

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

**FINANCIAL REPORT**

**JUNE 30, 2011**

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## 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, 2011 and 2010, 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, 2011 and 2010, 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 October 8, 2011, 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Budgeted and Incurred Costs for grant numbers 10-7-TB-N-2, EPID11TBC014, 10-175-SCH-N-O and FHS-20-11-Asthma-Full-0003, are presented for purposes of additional analysis as required by the New Jersey Department of Health and Senior Services. The accompanying Statements of Grant Receipts and Expenditures for grant numbers G110266, G100438, and G110274 are presented for purposes of additional analysis as required by the West Virginia Department of Health and Human Resources. The accompanying Schedules of Contractual Performance are presented for additional analysis as required by the Pennsylvania Department of Health. 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Camp Hill, Pennsylvania  
October 8, 2011

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

STATEMENTS OF FINANCIAL POSITION

June 30, 2011 and 2010

<b>ASSETS</b>	<b>2011</b>	<b>2010</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 917,583	\$ 595,803
Investments (Note 3)	1,092,124	1,155,998
Accounts receivable (Note 4)	1,643,629	1,807,787
Prepaid expenses	36,342	26,084
Literature and inventories	30,788	42,528
Security deposits	23,415	17,363
<b>Total current assets</b>	<b>3,743,881</b>	<b>3,645,563</b>
<b>Fixed Assets</b>		
Land, buildings and building improvements	762,333	1,133,940
Furniture, fixtures and equipment	639,345	714,565
Vehicles	23,552	23,552
	<b>1,425,230</b>	<b>1,872,057</b>
Less accumulated depreciation	<b>(807,390)</b>	<b>(1,140,524)</b>
<b>Total fixed assets - net</b>	<b>617,840</b>	<b>731,533</b>
<b>Other Assets</b>		
Long-term investments - gift annuities (Note 3)	187,583	416,952
Contributions receivable - charitable remainder trusts (Note 5)	216,813	216,813
<b>Total other assets</b>	<b>404,396</b>	<b>633,765</b>
<b>Total assets</b>	<b>\$ 4,766,117</b>	<b>\$ 5,010,861</b>

See Notes to Financial Statements.

<b>LIABILITIES AND NET ASSETS</b>	<b>2011</b>	<b>2010</b>
<b>Current Liabilities</b>		
Current maturities of long-term debt (Note 7)	\$ -	\$ 116,402
Accounts payable - trade	<b>884,105</b>	533,132
Accounts payable - National	<b>43,261</b>	157,968
Accrued expenses	<b>144,995</b>	128,791
Deferred income	<b>117,331</b>	129,530
	<hr/>	<hr/>
<b>Total current liabilities</b>	<b>1,189,692</b>	1,065,823
	<hr/>	<hr/>
<b>Long-Term Liabilities</b>		
Annuity liability	<b>93,951</b>	167,851
Accrued pension (Note 9)	<b>957,378</b>	1,128,705
Accrued employee benefits (Note 10)	<b>35,123</b>	35,123
Term loan - net of current maturities (Note 7)	-	676,614
Mortgages payable - net of current maturities (Note 7)	-	220,979
	<hr/>	<hr/>
<b>Total long-term liabilities</b>	<b>1,086,452</b>	2,229,272
	<hr/>	<hr/>
<b>Total liabilities</b>	<b>2,276,144</b>	3,295,095
	<hr/>	<hr/>
<b>Net Assets</b>		
Unrestricted	<b>2,057,025</b>	1,104,886
Temporarily restricted (Note 12)	<b>422,247</b>	600,179
Permanently restricted (Note 12)	<b>10,701</b>	10,701
	<hr/>	<hr/>
<b>Total net assets</b>	<b>2,489,973</b>	1,715,766
	<hr/>	<hr/>
<b>Total liabilities and net assets</b>	<b>\$ 4,766,117</b>	\$ 5,010,861
	<hr/>	<hr/>

# AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

## STATEMENT OF ACTIVITIES

**Year Ended June 30, 2011 (with comparative totals for 2010)**

	2011			Total	2010 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>Public Support and Revenue</b>					
Contributions and donations					
Direct mail					
Christmas seals	\$ 810,851	\$ -	\$ -	\$ 810,851	\$ 845,861
Other direct mail	2,530,120	-	-	2,530,120	2,708,003
Residential campaign					
Gross revenue	51,629	-	-	51,629	67,056
<b>Total direct mail</b>	<b>3,392,600</b>	-	-	<b>3,392,600</b>	<b>3,620,920</b>
Golf privilege card	741	-	-	741	20,809
Vehicle donation program	44,273	-	-	44,273	44,117
Other promotions	50,798	-	-	50,798	33,914
Special events					
Gross revenue (Note 15)	1,589,385	-	-	1,589,385	1,419,436
Direct costs (Note 15)	(595,785)	-	-	(595,785)	(507,357)
<b>Special events - net</b>	<b>993,600</b>	-	-	<b>993,600</b>	<b>912,079</b>
Other contributions					
Workplace giving	74,977	-	-	74,977	75,820
Memorials	229,346	-	-	229,346	210,161
Bequests	1,055,065	-	-	1,055,065	1,502,186
Individual gifts	115,228	-	-	115,228	129,664
Corporate gifts	65,448	-	-	65,448	69,548
Foundation gifts	29,774	-	-	29,774	24,698
Donated services, equipment and materials (Note 16)	3,385	-	-	3,385	11,714
Donated rent (Note 16)	1,320	-	-	1,320	1,320
Miscellaneous contributions	26,294	-	-	26,294	-
Revenue					
Government grants	4,339,690	-	-	4,339,690	2,983,069
Other grants	62,735	-	-	62,735	86,782
Interest and dividends (net)	24,754	-	-	24,754	41,640
Program service fees	19,460	-	-	19,460	25,430
Dues	7,500	-	-	7,500	14,500
Sale of materials	98,197	-	-	98,197	81,362
Miscellaneous revenue	3,386	-	-	3,386	2,025
Net assets released from restrictions:					
Grantor restrictions	38,580	(38,580)	-	-	-
Donor restrictions	139,352	(139,352)	-	-	-
<b>Total public support         and revenue</b>	<b>10,816,503</b>	<b>(177,932)</b>	-	<b>10,638,571</b>	<b>9,891,758</b>

