increase (Decrease) in Accounts Payable	295,463	(459,897)
Increase (Decrease) in Due to National	74,517	(18,425)
(Decrease) Increase in Accrued Expenses and Other Current Liabilities	(162,995)	98,806
Decrease in Annuities Payable	(21,697)	(43,360)
Decrease in Deferred Revenue	(7,489)	(708,440)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>467,763</b>	<b>(153,074)</b>
Cash Flows from Investing Activities:		
Purchases of Investments and Endowment	(2,203,793)	(1,683,840)
Proceeds from Sales of Investments and Endowments	1,665,786	1,200,365
Acquisition of Property and Equipment	(105,624)	(148,431)
<b>Net Cash Used in Investing Activities</b>	<b>(643,631)</b>	<b>(631,906)</b>
Cash Used in Financing Activities:		
Principal Payments on Note Payable	(12,120)	(10,099)
Decrease in Cash and Cash Equivalents	(187,988)	(795,079)
Cash and Cash Equivalents, Beginning of Year	2,507,349	3,302,428
Cash and Cash Equivalents, End of Year	\$ 2,319,361	\$ 2,507,349

Supplemental Disclosure of Non-Cash Investing and Financing Activities:

During the year ended June 30, 2016, the Organization disposed of property and equipment with an original cost of \$74,036 and accumulated depreciation of \$39,563. During the year ended June 30, 2015, the Organization disposed of fully depreciated property and equipment with an original cost of \$16,300.

During the year ended June 30, 2016, the Organization purchased \$153,918 of property and equipment that is included within accounts payable.

During the year ended June 30, 2015, the Organization financed property and equipment acquisitions with a note payable in the amount of \$44,951.

## 1. Organization and Summary of Significant Accounting Policies:

*Principles of Combination:* The combined financial statements of The American Lung Association of the Northeast, Inc. and Affiliate (collectively referred to as the "Organization") include the accounts of The American Lung Association of the Northeast, Inc. (ALANE) and Mass Lung Health ("MLH" or the "Affiliate"). All significant intercompany balances and transactions have been eliminated in combination.

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

ALANE is a Connecticut corporation, which was formed on July 1, 2012 when the American Lung Association of New England, Inc. and the American Lung Association of New York 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.

MLH was a Massachusetts corporation formed on April 3, 1943 and was an affiliated entity related by common control. During the above mentioned merger, MLH continued as a separate legal entity and was not merged into ALANE out of concern that doing so may have delayed the American Lung Association of New England, Inc. and the American Lung Association of New York merger. MLH was dissolved effective July 1, 2015 and the assets and liabilities of MLH were transferred to ALANE at book value.

*Method of Accounting:* The combined financial statements of the Organization have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

*Revenue Recognition:* Revenues are reported as increases in unrestricted net assets unless the use is limited by donor-imposed restrictions. Grant revenues, government contract revenues and program service fees are recognized when persuasive evidence of an agreement exists, delivery of the services has occurred, the fee is fixed or determinable, and collectability is probable. Government grants and contracts are also recognized upon the performance of reimbursable activities and are subject to audit by the appropriate governmental agency. It is the position of management that the results of such audits, if any, will not have a material effect on the combined results of operations or the combined financial position of the Organization as of June 30, 2016 and 2015.

Revenues from special events are recognized in the period in which the event takes place and is shown net of direct costs of benefits to donors and other expenses directly related to the production of the events.

*Deferred Revenue:* Deferred revenue consists of advances received relating to program service fees and payments received for future special events. Deferred revenues are recognized as program service revenue when the aforementioned revenue recognition criteria are met.

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

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class. Contributions received with donor-imposed restrictions that are met subsequent to the year in which they are received are reported as revenues of the temporarily restricted net asset class.

**1. Organization and Summary of Significant Accounting Policies (Continued):**

A reclassification to unrestricted net assets is made to reflect the expiration of such restrictions in the year the restriction is met. Permanently restricted contributions are recorded as permanently restricted revenue at fair value at the date the promise is received.

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

Donated services are recognized as revenue when the services received create or enhance non-financial assets or require specialized skills that would typically need to be purchased if not provided by donation. Donated assets are recognized as revenue when the asset is unconditionally pledged and the fair value of the asset received is determinable.

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

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

*Fair Value Measurements:* The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

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

- Unrestricted net assets represent the portion of the Organization's net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Unrestricted net

**1. Organization and Summary of Significant Accounting Policies (Continued):**

assets include expendable funds available for support of the Organization, as well as funds invested in property and equipment.

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

*Cash and Cash Equivalents:* Cash consists of cash on hand and cash held at various financial institutions. Cash equivalents held by the Organization represents sweep activity of funds in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit, which the bank invests into various certificates of deposit with other financial institutions. All of the certificates of deposit are in amounts less than or equal to the FDIC limits and are with different financial institutions to ensure all of the Organization's cash and cash equivalents are fully insured. These certificates of deposit allow for penalty free withdrawals at any time, mimicking the flexibility of money market funds. Cash and cash equivalents held in brokerage accounts are classified as investments and endowment.

