

**AMERICAN LUNG ASSOCIATION
OF THE SOUTHWEST**

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

For the Year Ended
June 30, 2015



AMERICAN LUNG ASSOCIATION OF THE SOUTHWEST
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
American Lung Association of the Southwest

Report on the Financial Statements

We have audited the accompanying financial statements of the American Lung Association of the Southwest (Association), which comprise the statement of financial position as of June 30, 2015, 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.

Auditor's 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. Those standards require that we plan and perform our 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 auditor's 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 Association'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 Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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, 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of the Association as of June 30, 2014, were audited by other auditors whose report dated October 31, 2014, expressed an unmodified opinion on those statements.

Sidik LLP

Springfield, Illinois
October 28, 2015

FINANCIAL STATEMENTS

AMERICAN LUNG ASSOCIATION OF THE SOUTHWEST

STATEMENT OF FINANCIAL POSITION

Year ended June 30, 2015

ASSETS	
Cash and cash equivalents	\$ 616,153
Contracts and grants receivable, net	985,432
Prepaid expenses and other assets	117,168
Annuity fund investments	51,392
Investments	6,326,576
Property and equipment, net	3,707,817
Beneficial interest in charitable trusts held by others	2,301,075
TOTAL ASSETS	\$ 14,105,613

LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable and accrued expenses	
Accounts payable - general	\$ 286,656
Accounts payable - National	104,280
Accrued expenses	370,234
Loan payable	1,390,736
Deferred revenue	375,634
Annuity fund obligations	41,901
Accrued pension and postretirement plan liabilities	952,081
Total liabilities	3,521,522
NET ASSETS	
Unrestricted	
Undesignated	6,380,183
Temporarily restricted	3,046,948
Permanently restricted	1,156,960
Total net assets	10,584,091
TOTAL LIABILITIES AND NET ASSETS	\$ 14,105,613

See accompanying notes to the financial statements.

AMERICAN LUNG ASSOCIATION OF THE SOUTHWEST

STATEMENT OF ACTIVITIES

Year ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING PUBLIC SUPPORT AND REVENUE				
Public Support:				
Direct mail	\$ 2,050,223	\$ -	\$ -	\$ 2,050,223
Vehicle donation and promotions	41,639	-	-	41,639
Special events:				
Special events gross revenue	1,931,537	-	-	1,931,537
Less cost of direct benefits to donors	(452,460)	-	-	(452,460)
Other contributions:				
Workplace giving	74,867	-	-	74,867
Memorials	148,761	-	-	148,761
Bequests	678,421	-	-	678,421
Individual gifts	227,878	-	-	227,878
Corporate gifts	655,529	-	-	655,529
Contribution from other American Lung Associations	722,257	1,251,000	805,895	2,779,152
In-kind contributions	501,108	-	-	501,108
Total public support	<u>6,579,760</u>	<u>1,251,000</u>	<u>805,895</u>	<u>8,636,655</u>
Revenue:				
Foundation grants	142,783	-	-	142,783
Grants from other not-for-profit organizations	479,007	-	-	479,007
Government grants	1,917,804	-	-	1,917,804
Investment income	53,070	11,149	-	64,219
Rental income	51,464	-	-	51,464
Royalties	13,077	-	-	13,077
Program service fees	266,773	-	-	266,773
Other revenue	10,357	-	-	10,357
Distributions from charitable trusts held by others	332,333	-	-	332,333
Total revenue	<u>3,266,668</u>	<u>11,149</u>	<u>-</u>	<u>3,277,817</u>
Net assets released from restrictions	100,000	(100,000)	-	-
Total operating public support and revenue	<u>9,946,428</u>	<u>1,162,149</u>	<u>805,895</u>	<u>11,914,472</u>
EXPENSES				
Program services				
Environmental health	1,105,227	-	-	1,105,227
Tobacco control	2,598,204	-	-	2,598,204
Community health services	231,630	-	-	231,630
Lung Cancer, Asthma, COPD and other lung disease	3,929,627	-	-	3,929,627
Research	1,283,057	-	-	1,283,057
Total program services	<u>9,147,745</u>	<u>-</u>	<u>-</u>	<u>9,147,745</u>
Supporting services				
Management and general	359,315	-	-	359,315
Fundraising	1,257,665	-	-	1,257,665
Total supporting services	<u>1,616,980</u>	<u>-</u>	<u>-</u>	<u>1,616,980</u>
Total expenses	<u>10,764,725</u>	<u>-</u>	<u>-</u>	<u>10,764,725</u>
Change in net assets from operating activities	<u>(818,297)</u>	<u>1,162,149</u>	<u>805,895</u>	<u>1,149,747</u>
NONOPERATING ACTIVITIES				
Net realized gain (loss) on investments	734,819	(866)	-	733,953
Net unrealized loss on investments	(589,807)	(31,436)	-	(621,243)
Change in fair value of beneficial interest in charitable trusts	-	(518,461)	(32,886)	(551,347)
Change in value of annuity obligation	50,959	-	-	50,959
Gain on sale of property and equipment	322,875	-	-	322,875
Other pension and postretirement plan changes	393,471	-	-	393,471
Total nonoperating activities	<u>912,317</u>	<u>(550,763)</u>	<u>(32,886)</u>	<u>328,668</u>
CHANGE IN NET ASSETS	94,020	611,386	773,009	1,478,415
NET ASSETS - BEGINNING OF YEAR	<u>6,286,163</u>	<u>2,435,562</u>	<u>383,951</u>	<u>9,105,676</u>
NET ASSETS - END OF YEAR	<u>\$ 6,380,183</u>	<u>\$ 3,046,948</u>	<u>\$ 1,156,960</u>	<u>\$ 10,584,091</u>

