
**AMERICAN LUNG ASSOCIATION
OF THE SOUTHWEST**
FINANCIAL STATEMENTS
JUNE 30, 2014

Contents

	Page
Independent Auditors' Report.....	1 - 2
Statement Of Financial Position.....	3
Statement Of Activities	4
Statement Of Functional Expenses.....	5
Statement Of Cash Flows.....	6
Notes To The Financial Statements.....	7 - 18



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Independent Auditors' Report

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

Report On The Financial Statements

We have audited the accompanying financial statements of the American Lung Association of the Southwest (the Association), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility For The Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of June 30, 2014, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2014, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

RubinBrown LLP

October 31, 2014

THE AMERICAN LUNG ASSOCIATION OF THE SOUTHWEST
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2014

	2014
Assets	
Cash and cash equivalents	\$ 247,733
Investments	4,867,676
Contracts and grants receivable, net	535,610
Prepaid expenses and other assets	105,752
Property and equipment, net	3,609,801
Beneficial interests in charitable trusts held by others	2,546,527
Total assets	\$ 11,913,099
Liabilities and Net Assets	
Liabilities	
Accounts payable and accrued expenses	\$ 490,474
Loan payable	1,006,937
Deferred revenue	224,128
Retirement plan obligations	1,085,884
Total liabilities	2,807,423
Net Assets	
Unrestricted	
Undesignated	2,676,362
Invested in property and equipment	3,609,801
Temporarily restricted	2,435,562
Permanently restricted	383,951
Total net assets	9,105,676
Total liabilities and net assets	\$ 11,913,099

See notes to financial statements

THE AMERICAN LUNG ASSOCIATION OF THE SOUTHWEST
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014</u>
Support and operating revenue				
Public Support				
Direct mail	\$ 1,096,779	\$ -	\$ -	\$ 1,096,779
Vehicle donation and promotions	47,802	-	-	47,802
Special events				
Special events gross revenue	1,507,360	-	-	1,507,360
Less cost of direct benefits to donors	(275,790)	-	-	(275,790)
Other contributions				
Workplace giving	71,581	-	-	71,581
Memorials	67,166	-	-	67,166
Bequests	210,705	-	-	210,705
Individual gifts	178,549	-	-	178,549
In-kind contributions	428,323	-	-	428,323
Total Public Support	<u>3,332,475</u>	<u>-</u>	<u>-</u>	<u>3,332,475</u>
Other Revenue				
Corporate grants	297,352	-	-	297,352
Foundation grants	285,159	-	-	285,159
Grants from other not-for-profit organizations	341,656	-	-	341,656
Government grants	1,840,093	-	-	1,840,093
Program service fees	188,694	-	-	188,694
Investment income, net of investment management fees of \$52,514	78,176	-	5,858	84,034
Rental income	50,893	-	-	50,893
Distributions from charitable trusts held by others	425,819	-	-	425,819
Total Other Revenue	<u>3,507,842</u>	<u>-</u>	<u>5,858</u>	<u>3,513,700</u>
Net assets released from restrictions	<u>100,000</u>	<u>(100,000)</u>	<u>-</u>	<u>-</u>
Total support and operating revenue	<u>6,940,317</u>	<u>(100,000)</u>	<u>5,858</u>	<u>6,846,175</u>
Operating expenses				
Program services	6,803,407	-	-	6,803,407
Supporting services	1,519,768	-	-	1,519,768
Total operating expenses	<u>8,323,175</u>	<u>-</u>	<u>-</u>	<u>8,323,175</u>
Change in net assets from operating activities	<u>(1,382,858)</u>	<u>(100,000)</u>	<u>5,858</u>	<u>(1,477,000)</u>
Nonoperating activities				
Realized gain on investments	314,586	-	17,350	331,936
Unrealized gain on investments	301,648	-	9,252	310,900
Change in value of beneficial interests in charitable trusts held by others		169,590	(14,519)	155,071
Change in retirement plan obligations	(104,284)	-	-	(104,284)
Total nonoperating activities	<u>511,950</u>	<u>169,590</u>	<u>12,083</u>	<u>693,623</u>
Change in net assets	(870,908)	69,590	17,941	(783,377)
Net assets, beginning of year	<u>7,157,071</u>	<u>2,365,972</u>	<u>366,010</u>	<u>9,889,053</u>
Net assets, end of year	<u>\$ 6,286,163</u>	<u>\$ 2,435,562</u>	<u>\$ 383,951</u>	<u>\$ 9,105,676</u>