*Investments, Endowment and Investment and Endowment Income:* The Organization's realized gains and losses are recorded on the trade date based on the average cost method for mutual funds and the specific cost method for all other securities. Unrealized gains and losses are recorded based on the fair value of investments and endowment.

The Organization's investments are reported at fair value at the combined statements of financial position date. Realized and unrealized gains and losses are reflected in the accompanying combined statements of activities. Investment income or loss (including

realized and unrealized gains and losses on investments, interest and dividends) is included in unrestricted net assets unless the income or loss is restricted by donor or law.

The Organization allocates investment income in accordance with donor restrictions and law. Investment income available for operations consists of interest and dividends. Interest income is recorded as earned and dividend income is recorded on the ex-dividend date.

Distributions from investments held in perpetual trust, and interest and dividend income from the Organization's investments are recorded as operating income on the accompanying combined statements of activities. Unrealized and realized gains (losses) on investments held in trust and on the Organization's investments are recorded as non-operating revenues (expenses) on the accompanying combined statements of activities.

*Endowment:* The endowment includes those net assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period. The Organization's endowment consists of a number of funds, some of which have restrictions as to the use of income generated by the underlying investments. The endowment funds include only donor-restricted funds, as no funds have been designated by the Board of Directors to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

*Interpretation of Relevant Law:* The Organization follows the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA). The Board of Directors has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, permanently restricted net assets have been reflected to consist of the original value of the gifts donated to the permanent endowment at the date of the gift plus any accumulations to the permanent endowment made in accordance with the applicable donors' explicit directions. Any excess donor-restricted endowment fund above the designated balance is classified as temporarily restricted net assets until those amounts

**1. Organization and Summary of Significant Accounting Policies (Continued):**

are appropriated for expenditure by the Organization in a manner considered to be prudent under UPMIFA.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. Deficiencies of this nature would be reported in unrestricted net assets.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate endowment funds:

- Duration and preservation of the fund
- Purposes of the Organization and the donor-restricted endowment fund
- General economic conditions
- Possible effect of inflation and deflation
- Expected total return from income and the appreciation of investments
- Other resources of the Organization
- Investment policies of the Organization.

*Grants Receivable and Contributions Receivable:* Grants receivable and contributions receivable are carried at the outstanding principal balance, less an estimate made for doubtful receivables, if any. Management determines the allowance for doubtful grants by identifying troubled receivables and by using historical experience and assessment of credit worthiness. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. As of June 30, 2016 and 2015, management determined that no allowance for doubtful accounts was necessary.

*Concentrations of Credit Risk:* Financial instruments that potentially subject the Organization to credit risk consist primarily of cash, cash equivalents, investments and endowment, and grants receivable and contributions receivable. The Organization maintains its cash, cash equivalents and investments and endowment with a high-credit quality financial

institution. To ensure that its cash balances do not exceed the insured FDIC insurance limit, the Organization has an arrangement in place to sweep all of the available funds in excess of the FDIC insurance limit in its main operating account into insured certificates of deposit with various financial institutions as needed. As a result, the Organization does not generally maintain cash balances in excess of the FDIC insurance limit. While management believes the risk is minimal, the Organization's cash deposits are still subject to investment risk.

The Organization derives significant revenue from the State of New York. During the years ended June 30, 2016 and 2015, this revenue represented approximately 21% and 18%, respectively, of the Organization's total operating public support and revenue. The State of New York also represented approximately 54% and 75% of grants receivable as of June 30, 2016 and 2015, respectively.

*Other 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 the investment securities will occur in the near term and that such changes could materially affect the amounts reported in the combined statements of financial position.

In addition, the pension plans invest in various investment securities. Investment securities are exposed to various risk 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 such changes could materially affect the amounts reported in the combined statements of financial position.

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

**1. Organization and Summary of Significant Accounting Policies (Continued):**

*Beneficial Interest in Investments Held in Trusts:* The Organization is one of several beneficiaries named to receive income earned in various irrevocable trusts of which the original principal endowment is invested and maintained by independent trustees. The Organization has recorded its beneficial interest in these trusts at the fair value of the trust assets on the accompanying combined statements of financial position and the related annual change in the trusts on the accompanying combined statements of activities.

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

Buildings and Improvements	10-39 Years
Furniture, Fixtures and Equipment	3-10 Years

*Pension Plan:* The Organization sponsors two noncontributory defined benefit pension plans. The Organization's policy is to fund the required contribution necessary to meet the present and future obligations of the plan. The Organization expects to make the final plan termination distribution by April 1, 2017.

*Income Taxes:* The Organization is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. As a result, no provision for income taxes is presented in these combined financial statements. However, in certain circumstances, the Organization may be subject to federal and state income taxes for profits generated from unrelated trade or business income. As of June 30, 2016 and 2015, management has determined that the Organization does not have any liabilities associated with unrelated trade or business income.

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

The Organization has not recognized any liabilities for uncertain tax positions or unrecognized benefits as of June 30, 2016 and 2015. The Organization does not expect any material change in uncertain tax benefits within the next twelve months. As of June 30, 2016 and 2015, the Organization is not currently under examination by any taxing authorities but is generally open to examination for three years from the date of filing.