See accompanying notes to the financial statements.

AMERICAN LUNG ASSOCIATION OF THE SOUTHWEST

STATEMENT OF FUNCTIONAL EXPENSES (Continued)

Year ended June 30, 2015

	Program Services						Total Program Services
	Environmental Health	Tobacco Control	Community Health Service	Lung Cancer, Asthma, COPD & Other Lung Diseases	Research		
Salaries, taxes and benefits	\$ 685,493	\$ 1,493,257	\$ 141,273	\$ 1,764,700	\$ 185,135	\$	4,269,858
Professional and consulting fees	86,689	401,909	25,523	514,851	42,468		1,071,440
Business insurance	12,787	18,252	4,273	26,097	7,561		68,970
Building occupancy	38,430	92,227	9,032	153,300	9,699		302,688
Travel and conferences	20,043	64,554	3,923	58,739	6,301		153,560
Hosted meetings and conferences	10,211	19,368	380	252,905	428		283,292
Program and office supplies	25,575	119,672	781	169,649	887		316,564
Printing and publications	5,638	24,816	648	30,536	788		62,426
Postage and shipping	2,507	11,163	766	16,481	1,040		31,957
Media and advertising expense	4,438	48,723	296	18,067	297		71,821
Equipment, computers and furniture	7,887	16,417	2,035	28,410	2,669		57,418
Dues and subscriptions	2,550	7,296	342	5,660	393		16,241
Awards and grants	5,807	87,907	34	134,365	387,032		615,145
Assistance to patients	11,243	16,119	3,798	37,758	6,725		75,643
Direct mail fees	69,903	69,903	-	512,623	279,612		932,041
In-kind media	-	-	-	-	-		-
Depreciation	17,243	24,722	5,826	35,250	10,314		93,355
Contract payment to National	89,907	67,430	29,969	149,844	337,149		674,299
Interest expense	5,119	7,339	1,729	10,465	3,062		27,714
Miscellaneous expense	3,757	7,130	1,002	9,927	1,497		23,313
Total functional expenses	\$ 1,105,227	\$ 2,598,204	\$ 231,630	\$ 3,929,627	\$ 1,283,057	\$	9,147,745
	10.3%	24.1%	2.2%	36.5%	11.9%		85%

See accompanying notes to the financial statements.

AMERICAN LUNG ASSOCIATION OF THE SOUTHWEST

STATEMENT OF FUNCTIONAL EXPENSES (Continued)

Year ended June 30, 2015

	Supporting Services		
	Management and General	Fundraising	Total Supporting Services
Salaries, taxes and benefits	\$ 127,566	\$ 410,768	\$ 538,334
Professional and consulting fees	49,021	74,433	123,454
Business insurance	9,511	5,526	15,037
Building occupancy	2,005	34,294	36,299
Travel and conferences	6,962	27,792	34,754
Hosted meetings and conferences	244	13,024	13,268
Program and office supplies	308	123,846	124,154
Printing and publications	427	9,704	10,131
Postage and shipping	802	2,965	3,767
Media and advertising expense	32	24,684	24,716
Equipment, computers and furniture	1,832	5,961	7,793
Dues and subscriptions	148	1,187	1,335
Awards and grants	-	165	165
Assistance to patients	8,466	4,898	13,364
Direct mail fees	88,766	458,623	547,389
In-kind media	-	17,734	17,734
Depreciation	12,984	7,512	20,496
Contract payment to National	44,954	29,969	74,923
Interest expense	3,855	2,230	6,085
Miscellaneous expense	1,432	2,350	3,782
Total functional expenses	\$ 359,315	\$ 1,257,665	\$ 1,616,980
	3.3%	11.7%	15%
			100%

See accompanying notes to the financial statements.

