

**THE AMERICAN LUNG ASSOCIATION
OF THE SOUTHWEST**

FINANCIAL STATEMENTS

June 30, 2011

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Board of Directors
The American Lung Association of the Southwest
Greenwood Village, Colorado

Independent Auditors' Report

We have audited the accompanying statement of financial position of the American Lung Association of the Southwest (Association) as of June 30, 2011, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. The prior year summarized comparative information has been derived from the Association's 2010 financial statements, audited by *BONDI & Co. LLC*, who merged with RubinBrown LLP as of June 1, 2011, and whose report dated September 3, 2010, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. 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 that our audit provides 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 Association as of June 30, 2011, and the changes in its net assets and its cash flows for the year 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 12, 2011, on our consideration of the Association's internal control over financial reporting and our tests of its compliance with certain provisions or laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. 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 (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

October 12, 2011


RubinBrown LLP

The American Lung Association of the Southwest
Statement of Financial Position
Year Ended June 30, 2011 (with summarized comparative totals for the year ended June 30, 2010)

ASSETS

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011	2010
CURRENT ASSETS					
Cash and Cash Equivalents	\$ 998,439	\$ -	\$ -	\$ 998,439	\$ 1,909,195
Accounts and Contributions Receivable	694,151	-	-	694,151	413,148
Prepaid Expenses	64,982	-	-	64,982	64,132
Total Current Assets	1,757,572	-	-	1,757,572	2,386,475
LONG-TERM ASSETS					
Property and Equipment, Net	3,842,563	-	-	3,842,563	3,947,167
Long-Term Investments	4,178,290	541,522	31,464	4,751,276	3,414,603
Beneficial Interest in Perpetual Trusts	-	-	348,739	348,739	313,237
Total Long-Term Assets	8,020,853	541,522	380,203	8,942,578	7,675,007
TOTAL ASSETS	\$ 9,778,425	\$ 541,522	\$ 380,203	\$ 10,700,150	\$ 10,061,482

LIABILITIES AND NET ASSETS

LIABILITIES					
Current Liabilities					
Accounts Payable	\$ 395,706	\$ -	\$ -	\$ 395,706	\$ 216,586
Accrued Expenses	287,985	-	-	287,985	255,757
Lease Deposits	5,174	-	-	5,174	5,175
Deferred Income	79,270	-	-	79,270	193,004
Total Current Liabilities	768,135	-	-	768,135	670,522
Non-current Liabilities					
Accrued Pension Costs	961,650	-	-	961,650	1,084,879
TOTAL LIABILITIES	1,729,785	-	-	1,729,785	1,755,401
NET ASSETS					
Unrestricted Operating Funds					
General Operating	4,206,077	-	-	4,206,077	3,338,798
Invested in Property and Equipment	3,842,563	-	-	3,842,563	3,947,167
Total Unrestricted Operating Funds	8,048,640	-	-	8,048,640	7,285,965
Temporarily Restricted Operating Funds					
Future Projects	-	-	-	-	23,643
DeSouza Research Fund	-	541,522	-	541,522	641,522
Total Temporarily Restricted Operating Funds	-	541,522	-	541,522	665,165
Permanently Restricted Operating Funds:					
Perpetual Trusts	-	-	348,739	348,739	313,237
Donor Designated Endowment Funds	-	-	31,464	31,464	41,714
Total Permanently Restricted Operating Funds	-	-	380,203	380,203	354,951
TOTAL NET ASSETS	8,048,640	541,522	380,203	8,970,365	8,306,081
TOTAL LIABILITIES AND NET ASSETS	\$ 9,778,425	\$ 541,522	\$ 380,203	\$ 10,700,150	\$ 10,061,482

The accompanying notes are an integral part of the financial statements.