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

*Deferred Rent:* The Organization records rent expense related to its office space based on a constant periodic rate over the term of the lease agreements for rent concessions. Rent concessions remaining to be recognized to rent expense are deferred and recognized over the term of the lease. For office space lease agreements that call for periodic rent increases, the Organization expenses the full amount of the lease payments in the period in which they are paid. The excess of cumulative rent expense incurred over the cumulative amount due under the lease agreements is immaterial to the combined financial statements.

*Advertising and Promotional Costs:* The Organization expenses advertising and promotional costs as incurred. During the years ended June 30, 2016 and 2015, the Organization incurred advertising expense in the amounts of \$152,436 and \$385,052, respectively.

*Use of Estimates:* Management has used estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities in its preparation of the combined financial statements in accordance with GAAP. Actual results experienced by the Organization may differ from those estimates.

*Subsequent Events:* Management has evaluated subsequent events spanning the period from June 30, 2016 through December 27, 2016, the date the combined financial statements were available to be issued.

**2. Investments and Endowment:**

Investments and endowment as of June 30, 2016 and 2015 are stated at fair value and consist of the following:

	2016	2015
Equity Securities	\$ 8,897,429	\$ 8,750,944
Fixed Income Securities	4,571,771	3,753,133
Brokerage Cash	866,879	1,026,420
	<u>\$ 14,336,079</u>	<u>\$ 13,530,497</u>

Investment return consisted of the following for the years ended June 30, 2016 and 2015:

	2016	2015
Investment Income:		
Interest and Dividends	\$ 380,366	\$ 375,970
Investment Expenses and Taxes	<u>(7,141)</u>	<u>(10,442)</u>
Net Investment Income	<u>\$ 373,225</u>	<u>\$ 365,528</u>
Net Realized Gains	\$ 151,318	\$ 117,354
Net Unrealized Gains/ (Losses)	<u>116,257</u>	<u>(721,991)</u>
Net Realized and Unrealized Gains (Losses) on Investments	<u>\$ 267,575</u>	<u>\$ (604,637)</u>

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

*Endowment Spending Policy:* The Organization appropriates income from donor restricted endowment funds for expenditure in accordance with donor purpose and time restrictions. The Organization appropriated \$20,713 and \$193,947 in endowment funds for expenditure for the years ended June 30, 2016 and 2015, respectively.

The Organization's endowment consists of donor-restricted endowment funds. Endowment net asset composition as of June 30, 2016 and 2015 consists of the following:

	2016	2015
Temporarily Restricted	\$ 100,805	\$ 11,439
Permanently Restricted	<u>2,496,737</u>	<u>2,364,969</u>
	<u>\$ 2,597,542</u>	<u>\$ 2,376,408</u>

**2. Investments and Endowment (Continued):**

The change in the endowment balance by net asset classification for the years ended June 30, 2016 and 2015 consists of the following:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment, Beginning of Year	\$ -	\$ 11,439	\$ 2,364,969	\$ 2,376,408
Additions	-	65,044	125,000	190,044
Investment Returns:				-
Interest and Dividend Income	-	29,313	3,068	32,381
Net Appreciation	-	15,722	3,700	19,422
Appropriation of Endowment for Expenditure	-	(20,713)	-	(20,713)
Endowment, End of Year	\$ -	\$ 100,805	\$ 2,496,737	\$ 2,597,542
	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment, Beginning of Year	\$ -	\$ 180,000	\$ 2,363,407	\$ 2,543,407
Investment Returns:				-
Interest and Dividend Income	20,059	31,847	2,413	54,319
Net Depreciation	(10,249)	(16,271)	(851)	(27,371)
Appropriation of Endowment for Expenditure	(9,810)	(184,137)	-	(193,947)
Endowment, End of Year	\$ -	\$ 11,439	\$ 2,364,969	\$ 2,376,408

**3. Fair Value Measurements:**

Qualifying assets and liabilities which are measured at fair value on a nonrecurring basis as of June 30, 2016 and 2015 are as follows:

	2016			
	Fair Value Measurements at Reporting Date Using			
	Totals	Quoted Prices		
		in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Investments and Endowment:				
Brokerage Cash	\$ 866,879	\$ 866,879	\$ -	\$ -
Equity Securities:				
Consumer and Services	4,703,621	4,703,621	-	-
Basic Industries	2,660,139	2,660,139	-	-
Science and Technology	1,533,669	1,533,669	-	-
Total Equity Securities	8,897,429	8,897,429	-	-
Fixed Income:				
Domestic Corporate Bonds	2,806,462	-	2,806,462	-
U.S. Government Bonds	989,043	-	989,043	-
Foreign Government Bonds	776,266	-	776,266	-
Total Fixed Income	4,571,771	-	4,571,771	-
Total Investments and Endowment	14,336,079	9,764,308	4,571,771	-
Beneficial Interest in Perpetual Trusts	7,330,842	-	-	7,330,842
Beneficial Interest in Charitable Remainder Trusts	54,550	-	-	54,550
Gift Annuities Receivable	19,139	-	-	19,139
Total Assets	\$ 21,740,610	\$ 9,764,308	\$ 4,571,771	\$ 7,404,531
<b>Liabilities:</b>				
Pension Benefit Obligation	\$ 3,320,043	-	-	\$ 3,320,043
Charitable Gift Annuities Payable	76,567	-	-	76,567
Total Liabilities	\$ 3,396,610	\$ -	\$ -	\$ 3,396,610