AMERICAN LUNG ASSOCIATION OF THE SOUTHWEST

STATEMENT OF CASH FLOWS

Year ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Changes in net assets	\$ 1,478,415
Adjustments to reconcile changes in net assets to net cash provided by operating activities	
Depreciation	113,851
Net realized gain on investments	(733,953)
Net unrealized loss on investments	621,243
Change in fair value of beneficial interest in charitable trusts	551,347
Change in value of annuity obligation	(9,491)
Gain on sale of property and equipment	(322,875)
Donated property and equipment	(423,853)
Donated stock	(2,191)
Donated interest in beneficial trust	(305,895)
Contributions restricted for long-term investments	(500,000)
Change in operating assets and liabilities:	
Contracts and grants receivable, net	(449,822)
Prepaid expenses and other assets	(44,180)
Accounts payable and accrued expenses	303,460
Deferred revenue	151,506
Accrued pension and postretirement plan liabilities	(133,803)
Net cash provided by operating activities	<u>293,759</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment	(41,199)
Proceeds from sale of property and equipment	576,060
Purchase of investments	(5,776,286)
Proceeds from sale of investments	<u>4,432,287</u>
Net cash used in investing activities	(809,138)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from loan payable	630,413
Repayment of loan payable	(246,614)
Proceeds from contributions restricted for long-term investments	<u>500,000</u>
Net cash used in financing activities	883,799

NET CHANGE IN CASH AND CASH EQUIVALENTS 368,420

CASH AND CASH EQUIVALENTS, BEGINNING 247,733

CASH AND CASH EQUIVALENTS, END \$ 616,153

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Interest paid	\$ 33,799
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See accompanying notes to the financial statements.

AMERICAN LUNG ASSOCIATION OF THE SOUTHWEST

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2015

1. NATURE OF BUSINESS

The American Lung Association of the Southwest, Inc. (Association, 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, community health services, lung cancer, asthma, Chronic Obstructive Pulmonary Disease, adult and children's lung diseases, and lung disease research. The Association is supported primarily by donor contributions and grants.

Tobacco Cessation

The Association is 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 the Association has reached more than 31,780 young people with youth tobacco prevention programming. Meanwhile, the Association helped more than 3,000 teens in their journey to end their addiction to tobacco use through our unique teen smoking cessation program.

Lung Disease

The Association is 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. The Association also invests 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 2015, the Association provided critical disease management education to just over 1,500 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, the Association is 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.

1. NATURE OF BUSINESS (Continued)

Air Quality

The Association strives to improve the quality of the air we breathe so that it does not cause or worsen lung disease. As such, the Association works 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.

The Association also advocates 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted - Net assets subject to donor-imposed stipulations that will be met either by actions of the Association and/or the passage of time.

Permanently restricted - Net assets subject to donor-imposed stipulations that must 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 related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash Equivalents

Cash equivalents include highly liquid investments, including money market funds and debt securities, with original maturities of three months or less at the date of purchase.

Receivables and Credit Policies

Contracts and grants receivable consist primarily of noninterest-bearing amounts due from cost-reimbursable contracts and grants. The Association determines 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. At June 30, 2015, an allowance for doubtful amounts was not warranted.

Property and Equipment

The Association records property and equipment additions over \$5,000 at cost, or if donated, at fair value on the date of donation. Depreciation is computed 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.

The Association reviews 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. The Association has determined that there were no indicators of asset impairment during the year ended June 30, 2015.

Beneficial Interests in Charitable Trusts Held by Others

The Association has 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, the Association has neither possession nor control over the assets of the trusts. At the date the Association receives 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Beneficial Interests in Charitable Trusts Held by Others (Continued)

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 donor endowment in accordance with donor stipulations.