The American Lung Association of the Southwest
Statement of Activities
Year Ended June 30, 2011 (with summarized comparative totals for the year ended June 30, 2010)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011	2010
PUBLIC SUPPORT AND REVENUE					
Contributions and Donations					
Direct Mail	\$ 1,404,442	\$ -	\$ -	\$ 1,404,442	\$ 1,567,014
Special Events, Net	1,418,977	-	-	1,418,977	1,177,054
Vehicle Donation and Promotions	133,289	-	-	133,289	195,666
Workplace Giving	94,082	-	-	94,082	112,764
Memorials	68,564	-	-	68,564	61,996
Bequests	621,596	-	-	621,596	787,666
Individual Gifts	121,375	-	-	121,375	114,526
In-kind Contributions	201,701	-	-	201,701	-
Total Contributions and Donations	4,064,026	-	-	4,064,026	4,016,686
Revenue					
Corporate Grants/Gifts-Restricted	-	215,654	-	215,654	268,266
Foundation Grants/Gifts-Restricted	-	330,256	-	330,256	236,443
Grants from Other Not-for-Profit Organization	-	106,482	-	106,482	131,768
Government Contracts/Grants	-	2,134,197	-	2,134,197	1,817,252
Program Service Fees	-	232,289	-	232,289	267,055
Interest and Dividends	129,052	-	-	129,052	121,436
Rental Income	66,694	-	-	66,694	53,089
Trust Income	393,305	-	-	393,305	368,880
Miscellaneous Income	1,312	-	-	1,312	773
Total Revenue	590,363	3,018,878	-	3,609,241	3,264,962
TOTAL PUBLIC SUPPORT AND REVENUE	\$ 4,654,389	\$ 3,018,878	\$ -	\$ 7,673,267	\$ 7,281,648
NET ASSETS RELEASED FROM RESTRICTION	3,152,771	(3,142,521)	(10,250)	-	-
TOTAL PUBLIC SUPPORT AND REVENUE	7,807,160	(123,643)	(10,250)	7,673,267	7,281,648
EXPENSES					
Program Services	6,530,067	-	-	6,530,067	5,966,750
Supporting Services	1,130,361	-	-	1,130,361	1,472,750
Total Expenses	7,660,428	-	-	7,660,428	7,439,500
CHANGE IN NET ASSETS FROM OPERATIONS	146,732	(123,643)	(10,250)	12,839	(157,852)
NON-OPERATING ACTIVITIES					
Realized Gain/Loss on Investments	239,878	-	-	239,878	(31,096)
Unrealized Gain/Loss on Investments	381,836	-	35,502	417,338	207,845
Total Non-Operating Activities	621,714	-	35,502	657,216	176,749
Net Change in Pension Obligation	(5,771)	-	-	(5,771)	(120,923)
CHANGE IN NET ASSETS	762,675	(123,643)	25,252	664,284	(102,026)
NET ASSETS, BEGINNING OF YEAR	7,285,965	665,165	354,951	8,306,081	8,408,107
NET ASSETS, END OF YEAR	\$ 8,048,640	\$ 541,522	\$ 380,203	\$ 8,970,365	\$ 8,306,081

The accompanying notes are an integral part of the financial statements.

The American Lung Association of the Southwest
Statement of Functional Expenses
Year Ended June 30, 2011 (with summarized comparative totals for June 30, 2010)

