

**THE AMERICAN LUNG ASSOCIATION  
OF THE SOUTHWEST**

***FINANCIAL STATEMENTS***

**June 30, 2009**

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**BONDI & Co. LLC**

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

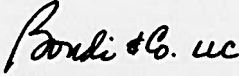
**Independent Auditors' Report**

We have audited the accompanying statement of financial position of the American Lung Association of the Southwest (Association) as of June 30, 2009 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Associations 2008 financial statements and, in our report dated October 13, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Association as of June 30, 2009, 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.

September 11, 2009

  
**BONDI & Co. LLC**

**The American Lung Association of the Southwest**  
**Statement of Financial Position**  
**Year Ended June 30, 2009 (with summarized comparative totals for the year ended June 30, 2008)**

**ASSETS**

|  | Unrestricted        | Temporarily<br>Restricted | Permanently<br>Restricted | 2009                | 2008                 |
|--|---------------------|---------------------------|---------------------------|---------------------|----------------------|
| <b>CURRENT ASSETS</b>                  |                     |                           |                           |                     |                      |
| Cash and Cash Equivalents              | \$ 1,876,507        | \$ -                      | \$ -                      | \$ 1,876,507        | \$ 1,473,404         |
| Contributions Receivable               | 911,382             | -                         | -                         | 911,382             | 896,782              |
| Prepaid Expenses                       | 87,480              | -                         | -                         | 87,480              | 53,498               |
| <b>Total Current Assets</b>            | <b>2,875,369</b>    | <b>-</b>                  | <b>-</b>                  | <b>2,875,369</b>    | <b>2,423,684</b>     |
| <b>LONG-TERM ASSETS</b>                |                     |                           |                           |                     |                      |
| Property and Equipment, Net            | 3,234,729           | -                         | -                         | 3,234,729           | 3,464,603            |
| Long-Term Investments                  | 2,920,899           | 590,165                   | 41,714                    | 3,552,778           | 4,686,524            |
| Unconditional Promises to Give         | -                   | -                         | -                         | -                   | 512,029              |
| Beneficial Interest on Perpetual Trust | -                   | -                         | 289,330                   | 289,330             | 357,869              |
| <b>Total Long-Term Assets</b>          | <b>6,155,628</b>    | <b>590,165</b>            | <b>331,044</b>            | <b>7,076,837</b>    | <b>9,021,025</b>     |
| <b>TOTAL ASSETS</b>                    | <b>\$ 9,030,997</b> | <b>\$ 590,165</b>         | <b>\$ 331,044</b>         | <b>\$ 9,952,206</b> | <b>\$ 11,444,709</b> |