(Continued)

	2011			Total	2010
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
<b>Expenses and Losses</b>					
Program services					
Asthma	1,344,365	-	-	1,344,365	1,570,214
Environmental health	371,028	-	-	371,028	431,520
Tobacco control	4,720,633	-	-	4,720,633	3,679,929
Community health services	744,081	-	-	744,081	701,536
Other lung disease	704,794	-	-	704,794	832,035
Research	377,176	-	-	377,176	468,456
Total program services	8,262,077	-	-	8,262,077	7,683,690
Supporting services					
Fundraising	1,532,681	-	-	1,532,681	1,642,951
Management and general	352,073	-	-	352,073	480,210
Total supporting services	1,884,754	-	-	1,884,754	2,123,161
<b>Total expenses</b>	<b>10,146,831</b>	<b>-</b>	<b>-</b>	<b>10,146,831</b>	<b>9,806,851</b>
<b>Changes in net assets from operations</b>	<b>669,672</b>	<b>(177,932)</b>	<b>-</b>	<b>491,740</b>	<b>84,907</b>
Non-Operating Activities					
Realized gain on sale of investments	12,476	-	-	12,476	74,828
Net gain (loss) on sale of assets	284,018	-	-	284,018	(2,126)
Unrealized gain (loss) on investments	(4,569)	-	-	(4,569)	81,194
Changes in unfunded accrued pension costs	120,476	-	-	120,476	730,842
Loss on gift annuity contracts	(129,934)	-	-	(129,934)	-
<b>Total non-operating activities</b>	<b>282,467</b>	<b>-</b>	<b>-</b>	<b>282,467</b>	<b>884,738</b>
<b>Changes in net assets</b>	<b>952,139</b>	<b>(177,932)</b>	<b>-</b>	<b>774,207</b>	<b>969,645</b>
Net Assets - July 1, 2010	1,104,886	600,179	10,701	1,715,766	746,121
Net Assets - June 30, 2011	\$ 2,057,025	\$ 422,247	\$ 10,701	\$ 2,489,973	\$ 1,715,766

See Notes to Financial Statements.

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2010

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Public Support and Revenue</b>				
Contributions and donations				
Direct mail				
Christmas seals	\$ 845,861	\$ -	\$ -	\$ 845,861
Other direct mail	2,708,003	-	-	2,708,003
Residential campaign				
Gross revenue	67,056	-	-	67,056
<b>Total direct mail</b>	<b>3,620,920</b>	<b>-</b>	<b>-</b>	<b>3,620,920</b>
Golf privilege card	20,809	-	-	20,809
Vehicle donation program	44,117	-	-	44,117
Other promotions	33,914	-	-	33,914
Special events				
Gross revenue (Note 15)	1,419,436	-	-	1,419,436
Direct costs (Note 15)	(507,357)	-	-	(507,357)
<b>Special events - net</b>	<b>912,079</b>	<b>-</b>	<b>-</b>	<b>912,079</b>
Other contributions				
Workplace giving	75,820	-	-	75,820
Memorials	210,161	-	-	210,161
Bequests	1,422,186	80,000	-	1,502,186
Individual gifts	129,664	-	-	129,664
Corporate gifts	69,549	-	-	69,549
Foundation gifts	24,698	-	-	24,698
Donated services, equipment and materials (Note 16)	11,714	-	-	11,714
Donated rent (Note 16)	1,320	-	-	1,320
Miscellaneous contributions	-	-	-	-
Revenue				
Government grants	2,810,115	172,954	-	2,983,069
Other grants	86,782	-	-	86,782
Interest and dividends (net)	41,640	-	-	41,640
Program service fees	25,430	-	-	25,430
Dues	238	14,262	-	14,500
List leasing	-	-	-	-
Sale of materials	81,362	-	-	81,362
Miscellaneous revenue	2,025	-	-	2,025

(Continued)

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

STATEMENT OF ACTIVITIES (Continued)  
Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Public Support and Revenue (Continued)</b>				
Net assets released from restrictions:				
Grantor restrictions	174,772	(174,772)	-	-
Donor restrictions	19,360	(19,360)	-	-
<b>Total public support     and revenue</b>	<b>9,818,674</b>	<b>73,084</b>	<b>-</b>	<b>9,891,758</b>
<b>Expenses and Losses</b>				
Program services				
Asthma	1,570,214	-	-	1,570,214
Environmental health	431,520	-	-	431,520
Tobacco control	3,679,929	-	-	3,679,929
Community health services	701,536	-	-	701,536
Other lung disease	832,035	-	-	832,035
Research	468,456	-	-	468,456
<b>Total program services</b>	<b>7,683,690</b>	<b>-</b>	<b>-</b>	<b>7,683,690</b>
Supporting services				
Fundraising	1,642,951	-	-	1,642,951
Management and general	480,210	-	-	480,210
<b>Total supporting services</b>	<b>2,123,161</b>	<b>-</b>	<b>-</b>	<b>2,123,161</b>
<b>Total expenses</b>	<b>9,806,851</b>	<b>-</b>	<b>-</b>	<b>9,806,851</b>
<b>Changes in net assets from operations</b>	<b>11,823</b>	<b>73,084</b>	<b>-</b>	<b>84,907</b>
<b>Non-Operating Activities</b>				
Realized gain on sale of investments	74,828	-	-	74,828
Loss on sale of assets	(2,126)	-	-	(2,126)
Unrealized gain on investments	81,194	-	-	81,194
Changes in unfunded accrued pension costs	730,842	-	-	730,842
<b>Total non-operating activities</b>	<b>884,738</b>	<b>-</b>	<b>-</b>	<b>884,738</b>
<b>Changes in net assets</b>	<b>896,561</b>	<b>73,084</b>	<b>-</b>	<b>969,645</b>
Net Assets - July 1, 2009	208,325	527,095	10,701	746,121
Net Assets - June 30, 2010	\$ 1,104,886	\$ 600,179	\$ 10,701	\$ 1,715,766

See Notes to Financial Statements.