	Program Services						Supporting Services				Total Expenses	
	Environmental Health	Tobacco	Asthma	Lung Disease	Research	Community Service	Program Services Total	Fundraising	Management & General	Supporting Services Total	2011	2010
EXPENSES												
Salaries	\$ 245,639	\$ 1,092,214	\$ 434,228	\$ 710,138	\$ -	\$ 22,745	\$ 2,504,964	\$ 308,658	\$ 20,618	\$ 329,276	\$ 2,834,240	\$ 2,745,463
Payroll Taxes	17,279	82,390	32,254	52,991	-	1,841	186,755	22,820	1,542	24,362	211,117	235,097
Employee Benefits	60,055	265,801	109,959	177,731	-	6,166	619,712	76,340	4,911	81,251	700,963	664,282
Professional & Consulting Fees	27,833	198,330	236,961	57,043	3,559	5,825	529,551	38,595	51,494	90,089	619,640	326,203
Business Insurance	5,259	22,209	10,028	12,877	-	399	50,772	4,751	1,048	5,799	56,571	54,040
Building Occupancy	19,803	85,406	35,732	56,288	-	2,035	199,264	18,715	538	19,253	218,517	237,969
Travel & Conferences	11,098	59,683	22,345	37,556	-	544	131,226	4,004	355	4,359	135,585	142,056
Hosted Meetings & Conferences	2,258	13,058	108,947	148,014	-	98	272,375	960	77	1,037	273,412	311,517
Program and Office Supplies	11,231	76,624	36,042	21,678	-	223	145,798	2,074	33	2,107	147,905	139,346
Printing and Publications	58,997	74,877	66,594	83,143	52,677	52,856	389,144	296,203	202	296,405	685,549	690,847
Postage & Shipping	28,792	31,981	33,585	57,002	27,717	27,833	206,910	150,697	49	150,746	357,656	390,134
Media Expense	398	6,710	870	1,366	-	36	9,380	53,078	61	53,139	62,519	78,770
Equipment, Computers & Furniture	4,932	22,404	6,408	13,138	-	358	47,240	3,201	199	3,400	50,640	54,355
Dues & Subscriptions	22,967	4,807	1,181	1,481	-	44	30,480	559	19	578	31,058	31,765
Awards & Grants	4,795	300,029	1,431	89,485	262,001	-	657,741	-	-	-	657,741	591,107
Assistance to Patients	2,656	11,213	4,352	11,302	-	201	29,724	-	-	-	29,724	22,836
Miscellaneous Expense	1,217	4,712	2,189	4,286	-	101	12,505	1,137	121	1,258	13,763	18,527
Total expenses before depreciation	525,209	2,352,448	1,143,106	1,535,519	345,954	121,305	6,023,541	981,792	81,267	1,063,059	7,086,600	6,734,314
Depreciation	9,973	42,115	16,345	24,419	-	756	93,608	9,009	1,987	10,996	104,604	104,558
Total Operating Expenses	535,182	2,394,563	1,159,451	1,559,938	345,954	122,061	6,117,149	990,801	83,254	1,074,055	7,191,204	6,838,872
Contract Payment to National	32,846	32,846	32,846	32,846	42,230	239,304	412,918	9,384	46,922	56,306	469,224	600,628
TOTAL EXPENSES	<u>\$ 568,028</u>	<u>\$ 2,427,409</u>	<u>\$ 1,192,297</u>	<u>\$ 1,592,784</u>	<u>\$ 388,184</u>	<u>\$ 361,365</u>	<u>\$ 6,530,067</u>	<u>\$ 1,000,185</u>	<u>\$ 130,176</u>	<u>\$ 1,130,361</u>	<u>\$ 7,660,428</u>	<u>\$ 7,439,500</u>
	7%	32%	16%	21%	5%	5%	85%	13%	2%	15%	100%	

The accompanying notes are an integral part of the financial statements.

The American Lung Association of the Southwest
Statement of Cash Flows
Year Ended June 30, 2011 (with summarized comparative totals for June 30, 2010)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 664,284	\$ (102,026)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	104,604	104,559
Realized loss (gain) on investments	(239,878)	31,096
Unrealized loss (gain) on investments	(417,338)	(207,845)
Other loss (gain) on investments	(425)	(541)
Changes in Assets and Liabilities:		
Decrease (increase) in accounts and contribution receivable	(281,003)	498,234
Decrease (increase) in prepaid expenses	(850)	23,347
Increase (decrease) in accounts payable	179,120	(210,999)
Increase (decrease) in accrued expenses	32,228	7,658
Increase (decrease) in deferred income	(113,734)	61,294
Increase (decrease) in accrued pension costs	(123,229)	349,923
Increase (decrease) in lease deposits	-	3,426
Net cash provided by (used in) operating activities	(196,221)	558,126
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	5,064,342	1,568,347
Purchase of investments	(5,778,877)	(1,276,788)
Purchase of property and equipment	-	(816,997)
Net cash used in investing activities	(714,535)	(525,438)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(910,756)	32,688
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,909,195	1,876,507
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 998,439	\$ 1,909,195
NON-CASH TRANSACTIONS		
In-kind Donation Revenues	\$ 201,701	\$ -
In-kind Donation Expenses	(201,701)	-
Net non-cash transactions	\$ -	\$ -

The accompanying notes are an integral part of the financial statements.

The American Lung Association of Colorado
Notes to the Financial Statements
Year Ended June 30, 2011

NOTE 1. DESCRIPTION OF ORGANIZATION

The American Lung Association of the Southwest Association is a not-for-profit corporation, which provides services for the purpose of improving lung health and preventing lung diseases. Its programs involve environmental health, tobacco control, asthma, adult and children's lung diseases, community health services, and lung disease research. The Association is supported primarily by donor contributions and grants.

The Association is a constituent of the American Lung Association (the national lung association), which provides a number of program and supporting services on a statewide and nationwide basis.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue

In the absence of donor restrictions, contributions and bequests are considered to be available for unrestricted use. All income is recognized in the period in which the contribution, pledge, or unconditional promise to give is received. Legacies and bequests are not recorded in the accompanying financial statements until such time as the Association has an unconditional right to the gift and the proceeds can be reasonably estimated. Donated assets are recorded as unrestricted contributions at the fair market value as of date of donation.