**LIABILITIES AND NET ASSETS**

|   |                     |                   |                   |                     |                      |
|---|---------------------|-------------------|-------------------|---------------------|----------------------|
| <b>LIABILITIES</b>                                  |                     |                   |                   |                     |                      |
| Current Liabilities                                 |                     |                   |                   |                     |                      |
| Accounts Payable                                    | \$ 427,585          | \$ -              | \$ -              | \$ 427,585          | \$ 569,301           |
| Accrued Expenses                                    | 248,099             | -                 | -                 | 248,099             | 287,520              |
| Lease Deposits                                      | 1,749               | -                 | -                 | 1,749               | 6,993                |
| Deferred Income                                     | 131,710             | -                 | -                 | 131,710             | 123,783              |
| <b>Total Current Liabilities</b>                    | <b>809,143</b>      | <b>-</b>          | <b>-</b>          | <b>809,143</b>      | <b>987,597</b>       |
| Non-current Liabilities                             |                     |                   |                   |                     |                      |
| Accrued Pension Costs                               | 734,956             | -                 | -                 | 734,956             | 378,109              |
| <b>TOTAL LIABILITIES</b>                            | <b>1,544,099</b>    | <b>-</b>          | <b>-</b>          | <b>1,544,099</b>    | <b>1,365,706</b>     |
| <b>NET ASSETS</b>                                   |                     |                   |                   |                     |                      |
| Unrestricted Operating Funds                        |                     |                   |                   |                     |                      |
| General Operating                                   | 4,252,169           | -                 | -                 | 4,252,169           | 4,837,623            |
| Invested in Fixed Assets                            | 3,234,729           | -                 | -                 | 3,234,729           | 3,464,603            |
| <b>Total Unrestricted Operating Funds</b>           | <b>7,486,898</b>    | <b>-</b>          | <b>-</b>          | <b>7,486,898</b>    | <b>8,302,226</b>     |
| Temporarily Restricted Operating Funds              |                     |                   |                   |                     |                      |
| Future Projects                                     | -                   | 23,643            | -                 | 23,643              | 23,643               |
| Future Periods                                      | -                   | -                 | -                 | -                   | 512,029              |
| DeSouza Research Fund                               | -                   | 566,522           | -                 | 566,522             | 841,522              |
| <b>Total Temporarily Restricted Operating Funds</b> | <b>-</b>            | <b>590,165</b>    | <b>-</b>          | <b>590,165</b>      | <b>1,377,194</b>     |
| Permanently Restricted Operating Funds:             |                     |                   |                   |                     |                      |
| Perpetual Trust                                     | -                   | -                 | 289,330           | 289,330             | 357,869              |
| Donor Designated Endowment Funds                    | -                   | -                 | 41,714            | 41,714              | 41,714               |
| <b>Total Permanently Restricted Operating Funds</b> | <b>-</b>            | <b>-</b>          | <b>331,044</b>    | <b>331,044</b>      | <b>399,583</b>       |
| <b>TOTAL NET ASSETS</b>                             | <b>7,486,898</b>    | <b>590,165</b>    | <b>331,044</b>    | <b>8,408,107</b>    | <b>10,079,003</b>    |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>             | <b>\$ 9,030,997</b> | <b>\$ 590,165</b> | <b>\$ 331,044</b> | <b>\$ 9,952,206</b> | <b>\$ 11,444,709</b> |

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

**The American Lung Association of the Southwest**  
**Statement of Activities**  
**Year Ended June 30, 2009 (with summarized comparative totals for the year ended June 30, 2008)**