See notes to financial statements

THE AMERICAN LUNG ASSOCIATION OF THE SOUTHWEST
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

	Program Services						Supporting Services			Total
	Environmental Health and Advocacy	Tobacco Control	Lung Cancer, Asthma, COPD and other Lung Diseases	Research	Community Health Service	Program Services Total	Management and General	Fundraising	Supporting Services Total	
Expenses										
Salaries, taxes and benefits	\$ 419,039	\$ 1,243,286	\$ 1,160,973	\$ 38,817	\$ 40,979	\$ 2,903,094	\$ 245,818	\$ 644,013	\$ 889,831	\$ 3,792,925
Professional and consulting fees	36,065	292,374	96,953	4,331	4,404	434,127	74,025	45,689	119,714	553,841
Business insurance	7,502	20,300	20,434	1,081	1,214	50,531	7,492	5,094	12,586	63,117
Building occupancy	10,114	66,793	70,677	2,628	3,069	153,281	6,896	17,018	23,914	177,195
Travel and conferences	18,442	77,529	58,250	1,589	1,881	157,691	8,586	11,906	20,492	178,183
Hosted meetings and conferences	4,921	22,781	239,895	341	475	268,413	1,607	1,824	3,431	271,844
Program and office supplies	18,394	122,149	44,881	448	520	186,392	1,545	27,692	29,237	215,629
Printing and publications	3,373	13,496	20,639	422	384	38,314	1,577	15,809	17,386	55,700
Postage and shipping	1,222	12,076	22,858	294	244	36,694	967	5,792	6,759	43,453
Media and advertising expense	22,168	32,736	28,574	308	260	84,046	684	15,032	15,716	99,762
Equipment, computers and furniture	8,241	7,966	14,829	536	511	32,083	1,890	2,814	4,704	36,787
Dues and subscriptions	5,497	2,966	5,339	173	120	14,095	418	623	1,041	15,136
Awards and grants	15,340	32,182	109,005	272,080	-	428,607	-	-	-	428,607
Assistance to patients	2,853	7,719	22,368	411	462	33,813	2,849	1,937	4,786	38,599
Direct mail fees	90,836	90,836	90,837	90,837	90,836	454,182	44,483	271,144	315,627	769,809
Depreciation	12,138	32,846	33,061	1,749	1,965	81,759	12,122	8,242	20,364	102,123
Cost of direct benefits to donors						-		275,790	275,790	275,790
Contract payment to national	55,742	42,878	77,181	192,953	17,151	385,905	25,727	17,151	42,878	428,783
Strategic cause campaign	129,755	129,755	259,510	-	129,755	648,775	-	-	-	648,775
Miscellaneous expense	1,324	4,091	3,835	213	235	9,698	16,402	998	17,400	27,098
In-kind contributions	1,422	-	400,485	-	-	401,907	1,550	24,866	26,416	428,323
	864,388	2,254,759	2,780,584	609,211	294,465	6,803,407	454,638	1,393,434	1,848,072	8,651,479
Less expenses included with revenues on statement of activities										
Asset management fees	-	-	-	-	-	-	(52,514)	-	(52,514)	(52,514)
Cost of direct benefits to donors	-	-	-	-	-	-	-	(275,790)	(275,790)	(275,790)
Total Expense	\$ 864,388	\$ 2,254,759	\$ 2,780,584	\$ 609,211	\$ 294,465	\$ 6,803,407	\$ 402,124	\$ 1,117,644	\$ 1,519,768	\$ 8,323,175
	10%	27%	33%	8%	4%	82%	5%	13%	18%	100%

See notes to financial statements

THE AMERICAN LUNG ASSOCIATION OF THE SOUTHWEST
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

	2014
Cash flows from operating activities	
Change in net assets	\$ (783,377)
Adjustment to reconcile changes in net assets to net cash used from (used for) operating activities	
Depreciation	102,123
Change in beneficial interest in charitable trust held by others	(187,531)
Realized loss (gain) on investments	(314,586)
Unrealized loss (gain) on investments	(301,648)
Other loss (gain) on investments	(108,888)
Donated property and stock	(89,451)
Changes in operating assets and liabilities	
Contracts and grants receivable, net	(5,587)
Prepaid expenses and other assets	(38,772)
Accounts payable and accrued expenses	(76,173)
Loan payable	1,006,937
Deferred revenue	72,481
Retirement plan obligations	104,284
	(620,188)
Net cash used from (used for) operating activities	
Cash flows from investing activities	
Proceeds from sale of investments	1,880,883
Purchase of investments	(1,174,408)
	706,475
Net cash used from (used for) investing activities	
Net change in cash and cash equivalents	86,287
Cash and cash equivalents, beginning of year	161,446
Cash and cash equivalents, end of year	\$ 247,733

See notes to financial statements

NOTE 1 - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization

The American Lung Association of the Southwest (Association, we, us, our) is a not-for-profit organization, 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.