Net Assets

All financial transactions have been recorded as either unrestricted, temporarily restricted, or permanently restricted net assets:

Unrestricted net assets consist of investments and otherwise unrestricted amounts that are available for use in carrying out the mission of the Association and include those expendable resources, which have been designated for special use by the Board.

Temporarily restricted net assets represent those amounts, which are donor restricted for specific purposes. If a temporarily restricted net asset is fulfilled in the same time period in which the contribution is received it is recorded as released from restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Permanently restricted net assets result from contributions from donors who place restrictions on the use of funds, which mandate that the original principal be invested in perpetuity. This original principal is reported as permanently restricted net assets, the income from which may be either temporarily restricted or unrestricted, depending on the donor's specification.

Investments

Investments in stocks and bonds are reported on the basis of closing market prices or bid quotations as of the end of the year. Money market accounts are stated at cost, which approximates market value.

The American Lung Association of Colorado
Notes to the Financial Statements, continued
Year Ended June 30, 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

The Association follows the practice of capitalizing all expenditures for furniture and equipment in excess of \$5,000, at cost or fair market value if donated. Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.

Cash Equivalents

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Allocation of Expenses

Indirect expenses are allocated to the various program and supporting services based on the ratio of program and supporting services salary expense to total salary expense.

Joint costs of activities which include fund-raising are allocated to program services to the extent they are intended to inform or educate the public concerning respiratory health, or to supporting services including fund-raising to the extent they are intended to induce the contribution of financial resources or enhance the image of the Association.

Tax Status

The Association is a non-profit voluntary health organization exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. Also, the Association has been designated a publicly supported organization under Section 170(b)(1)(A)(vi) of the same code. Accordingly, contributions qualify for deduction at the maximum amount specified in that code section.

Prior Year Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with The American Lung Association of the Southwest financial statements for the year ended June 30, 2010, from which the summarized information was derived.

Deferred Income

Deferred income represents amount received prior to June 30, 2011 for events and programs to be held in the upcoming fiscal year.

The American Lung Association of the Southwest
Notes to the Financial Statements, continued
Year Ended June 30, 2011

NOTE 3. INVESTMENTS

The following summarizes the relationship between the cost and fair market value of the investments at June 30, 2011:

	<u>Cost</u>	<u>2011</u>	<u>Excess or Reduction of Market Over Cost</u>	<u>Measurement at Reporting June 30, 2011 Quoted Prices in Active Market for Identical Assets (Level 1)</u>
Balance at End of Year	\$ 4,890,602	\$ 5,100,015	\$ 209,413	
Balance at Beginning of Year	3,935,765	3,727,840	<u>(207,925)</u>	
Net Unrealized Gain			417,338	
Realized Net Loss for the Year			239,878	
Advisory Services			(48,777)	
Investment Income			<u>129,007</u>	
Total Net Investment Gain for the Year			<u>\$ 737,446</u>	
Common Stock	\$ 3,727,949	\$ 3,941,950		\$ 3,941,950
Corporate Bonds	118,311	115,796		115,796
Government Bonds	175,917	175,617		175,617
Certificate of Deposit	509,000	517,913		517,913
Investment in Trust	359,425	348,739		348,739
Total	<u>\$ 4,890,602</u>	<u>\$ 5,100,015</u>		<u>\$ 5,100,015</u>
Interest and Dividends				
Interest, dividends and other income from investments			\$ 129,007	
Interest on savings and other temporary cash			45	
Total Interest and Dividends			<u>\$ 129,052</u>	

The Association receives royalties from oil leases that are held in trust on its behalf by the Allie M. Lee Trust, administered by United New Mexico Trust Company, Roswell, New Mexico. The oil production interests have an undeterminable value and therefore are not reflected in the accompanying statement of financial position. The royalties are included in revenue when earned.