|   | Unrestricted        | Temporarily<br>Restricted | Permanently<br>Restricted | 2009                | 2008                |
|---|---------------------|---------------------------|---------------------------|---------------------|---------------------|
| <b>PUBLIC SUPPORT AND REVENUE</b>   |                     |                           |                           |                     |                     |
| <b>Contributions and Donations</b>  |                     |                           |                           |                     |                     |
| Direct Mail   | \$ 1,671,089        | \$ -                      | \$ -                      | \$ 1,671,089        | \$ 1,863,792        |
| Special Events, Net   | 930,756             | -                         | -                         | 930,756             | 940,776             |
| Vehicle Donation and Promotions   | 312,434             | -                         | -                         | 312,434             | 446,089             |
| Workplace Giving  | 124,765             | -                         | -                         | 124,765             | 127,762             |
| Memorials   | 62,294              | -                         | -                         | 62,294              | 105,111             |
| Bequests  | 530,267             | -                         | -                         | 530,267             | 957,287             |
| Individual Gifts  | 73,232              | -                         | -                         | 73,232              | 80,269              |
| Corporate Gifts   | -                   | -                         | -                         | -                   | 14,860              |
| Foundation Gifts  | 900                 | -                         | -                         | 900                 | 15,246              |
| In-kind Contributions   | 47,119              | -                         | -                         | 47,119              | 31,439              |
| <b>Total Contributions and Donations</b>  | <b>3,752,856</b>    | <b>-</b>                  | <b>-</b>                  | <b>3,752,856</b>    | <b>4,582,631</b>    |
| <b>Revenue</b>  |                     |                           |                           |                     |                     |
| Individual Gifts-Restricted   | -                   | 49,099                    | -                         | 49,099              | 46,980              |
| Corporate Grants/Gifts-Restricted   | -                   | 130,343                   | -                         | 130,343             | 270,399             |
| Foundation Grants/Gifts-Restricted  | -                   | 236,863                   | -                         | 236,863             | 184,622             |
| Grants from Other Not-for-Profit Organization   | -                   | 86,786                    | -                         | 86,786              | 195,179             |
| Government Contracts/Grants   | -                   | 3,016,733                 | -                         | 3,016,733           | 2,945,592           |
| Program Service Fees  | -                   | 282,586                   | -                         | 282,586             | 274,655             |
| Interest and Dividends  | 180,313             | -                         | -                         | 180,313             | 183,905             |
| Rental Income   | 85,728              | -                         | -                         | 85,728              | 114,854             |
| Trust Income  | 508,562             | -                         | -                         | 508,562             | 474,025             |
| Miscellaneous Income  | 117                 | -                         | -                         | 117                 | 6,725               |
| <b>Total Revenue</b>  | <b>774,720</b>      | <b>3,802,410</b>          | <b>-</b>                  | <b>4,577,130</b>    | <b>4,696,936</b>    |
| <b>TOTAL PUBLIC SUPPORT AND REVENUE</b>   | <b>\$ 4,527,576</b> | <b>\$ 3,802,410</b>       | <b>\$ -</b>               | <b>\$ 8,329,986</b> | <b>\$ 9,279,567</b> |
| <b>ASSETS RELEASED FROM RESTRICTION</b>   | <b>4,589,439</b>    | <b>(4,589,439)</b>        | <b>-</b>                  | <b>-</b>            | <b>-</b>            |
| <b>TOTAL PUBLIC SUPPORT AND REVENUE</b>   | <b>9,117,015</b>    | <b>(787,029)</b>          | <b>-</b>                  | <b>8,329,986</b>    | <b>9,279,567</b>    |
| <b>EXPENSES</b>   |                     |                           |                           |                     |                     |
| Program Services  | 7,581,619           | -                         | -                         | 7,581,619           | 6,941,450           |
| Supporting Services   | 1,408,087           | -                         | -                         | 1,408,087           | 2,069,497           |
| <b>Total Expenses</b>   | <b>8,989,706</b>    | <b>-</b>                  | <b>-</b>                  | <b>8,989,706</b>    | <b>9,010,947</b>    |
| <b>CHANGE IN NET ASSETS FROM OPERATIONS</b>   | <b>127,309</b>      | <b>(787,029)</b>          | <b>-</b>                  | <b>(659,720)</b>    | <b>268,620</b>      |
| <b>NON-OPERATING ACTIVITIES</b>   |                     |                           |                           |                     |                     |
| Realized Gain/Loss on Investments   | (501,224)           | -                         | -                         | (501,224)           | 58,861              |
| Unrealized Gain/Loss on Investments   | (327,020)           | -                         | (68,539)                  | (395,559)           | (307,971)           |
| Gain or Loss on Value of Other Asset  | 242,454             | -                         | -                         | 242,454             | -                   |
| <b>Total Non-Operating Activities</b>   | <b>(585,790)</b>    | <b>-</b>                  | <b>(68,539)</b>           | <b>(654,329)</b>    | <b>(249,110)</b>    |
| Effect of adoption of recognition and measurement date provisions of FASB Statement No. 158 | (356,847)           | -                         | -                         | (356,847)           | (17,644)            |
| <b>CHANGE IN NET ASSETS</b>   | <b>(815,328)</b>    | <b>(787,029)</b>          | <b>(68,539)</b>           | <b>(1,670,896)</b>  | <b>1,866</b>        |
| <b>NET ASSETS, BEGINNING OF YEAR</b>  | <b>8,302,226</b>    | <b>1,377,194</b>          | <b>399,583</b>            | <b>10,079,003</b>   | <b>1,077,137</b>    |
| <b>NET ASSETS, END OF YEAR</b>  | <b>\$ 7,486,898</b> | <b>\$ 590,165</b>         | <b>\$ 331,044</b>         | <b>\$ 8,408,107</b> | <b>\$ 1,079,003</b> |