Investments

The Association carries its investments at fair value in accordance with Topic 958-320 under the Financial Accounting Standards Board (FASB) Codification of accounting standards. Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Donated assets are recorded at fair value at the date of donation or, if sold immediately after receipt, at the amount of sales proceeds received (which are considered a fair measure of the value at the date of donation). Investment income or loss and unrealized gains or losses are included in the statement of activities as increases or decreases in unrestricted net assets, unless the income or loss is restricted by donor or law.

Fair Value of Financial Instruments

The Association follows guidance for fair value measurements that defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. As required by United States generally accepted accounting principles (U.S. GAAP) for fair value measurements, the Association uses a fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the measurement date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments (Continued)

Level 2: Pricing inputs other than quoted prices in active market, which are either directly or indirectly observable as of the measurement date. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.

Level 3: Securities that have little to no pricing observability as of the measurement date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by an entity. The Association considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Association's perceived risk of that instrument.

The fair values assigned to investments and amounts held on behalf of others are based on the quoted fair values of the underlying securities as of the measurement date.

Deferred Revenue

Deferred revenue consists of amounts received from funding sources for which the Association has not yet fulfilled its obligations. Such amounts are reflected as revenues from program service contracts when the related services are performed or obligations are satisfied.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 U.S. GAAP. Contributed goods are recorded at fair value at the date of donation. The Association records donated professional services at the respective fair values of the service received. The Association also records in-kind media contributions, based upon information provided by third-party media services. The value of in-kind media contributions are reflected on the statement of activities as in-kind contributions and on the statement of functional expenses as in-kind media. (Note 9)

Advertising

Advertising is used to promote the Association and the vehicle donation program. Advertising costs are expensed as incurred. During the year ended June 30, 2015, advertising costs totaled \$96,537.

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.

The Association allocates 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 10)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of financial statements in conformity with U.S. GAAP 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.

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). The Association is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Association is subject to income tax on income that is derived from business activities that are unrelated to our exempt purposes. The Association has determined it 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.

The Association believes there is appropriate support for any tax positions taken affecting our annual filing requirements, and as such, the Association does not have any uncertain tax positions that are material to the financial statements. The Association 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.

Concentrations of Credit Risk

Cash, cash equivalents and investments are exposed to various risks, such as interest rate, market and credit risks. To minimize such risks, the Association has a diversified investment portfolio managed by independent investment managers in a variety of asset classes. The Association regularly evaluates its investments including performance thereof. Due to inherent risks and potential volatility in investment valuations, the amounts reported on the accompanying financial statements can vary substantially from year to year. The Association maintains its cash and cash equivalents in various bank deposit accounts which, at times may exceed federally insured limits. The Association's cash and investment accounts were placed with high credit quality financial institutions and accordingly, the Association does not expect nonperformance.

AMERICAN LUNG ASSOCIATION OF THE SOUTHWEST
NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at June 30, 2015:

Land	\$ 794,710
Buildings	4,102,846
Computer hardware	32,479
Vehicles	70,439
	<u>5,000,474</u>
Less accumulated depreciation	1,292,657
	<u>\$ 3,707,817</u>

4. INVESTMENTS

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, 2015:

	Level 1	Level 2	Level 3	Total
Investments:				
Common stocks	\$2,840,910	\$ -	\$ -	\$2,840,910
Exchange-traded & closed-end funds	330,787	-	-	330,787
U.S. government debt	-	567,421	-	567,421
Municipal debt	-	899,209	-	899,209
Corporate debt	-	518,224	-	518,224
Mutual funds	287,817	-	-	287,817
Total Investments	<u>\$3,459,514</u>	<u>\$1,984,854</u>	<u>\$ -</u>	<u>5,444,368</u>
Cash and cash equivalents				882,208
Total investments				<u>\$6,326,576</u>
Beneficial interests in charitable trusts held by others	<u>\$ -</u>	<u>\$ -</u>	<u>\$2,301,075</u>	<u>\$2,301,075</u>

Cash and cash equivalents are recorded at cost and are not based on Level 1, 2, or 3 inputs.

4. INVESTMENTS (Continued)

Below is a reconciliation of the beginning and ending balances of the beneficial interests in charitable trusts held by others measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended June 30, 2015:

Beginning fair value	\$ 2,546,527
Net loss on trusts	<u>(245,452)</u>
Ending fair value	<u>\$ 2,301,075</u>

5. EMPLOYEE BENEFITS

Tax Deferred Annuity Plan

The Association sponsors a tax deferred annuity 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, the Association matches 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, 2015, the Association contributed \$104,467 to the tax deferred annuity plan.