Tobacco Cessation

We are working diligently to eliminate tobacco use and tobacco-related lung disease. Our program, education and advocacy efforts prevent teens from starting to smoke, limit youth access to tobacco, help teens and adults to quit smoking, and reduce everyone's exposure to secondhand smoke. Over the past decade we have reached more than 26,000 young people with youth tobacco prevention programming. Meanwhile, we helped more than 2,200 teens in their journey to end their tobacco addiction to tobacco use through our unique teen smoking cessation program.

Lung Disease

We are working to reduce the burden of lung disease on patients and their families. Last year, our volunteer registered nurses and respiratory therapists provided lung disease prevention, education or treatment support to more than 4,100 individuals in the region. Our Lung Cancer Profiler, Fighting for Air Community, and Better Breathers support groups are providing much needed support and information to those living with lung cancer, Chronic Obstructive Pulmonary Disease, or other lung diseases. We also invest in life-saving research to treat, prevent and ultimately find cures for lung disease.

Asthma

Asthma is the number one cause of school absenteeism for children, accounting for more than 14 million missed days of school each year. Asthma can be successfully managed, however, with the proper education and medication. During 2014, we provided critical disease management education to just over 1,000 children with asthma through our Open Airways for Schools and asthma camp programs. By equipping children and their families with the knowledge and skills they need to better manage their asthma, we are helping to keep kids healthy, active, and in school learning, while decreasing the emotional and financial burden on families of visits to the emergency room, hospitalizations, and missed days of work.

Air Quality

We strive to improve the quality of the air we breathe so that it does not cause or worsen lung disease. As such, we work with Clean Cities, local government Air Quality Controls Districts, and other advocacy coalitions and partnerships to promote reduced transportation impacts and increased use of renewable fuels and green energy. Recently, our Denver Metro Clean Cities Coalition, received recognition from the US Department of Energy for its leadership of more than 105 statewide partners working to prepare Colorado for expanded adoption of electric vehicles.

We also advocate at the federal, state, tribal, county and municipal levels to maintain and monitor enforcement of existing protective standards and implementation of air pollution mitigation options.

We are a chartered association of the American Lung Association, which provides a number of program and supporting services on a statewide and nationwide basis.

Cash and Cash Equivalents

We consider all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments held for long-term purposes are excluded from this definition.

Investments

We record investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Investment income, consisting of interest and dividend income less investment management and custodial fees, is included as non-operating activities in the statement of activities.

Receivables and Credit Policies

Contracts and grants receivable consist primarily of noninterest-bearing amounts due from cost-reimbursable contracts and grants. We determine the allowance for uncollectible contracts and grants receivable based upon historical experience, an assessment of economic conditions, and review of subsequent collections. Contract and grants receivable are written off when deemed uncollectible. We determined no allowance for doubtful amounts was necessary at June 30, 2014.

Property and Equipment

We record property and equipment additions over \$5,000 at cost, or if donated, at fair value on the date of donation. We compute depreciation using the straight-line method over the estimated useful life of the asset ranging from three to forty years. When assets are sold or otherwise disposed of, the cost and related depreciation are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

We review carrying values of property and equipment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and exceeds the fair value of the asset. We have determined that there were no indicators of asset impairment during the year ended June 30, 2014.

Beneficial Interests in Charitable Trusts Held by Others

We have been named as an irrevocable beneficiary of several charitable trusts held and administered by independent trustees. These trusts were created independently by donors and are administered by outside agents designated by the donors. Therefore, we have neither possession nor control over the assets of the trusts. At the date we receive notice of a beneficial interest, a temporarily or permanently restricted contribution is recorded in the statement of activities, and a beneficial interest in charitable trusts held by others is recorded in the statement of financial position at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the expected distributions to be received under the agreement. Thereafter, beneficial interests in the trusts are reported at fair value in the statement of financial position, with trust distributions and changes in fair value recognized in the statement of activities. Upon receipt of trust distributions and/or expenditures in satisfaction of the restricted purpose stipulated by the donor, if any, temporarily restricted net assets are released to unrestricted net assets; permanently restricted net assets are transferred to the endowment.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets available for use in general operations.