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

**The American Lung Association of the Southwest**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2009 (with summarized comparative totals for June 30, 2008)**

|                                    | Program Services     |                     |                     |                     |                   |                   |                        |                     |                      |                           | Supporting Services |                     |  | Total Expenses |  |
|------------------------------------|----------------------|---------------------|---------------------|---------------------|-------------------|-------------------|------------------------|---------------------|----------------------|---------------------------|---------------------|---------------------|--|----------------|--|
|                                    | Environmental Health | Tobacco             | Asthma              | Lung Disease        | Research          | Community Service | Program Services Total | Fundraising         | Management & General | Supporting Services Total | 2009                | 2008                |  |                |  |
| <b>EXPENSES</b>                    |                      |                     |                     |                     |                   |                   |                        |                     |                      |                           |                     |                     |  |                |  |
| Salaries                           | \$ 211,216           | \$ 1,441,850        | \$ 521,399          | \$ 518,402          | \$ 20,146         | \$ 143,204        | \$ 2,856,217           | \$ 335,056          | \$ 55,748            | \$ 390,804                | \$ 3,247,021        | \$ 3,086,159        |  |                |  |
| Payroll Taxes                      | 16,616               | 118,300             | 41,788              | 40,557              | 1,499             | 11,959            | 230,719                | 27,672              | 4,126                | 31,798                    | 282,517             | 255,934             |  |                |  |
| Employee Benefits                  | 34,454               | 241,699             | 85,485              | 83,917              | 2,967             | 24,707            | 473,229                | 55,385              | 8,144                | 63,529                    | 536,758             | 660,260             |  |                |  |
| Professional & Consulting Fees     | 25,821               | 697,954             | 68,666              | 169,775             | 10,275            | 11,311            | 983,802                | 96,251              | 53,935               | 150,186                   | 1,133,988           | 744,274             |  |                |  |
| Business Insurance                 | 2,992                | 22,009              | 7,553               | 7,531               | 108               | 2,285             | 42,478                 | 4,743               | 286                  | 5,029                     | 47,507              | 41,101              |  |                |  |
| Building Occupancy                 | 11,937               | 116,076             | 21,733              | 21,725              | 70                | 8,011             | 179,552                | 15,954              | 369                  | 16,323                    | 195,875             | 277,077             |  |                |  |
| Telephone Expense                  | 4,159                | 39,431              | 12,264              | 11,075              | 111               | 3,762             | 70,802                 | 7,719               | 201                  | 7,920                     | 78,722              | 75,201              |  |                |  |
| Travel & Conferences - staff       | 9,605                | 102,711             | 32,585              | 37,998              | 235               | 5,467             | 188,601                | 6,978               | 239                  | 7,217                     | 195,818             | 225,021             |  |                |  |
| Travel & Conferences - non-staff   | 844                  | 5,623               | 2,060               | 3,263               | 21                | 652               | 12,463                 | 1,085               | 51                   | 1,136                     | 13,599              | 32,770              |  |                |  |
| Hosted Meetings & Conferences      | 2,314                | 20,520              | 147,845             | 129,877             | 19                | 1,373             | 301,948                | 1,063               | 32                   | 1,115                     | 303,063             | 287,182             |  |                |  |
| Program and Office Supplies        | 11,084               | 127,260             | 43,876              | 98,608              | 148               | 3,942             | 284,918                | 8,068               | 353                  | 8,421                     | 293,339             | 112,000             |  |                |  |