Retirement Plan - American Lung Association Plan D

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

AMERICAN LUNG ASSOCIATION OF THE SOUTHWEST
 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. EMPLOYEE BENEFITS (Continued)

Retirement Plan - American Lung Association Plan D (Continued)

Fiscal Year Ending:	30-Jun-15
Measurement Date:	30-Jun-15
I. Change in Benefit Obligation:	
Benefit obligation at beginning of year	\$ 4,418,325
Service cost	179,579
Interest cost	188,956
Actuarial gain	(101,027)
Curtailments	(355,062)
Settlements	(619,300)
Benefits Paid	(24,780)
Benefit obligation at end of year	<u>\$ 3,686,691</u>
II. Change in Plan Assets:	
Fair value of plan assets at beginning of year	\$ 3,332,441
Actual return on plan assets	(50,087)
Employer contributions prior to measurement date	110,000
Settlements	(619,300)
Benefits paid	(24,780)
Fair value of plan assets at end of year	<u>\$ 2,748,274</u>
Funded status	\$ (938,417)
III. Amounts recognized in the statement of financial position consist of :	
Noncurrent assets	\$ -
Current liabilities	-
Noncurrent liabilities	(938,417)
Net amount recognized in Statement of Financial Position	<u>\$ (938,417)</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	\$ 518,301
Prior service cost (credit)	-
Total	<u>\$ 518,301</u>
Accumulated benefit obligation at end of year	\$ 3,686,691
V. Information for pension plans with an accumulated benefit obligation:	
in excess of plan assets:	
Projected benefit obligation	\$ 3,686,691
Accumulated benefit obligation	3,686,691
Fair value of plan assets	2,748,274
Weighted-average assumptions for Disclosure as of June 30:	
Discount Rate	4.50%
Salary Scale	N/A

AMERICAN LUNG ASSOCIATION OF THE SOUTHWEST
 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. EMPLOYEE BENEFITS (Continued)

Retirement Plan - American Lung Association Plan D (Continued)

The following are the major categories of plan assets reported at fair value as of June 30, 2015:

Description	Fair Value Measurements at Reporting Date Using			Total
	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Other Observable Inputs (Level 3)	
Equity mutual funds	\$ 654,025	\$ -	\$ -	\$ 654,025
Corporate and Foreign Bonds	-	1,734,823	-	1,734,823
Municipal Obligations	-	72,032	-	72,032
U.S. Treasury Obligations	-	287,394	-	287,394
Total Investments	\$ 654,025	\$ 2,094,249	\$ -	\$ 2,748,274

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

Net Benefit Cost	
Service cost	\$ 179,579
Interest cost	188,956
Expected return on plan assets	(178,658)
Amortization of net (gain) / loss	43,067
Amortization of prior service cost / (credit)	4,910
Recognized prior service cost due to curtailments	31,085
Recognized loss due to settlements	87,065
Net benefit cost	\$ 356,004

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	\$ (227,344)
Recognized gain (loss)	(130,132)
Recognized prior service (cost) credit	(35,995)
Total recognized	\$ (393,471)

Total amounts recognized as changes in unrestricted net assets arising from the defined benefit plan:

\$ (37,467)

Weighted-average assumptions for net benefit cost:

Discount Rate	4.25%
Expected asset return	5.50%
Salary Scale	2015: 0%
	2016: 3%
	2017: 0%
	2018+: 3%

5. EMPLOYEE BENEFITS (Continued)

Retirement Plan - American Lung Association Plan D (Continued)

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

Plan Assets:	Target	
<i>Asset Category</i>	<u>Allocation</u>	<u>2015</u>
Equity securities	30.00%	21.94%
Debt securities	67.00%	63.75%
Real Estate	0.00%	11.95%
Cash & cash equivalents	3.00%	2.36%
Total	<u>100.00%</u>	<u>100.00%</u>

Rate of Return on Assets Assumption:

Effective July 1, 2015, 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 of 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 of 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.

5. EMPLOYEE BENEFITS (Continued)

Retirement Plan - American Lung Association Plan D (Continued)

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

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 drive their revenue from the manufacture and sale of tobacco products are strictly prohibited.