**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
<b>Total before assessments to National</b>	<b>1,290,767</b>	<b>360,515</b>	<b>4,603,337</b>	<b>512,246</b>
<b>Total assessments to National</b>	<b>53,598</b>	<b>10,513</b>	<b>117,296</b>	<b>231,835</b>
	<b>\$ 1,344,365</b>	<b>\$ 371,028</b>	<b>\$ 4,720,633</b>	<b>\$ 744,081</b>

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

STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended June 30, 2010

	Program			
	Asthma	Environmental Health	Tobacco Control	Community Health Services
Salaries	\$ 463,418	\$ 82,558	\$ 973,536	\$ 86,465
Payroll taxes and benefits	195,230	39,193	420,095	46,875
Awards and grants, research	-	-	-	-
Professional fees/tobacco control program subcontractors	102,849	56,041	397,151	83,007
Occupancy	51,972	10,528	107,246	16,736
Business insurance	11,477	2,381	22,021	3,785
Equipment rental/maint.	23,419	11,002	41,764	132,154
Furniture/equipment	1,577	2	11,802	2,036
Supplies	6,423	54,852	33,032	3,440
Postage/shipping	149,135	48,237	171,589	34,649
Printing, publications and media	268,854	60,028	360,343	100,435
Telephone	10,884	2,017	26,675	23,592
Travel and meetings	30,438	22,438	40,024	14,343
Program/event expenses	130,108	14,738	832,429	3,275
Affiliations/subscriptions	178	1,507	634	4,246
Miscellaneous	1,139	306	2,926	2,007
Interest	9,702	2,013	18,527	3,199
Depreciation	11,962	2,481	26,322	3,945
<b>Total before assessments to National</b>	<b>1,468,765</b>	<b>410,322</b>	<b>3,486,116</b>	<b>564,189</b>
<b>Total assessments to National</b>	<b>101,449</b>	<b>21,198</b>	<b>193,813</b>	<b>137,347</b>
	<b>\$ 1,570,214</b>	<b>\$ 431,520</b>	<b>\$ 3,679,929</b>	<b>\$ 701,536</b>

See Notes to Financial Statements.

Services		Supporting Activities		Total
Other Lung Disease	Research	Fundraising	Management and General	All Funds
\$ 166,713	\$ -	\$ 251,027	\$ 164,563	\$ 2,188,280
62,096	-	135,915	89,185	988,589
-	193,884	-	-	193,884
149,514	-	150,137	9,175	947,874
31,591	-	48,349	31,694	298,116
18,795	-	10,989	7,204	76,652
12,213	-	20,869	13,358	254,779
2	-	10	6	15,435
3,866	-	1,246	890	103,749
49,888	-	338,649	2,232	794,379
90,020	-	613,457	328	1,493,465
7,526	-	8,938	5,951	85,583
4,054	-	1,706	745	113,748
193,796	-	17,998	97	1,192,441
451	-	670	112	7,798
3,889	18	6,296	850	17,431
2,786	-	2,410	12,969	51,606
6,066	-	11,453	7,508	69,737
803,266	193,902	1,620,119	346,867	8,893,546
28,769	274,554	22,832	133,343	913,305
<u>\$ 832,035</u>	<u>\$ 468,456</u>	<u>\$ 1,642,951</u>	<u>\$ 480,210</u>	<u>\$ 9,806,851</u>

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows From Operating Activities		
Changes in net assets	\$ 774,207	\$ 969,645
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	55,664	69,737
Net realized and unrealized loss (gain) on investments and gift annuity contracts	122,027	(156,022)
(Gain) loss on disposal of fixed assets	(284,018)	2,126
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	164,158	(454,971)
Prepaid expenses and security deposits	(16,310)	68,273
Literature and inventories	11,740	(1,238)
(Decrease) increase in:		
Accounts payable - Trade and National	236,266	(239,533)
Accrued expenses	16,204	83,722
Deferred income	(12,199)	40,924
Annuity liability	(73,900)	(13,923)
Accrued pension and employee benefits	(171,327)	(327,243)
<b>Net cash provided by operating activities</b>	<b>822,512</b>	<b>41,497</b>
Cash Flows From Investing Activities		
Charitable remainder trusts	-	19,360
Net proceeds from liquidation of investments	171,216	454,693
Proceeds from the sale of assets	342,047	-
<b>Net cash provided by investing activities</b>	<b>513,263</b>	<b>474,053</b>
Cash Flows From Financing Activities		
<b>Payments on long-term debt</b>	<b>(1,013,995)</b>	<b>(38,807)</b>
<b>Increase in cash and cash equivalents</b>	<b>321,780</b>	<b>476,743</b>
Cash and Cash Equivalents:		
Beginning	595,803	119,060
Ending	<u>\$ 917,583</u>	<u>\$ 595,803</u>
Supplementary Disclosures of Cash Flow Information		
Cash payments for interest	<u>\$ 23,489</u>	<u>\$ 51,606</u>

See Notes to Financial Statements.

# AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

## NOTES TO FINANCIAL STATEMENTS

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### **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

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#### 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

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#### 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.

## AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

### NOTES TO FINANCIAL STATEMENTS

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#### 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 October 8, 2011, 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:

	2011		2010	
	Market Value	Aggregate Cost	Market Value	Aggregate Cost
Money Market	\$ 626,878	\$ 626,878	\$ 503,235	\$ 503,235
Certificates of Deposit	199,873	200,000	230,375	232,000
Common Stocks	5,660	2,488	3,904	4,170
Government Securities	83,987	80,375	92,137	86,570
Corporate Bonds	159,223	102,225	160,222	105,406
Annuities	187,583	222,306	416,952	416,952
Mutual Funds	16,503	16,503	166,125	141,951
	<u>\$ 1,279,707</u>	<u>\$ 1,250,775</u>	<u>\$ 1,572,950</u>	<u>\$ 1,490,284</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:

	2011	2010
Investments, at beginning of year	\$ 1,572,950	1,870,898
Contributions	-	2,359
Investment Returns		
Interest and dividends	25,026	42,967
Net unrealized gains (losses)	(134,503)	81,194
Net realized gains	12,476	74,828
Fees	(272)	(3,296)
Distributions	(195,970)	(496,000)
Investments, at end of year	<u>\$ 1,279,707</u>	<u>\$ 1,572,950</u>

Investments, reported by Custodian:

	2011		2010	
	Market Value	Aggregate Cost	Market Value	Aggregate Cost
Merrill Lynch				
Money Market	\$ 598,289	\$ 598,289	\$ 474,800	\$ 474,800
Certificates of Deposit	199,873	200,000	230,375	232,000
Common Stocks	5,660	2,488	3,904	4,170
Government Securities	83,987	80,375	92,137	86,570
Corporate Bonds	159,223	102,225	160,222	105,406
Mutual Funds	16,503	16,503	166,125	141,951
PNC Bank				
Money Market	13,319	13,319	13,319	13,319
American Lung Association				
Annuities	187,583	222,306	416,952	416,952
Wachovia				
Money Market	-	-	17	17
First Investors				
Money Market	15,270	15,270	15,099	15,099
	<u>\$ 1,279,707</u>	<u>\$ 1,250,775</u>	<u>\$ 1,572,950</u>	<u>\$ 1,490,284</u>

# AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

## NOTES TO FINANCIAL STATEMENTS

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### Note 4. Accounts Receivable

Accounts receivable consist of the following at June 30:

	2011	2010
Grants	\$ 792,408	\$ 495,948
Bequests and Trusts	616,534	1,100,483
Refunds	1,633	1,500
Direct mail (including residential campaign)	183,882	170,107
Special events	11,109	18,221
Workplace giving	-	344
Sales of program literature	12,297	5,834
Other	25,766	15,350
	<u>\$ 1,643,629</u>	<u>\$ 1,807,787</u>

### Note 5. Charitable Remainder Trusts

		2011	2010
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

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#### 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 establishes 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"><li>• Quoted prices for similar assets or liabilities in active markets</li><li>• Quoted prices for identical or similar assets or liabilities in inactive markets</li><li>• Inputs other than quoted prices that are observable for the asset or liability</li><li>• Inputs that are derived principally from or corroborated by observable market data by correlation or other means</li></ul> 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

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#### 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, 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
Mutual Funds	16,503	-	-	16,503
	<u>649,041</u>	<u>443,083</u>	<u>187,583</u>	<u>1,279,707</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>\$ 649,041</u>	<u>\$ 443,083</u>	<u>\$ 310,445</u>	<u>\$ 1,402,569</u>

## AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

### NOTES TO FINANCIAL STATEMENTS

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#### Note 6. Fair Value Measurements (Continued)

The table below presents the balances of assets and liabilities measured at fair value as of June 30, 2010:

#### Assets at Fair Value as of June 30, 2010

	Level 1	Level 2	Level 3	Total
Investments				
Money Market	\$ 503,235	\$ -	\$ -	\$ 503,235
Certificates of Deposit	-	230,375	-	230,375
Common Stocks	3,904	-	-	3,904
Government Securities	-	92,137	-	92,137
Corporate Bonds	-	160,222	-	160,222
Annuities	-	-	416,952	416,952
	166,125	-	-	166,125
	673,264	482,734	416,952	1,572,950
Contributions receivable - charitable remainder trusts	-	-	216,813	216,813
Annuity Liability	-	-	(167,851)	(167,851)
Total financial assets and liabilities, net at fair value	\$ 673,264	\$ 482,734	\$ 465,914	\$ 1,621,912

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, 2011 and 2010.

#### 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

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### 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, 2011:

	Level 3
<hr/>	
<b>Annuities</b>	
Beginning balance, July 1, 2010	\$ 416,952
Realized and unrealized gains (losses)	(14,369)
Contributions and settlements, net	(215,000)
Net transfer in and/or (out)	-
Ending balance, June 30, 2011	<u>\$ 187,583</u>
<b>Annuity liability</b>	
Beginning balance, July 1, 2010	\$ (167,851)
Realized and unrealized gains (losses)	-
Contributions and settlements, net	73,900
Net transfer in and/or (out)	-
Ending balance, June 30, 2011	<u>\$ (93,951)</u>

## AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

### NOTES TO FINANCIAL STATEMENTS

#### Note 6. Fair Value Measurements (Continued)

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, 2011:

	Amount
Contributions receivable - charitable remainder trusts	
Beginning balance, July 1, 2010	\$ 216,813
Realized and unrealized gains (losses)	-
Purchases, sales and settlements, net	-
Net transfer in and/or (out)	-
Ending balance, June 30, 2011	<u>\$ 216,813</u>

#### Note 7. Long-Term Debt

Lender	Type	2011	2010
Metro Bank, N.A.	(A) Term	\$ -	\$ 177,431
Metro Bank, N.A.	(B) Term	-	60,451
Metro Bank, N.A.	(C) Term	-	776,113
		-	1,013,995
Less current maturities		-	(116,402)
Long-Term Debt - Net of Current Maturities		<u>\$ -</u>	<u>\$ 897,593</u>

(A) In 2002, the American Lung Association of Pennsylvania, a predecessor association, entered into a mortgage payable with Metro Bank (previously Commerce Bank, N.A.). The Association's obligation under this mortgage payable consisted of sixty (60) monthly payments of \$1,225, including interest, through October 2, 2007, at an annual rate of 4.45%, two hundred thirty-nine monthly payments including interest, through September 2, 2027, at the Prime Rate as published in the Wall Street Journal, with a final payment including interest, due on October 2, 2027, at the Prime Rate. The mortgage was secured by the land and buildings at 3001 - 3009 Gettysburg Road, Camp Hill, Pennsylvania.