The American Lung Association of the Southwest
Notes to the Financial Statements, continued
Year Ended June 30, 2011

NOTE 4. RESTRICTED FUNDS

	Beginning Balance	Additions	Deductions	Ending Balance
<i>Temporarily Restricted Fund Activity</i>				
Waring restricted fund	\$ 23,643	\$ -	\$ 23,643	\$ -
DeSouza bequest	641,522	-	100,000	541,522
Program Activity	-	3,018,878	3,018,878	-
Total	<u>\$ 665,165</u>	<u>\$ 3,018,878</u>	<u>\$ 3,142,521</u>	<u>\$ 541,522</u>
	Beginning Balance	Investment Income	Deductions	Ending Balance
<i>Permanently Restricted Funds</i>				
<i>Perpetual Trust</i>				
Vivian Osborne Irrevocable Trust	\$ 9,925	\$ 752	\$ -	\$ 10,677
Schuele Trust	303,312	34,750	-	338,062
<i>Donor Designated Endowment Fund</i>				
Champ Camp Fund	10,250	-	10,250	-
Estate of Arvetta M. Mauldin	31,464	-	-	31,464
Total	<u>\$ 354,951</u>	<u>\$ 35,502</u>	<u>\$ 10,250</u>	<u>\$ 380,203</u>

NOTE 5. ENDOWMENTS

The Association's endowment currently consists of a donor designated fund. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Association has interpreted the Colorado Uniform Prudent Management of Institutional Funds Act (UPMIFA) as not requiring the Association to maintain the purchasing power of its donor-restricted endowment funds, if any, but only to preserve the donor-restricted endowment absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment; (2) subsequent gifts to the endowment; and (3) accumulations made pursuant to the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The Association has adopted investment and spending policies that attempt to provide funding to programs supported by its endowment. Under this policy, as approved by the Board of Directors, the assets are invested in a manner that is intended to produce results that meet or exceed the market index while assuming a moderate level of investment risk. The association expects its endowment to provide an average rate of return annually.

The original value of the gift will remain a permanent endowment, the annual proceeds will be added to the general fund to support the Association's programs. The average return of these endowment is approximately \$1,500.

The American Lung Association of the Southwest
Notes to the Financial Statements, continued
Year Ended June 30, 2011

NOTE 6. PROPERTY AND EQUIPMENT

A summary of the property and equipment is as follows:

	<u>Life</u>	<u>Amount</u>
Land		\$ 803,232
Building	3-50 years	4,003,953
Computer Hardware	3 years	32,479
Automobile	3-5 years	83,833
		<u>4,923,497</u>
Less Accumulated Depreciation		<u>(1,080,934)</u>
Net Property and Equipment		<u><u>\$ 3,842,563</u></u>

Depreciation expense for the year ended June 30, 2011 is \$104,604.

NOTE 7. SPECIAL EVENTS

During the year the Association had several fund-raising events. The gross receipts from these events were \$1,826,491. Direct expenses consisting of tickets, facilities, and entertainment costs of \$407,514 were charged against these receipts leaving net proceeds of \$1,418,977.

The Association did not include the value of donated prizes and costs in the above special event amounts. The value of the donated prizes and costs were not considered significant in relation to the overall gross receipts of the events.

NOTE 8. ALLOCATION OF JOINT COSTS

The Association incurred joint costs with various vendors of \$963,189 for the year ended June 30, 2011, for the informational materials and activities that included direct mail fund-raising appeals. The following amounts were allocated to the respective functions.

Fundraising	\$ 459,474
Program Services:	503,715
Total	<u><u>\$ 963,189</u></u>

The American Lung Association of the Southwest
Notes to the Financial Statements, continued
Year Ended June 30, 2011

NOTE 9. PROMISES TO GIVE

Promises to give result from bequests of part of an estate under a valid will. Only the measurable portion of the bequest is included in the financial statements. The organization is named in several valid wills. However, since the value of the estates are not known, these bequests are not included in the financial statements as directed by FASB (Financial Accounting Standards Board) ASC (Accounting Standards Codification) 958.

NOTE 10. NET ASSETS

At June 30, 2011, unrestricted net assets are as follows:

General Operating Net Assets	\$ 4,206,077
Invested in Property and Equipment	3,842,563
Total	<u>\$ 8,048,640</u>

At June 30, 2011, temporarily restricted net asset was as follows:

Restricted for Future Projects:	
DeSouza Research Fund	541,522
	<u>\$ 541,522</u>

In February 2004, the Board of Directors established the DeSouza Research Fund created from the generous bequest of Mr. James L DeSouza of Phoenix, AZ. In accordance with the stipulations of the bequest, these funds have been restricted for medical research toward the treatment and cure of *brochiectasis, m. avium and nocardia*. As a result, the Board of Directors created the DeSouza Research Award. This award utilizes funds from the DeSouza Research Fund to annually support clinical laboratory, epidemiological, or any other kind of research that related to *brochiectasis, m. avium and nocardia*. First year of funding for this award began in July 2005. Total funding for the fiscal year ended June 30, 2011 was \$100,000.