## 3. Fair Value Measurements (Continued):

	2015			
	Fair Value Measurements at Reporting Date Using			
	Totals	Quoted Prices		Significant Unobservable Inputs (Level 3)
		in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	
Assets:				
Investments and Endowment:				
Brokerage Cash	\$ 1,026,420	\$ 1,026,420	\$ -	\$ -
Equity Securities:				
Consumer and Services	3,828,864	3,828,864	-	-
Basic Industries	3,571,088	3,571,088	-	-
Science and Technology	1,350,992	1,350,992	-	-
Total Equity Securities	8,750,944	8,750,944	-	-
Fixed Income:				
Domestic Corporate Bonds	1,774,560	-	1,774,560	-
U.S. Government Bonds	943,719	-	943,719	-
Foreign Government Bonds	1,034,854	-	1,034,854	-
Total Fixed Income	3,753,133	-	3,753,133	-
Total Investments and Endowment	13,530,497	9,777,364	3,753,133	-
Beneficial Interest in Perpetual Trusts	7,770,086	-	-	7,770,086
Beneficial Interest in Charitable				
Remainder Trust	60,194	-	-	60,194
Gift Annuities Receivable	35,138	-	-	35,138
Total Assets	\$ 21,395,915	\$ 9,777,364	\$ 3,753,133	\$ 7,865,418
Liabilities:				
Pension Benefit Obligation	\$ 1,883,109	-	-	\$ 1,883,109
Charitable Gift Annuities Payable	98,264	-	-	98,264
Total Liabilities	\$ 1,981,373	\$ -	\$ -	\$ 1,981,373

The following is a description of the valuation methodologies used for financial instruments measured at fair value. There have been no changes in the methodologies used for the years ended June 30, 2016 and 2015:

*Equity Securities:* Valued at the closing price reported on the active market on which the individual securities are traded.

*Domestic Corporate Bonds, Foreign Government Bonds and U.S. Government Bonds:* Valued using pricing models maximizing the use of observable inputs for similar securities. This methodology included basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quotes prices are not available for identical or similar bonds, the bond is valued under a discounted cash flow approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks or a broker quote if available.

**3. Fair Value Measurements (Continued):**

The Organization's Level 3 investment in beneficial interest in perpetual trusts, beneficial interest in charitable remainder trusts and gift annuities receivable are measured at the fair value of those financial assets based on the net asset value (NAV) of those assets. Absent the development of quantitative unobservable inputs by the Organization, the pricing for these assets is based on third-party pricing information, without adjustment by the Organization. The fair values assigned to annuity fund investments are based on the quoted fair values of the underlying securities as of the measurement date.

Investments are exposed to various risks such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term. These changes could materially affect the amounts reported in the combined statement of financial position and activities and the Organization's changes in net assets.

The fair value of the pension liability was determined by a third-party professional investment advisor and actuary. The Organization relies on detailed asset/liability studies performed by these parties. These studies project the Organization's estimated future pension payments and evaluate the efficiency of the allocation of the Organization's Plan assets into various investments categories. The valuation methodology uses observable inputs in calculating fair value.

The fair value of the gift annuity liability is measured using Level 3 inputs, including the annuitant's life expectancy, expected rate of return on related assets and estimated future annuity payments.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Changes in fair value measurements of qualifying assets using significant unobservable (Level 3) inputs for the years ended June 30, 2016 and 2015 were related to the beneficial interest in perpetual trusts, beneficial interest in charitable remainder trusts and charitable gift annuities receivable. The Organization's fair value measurement activity using significant unobservable inputs, and changes in fair value measurements on qualifying assets held as of June 30, 2016 and 2015 were as follows:

	Beneficial Interest in Perpetual Trusts	Beneficial Interest in Charitable Remainder Trusts	Gift Annuities Receivable	Totals
Balance as of June 30, 2014	\$ 8,024,859	\$ 64,300	\$ 67,042	\$ 8,156,201
Change in Fair Value	(254,773)	(4,106)	(31,904)	(290,783)
Balance as of June 30, 2015	\$ 7,770,086	\$ 60,194	\$ 35,138	\$ 7,865,418
Change in Fair Value	(439,244)	(5,644)	(15,999)	(460,887)
Balance as of June 30, 2016	\$ 7,330,842	\$ 54,550	\$ 19,139	\$ 7,404,531

**3. Fair Value Measurements (Continued):**

Changes in fair value measurements of qualifying liabilities using significant unobservable (Level 3) inputs for the years ended June 30, 2016 and 2015 were related to pension benefit obligation and the charitable gift annuities payable. The Organization's fair value measurement activity using significant unobservable inputs, and changes in fair value measurements on qualifying liabilities held as of June 30, 2016 and 2015 were as follows:

	Pension Benefit Obligation	Charitable Gift Annuities Payable	Totals
Balance as of June 30, 2014	\$ 1,889,383	\$ 141,624	\$ 2,031,007
Change in Fair Value	-	(43,360)	(43,360)
Cash Payments to Reduce Pension Benefit Obligation	(540,000)	-	(540,000)
Actuarial Change in Pension Benefit Obligation	533,726	-	533,726
Change	(6,274)	(43,360)	(49,634)
Balance as of June 30, 2015	1,883,109	98,264	1,981,373
Change in Fair Value	-	(21,697)	(21,697)
Cash Payments to Reduce Pension Benefit Obligation	(85,000)	-	(85,000)
Actuarial Change in Pension Benefit Obligation	1,521,934	-	1,521,934
Change	1,436,934	(21,697)	1,415,237
Balance as of June 30, 2016	\$ 3,320,043	\$ 76,567	\$ 3,396,610

For the years ended June 30, 2016 and 2015, there were no transfers in or out of Level 1, 2 or 3 fair value measurements.

**4. Property and Equipment:**

Property and equipment as of June 30, 2016 and 2015 consists of the following:

	2016	2015
Buildings and Improvements	\$ 1,625,080	\$ 1,435,574
Furniture, Fixtures and Equipment	173,112	177,112
Land	53,348	53,348
	<u>1,851,540</u>	<u>1,666,034</u>
Less: Accumulated Depreciation	<u>(1,026,215)</u>	<u>(970,481)</u>
	<u>\$ 825,325</u>	<u>\$ 695,553</u>

Depreciation expense for the years ended June 30, 2016 and 2015 amounted to \$95,297 and \$79,817, respectively.

**5. Line of Credit:**

The Organization is party to a \$1,000,000 revolving line of credit with a bank, which is in effect until terminated by the bank or the Organization. Interest on borrowings is payable monthly and is based at the bank's corporate base lending rate plus 0.5% (4.0% as of June 30, 2016). Principal is due on demand and the line is secured by substantially all of the Organization's unrestricted assets. There were no borrowings outstanding as of June 30, 2016 and 2015.

**6. Note Payable:**

During the year ended June 30 2015, in connection with the acquisition of property and equipment, the Organization obtained an unsecured, non-interest bearing, note in the amount of \$48,477, which is payable in equal monthly payments over 48 months. In connection with the note, the Organization recorded an initial debt discount of \$3,526 using an effective rate of interest equal to 3.75%. The discount on the note is being amortized to interest expense over the term of the note. As of June 30, 2016 and 2015, the outstanding note balance in the accompanying combined statements of financial position is presented net of unamortized debt discount of \$1,910 and \$2,791, respectively. During the years ended June 30, 2016 and 2015, imputed interest

in the amount of \$881 and \$735 is included in interest expense in the accompanying combined statements of functional expenses.

Future minimum payments of the note payable as of June 30, 2016 are as follows:

Year Ending <u>June 30,</u>	
2017	\$ 12,120
2018	12,120
2019	<u>2,018</u>
	26,258
Less: Unamortized Discount	<u>(1,910)</u>
	24,348
Less: Current Portion of Note Payable	<u>(12,120)</u>
Note Payable, Net of Current Portion and Discount	<u>\$ 12,228</u>

**7. Gift Annuities:**

The Organization's gift annuities are managed by National and the funds held by a third party trustee. As a part of managing the gift annuities, National has established procedures to ensure that gift annuity reserves meet legal mandates set by the states in which the Organization operates.

*Gift Annuities Receivable:* The Organization has several donor established gift annuities. Upon death of the donor, the beneficial interest remaining shall be paid and retained by National to meet the Organization's gift annuities reserve requirements. 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, 2016 and 2015, the fair value of investments held from gift annuities were \$19,139 and \$35,138, respectively.

*Gift Annuities Payable:* The annuities payable liability on June 30, 2016 and 2015 includes the present value of the life interest payable to the beneficiaries. On an annual basis, National revalues the liability to make distributions on behalf of the Organization to the designated annuitants based on actuarial assumptions. The present value of the estimated future payments is recalculated annually using a

**7. Gift Annuities (Continued):**

discount rate of 3.00% and 3.00% and Internal Revenue Service mortality tables applicable to the years ended June 30, 2016 and 2015, respectively.

The changes in the Organization's annuities payable for the years ended June 30, 2016 and 2015 are as follows:

	2016	2015
Balance at Beginning of Year	\$ 98,264	\$ 141,624
Change in Fair Market Value	(21,697)	(43,360)
Balance at End of Year	<u>\$ 76,567</u>	<u>\$ 98,264</u>

**8. Temporarily Restricted Net Assets:**

Temporarily restricted net assets as of June 30, 2016 and 2015 consist of the following:

	2016	2015
Purpose Restricted:		
Research	\$ 406,481	\$ 95
Lung Health	43,754	42,886
Other Programs	33,423	2,932
Fellowships	19,181	7,604
Total Purpose Restricted	<u>502,839</u>	<u>53,517</u>
Time Restricted	54,549	60,194
	<u>\$ 557,388</u>	<u>\$ 113,711</u>

**9. Net Assets Released from Restriction:**

Net assets released from restriction for the years ended June 30, 2016 and 2015 consist of the following:

	2016	2015
Purpose Restrictions:		
Research	\$ 19,037	\$ 129,728
Lung Health	1,500	1,000
Other Programs	177	3,409
Fellowships	-	162,500
	<u>\$ 20,714</u>	<u>\$ 296,637</u>