| Printing and Publications          | 69,370               | 113,658             | 85,594              | 85,354              | 67,036            | 1,337             | 422,349                | 321,348             | 48                   | 321,396                   | 743,745             | 929,563             |  |                |  |
| Postage & Shipping                 | 37,667               | 50,088              | 42,677              | 65,105              | 35,723            | 1,469             | 232,729                | 167,652             | 86                   | 167,738                   | 400,467             | 505,687             |  |                |  |
| Media Expense                      | 647                  | 2,434               | 1,585               | 3,833               | 3                 | 386               | 8,888                  | 176,950             | 3                    | 176,953                   | 185,841             | 185,191             |  |                |  |
| Equipment, Computers & Furniture   | 2,177                | 25,802              | 6,639               | 9,112               | 30                | 2,317             | 46,077                 | 4,146               | 78                   | 4,224                     | 50,301              | 121,296             |  |                |  |
| Dues & Subscriptions               | 1,073                | 4,881               | 1,406               | 1,262               | 6                 | 473               | 9,101                  | 765                 | 26                   | 792                       | 9,893               | 23,398              |  |                |  |
| Awards & Grants                    | 12,180               | 217,373             | 42,357              | 48                  | 372,298           | 127               | 644,383                | 145                 | -                    | 144                       | 644,527             | 684,080             |  |                |  |
| Assistance to Patients             | 1,816                | 13,702              | 4,861               | 4,884               | 72                | 1,459             | 26,794                 | 2,274               | 138                  | 2,412                     | 29,206              | 40,001              |  |                |  |
| Other contributed services         | -                    | -                   | -                   | -                   | -                 | -                 | -                      | -                   | -                    | -                         | -                   | 3,960               |  |                |  |
| Regional Center Charges            | 4,838                | 36,499              | 12,162              | 13,008              | 192               | 3,887             | 70,586                 | 6,890               | 417                  | 7,307                     | 77,893              | 59,137              |  |                |  |
| Miscellaneous Expense              | 429                  | 4,899               | 1,290               | 1,409               | 10                | 503               | 8,540                  | 989                 | 21                   | 1,010                     | 9,550               | 13,471              |  |                |  |
| Total expenses before depreciation | 461,239              | 3,402,769           | 1,183,825           | 1,306,743           | 510,969           | 228,631           | 7,094,176              | 1,241,153           | 124,301              | 1,365,454                 | 8,459,630           | 8,362,763           |  |                |  |
| Depreciation                       | 6,665                | 50,288              | 16,757              | 17,923              | 264               | 5,356             | 97,253                 | 11,227              | 679                  | 11,906                    | 109,159             | 107,509             |  |                |  |
| Total Operating Expenses           | 467,904              | 3,453,057           | 1,200,582           | 1,324,666           | 511,233           | 233,987           | 7,191,429              | 1,252,380           | 124,980              | 1,377,360                 | 8,568,789           | 8,470,272           |  |                |  |
| Contract Payment to National       | 26,518               | 64,400              | 31,990              | 55,982              | 197,410           | 13,890            | 390,190                | -                   | 30,727               | 30,727                    | 420,917             | 540,675             |  |                |  |
| <b>TOTAL EXPENSES</b>              | <b>\$ 494,422</b>    | <b>\$ 3,517,457</b> | <b>\$ 1,232,572</b> | <b>\$ 1,380,648</b> | <b>\$ 708,643</b> | <b>\$ 247,877</b> | <b>\$ 7,581,619</b>    | <b>\$ 1,252,380</b> | <b>\$ 155,707</b>    | <b>\$ 1,408,087</b>       | <b>\$ 8,989,706</b> | <b>\$ 9,010,947</b> |  |                |  |
|                                    | 5%                   | 39%                 | 14%                 | 15%                 | 8%                | 3%                | 84%                    | 14%                 | 2%                   | 16%                       | 100%                |                     |  |                |  |