At June 30, 2011, permanently restricted net assets are as follows:

Perpetual Trust	\$ 348,739
Endowments	31,464
	<u>\$ 380,203</u>

The American Lung Association of the Southwest
Notes to the Financial Statements, continued
Year Ended June 30, 2011

NOTE 11: RETIREMENT PLAN - American Lung Association Plan D

Fiscal Year Ending:	June 30, 2011
Measurement Date:	June 30, 2011
Change in Benefit Obligation	
Benefit obligation at beginning of year	\$ 2,979,650
Service cost	277,916
Interest cost	168,096
Actuarial loss / (gain)	(59,679)
Benefits Paid	(36,124)
Benefit obligation at end of year	<u>\$ 3,329,859</u>
Change in Plan Assets	
Fair value of plan assets at beginning of year	\$ 1,894,771
Actual return on plan assets	138,482
Employer contributions	416,791
Benefits paid	(36,124)
Expenses paid	(45,711)
Fair value of assets at end of year	<u>\$2,368,209</u>
Funded status at end of year	\$ (961,650)
Amounts recognized in the statement of financial position consist of:	
Non-current liabilities	\$ (961,650)
Amounts recognized in accumulated other comprehensive income consist of:	
Prior service cost / (credit)	\$ 47,714
Net actuarial loss / (gain)	783,455
Total	<u>\$ 831,169</u>
Accumulated benefit obligation at end of year	\$ 2,778,411
Information for pension plans with an accumulated benefit obligation in excess of plan assets:	
Projected benefit obligation	\$ 3,329,859
Accumulated benefit obligation	2,778,411
Fair value of plan assets	2,368,209
Components of Net Periodic Benefit Cost and Other Amounts Recognized in OCI	
Service cost	\$ 277,916
Interest cost	168,096
Expected return on plan assets	(131,539)
Amortization of prior service cost / (credit)	3,710
Recognized net loss / (gain)	35,042
Net periodic benefit cost	<u>\$ 353,225</u>
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income:	
New net loss/ (gain), (includes effect of settlement/curtailment)	(20,911)
Amortization of prior service cost / (credit)	(3,710)
Amortization of net loss / (gain)	(35,042)
Total recognized in other comprehensive income	<u>\$ (59,663)</u>

The American Lung Association of the Southwest
Notes to the Financial Statements, continued
Year Ended June 30, 2011

NOTE 11: RETIREMENT PLAN (CONTINUED)

Total recognized in net periodic benefit cost and other comprehensive income: \$ 293,562

Weighted-average assumptions used to determine benefit obligation as of June 30

	2011
Discount rate	5.75%
Rate of compensation increase	3.00%

Weighted-average assumptions used to determine net periodic benefit cost for years ended June 30

	2011
Discount rate	5.50%
Rate of compensation increase	3.00%
Expected return on plan assets	6.50%

Asset Allocation

<i>Asset Category</i>	2011
Equity securities	17.11%
Debt securities	76.52%
Real Estate	5.10%
Cash & cash equivalents	1.27%
Total	100.00%

Expected Employer Contributions to be Paid for Fiscal Year Beginning July 1 \$ 384,000

Benefits Expected to be Paid for Fiscal year Beginning July 1

2011	\$ 476,645
2012	\$ 138,522
2013	\$ 44,979
2014	\$ 292,986
2015	\$ 406,169
2016-2020	\$ 1,761,419

Estimated amortizations amounts in next fiscal year:

Amort transition obligation / (asset)	\$ -
Amort prior service cost / (credit)	\$ 3,710
Amort net loss / (gain)	\$ 27,434

Rate of Return on Assets Assumption:

Effective July 1, 2011, the expected long-term rate of return on assets assumption is 6.00% (previously 6.50%). As defined in ASC 715, this assumption 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.

Investment Strategy:

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 American Lung Association of the Southwest
Notes to the Financial Statements, continued
Year Ended June 30, 2011

NOTE 11: RETIREMENT PLAN (CONTINUED)

The secondary objective in the investment management of assets is:

Preservation of Purchasing Power After Spending - 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 for the Association are preservation of capital and minimization of costs.

Risk control is an important element in the investment of plan assets and is achieved through a diversified target allocation and the prohibition of investing in derivative instruments, private placements, limited partnerships, and venture-capital investments. In addition, short selling and margin transactions are prohibited.