**10. Permanently Restricted Net Assets:**

Permanently restricted net assets as of June 30, 2016 and 2015 consist of the following:

	2016	2015
Beneficial Interest in		
Perpetual Trusts	\$ 7,330,842	\$ 7,770,086
Investments in Perpetuity,		
the Income from which		
Is Unrestricted	1,246,312	1,246,312
Investments in Perpetuity,		
the Income from which		
Is Restricted for the		
Following Purpose:		
Research, Study and		
Treatment of		
Lung Cancer	505,604	505,604
Physician Pulmonary		
Disease Academic		
Fellowships	195,540	195,540
Lung Research -		
Connecticut	169,510	169,510
Pulmonary Nursing		
Scholarships	125,000	-
Physician Lung		
Disease Fellowships	106,449	106,449
Lung Health for		
Children in Maine	20,000	20,000
Library/Educational	15,248	15,248
Materials		
Activities in Rhode		
Island	4,633	4,633
Accumulating Investments		
in Perpetuity	<u>108,441</u>	<u>101,673</u>
	<u>\$ 9,827,579</u>	<u>\$ 10,135,055</u>

*Beneficial Interest in Perpetual Trusts:* Certain permanently restricted net assets are held in trusts by independent third-party trustees. These trustees are responsible for investment decisions and determining the amount of the annual distributions to the Organizations which are available for unrestricted use.

**10. Permanently Restricted Net Assets (Continued):**

*Accumulating Investments in Perpetuity:* As of June 30, 2016 and 2015, permanently restricted net assets in the amount of \$108,441 and \$101,673, respectively are accumulating per a donor stipulation that the annual income and appreciation be added to the original corpus donation as permanently restricted net assets until June 30, 2089. Thereafter, the future earnings of the total accumulated corpus may be expended on general operations.

Future minimum lease payments due under these noncancelable operating lease obligations are as follows:

Year Ending	
<u>June 30,</u>	
2017	\$ 491,155
2018	494,284
2019	464,737
2020	377,570
2021	207,788
Thereafter	<u>158,232</u>
	<u>\$ 2,193,766</u>

**11. Operating Lease Agreements:**

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

Rent expense for facilities for the years ended June 30, 2016 and 2015 amounted to \$461,992 and \$488,699, respectively, and are included in building and occupancy in the accompanying combined statements of functional expenses. Rent expense for equipment for the years ended June 30, 2016 and 2015 amounted to \$78,861 and \$76,691, respectively and are included in equipment in the accompanying combined statements of functional expenses.

The Organization is a party to short-term sublease agreements for office space with two not-for-profit organizations during 2015 and one not-for-profit organization during 2016. These lease agreements can be canceled by either party at any time. The income from these short term subleases is recorded as an offset to building and occupancy expense in the accompanying combined statements of functional expenses. During the years ended June 30, 2016 and 2015, rental income received under sublease agreements amounted to \$30,000 and \$44,474, respectively.

**12. Retirement Plans:**

The Organization is party to two defined benefit multiple employer pension plans, which are the plans covering employees of ALANE (the "Plans"). The Plans assets are pooled with other charter pension plan assets and managed by National for administrative purposes, however each plan is separate. Benefits under the Plans are based on certain service requirements and were frozen as of June 30, 2010. Benefits earned through June 30, 2010 were based on years of service and amount of compensation.

During the year ended June 30, 2016, the Organization's board of directors voted to terminate both Plans.

The pension benefit obligation as of June 30, 2016 was calculated assuming a final plan termination disbursement will be made by April 1, 2017.

The Organization's Plans have fewer than 500 participants and, therefore, the Plans will not to be subject to the "at risk" funding requirements under the Pension Protection Act (PPA). The Organization's Plans are approximately 55% and 68% funded in the aggregate as of June 30, 2016 and 2015, respectively.

*Benefit Obligation and Funded Status:* A summary of changes in the benefit obligation, Plan assets and funded status for the years ended June 30, 2016 and 2015 is as follows:

	2016	2015
Change in Benefit Obligation:		
Projected Benefit Obligation, Beginning of Year	\$ 6,065,698	\$ 8,009,090
Interest Cost	162,173	321,099
Benefits Paid	(126,669)	(42,861)
Actuarial Losses	1,509,066	92,701
Settlements	(180,174)	(2,314,331)
	<u>\$ 7,430,094</u>	<u>\$ 6,065,698</u>
Change in Plans' Assets:		
Fair Value of Plan Assets, Beginning of Year	\$ 4,182,589	\$ 6,119,707
Actual Return on Plan Assets	149,305	(119,926)
Employer Contributions	85,000	540,000
Benefits Paid	(126,669)	(42,861)
Settlements	(180,174)	(2,314,331)
	<u>\$ 4,110,051</u>	<u>\$ 4,182,589</u>
Fair Value of Plan Assets, End of Year	<u>\$ 4,110,051</u>	<u>\$ 4,182,589</u>
Unfunded Status, End of Year	<u>\$ 3,320,043</u>	<u>\$ 1,883,109</u>