VII. Estimated Future Benefits Payments

2016	\$	297,790
2017		119,063
2018		235,665
2019		173,453
2020		336,309
2021-2025		1,480,716

XI. Contributions

Management will make contributions to satisfy minimum funding requirements at their 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.

Post-retirement Benefits Other Than Pensions

The Association participates in a post-retirement life insurance benefit plan (Plan) covering all employees eligible for active life insurance benefits. The Plan provides benefits to employees reaching age 65 or age 55, with 5 years of service. Benefits consist of 90% of Basic Annual Salary, adjusted to the next higher \$1,000. Amounts in excess of \$150,000, will require proof of insurability. For the next four anniversaries of retirement, the benefit will be reduced by 10% of Basic Annual Salary. At the earlier age of 70 or the fifth anniversary of retirement, the amount of insurance shall be \$1,000.

AMERICAN LUNG ASSOCIATION OF THE SOUTHWEST
 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. EMPLOYEE BENEFITS (Continued)

Post-retirement Benefits Other Than Pensions (Continued)

The following table sets forth the Plan's funded status and amounts recognized in the Association's financial statements as of and for the year ended June 30, 2015:

Disclosure of Components of the 2014-2015 Net Post-Retirement Cost

	<u>2014-2015</u>
Change in Projected Benefit Obligation:	
Projected benefit obligation at beginning of year	\$ 13,878
Service Cost	71
Interest cost	150
Benefits paid	(14)
Actuarial Loss	(421)
Projected obligation at end of year	<u>\$ 13,664</u>
Underfunded Plan Information:	
Projected benefit obligation at end of year	\$ 13,664
Accumulated benefit obligation at end of year	\$ 3,464
Components of Net Periodic Benefit Costs:	
Service cost	\$ 71
Interest cost	150
Amortization of gain	(405)
Amortization of unrecognized prior service cost	(44)
Amortization of unrecognized net actuarial loss	28
Net periodic benefit cost	<u>\$ (200)</u>
	<u>2014-2015</u>
Funded Status of the Plan	
Benefit obligation	<u>\$ 13,664</u>
Amounts Recognized in the Statement of Financial Position	
Liabilities	<u>\$ (13,664)</u>

5. EMPLOYEE BENEFITS (Continued)

Disclosure of Components of the 2013-2014 and 2014-2015 Net Post-Retirement Cost
(Continued)

Amounts Recognized in accumulated other comprehensive income consist of:

Transition asset	\$	118
Prior service cost		(579)
Actuarial gain		<u>(9,739)</u>
Total	\$	<u>10,200</u>

Estimated future benefit payments over the next ten years, which reflect expected future services, are to be paid as follows:

<u>Year</u>		
2016	\$	198
2017		207
2018		215
2019		223
2020		1,140
2021 through 2025		1,215

The net post-retirement benefit cost for 2014-2015 was determined based on 4.50% discount rate and a rate of compensation increase of 4.0% per year.

AMERICAN LUNG ASSOCIATION OF THE SOUTHWEST
NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. LEASES

The Association has several operating leases for equipment and office space. Monthly lease payments range from \$74 to \$782 for equipment and \$923 to \$2,387 for office space. Lease expense for the year ended June 30, 2015, was \$116,341. Future minimum lease commitments as of June 30, 2015, are as follows:

Years ending June 30,	
2016	\$ 136,701
2017	133,554
2018	47,135
2019	16,720
2020	<u>11,000</u>
Total	<u>\$ 345,110</u>

The Association has entered into agreements to sublease portions of the Las Vegas, Reno, and Albuquerque offices to unrelated third parties for varying periods. Sublease income for the year ended June 30, 2015 was \$51,464. Minimum sublease income is anticipated to be as follows:

Years ending June 30,	
2016	\$ 12,013
2017	10,490
2018	<u>3,593</u>
Total	<u>\$ 26,096</u>

7. LOAN PAYABLE

The Association entered into a portfolio loan agreement (PLA) with Morgan Stanley Bank for an amount up to \$2,167,000 for use to pay general liabilities. Interest is charged based on the corresponding PLA index plus 2.75%. At June 30, 2015, the Association has a loan payable of \$1,390,736 and incurred \$33,799 in interest during the year. The loan is collateralized by the Association's investments and is due on demand.