Investments in companies that derive their revenue from the manufacture & sale of tobacco products are strictly prohibited.

Plan Assets:

Description	Quoted Prices in Active markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Money funds	\$ 30,552	\$ -	\$ -	\$ 30,552
Common stock	412,014	-	-	412,014
U.S. Treasury notes and bonds	667,002	-	-	667,002
Corporate bonds	-	1,175,439	-	1,175,439
Partnership/Joint Venture	-	83,202	-	83,202
	\$ 1,109,568	\$ 1,258,641	\$ -	\$ 2,368,209
	46.85%	53.15%	0.00%	100.00%

Level 1 - Quoted prices are available in active markets for identical investments as of the reporting date. The Organization does not adjust the quoted price for these investments.

Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies (including fair value of investments in Portfolio Funds with the ability to redeem at net asset value as of the measurement date, or within ninety days of the measurement date).

Plan Amended:

The ALASW will change the retirement program it offers to employees in the first quarter of 2012. Participation in the American Lung Association Plan D will be closed to employees hired on or after July 1, 2010. Current Plan D participants will continue to accrue benefits and newly hired employees will be offered a 403(b) defined contribution plan in its place. The Organization estimates that over time its retirement liability will decrease as newly eligible participants move into the new retirement plan.

The American Lung Association of the Southwest
Notes to Financial Statements, continued
Year Ended June 30, 2011

NOTE 12. TAX DEFERRED ANNUITY PLAN

The Association offers a voluntary tax deferred annuity plan (403-b) to employees to save for retirement through payroll deductions. Following six months of employment, the Association matches 100% of the active participant's compensation that is contributed up to 4% for all employees employed by the ALASW on the last day of the plan year (December 31.) Employer matching contributions made by the Association are vested based on the following schedule:

Years of Service	% vested
1	20%
2	40%
3	60%
4	80%
5	100%

The Association matching contribution for the plan year was \$62,633.

NOTE 13. CONTRIBUTED SERVICES AND EQUIPMENT

The Association records various types of in-kind contributions. Contributed services are recognized at fair value if the services received (a) create or enhance long-loved assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of supplies are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses. During the year ended June 30, 2011, the Association received contributed professional services of \$190,547; \$188,698 for asthma camps and programs and \$1,849 for tobacco control and clean air programs, and contributed supplies of \$11,155; \$7,730 for asthma camps and \$3,425 for tobacco control programs.

NOTE 14. CONCENTRATION OF CREDIT RISK

The Association maintains its cash and temporary cash investments with high quality major financial institutions. While the Association attempts to limit credit risk exposure, its deposit balances may, at times, exceed federally insured limits. The Association has not experienced any losses on such accounts.

The Association maintains accounts at a bank insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of June 30 2011, cash in excess of the FDIC limit totaled \$438,113. The Association has a money fund that is insured by the Securities Investor Protection Corporation (SIPC) up to \$500,000 per customer. As of June 30, 2011 the money fund balance was under the SIPC limit.

The Association has significant investment in stocks, bonds, and mutual funds and is therefore subject to concentrations of credit risk. Investments are made by investment managers, engaged by the Association, and the investments are monitored for the Association. Though the market value of investments is subject to fluctuations on a year-to-year basis, management believes the investment policy is prudent for the long-term welfare of the Association and its beneficiaries.

NOTE 15. SUBSEQUENT EVENTS

Management of the Association evaluated subsequent events through the date of the independent auditors' report, which was the date the financial statements were available to be issued.

The American Lung Association of the Southwest
Notes to Financial Statements, continued
Year Ended June 30, 2011

NOTE 16. COMMITMENT AND CONTINGENT LIABILITY

The Association is subject to contract with the National American Lung Association to remit 30% of net direct mail revenue and an assessment based on TPI (total personal income) of residents in each state of \$297,506 for fiscal 2012.

The Association is committed to participating in the national direct mail program and will pay \$877,654 in fiscal 2012 for this service as a merged entity, American Lung Association of the Southwest. As of June 30, 2011, the accounts payable balance to the national lung association was \$104,867.

The Association leases certain operating equipment, has service contract agreements, and rental agreements. Future minimum commitments at June 30, 2011 are as follows:

<u>Year</u>	<u>Amount</u>
2012	\$ 137,324
2013	136,498
2014	115,072
2015	8,764
2016	7,382
Total	<u>\$ 405,040</u>

Lease expense for fiscal year 2011 was \$160,795.