(B) In 2002, the American Lung Association of Delaware, a predecessor association, entered into a mortgage payable with Metro Bank (previously Commerce Bank, N.A.). During the year ended June 30, 2008, the American Lung Association of the Mid-Atlantic renegotiated the terms of the mortgage payable. The new repayment schedule consisted of sixty (60) monthly payments of \$1,090, including interest at an annual rate of 7.00%. The following fifty-nine (59) monthly payments include a variable rate of interest equal to the prime rate plus one percent. The final payment was to be due March 16, 2016. The final payment includes all principal and accrued interest not yet paid combined with any other unpaid amounts coinciding with this mortgage. The mortgage was secured by the condominium units at 1021 Gilpin Avenue, Suite 201 and 202, Wilmington, Delaware.

## AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

### NOTES TO FINANCIAL STATEMENTS

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#### **Note 7. Long-Term Debt (Continued)**

(C) On March 23, 2010, the Association's line-of-credit was changed to an eighty-four (84) month term loan with a seven (7) year amortization. The loan will no longer have line availability and it will have a set maturity date. Monthly payments of principal and interest began April 23, 2010, in the initial amount of \$11,336. The term loan was secured by one of the Association's investment accounts.

During November 2010, the Delaware condominium properties were sold. The proceeds from the sale and money received from a large bequest were used to pay off all three of the aforementioned term notes during the year ended June 30, 2011. The investment account held as collateral was transferred to the Association's other investment accounts.

#### **Note 8. Notes Payable - Line-of-Credit**

The Association had established a line-of-credit with Metro Bank, in the amount of \$800,000. During 2010, this line-of-credit was changed to a term-note. The term-note was paid off in full during the year ended June 30, 2011. (Note 7)

#### **Note 9. 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.

## AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

### NOTES TO FINANCIAL STATEMENTS

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#### Note 9. Pension Plan (Continued)

The Association uses a June 30 measurement date for its defined benefit pension plan for the years ended June 30, 2011 and 2010, respectively. The following table sets forth the defined benefit pension plan's funded status at June 30:

	2011	2010
Obligations and funded status:		
Projected benefit obligation	\$ (3,866,675)	\$ (4,449,910)
Fair value of plan assets	2,909,297	3,321,205
	<hr/>	<hr/>
Funded status	\$ (957,378)	\$ (1,128,705)
	<hr/>	<hr/>
Amounts recognized in the Statements of Financial Position consist of:		
Accrued benefit liability - noncurrent	\$ (957,378)	\$ (1,128,705)
	<hr/>	<hr/>

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

	2011	2010
Amounts recognized in the Statements of Activities consist of:		
Net income	\$ (70,251)	\$ (709,755)
Amortization of net loss	-	(21,685)
Prior service cost	-	(13,258)
Other	(50,225)	13,856
	<hr/>	<hr/>
Net amount recognized	\$ (120,476)	\$ (730,842)
	<hr/>	<hr/>
Accumulated Benefit Obligation (ABO) at June 30	\$ 3,866,675	\$ 4,449,910
	<hr/>	<hr/>

## AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

### NOTES TO FINANCIAL STATEMENTS

#### Note 9. Pension Plan (Continued)

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

	2011	2010
Service cost	\$ -	\$ 200,869
Interest cost	237,862	262,513
Expected return on plan assets	(212,638)	(228,801)
Amortization of prior service cost	-	13,258
Recognized net loss	-	21,685
Recognition due to settlement or curtailment	50,225	140,937
Net periodic benefit cost	<u>\$ 75,449</u>	<u>\$ 410,461</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:

	2011	2010
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 prior service cost (credit)	\$ -	\$ 154,793
New net loss (gain)	(70,251)	(709,755)
Amortization of prior service cost (credit)	-	(13,258)
Recognition of prior service cost due to curtailment	(50,225)	-
One time FAS88 recognition of prior service (cost)/credit	-	(140,937)
Amortization of net loss	-	(21,685)
Total recognized in changes in net assets	<u>\$ (120,476)</u>	<u>\$ (730,842)</u>
Total recognized in net periodic benefit cost and changes in net assets	<u>\$ (45,027)</u>	<u>\$ (320,381)</u>

## AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

### NOTES TO FINANCIAL STATEMENTS

#### Note 9. Pension Plan (Continued)

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

	2011	2010
Benefit obligation at beginning of year	\$ 4,449,910	\$ 4,457,450
Service cost	-	200,869
Interest cost	237,862	262,513
Amendments	-	154,793
Actuarial (gain) loss	(127,231)	(35,381)
Benefit payments	(693,866)	(35,882)
Curtailments, settlements, and special termination benefits	-	(554,452)
Benefit obligation at end of year	<u>\$ 3,866,675</u>	<u>\$ 4,449,910</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 3,321,205	\$ 3,008,364
Employer contribution	126,300	-
Actual return on plan assets	212,141	413,877
Benefits paid	(693,866)	(35,882)
Expenses paid	(56,483)	(65,154)
Fair value of plan assets at end of year	<u>\$ 2,909,297</u>	<u>\$ 3,321,205</u>

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

	2011	2010
Discount rate	5.50%	6.25%
Annual compensation increases	3.00%	3.00%
Expected return on plan assets	6.50%	7.50%

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

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#### Note 9. Pension Plan (Continued)

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

Asset Category	2011	2010
Equity securities	17.1%	10.7%
Debt securities	76.5%	66.7%
Real estate	5.1%	5.4%
Cash and cash equivalents	1.3%	17.2%
	<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, 2011 through June 30, 2012; anticipated contributions are approximately \$457,000.

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

Year	Amount
July 1, 2011 - June 30, 2012	\$ 159,736
July 1, 2012 - June 30, 2013	592,180
July 1, 2013 - June 30, 2014	85,302
July 1, 2014 - June 30, 2015	28,598
July 1, 2015 - June 30, 2016	722,521
July 1, 2016 - June 30, 2020	1,429,558
	<u>\$ 3,017,895</u>

## AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

### NOTES TO FINANCIAL STATEMENTS

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#### **Note 10. 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 \$35,123 at June 30, 2011 and 2010, respectively, to cover these anticipated costs.