**12. Retirement Plans (Continued):**

The following tables summarize the Plan's funded status and amounts recognized in the Organization's combined statements of financial position as of June 30, 2016 and 2015:

	2016	2015
	\$ 7,430,094	\$ 6,065,698
Projected Benefit Obligation	4,110,051	4,182,589
Fair Value of Plans' Assets	\$ 3,320,043	\$ 1,883,109
Unfunded Status		
Accrued Benefit Obligation		
Recognized in the Combined	\$ 3,320,043	\$ 1,883,109
Statement of Financial Position		
Net Periodic Benefit Costs	\$ 724,840	\$ 562,902
Employer Contributions	\$ 85,000	\$ 540,000
Benefits Paid	\$ (126,669)	\$ (42,861)
Accumulated Benefit Obligation	\$ 7,430,094	\$ 6,065,698

Weighted-average assumptions used in determining the benefit obligation and the net period benefit cost as of June 30, 2016 and 2015 were as follows:

	2016	2015
Discount Rate	0.90%	4.50%
Expected Return on Plan Assets	5.50%	5.50%
Rate of Compensation Increase	N/A	N/A

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

The projected benefit obligation of \$7,430,094 as of June 30, 2016, is expected to be paid within the next year. The Organization expects to make the final plan termination distribution by April 1, 2017.

**12. Retirement Plans (Continued):**

Plan funding is actuarially determined and is subject to certain tax law limitations. Substantially all Plan assets are actively managed. Target allocation percentages and the weighted-average asset allocations for each major category of Plan assets as of June 30, 2016 and 2015 are as follows:

	2016		2015	
	Weighted Average Asset Allocation	Allocation Target	Weighted Average Asset Allocation	Allocation Target
Equity	20.13%	30.00%	23.80%	30.00%
Debt	73.50%	67.00%	76.20%	67.00%
Real Estate	0.00%	0.00%	0.00%	0.00%
Cash and Cash Equivalents	6.37%	3.00%	0.00%	3.00%
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

National seeks to achieve and maintain a fully funded status for the Plans while mitigating the funded status volatility. In order to meet its needs, the investment strategy of National emphasizes total return; that is, the aggregate return from capital appreciation, dividend income, and interest income. Specifically, the primary objective in the investment management for the Plans is to match the risk characteristics of the pension liability.

The Organization's pension cost is affected by the discount rate used to measure pension obligations, the level of Plan assets available to fund those obligations at the measurement date and the expected long-term rate of return on Plan assets. National reviews the assumptions used to measure pension costs, including the discount rate and the expected long-term rate of return on pension assets, on an annual basis. Economic and market conditions at the measurement date impact these assumptions from year to year and it is reasonably possible that material changes in pension cost may be experienced in the future.

Establishing the expected future rate of investment return on the Plan's pension assets is a judgmental matter. National considers the following factors in determining this assumption:

- Duration of the pension plan liabilities, which drives the investment strategy employed with respect to Plan assets;
- Types of investment classes in which Plan assets are invested, and the expected compound return that can reasonably be expected of those investment classes to earn over the next 10 to 15-year time period (or such other time period that may be appropriate);
- Investment returns the Plan can reasonably expect its active investment management program to achieve in excess of the return that could be expected if investments were made strictly in indexed funds.

National reviews the expected long-term rate of return on an annual basis and revises it as appropriate. Also, National relies on detailed asset/liability studies performed by third-party professional investment advisors and actuaries. These studies project the Organization's estimated future pension payments and evaluate the efficiency of the allocation of the Organization's Plan assets into various investment categories. The study performed for 2016 supported the reasonableness of the Organization's 3.50% return assumption used for 2016 based on its liability duration and market conditions at the time this assumption was set. National believes that these assumptions are appropriate based upon the mix of the investments and the long-term nature of the Plan's investments.

**12. Retirement Plans (Continued):**

Net periodic pension benefit cost includes the following components for the years ended June 30, 2016 and 2015 are as follows:

	2016	2015
Interest Cost	\$ 162,173	\$ 321,099
Recognized Net Loss	715,306	23,276
Settlement/Curtailment Recognition	62,347	533,113
Expected Return on Plan Assets	(214,986)	(314,586)
	<u>\$ 724,840</u>	<u>\$ 562,902</u>

The following table presents information about the Plan assets and liabilities measured at fair value as of June 30, 2016 and 2015, aggregated by the level in the fair value hierarchy within which those measurements fall:

	2016			
	Totals	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and Equivalents	\$ 261,810	\$ 261,810	\$ -	\$ -
Equity Securities	827,354	827,354	-	-
Debt Securities	3,020,887	-	3,020,887	-
Real Estate	-	-	-	-
	<u>\$ 4,110,051</u>	<u>\$ 1,089,164</u>	<u>\$ 3,020,887</u>	<u>\$ -</u>

	2015			
	Totals	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and Equivalents	\$ -	\$ -	\$ -	\$ -
Equity Securities	995,456	995,456	-	-
Debt Securities	3,187,133	-	3,187,133	-
Real Estate	-	-	-	-
	<u>\$ 4,182,589</u>	<u>\$ 995,456</u>	<u>\$ 3,187,133</u>	<u>\$ -</u>

**12. Retirement Plans (Continued):**

The fair value of cash and equivalents approximates the carrying value as of the date of the combined statements of financial position, due to the short-term maturities of these assets.