Temporarily Restricted Net Assets - Net assets subject to donor restrictions that many or will be met by expenditures or actions of the Association and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditures by our Board of Directors.

We report contributions restricted by donors as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increased in temporarily or permanently restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets - Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Association. The restrictions stipulate that resources be maintained permanently but permit us to expend the income generated in accordance with the provisions of the agreements.

Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance and deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to our program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. We record donated professional services at the respective fair values of the service received. (Note 5.)

Advertising

We use advertising to promote our organization and vehicle donation program, and expense such costs as incurred. During the year ended June 30, 2014, advertising costs totaled \$99,762.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

We allocate joint costs of activities, which include fundraising and management and general, to program services to the extent they are intended to inform or educate the public concerning respiratory health, or to supporting services, including fundraising, to the extent they are intended to increase public awareness of the Association, participation in our programs or to induce the contribution of financial resources (Note 6.)

Income Taxes

The Association is organized as an Arizona nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi), and has been determined not to be a private foundation under Section 509(a)(1). We are annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, we are subject to income tax on net income that is derived from business activities that are unrelated to our exempt purposes. We have determined the Association is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS. Tax years that remain subject to examination are years 2010 and forward for the United States Internal Revenue Service and 2009 and forward for the State of Colorado Department of Revenue.

We believe we have appropriate support for any tax positions taken affecting our annual filing requirements, and as such, do not have any uncertain tax positions that are material to the financial statements. We would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

Financial Instruments and Credit Risk

We manage deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, we have not experienced losses in any of these accounts. Credit risk associated with contracts and grants receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies and foundations supportive of our mission. Our investments are reviewed and monitored by the Board of Directors and administered by an investment advisory firm in accordance with the investment policy. Though the market values of investments are subject to fluctuation on a year-to-year basis, we believe that the investment policy is prudent for the long-term welfare of the Association.

Subsequent Events

We evaluated subsequent events through October 31, 2014, which was the date the financial statements were available to be issued.

Note 2 - Fair Value Disclosures

Certain assets and liabilities are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that we can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, we develop inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to our assessment of the quality, risk or liquidity profile of the asset or liability.

A significant portion of our investment assets are classified within Level 1 because they are comprised of large cap domestic equities and open-end mutual funds with readily determinable fair values based on daily closing market prices or redemption values. We also invest in certificates of deposit traded in the financial markets. Those certificates of deposit, domestic corporate bonds and U.S. treasury securities are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions, and are classified within Level 2. The fair values of beneficial interests in charitable trusts are determined by management using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the underlying assets, and are based on the fair values of trust investments as reported by the trustees or determined by independent appraisal, as in the case with our oil and gas mineral interests. These are considered to be Level 3 measurements.

THE AMERICAN LUNG ASSOCIATION OF THE SOUTHWEST
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2014

The following table presents assets measured at fair value on a recurring basis, except for those measured at cost as identified below, as of June 30, 2014:

	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Investments				
Cash and money market funds (at cost)	\$ 345,409	\$ -	\$ -	\$ -
Certificates of deposits	224,403	-	224,403	-
Equity mutual funds	15,429	15,429	-	-
U.S. Treasury securities	176,009	-	176,009	-
Large cap domestic corporate bonds	1,049,749	-	1,049,749	-
Large cap domestic equities	3,056,677	3,056,677	-	-
Total Investments	\$ 4,867,676	\$ 3,072,106	\$ 1,450,161	\$ -
Beneficial interests in charitable trusts	\$ 2,546,527	\$ -	\$ -	\$ 2,546,527

Below is a reconciliation of the beginning and ending balances of the beneficial interests in charitable trusts measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended June 30, 2014:

	2014
Beginning fair value	\$ 2,358,996
Income	537,566
Withdrawals	(1,045,965)
Net gain (loss) on trust	695,930
Change in value	187,531
Ending fair value	\$ 2,546,527

NOTE 3 - PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at June 30, 2014:

	2014
Land	\$ 803,232
Buildings	4,086,511
Computer Hardware	32,479
Vehicles	83,833
	5,006,055
Less Accumulated Depreciation	(1,396,254)
	\$ 3,609,801

NOTE 4 - RESTRICTED NET ASSETS

Temporarily Restricted

Temporarily restricted net assets at June 30, 2014, consist of:

	2014
Restricted by donor for Research - DeSouza Research Fund	\$ 241,522
Time restrictions Beneficial interest in term trust	2,194,040
	\$ 2,435,562

Net assets of \$100,000 were released in satisfaction of purpose restrictions from the DeSouza Research Fund during the year ended June 30, 2014.