#### **Note 11. 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 2011. 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 year ended June 30, 2011 and 2010, was \$108,880 and \$0- respectively.

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

**NOTES TO FINANCIAL STATEMENTS**

**Note 12. Restrictions of Net Assets**

	2011	2010
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 grant	40,267	47,767
Ozone action partnership	-	307
American Legacy Foundation fund	25,702	25,702
Tuberculosis grant	-	23,773
Other research	65,000	204,352
Various programs	-	7,000
Total temporarily restricted net assets	\$ 422,247	\$ 600,179
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 13. 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. In 2010, 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, 2011 and 2010, \$14,480 and \$20,269 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:

	2011	2010
Share payment for year ended June 30	\$ 14,480	\$ 20,269
Share payment for future receipts of accrued income	28,781	137,699
	\$ 43,261	\$ 157,968

## AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

### NOTES TO FINANCIAL STATEMENTS

#### Note 14. Allocation of Joint Information Costs

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.

During the year ended June 30, 2010, the Association incurred joint costs of \$2,396,303, for informational materials and activities that included fundraising appeals. Of those costs, \$73,806 was allocated to Asthma; \$674,799 was allocated to Environmental Health; \$552,280 was allocated to Tobacco Control; \$100,166 was allocated to Community Health, \$115,981 was allocated to Other Lung Disease; and \$1,078,336 was allocated to Fundraising.

#### Note 15. 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.

	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>

	2010		
	Gross Revenue	Direct Expenses	Net Revenue
Super spellers	\$ 101,448	\$ 30,547	\$ 70,901
Asthma walks	388,638	107,406	281,232
Runs and climbs	415,309	128,793	286,516
Galas	346,455	177,481	168,974
Other	167,586	63,130	104,456
	<u>\$ 1,419,436</u>	<u>\$ 507,357</u>	<u>\$ 912,079</u>

## AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

### NOTES TO FINANCIAL STATEMENTS

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#### Note 16. 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 \$319,000 and \$215,000 for the years ended June 30, 2011 and 2010, respectively.

The Association received donated space for one and two of its office locations in 2011 and 2010, 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, 2011 and 2010 was approximately \$1,300, respectively.

#### Note 17. Commitments

The Association leases office space, treatment facilities and office equipment under various non-cancelable operating leases. Rental expense for the year ended June 30, 2011 and 2010, was \$224,506 and \$252,372, respectively.

Aggregate minimum lease payments under the non-cancelable operating leases as of June 30, 2011, are as follows:

Year	Amount
2012	\$ 266,809
2013	208,267
2014	144,488
2015	148,369
2016	152,312
Later years	163,267
	<u>\$ 1,083,512</u>

#### Note 18. Reclassifications

Certain reclassifications have been made to the prior year financial statements in order to conform with current year presentations. These reclassifications have no effect on previously reported changes in net assets.

**SUPPLEMENTARY INFORMATION**

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

**Schedule of Budgeted and Incurred Costs  
For the Grant Period from January 1, 2010 to December 31, 2010  
Grant Number: 10-7-TB-N-2  
Year Ended June 30, 2011**

Cost Category	Final Approved Budget	Expenditure Report	Audited Expenditures	Questioned Costs
Salaries/Wages	\$ 33,443	\$ 33,992	\$ 33,992	\$ -
Fringe Benefits	12,224	11,708	11,708	-
Consultant/Professional Svcs	3,850	3,849	3,849	-
Office Expense & Related Costs	4,703	4,703	4,703	-
Program Expense	104,790	72,482	72,482	-
Facility Cost	8,990	8,990	8,990	-
<b>Total Direct Cost</b>	<b>168,000</b>	<b>135,724</b>	<b>135,724</b>	<b>-</b>
Indirect Cost	-	-	-	-
<b>Total Cost</b>	<b>168,000</b>	<b>135,724</b>	<b>135,724</b>	<b>-</b>
Less: Program Income	-	-	-	-
<b>Net Total Cost</b>	<b>\$ 168,000</b>	<b>\$ 135,724</b>	<b>\$ 135,724</b>	<b>\$ -</b>

Reconciliation of revenues recorded by fiscal period

Year ended June 30, 2010	\$ 67,244
Year ended June 30, 2011	68,480
Total revenues	<u>\$ 135,724</u>

Reconciliation to grant award:

Total grant expenditures	\$ 135,724
Unspent grant funds	14,000
Funds payable to NJ DOH/SS	18,276
Total grant award	<u>\$ 168,000</u>

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

Schedule of Budgeted and Incurred Costs

For the Grant Period from January 1, 2011 to December 31, 2011

Grant Number: EPID11TBC014

Year Ended June 30, 2011

Cost Category	Final Approved Budget	Expenditure Report	Audited Expenditures	Questioned Costs
Salaries/Wages	\$ 35,961	\$ 17,007	\$ 17,007	\$ -
Fringe Benefits	10,429	5,771	5,771	-
Consultant/Professional Svcs	-	-	-	-
Office Expense & Related Costs	2,836	-	-	-
Program Expense	78,240	10,892	10,892	-
<b>Total Direct Cost</b>	127,466	33,670	33,670	-
Indirect Cost	14,034	3,707	3,707	-
<b>Total Cost</b>	141,500	37,377	37,377	-
Less: Program Income	-	-	-	-
<b>Net Total Cost</b>	\$ 141,500	\$ 37,377	\$ 37,377	\$ -

Reconciliation of revenues recorded by fiscal period

Year ended June 30, 2011	\$ 37,377
Total revenues	<u>\$ 37,377</u>

Reconciliation to grant award:

Total grant expenditures	\$ 37,377
Funds available as of June 30, 2011	104,123
Total grant award	<u>\$ 141,500</u>