AMERICAN LUNG ASSOCIATION OF THE SOUTHWEST
 NOTES TO THE FINANCIAL STATEMENTS (Continued)

8. RESTRICTED NET ASSETS

Temporarily Restricted

Temporarily restricted net assets at June 30:

Restricted by donors for research	\$ 1,371,369
Restricted by time restrictions:	
Beneficial interest in term trust	<u>1,675,579</u>
	<u>\$ 3,046,948</u>

Net assets of \$100,000 were released in satisfaction of purpose restrictions for the year ended June 30, 2015.

Permanently Restricted

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

Beneficial interests in perpetual trusts	\$ 625,496
Others	<u>531,464</u>
	<u>\$ 1,156,960</u>

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

9. DONATED PROFESSIONAL SERVICES AND MATERIALS

The Association received donated services, media and materials as follows during the year ended June 30, 2015:

	Professional services	Media	Contributed supplies	Total
Environmental Health	\$ 3,240	\$ -	\$ 1,800	\$ 5,040
Lung Cancer, Asthma, COPD & Other Lung Diseases	310,003	-	-	310,003
Fundraising	14,200	17,734	140,618	172,552
Management and General	13,513	-	-	13,513
	<u>\$ 340,956</u>	<u>\$ 17,734</u>	<u>\$ 142,418</u>	<u>\$ 501,108</u>

10. JOINT COSTS OF ACTIVITIES THAT INCLUDE A FUND-RAISING APPEAL

The Association achieves some of its 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, 2015, the costs of conducting those campaigns totaled \$1,479,430 of joint costs that were 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, 2015:

Program services	\$ 932,041
Fundraising	458,623
Management and general	<u>88,766</u>
Total joint costs	<u>\$ 1,479,430</u>

11. RELATED PARTY TRANSACTIONS

The Association, as a chartered association, participates in the American Lung Association's national direct response program. During the year ended June 30, 2015 the Association received from and paid \$2,050,223 and \$1,479,430 respectively for this service.

The Association is subject to contract with American Lung Association National (National) 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, 2015, the Association remitted \$180,471 and \$568,751, respectively, to National under the contract.

12. ENDOWMENT

The Association's endowment consists of individual funds established for research and operational purposes. The funds are all donor-restricted endowment funds. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Association has interpreted Arizona's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

12. ENDOWMENT (Continued)

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate appreciation of donor-restricted endowment funds:

- (1) The long and short-term needs of the Association in carrying out its purposes
- (2) Present and anticipated financial requirements
- (3) General economic conditions
- (4) Price level trends
- (5) The expected total return on its investments

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Association to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets. At June 30, 2015, there were no such deficiencies.

Return Objectives and Risk Parameters

The Association has adopted investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Association must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results in excess of the rate of inflation over the investment horizon in order to preserve purchasing power of assets. The Association's goal of its endowment funds is to provide an average rate of return to meet or exceed market index or blended market index annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its rate-of-return objectives, the Association relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Association's permanent endowment funds are limited to cash equivalents to achieve its long-term return objectives within prudent risk constraints.

AMERICAN LUNG ASSOCIATION OF THE SOUTHWEST
 NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. ENDOWMENT (Continued)

Spending Policy and Investment Objectives Related to Spending Policy

The Association has a policy of appropriating an annual distribution of investment return on the permanent endowment funds, based upon appreciation and the current yield of the Association's investment portfolio. This is consistent with the Association's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

Endowment Net Asset Composition by Type of Fund
 as of June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 2,700	\$ 531,464	\$ 534,164

Changes in Endowment Net Assets
 for the year ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ -	\$ 31,464	\$ 31,464
Investment return				
Interest and dividends	-	2,700	-	2,700
Contributions	-	-	500,000	500,000
Net unrealized appreciation	-	-	-	-
	-	2,700	500,000	502,700
Appropriation of endowment assets for expenditure	-	-	-	-
End of year	\$ -	\$ 2,700	\$ 531,464	\$ 534,164

Description of Amounts Classified as Permanently Restricted Net Assets
 (Endowment Only)
 June 30, 2015

Permanently restricted net assets	
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or UPMIFA	\$ 531,464
Total endowment funds classified as permanently restricted net assets	\$ 531,464

13. SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are issued or are available to be issued. These events and transactions either provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing financial statements (that is, recognized subsequent events), or provide evidence about conditions that did not exist at the date of the statement of financial position but arose after that date (that is, non-recognized subsequent events).

The Association has evaluated subsequent events through October 28, 2015, which was the date that these financial statements were available for issuance, and determined that there were no significant non-recognized subsequent events through that date.