Permanently Restricted

Permanently restricted net assets consist of beneficial interests in perpetual trusts and other permanently restricted net assets at June 30:

	2014
Beneficial interests in perpetual trusts	\$ 352,487
Other	31,464
	\$ 383,951

Earnings on these permanently restricted net assets are available to the Association for the purposes specified by the donors.

THE AMERICAN LUNG ASSOCIATION OF THE SOUTHWEST
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2014

NOTE 5 - DONATED PROFESSIONAL SERVICES AND MATERIALS

We received donated services and materials as follows during the year ended June 30, 2014:

	Professional services	Contributed supplies	Use of facilities	Total
Environmental Health	\$ 1,422	\$ -	\$ -	\$ 1,422
Asthma	363,705	33,300	200	397,205
Lung Disease	3,080	200	-	3,280
Fundraising	17,145	7,721	-	24,866
Management and General	1,550	-	-	1,550
	<u>\$ 386,902</u>	<u>\$ 41,221</u>	<u>\$ 200</u>	<u>\$ 428,323</u>

NOTE 6 - JOINT COSTS OF ACTIVITIES THAT INCLUDE A FUND-RAISING APPEAL

We achieve some of our programmatic and management and general goals in direct mail campaigns and door-to-door campaigns that include requests for contributions. During the year ended June 30, 2014, the costs of conducting those campaigns included a total of \$769,809, of joint costs that are not directly attributable to either the program or the fundraising component of the activities. Those joint costs were allocated as follows for the year ended June 30, 2014:

	2014
Program services	\$ 454,182
Fundraising	271,144
Management and General	44,483
Total joint costs	<u>\$ 769,809</u>

NOTE 7 - EMPLOYEE BENEFITS

Tax Deferred Annuity Plan

We sponsor a tax deferred annuity plan (Plan) qualified under Section 403(b) of the Internal Revenue Code. Plan participants may contribute a portion of their compensation by electing pre-tax salary reductions up to annual limits specified by the IRS. Following six months of employment, we match employee voluntary salary reductions up to 4% of each eligible employee's compensation. Employer contributions vest over a five-year period. During the year ended June 30, 2014, we contributed \$73,527 to the Plan.

Retirement Plan - American Lung Association Plan D

We sponsor a defined benefit pension plan (Pension Plan) that covers substantially all employees hired on or before June 30, 2010. Current Plan D participants will continue to accrue benefits, and newly hired employees are offered a 403(b) defined contribution plan in its place. We estimate that over time our retirement liability will decrease as newly eligible participants move into the new retirement plan.

Fiscal Year Ending: June 30, 2014
Measurement Date: June 30, 2014

I. Change in Benefit Obligation

Benefit obligation at beginning of year	\$ 3,756,371
Service cost	175,801
Interest cost	173,296
Actuarial loss (gain)	330,702
Benefits Paid	<u>(17,845)</u>
Benefit obligation at end of year	\$ 4,418,325

II. Change in Plan Assets

Fair value of plan assets at beginning of year	\$ 2,774,771
Actual return on plan assets	307,515
Employer contributions prior to measurement date	268,000
Benefits paid	<u>(17,845)</u>
Fair value of plan assets at end of year	\$3,332,441

Funded status \$ (1,085,884)

III. Amounts recognized in the statement of financial position consist of:

Noncurrent liabilities	\$ (1,085,884)
Net amount recognized in Statement of Financial Position	<u>\$ (1,085,884)</u>

IV. Amounts recognized as changes in unrestricted net assets but not yet reclassified as components of net periodic benefit cost consist of:

Net loss (gain)	\$ 875,777
Prior service cost (credit)	35,995
Total	<u>\$ 911,772</u>

Accumulated benefit obligation at end of year \$ 3,913,263

V. Information for pension plans with an accumulated benefit obligation in excess of plan assets:

Projected benefit obligation	\$ 4,418,325
Accumulated benefit obligation	3,913,263
Fair value of plan assets	3,332,441