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

**Schedule of Budgeted and Incurred Costs  
For the Grant Period from September 1, 2009 to August 30, 2010  
Grant Number: 10-175-SCH-N-0  
Year Ended June 30, 2011**

Cost Category	Final Approved Budget	Expenditure Report	Audited Expenditures	Questioned Costs
Salaries/Wages/Fringe Benefits	\$ 90,993	\$ 87,088	\$ 87,088	\$ -
Consultant/Professional Svcs	10,620	8,435	8,435	-
Office Expense & Related Costs	492	687	687	-
Program Expense	2,279	479	479	-
Travel, Conference & Meetings	1,000	1,029	1,029	-
Facility Cost	1,020	1,020	1,020	-
<b>Total Direct Cost</b>	106,404	98,739	98,739	-
Indirect Cost	13,596	13,596	13,596	-
<b>Total Cost</b>	120,000	112,335	112,335	-
Less: Program Income	-	-	-	-
<b>Net Total Cost</b>	\$ 120,000	\$ 112,335	\$ 112,335	\$ -

Reconciliation of revenues recorded by fiscal period

Year ended June 30, 2010	\$ 84,846
Year ended June 30, 2011	27,489
Total revenues	<u>\$ 112,335</u>

Reconciliation to grant award:

Total grant expenditures	\$ 112,335
Unspent grand funds	7,665
Total grant award	<u>\$ 120,000</u>

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

**Schedule of Budgeted and Incurred Costs  
For the Grant Period from September 1, 2010 to June 30, 2011  
Grant Number: FHS-2011-Asthma-Full-0003  
Year Ended June 30, 2011**

Cost Category	Final Approved Budget	Expenditure Report	Audited Expenditures	Questioned Costs
Salaries/Wages	\$ 75,797	\$ 63,081	\$ 63,081	\$ -
Fringe Benefits	19,828	15,047	15,047	-
Travel, Conference & Meetings	700	1,059	1,059	-
Program Expense	10,753	4,330	4,330	-
Facility Cost	1,020	850	850	-
<b>Total Direct Cost</b>	108,098	84,367	84,367	-
Indirect Cost	11,902	9,281	9,281	-
<b>Total Cost</b>	120,000	93,648	93,648	-
Less: Program Income	-	-	-	-
<b>Net Total Cost</b>	\$ 120,000	\$ 93,648	\$ 93,648	\$ -

Reconciliation of revenues recorded by fiscal period

Year ended June 30, 2011	\$ 93,648
Total revenues	<u>\$ 93,648</u>

Reconciliation to grant award:

Total grant expenditures	\$ 93,648
Funds available as of June 30, 2011	26,352
Total grant award	<u>\$ 120,000</u>

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

**STATEMENT OF GRANT RECEIPTS AND EXPENDITURES**  
**For the Grant Period from July 1, 2010 to June 30, 2011**  
**Year Ended June 30, 2011**

Grant Number: G110266  
 Grant Period: 7/1/10 - 6/30/11  
 Grant Award: \$96,000

	Budget	Actual	Variance Over/(Under) Budget
Personnel and fringe benefits	\$ 52,846	\$ 50,378	\$ (2,468)
Materials and supplies	1,982	1,786	(196)
Other	13,000	12,997	(3)
Contractual	23,000	23,000	-
Indirect cost	5,172	5,172	-
Total grant expenditures	<u>\$ 96,000</u>	<u>\$ 93,333</u>	<u>\$ (2,668)</u>

Reconciliation of revenues recorded by fiscal period

Year ended June 30, 2011

Total revenues

\$ 93,333  
\$ 93,333

Reconciliation to grant award:

Total grant expenditures

Funds payable to WV DHHR

Total grant award

\$ 93,333  
 2,668  
\$ 96,000

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

**STATEMENT OF GRANT RECEIPTS AND EXPENDITURES**  
**For the Grant Period from October 1, 2009 to August 31, 2010**  
**Year Ended June 30, 2011**

Grant Number: G100438  
 Grant Period: 10/01/09-08/31/10  
 Grant Award: \$107,984

	Budget	Actual	Variance Over/(Under) Budget
Personnel and fringe benefits	\$ 35,928	\$ 44,445	\$ 8,517
Materials and supplies	7,773	6,799	(974)
Professional service costs	11,125	4,116	(7,009)
Other	43,342	43,284	(58)
Indirect cost	9,816	9,816	-
Total grant expenditures	<u>\$ 107,984</u>	<u>\$ 108,460</u>	<u>\$ 476</u>
Reconciliation of revenues recorded by fiscal period			
Year ended June 30, 2010		\$ 99,073	
Year ended June 30, 2011		9,387	
Total revenues		<u>\$ 108,460</u>	
Reconciliation to grant award:			
Total grant expenditures		\$ 108,460	
Funds spent in excess of the grant		(476)	
Total grant award		<u>\$ 107,984</u>	

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

**STATEMENT OF GRANT RECEIPTS AND EXPENDITURES**  
**For the Grant Period from July 1, 2010 to June 30, 2011**  
**Year Ended June 30, 2011**

Grant Number: G110274  
 Grant Period: 7/1/10 - 6/30/11  
 Grant Award: \$ 672,269

	Budget	Actual	Variance Over/(Under) Budget
Personnel and fringe benefits	\$ 183,999	\$ 166,719	\$ (17,280)
Materials and supplies	25,885	24,679	(1,206)
Professional service costs	15,600	15,600	-
Other	385,670	381,726	(3,944)
Indirect cost	61,115	61,115	-
Total grant expenditures	<u>\$ 672,269</u>	<u>\$ 649,839</u>	<u>\$ (22,430)</u>

Reconciliation of revenues recorded by fiscal period

Year ended June 30, 2010	\$ 649,839
Total revenues	<u>\$ 649,839</u>

Reconciliation to grant award:

Total grant expenditures	\$ 649,839
Funds payable to WV DHHR	22,430
Total grant award	<u>\$ 672,269</u>