The fair value of equity securities is based upon the closing price reported on the active market on which the individual securities are traded.

The fair value of debt securities and real estate investments are valued using pricing models maximizing the use of observable inputs for similar securities. This included basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flow approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks or a broker quote if available.

*Defined Contribution Plan:* The Organization sponsors a defined contribution plan covering substantially all of its employees who meet certain eligibility requirements. The Organization may make contributions to the plan as periodically determined. During the years ended June 30 2016 and 2015, the Organization paid or accrued \$263,696 and \$241,218, respectively in matching and discretionary contributions to the Plan.

**13. Joint Costs:**

The Organization has allocated the joint costs of providing educational materials that include a fundraising appeal. Only those joint activities that include programmatic, fundraising and management and general components are included in this allocation; therefore, the amounts reflected below do not include the total expenses presented in the accompanying combined statement of activities. For the years ended June 30, 2016 and 2015, the allocation of joint costs is summarized as follows:

	2016	2015
Program Services	\$ 1,339,868	\$ 1,390,133
Fundraising	667,086	760,128
Management and General	110,343	118,038
Total	<u>\$ 2,117,297</u>	<u>\$ 2,268,299</u>

**14. Related Party Transactions:**

As a chartered association of National, the Organization is required to pay National an annual assessment and a percentage of its net direct mail revenue. During the years ended June 30, 2016 and 2015, amounts paid to National consisted of annual assessments of \$867,164 and \$942,229, respectively, and net direct mail revenue percentage in the amount of \$309,163 and \$298,098, respectively.

National coordinates substantially all of the research funded by the Organization and the other chartered associations. During the year ended June 30, 2016, the Organization did not pay National for research based activities. During the year ended June 30, 2015 the Organization paid National \$768,061 for research based activities.

During the years ended June 30, 2016 and 2015 the Organization paid \$279,936 and \$255,600, respectively, to National for certain administrative services and functions provided to the charter on a reimbursable basis.

As of June 30, 2016 and 2015, the Organization had accounts payable to National totaling \$200,039 and \$125,522, respectively. This amount is recorded in due to National in the combined statements of financial position. As of June 30, 2015, the Organization has an additional \$198,170 included in accrued expenses and other liabilities in the accompanying combined statements of financial position for amounts that will be due to National upon invoicing by National. As of June 30, 2016, the Organization has no amounts due to National included in accrued expenses and other liabilities.

**15. Other Contributions:**

During the years ended June 30, 2016 and 2015, the Organization's other contributions consisted of the following:

	2016	2015
Individual Gifts	\$ 456,953	\$ 401,441
Memorials	300,706	330,725
Other Contributions	147,696	69,320
Workplace Giving	106,128	216,266
Promotions	66,620	96,905
	<u>\$ 1,078,103</u>	<u>\$ 1,114,657</u>

**16. Indemnifications:**

In the ordinary course of business, the Organization enters into various agreements containing standard indemnification provisions. The Organization's indemnification obligations under such provisions are typically in effect from the date of execution of the applicable agreement through the end of the applicable statute of limitations. The aggregate maximum potential future liability of the Organization under such indemnification provisions is uncertain. As of June 30, 2016 and 2015, no amounts have been accrued related to such indemnification provisions.

**17. Correction of Presentation:**

The combined statement of functional expenses for the year ended June 30, 2016 has been corrected. The program services titles of "Research" and "Environmental Health" were transposed.

The combined statement of functional expenses for the year ended June 30, 2015 has been corrected. The following sets forth the amounts as originally stated and as corrected under the program services titles of "Research" and "Environmental Health" presented in the combined statement of functional expenses for the year ended June 30, 2015.

	<u>As Originally Stated</u>		<u>As Corrected</u>	
	<u>Environmental</u>	<u>Research</u>	<u>Environmental</u>	<u>Research</u>
Direct Mail	\$ 416,913	\$ 104,342	\$ 104,342	\$ 416,913
Total Other	\$ 2,414,682	\$ 916,251	\$ 2,102,111	\$ 1,228,822
Total Expenses before Assessment to National	\$ 3,187,618	\$ 1,031,440	\$ 2,875,047	\$ 1,344,011
Assessment to National	\$ 602,926	\$ 161,204	\$ 161,204	\$ 602,926
Total Operating Expenses	\$ 3,790,544	\$ 1,192,644	\$ 3,036,251	\$ 1,946,937



To the Board of Directors  
American Lung Association of the Northeast, Inc. and Affiliate  
Framingham, Massachusetts

**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***

**INDEPENDENT AUDITORS' REPORT**

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 accompanying combined financial statements of American Lung Association of the Northeast, Inc. and Affiliate (collectively referred to as the "Organization") which comprise the combined statement of financial position as of June 30, 2016, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated December 27, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the combined 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 combined 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 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 combined 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 combined 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.

*Moody, Famiglietti & Andronico, LLP*

Moody Famiglietti & Andronico, LLP  
Tewksbury, Massachusetts  
December 27, 2016