Weighted-average assumptions for Disclosure as of June 30:

Discount Rate	4.25%
Salary Scale	2014: 3%
	2015: 0%
	2016: 3%
	2017: 0%
	2018+: 3%

THE AMERICAN LUNG ASSOCIATION OF THE SOUTHWEST
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2014

The following are the major categories of plan assets reported at fair value as of June 30, 2014:

Description	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Equity mutual funds	\$ 800,382	\$ 800,382	\$ -	\$ -
Corporate and Foreign Bonds	2,133,073	-	2,133,073	-
Money Market Funds	65,400	-	65,400	-
Municipal Obligations	69,857	-	69,857	-
U.S. Treasury Obligations	263,729	-	263,729	-
Total Investments	\$ 3,332,441	\$ 800,382	\$ 2,532,059	\$ -

VI. Components of Net Benefit Cost and Other Changes in Unrestricted Net Assets

Net Benefit Cost

Service cost	\$ 175,801
Interest cost	173,296
Expected return on plan assets	(153,683)
Amortization of net (gain) / loss	30,177
Amortization of prior service cost / (credit)	4,299
Net benefit cost	\$ 229,890

Other changes in net assets not yet included in net periodic benefit cost and reclassifications to net periodic benefit cost of amounts previously recognized as changes in unrestricted net assets but not included in net periodic benefit cost when they arose:

Net (gain) loss	176,870
Recognized gain (loss)	(30,177)
Recognized prior service (cost) credit	(4,299)
Total recognized	\$ 142,394

Total amounts recognized as changes in unrestricted net assets arising from the defined benefit plan: \$ 372,284

Weighted-average assumptions for net benefit cost:

Discount rate	4.75%
Expected asset return	5.50%
Salary scale	2014: 3%
	2015: 0%
	2016+: 3%

Plan Assets:

Asset Category	Target Allocation		
Equity securities	30.00%	19.40%	23.86%
Debt securities	67.00%	72.43%	65.58%
Real Estate	0.00%	3.69%	7.95%
Cash & cash equivalents	3.00%	4.48%	2.61%
Total	100.00%	100.00%	100.00%

Rate of Return on Assets Assumption:

Effective July 1, 2014, the expected long-term rate of return on assets assumption is 5.50%. As defined in ASC 715-20, 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.

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 and sale of tobacco products are strictly prohibited.

VIII. Estimated Future Benefits Payments

Estimated future benefit payments, including future benefit accrual	2014	\$	180,639
	2015	\$	273,274
	2016	\$	159,807
	2017	\$	281,529
	2018	\$	248,680
	2019-2023	\$	2,100,696

XI. Contributions

Management will make contributions to satisfy minimum funding requirements at its discretion. Funding requirements for subsequent years are uncertain and will significantly depend on whether the plan's actuary changes any assumptions used to calculate plan funding levels, the actual return on plan assets, changes in the employee groups covered by the plan, and any legislative or regulatory changes affecting plan funding requirements. For tax planning, financial planning, cash flow management or cost reduction purposes the Association may increase, accelerate, decrease or delay contributions to the plan to the extent permitted by law.

Note 8 - Loan Payable

The Association entered into a portfolio loan agreement with Morgan Stanley Bank for an amount up to \$2,167,000 for use to pay general liabilities. Interest is charged on a range depending on the amount loaned. If over \$1,000,000, interest is charged at 1.00% of the amount drawn, and if the amount is between \$100,000 and \$1,000,000, interest is charged at 1.50%. At June 30, 2014, the Association has a loan payable of \$1,006,937 and incurred \$10,659 in interest during the year. The loan is collateralized by the Association's investments and is due on demand.

Note 9 - Related Entity

As a chartered association, we participate in the American Lung Association's national direct response program. During the year ended June 30, 2014 we received from and paid \$1,096,779 and \$769,809 respectively for this service.

We are subject to contract with American Lung Association to remit 30% of net direct mail revenue and an assessment based on Total Personal Income (TPI) of residents in each state. During the year ended June 30, 2014, we remitted \$100,535 and \$328,248 to American Lung Association under the contract,

Note 10 - Subsequent Events

Effective July 1, 2014, the national American Lung Association assigned the states of Texas and Oklahoma to the service territory of the American Lung Association of the Southwest. Lung association assets from these two states will be transferred to the American Lung Association of the Southwest effective July 1, 2014.