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

**SCHEDULE OF CONTRACTUAL PERFORMANCE**

**EMERGENCY PROCUREMENT PERIOD**

**PO NUMBER 4300248052**

**For the Grant Period from July 1, 2010 to January 26, 2011**

**Year Ended June 30, 2011**

	Budget	Actual
Personnel services	\$ 23,332	\$ 23,838
Consultant services	43,336	6,649
Subcontract services	224,499	297,839
Supplies	7,084	2,711
Travel	5,000	24
Other	46,263	18,306
Total grant expenditures	<u>\$ 349,514</u>	<u>\$ 349,367</u>

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

**SCHEDULE OF CONTRACTUAL PERFORMANCE-MSA FUNDS**

**SAP 4000015263**

**For the Grant Period from January 27, 2011 to June 30, 2011**

**Year Ended June 30, 2011**

	Budget	Actual
Personnel services	\$ 51,370	\$ 44,050
Consultant services	30,000	29,932
Subcontract services	521,509	525,994
Supplies	10,167	10,142
Travel	4,500	3,318
Other	84,244	81,976
Total grant expenditures	<u>\$ 701,790</u>	<u>\$ 695,412</u>

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

**SCHEDULE OF CONTRACTUAL PERFORMANCE-ARRA CDC FUNDS  
SAP 4000015263**

**For the Grant Period from January 27, 2011 to June 30, 2011  
Year Ended June 30, 2011**

	Budget	Actual
Personnel services	\$ -	\$ -
Consultant services	-	-
Subcontract services	-	-
Supplies	-	-
Travel	-	-
Other	23,540	19,538
Total grant expenditures	<u>\$ 23,540</u>	<u>\$ 19,538</u>

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

**SCHEDULE OF CONTRACTUAL PERFORMANCE-FDA FUNDS**

**SAP 4000015263**

**For the Grant Period from January 27, 2011 to June 30, 2011**

**Year Ended June 30, 2011**

	Budget	Actual
Personnel services	\$ -	\$ -
Consultant services	-	-
Subcontract services	26,680	26,680
Supplies	-	-
Travel	-	-
Other	-	-
Total grant expenditures	<u>\$ 26,680</u>	<u>\$ 26,680</u>

**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, 2011, and have issued our report thereon dated October 8, 2011. 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

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 would not necessarily identify all deficiencies in internal control that might be 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 October 8, 2011.

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.

Camp Hill, Pennsylvania  
October 8, 2011

**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, 2011. 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 its major federal program for the year ended June 30, 2011.

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## 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.

Camp Hill, Pennsylvania  
October 8, 2011

**AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2011**

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**Section I -- Summary of Auditor's Results**

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**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, 2011**

Identification of the major programs:

CFDA Number	Name of Federal Program
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance
93.070	Environmental Public Health and Emergency Response
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

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**Section II -- Financial Statement Findings**

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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.

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**Section III -- Federal Award Findings and Questioned Costs**

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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, 2011

Federal Grantor/Pass Through/ Grantor Program Title	Federal CFDA Number	Pass- Through Contract Number	Federal Expenditures
<b>U.S. Department of Health and Human Services</b>			
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	10-044	\$ 21,731
ARRA-Community Outreach for Tobacco Prevention and Control Programs	93.723	11-131	64,359
Community Outreach for Tobacco Prevention and Control Programs	93.283	11-131	100,000
Youth Tobacco Prevention and Education Programs	93.283	11-080	76,000
Passed through Commonwealth of Pennsylvania Department of Health			
Tobacco Use Prevention and Cessation	93.283	4100047578	105,125
Passed through Commonwealth of Pennsylvania Department of Health			
Addressing Asthma from a Public Health Pespective	93.070	4000010698-R1	14,634
Addressing Asthma from a Public Health Pespective	93.070	4000010698-R2	53,152
Passed through Commonwealth of Pennsylvania Department of Health			
ARRA-South Central Tobbaco Control	93.273	4000015263	19,538
Passed through State of New Jersey Department of Health and Senior Services			
Pediatric/Adult Asthma Coalition	93.283	10-175-SCH-N-0	26,643
Pediatric/Adult Asthma Coalition	93.283	DFHS11AST003	93,648
Tuberculosis Control Program	93.116	10-7-TB-N-2	68,431
Tuberculosis Control Program	93.116	EPID11TBC014	37,377

AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**Year Ended June 30, 2011**

Federal Grantor/Pass Through/ Grantor Program Title	Federal CFDA Number	Pass- Through Contract Number	Federal Expenditures
<b>U.S. Department of Health and Human Services (Continued)</b>			
Passed through State of West Virginia Department of Health and Human Resources Bureau for Public Health Epidemiology and Health Promotion			
Asthma Prevention Program	93.283	G100438	50,591
Asthma Prevention Program	93.070	G110469	47,211
Regional Tobacco Prevention Coalition	93.283	G110266	42,127
<b>Total U.S. Department of Health and Human Services</b>			820,566
<b>U.S. Environmental Protection Agency</b>			
Indoor Air Quality Tools for Schools	66.034	XA97352401-3	39,833
Indoor Air Quality Tools for Schools	66.034	XA97390301-1	33,420
Pediatric/Adult Asthma Coalition	66.034	XA-97250908-2	9,025
Pediatric/Adult Asthma Coalition	66.034	XA-97250908-3	22,351
Subtotal Direct Programs			104,629
Passed through the Commonwealth of Pennsylvania Department of Environmental Protection Bureau of Radiation Protection			
Radon Awareness & Risk Reduction	66.032	4100051240	5,237
Radon Awareness & Risk Reduction	66.032	4100051240	16,764
Air Pollution Control Program Support	66.001	4100050681	11,561
<b>Total U.S. Environmental Protection Agency</b>			138,190
<b>Total expenditures of Federal awards</b>			\$ 958,757

See Note to Schedule of Expenditures of Federal Awards.

## AMERICAN LUNG ASSOCIATION OF THE MID-ATLANTIC

### NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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#### **Note 1. Significant Accounting Policies**

The accompanying Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

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

**SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS**  
**Year Ended June 30, 2011**

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There were no prior year audit findings.