The Association receives revenues from grants with various governmental and private agencies. The disbursement of funds received under these grants requires compliance with the terms and conditions specified in the grant and are subject to audit by the granting agencies. The amount of charges to these grants that may be disallowed, if any, by such audits cannot be presently determined. However, management believes that the effect of any disallowed costs would not have a significant impact on the financial statements, and accordingly, no provision has been made in the financial statements for any liability that may result.

NOTE 17. CONTRIBUTIONS RECEIVABLE AND RENTAL INCOME

The Association Contributions Receivable amount is \$693,908; \$408,747 from government grants, \$51,674 from special events revenue, \$5,640 from the vehicle donation program, \$32,650 from direct mail, \$80,006 from other grants, \$106,150 from bequests and \$9,041 from other sources. The Association believes this amount to be fully collectible therefore no allowance for uncollectible amounts was recorded.

The Association has certain non-cancellable rental agreements. As of June 30, 2011 the value of the rented property was \$629,609 the accumulated depreciation on this property is \$32,903. Future rental income at June 30, 2011 is as follows:

<u>Year</u>	<u>Amount</u>
2012	\$ 34,668
2013	28,192
2014	28,756
2015	7,224
Total	<u>\$ 98,840</u>

Board of Directors
The American Lung Association of the Southwest
Greenwood Village, Colorado

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*

We have audited the financial statements of the American Lung Association of the Southwest (Association) as of and for the year ended June 30, 2011, and have issued our report thereon dated October 12, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

Board of Directors
The American Lung Association
of the Southwest

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*.

We noted certain matters that we reported to management of the Association in a separate letter dated October 12, 2011.

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

October 12, 2011


RubinBrown LLP

Board of Directors
The American Lung Association of the Southwest
Greenwood Village, Colorado

**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**

Independent Auditors' Report

Compliance

We have audited the American Lung Association of the Southwest's (Association) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Association's major federal programs for the year ended June 30, 2011. The Association's major federal programs is identified in the summary of auditors' 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 the Association's management. Our responsibility is to express an opinion on the Association'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; and OMB Circular A-133. Those standards and OMB Circular A-133 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 the Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Association's compliance with those requirements.

In our opinion, the Association complied, in all material respects, with the compliance requirements referred to above that could have direct and material effect on its major federal program for the year ended June 30, 2011.

Board of Directors
The American Lung Association
of the Southwest

Internal Control Over Compliance

Management of the Association is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Association's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 the Association'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 was not designed to identify all deficiencies in internal control over compliance 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 management, the Board of Directors, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

October 12, 2011


RubinBrown LLP

THE AMERICAN LUNG ASSOCIATION OF THE SOUTHWEST

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2011

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified? 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? yes none reported

Type of auditors’ report issued on compliance for major programs: Unqualified

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.724	Centers for Disease Control and Prevention – ARRA Prevention and Wellness – Communities Putting Prevention to Work

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

Auditee qualified as low-risk auditee? yes no

THE AMERICAN LUNG ASSOCIATION OF THE SOUTHWEST
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended June 30, 2011

Section II – Financial Statement Findings

There were no findings relating to the Association's financial statements for the year ended June 30, 2011.

Section III – Federal Awards Findings

There were no findings relating to Association's major federal programs during testing for the year ended June 30, 2011.

THE AMERICAN LUNG ASSOCIATION OF THE SOUTHEWEST

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2011

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Expenditures
U.S. DEPARTMENT OF ENVIRONMENTAL PROTECTION AGENCY		
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	60.034	\$ 31,500
Total Department of Environmental Protection Agency		31,500
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Passed Through Southern Nevada Health District		
Centers for Disease Control and Prevention – ARRA Prevention and Wellness – Communities Putting Prevention to Work	93.724	694,305
Total Department of Health and Human Services		694,305
TOTAL FEDERAL EXPENDITURES		\$ 725,805

See the accompanying notes to the schedule of expenditures of federal awards.

THE AMERICAN LUNG ASSOCIATION OF THE SOUTHWEST

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2011

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of the American Lung Association of the Southwest (Association) under programs of the federal government for the year ended June 30, 2011. 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*. Because the Schedule presents only a selected portion of the operations of the Association, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Association.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3: SUBRECIPIENTS

No federal awards were passed through to subrecipients for the year ended June 30, 2011.