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

**The American Lung Association of the Southwest**  
*Statement of Cash Flows*  
**Year Ended June 30, 2009 (with comparative totals for June 30, 2008)**

|   | 2009           | 2008         |
|---|----------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                |              |
| Change in Net Assets  | \$ (1,670,896) | \$ 1,866     |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: |                |              |
| Depreciation  | 109,159        | 107,509      |
| Loss on sale of investments   | 501,224        | (58,861)     |
| Unrealized loss on investments  | 395,559        | 307,971      |
| Other gain on investments   | (3,544)        | 45,233       |
| Gain on sale of asset   | (737,907)      | -            |
| Loss on disposition of assets   | -              | 22,806       |
| <b>Changes in Assets and Liabilities:</b>   |                |              |
| Decrease (increase) in contribution receivable and unconditional promises to give                     | 497,429        | 317,895      |
| Decrease (increase) in prepaid expenses   | (33,982)       | (11,659)     |
| Increase (decrease) in accounts payable   | (141,716)      | 254,277      |
| Increase (decrease) in accrued expenses   | (39,421)       | 75,700       |
| Increase (decrease) in deferred income  | 7,927          | (107,681)    |
| Increase (decrease) in accrued pension costs  | 356,847        | 15,031       |
| Increase (decrease) in lease deposits   | (5,244)        | -            |
| Net cash provided by (used in) operating activities   | (764,565)      | 970,087      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                |              |
| Proceeds from sales of investments  | 1,469,609      | 1,861,511    |
| Purchase of investments   | (1,160,563)    | (2,599,843)  |
| Purchase of property and equipment  | (52,647)       | (1,156,073)  |
| Maturities of time certificates of deposit  | -              | 593,000      |
| Building deposit  | -              | 128,527      |
| Proceeds from sale of assets  | 911,269        | -            |
| Net cash provided by (used in) investing activities   | 1,167,668      | (1,172,878)  |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>   | 403,103        | (202,791)    |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>   | 1,473,404      | 1,676,195    |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>   | \$ 1,876,507   | \$ 1,473,404 |
| <b>NON-CASH TRANSACTIONS</b>  |                |              |
| In-kind Donation Revenues   | \$ 47,119      | \$ 31,439    |
| Donor Designated Endowment Funds  | (42,119)       | (3,960)      |
| Net non-cash transactions   | \$ 5,000       | \$ 27,479    |

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

**The American Lung Association of the Southwest**  
*Notes to the Financial Statements*  
**Year Ended June 30, 2009**

**NOTE 1. DESCRIPTION OF ORGANIZATION**

The American Lung Association of the Southwest is a not-for-profit corporation, which provides services for the purpose of preventing and controlling 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 state grants.

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

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Revenue*

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

*Net Assets*

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

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

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

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

*Investments*

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

**The American Lung Association of the Southwest**  
*Notes to the Financial Statements, continued*  
**Year Ended June 30, 2009**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Property and Equipment*

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

*Cash Equivalents*

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

*Use of Estimates*

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

*Allocation of Expenses*

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

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

*Tax Status*

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

*Prior Year Comparative Information*

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with The American Lung Association of the Southwest financial statements for the year ended June 30, 2008, from which the summarized information was derived.

*Reclassification*

Certain accounts have been reclassified from the 2008 financial statements to conform to the current year presentation.

**NOTE 3. DEFERRED INCOME**

Deferred income represents amount received prior to June 30, 2009 for events and programs to be held in the upcoming fiscal year.

**The American Lung Association of the Southwest**  
*Notes to the Financial Statements, continued*  
**Year Ended June 30, 2009**

**NOTE 4. INVESTMENTS**

The following summarizes the relationship between the cost and fair market value of the investments at June 30, 2009:

|   | <u>Cost</u>         | <u>2009</u>         | <u>Excess or<br/>Reduction of<br/>Market Over Cost</u> | <u>Measurement at Reporting<br/>June 30, 2009<br/>Quoted Prices in Active<br/>market for Identical Assets<br/>(Level 1)</u> |
|---|---------------------|---------------------|--|---|
| Balance at End of Year                                | \$ 4,257,878        | \$ 3,842,108        | \$ (415,770)   | \$ 3,842,108  |
| Balance at Beginning of Year                          | 5,064,604           | 5,044,393           | (20,211)   | 5,044,393   |
| Net Unrealized Loss                                   |                     |                     | (395,559)  |   |
| Realized Net Loss for the Year                        |                     |                     | (501,224)  |   |
| Advisory Services                                     |                     |                     | (47,275)   |   |
| Investment Income                                     |                     |                     | 177,821  |   |
| Total Net Investment Loss for the Year                |                     |                     | <u>\$ (766,237)</u>                                    |   |
| <br>  |                     |                     |  |   |
| Common Stock  | \$ 2,221,003        | \$ 1,821,109        |  | \$ 1,821,109  |
| Preferred Stock                                       | 39,947              | 40,782              |  | 40,782  |
| Corporate Bonds                                       | 477,780             | 492,235             |  | 492,235   |
| Government Bonds                                      | 337,723             | 363,839             |  | 363,839   |
| Certificate of Deposit                                | 822,000             | 834,813             |  | 834,813   |
| Investment in Trust                                   | 359,425             | 289,330             |  | 289,330   |
| Total   | <u>\$ 4,257,878</u> | <u>\$ 3,842,108</u> |  | <u>\$ 3,842,108</u>   |
| <br>  |                     |                     |  |   |
| Interest and Dividends                                |                     |                     |  |   |
| Interest, dividend, and other income from investments |                     |                     | \$ 176,259   |   |
| Interest on savings and other temporary cash          |                     |                     | 4,054  |   |
| Total Interest and Dividends                          |                     |                     | <u>\$ 180,313</u>                                      |   |

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

**The American Lung Association of the Southwest**  
**Notes to the Financial Statements, continued**  
**Year Ended June 30, 2009**

NOTE 5. RESTRICTED FUNDS

|   | Beginning<br>Balance | Additions           | Deductions          | Ending<br>Balance |
|---|----------------------|---------------------|---------------------|-------------------|
| <i>Temporarily Restricted Fund Activity</i> |                      |                     |                     |                   |
| Waring restricted fund                      | \$ 23,643            | \$ -                | \$ -                | \$ 23,643         |
| DeSouza bequest                             | 841,522              | -                   | 275,000             | 566,522           |
| Unconditional promises to give              | 512,029              | -                   | 512,029             | -                 |
| Program Activity                            | -                    | 3,802,410           | 3,802,410           | -                 |
| Total                                       | <u>\$ 1,377,194</u>  | <u>\$ 3,802,410</u> | <u>\$ 4,589,439</u> | <u>\$ 590,165</u> |
| <br>  |                      |                     |                     |                   |
|   | Beginning<br>Balance | Additions           | Investment<br>Loss  | Ending<br>Balance |
| <i>Permanently Restricted Funds</i>         |                      |                     |                     |                   |
| Perpetual Trust                             |                      |                     |                     |                   |
| Vivian Osborne Irrevocable Trust            | \$ 10,656            | \$ -                | \$ 1,533            | \$ 9,123          |
| Schuele Trust                               | 347,213              | -                   | 67,006              | 280,207           |
| Donor Designated Endowment Funds            |                      |                     |                     |                   |
| Champ Camp Fund                             | 10,250               | -                   | -                   | 10,250            |
| Estate of Arvetta M. Mauldin                | 31,464               | -                   | -                   | 31,464            |
| Total                                       | <u>\$ 399,583</u>    | <u>\$ -</u>         | <u>\$ 68,539</u>    | <u>\$ 331,044</u> |

NOTE 6. ENDOWMENT

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

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

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

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

**The American Lung Association of the Southwest**  
*Notes to the Financial Statements, continued*  
**Year Ended June 30, 2009**

**NOTE 7. PROPERTY AND EQUIPMENT**

A summary of the property and equipment is as follows:

|                               | <u>Life</u> | <u>Amount</u>              |
|-------------------------------|-------------|----------------------------|
| Land                          |             | \$ 647,405                 |
| Building                      | 7-50 years  | 3,342,783                  |
| Computer Hardware             | 3 years     | 55,634                     |
| Automobile                    | 3-5 years   | 83,833                     |
|                               |             | <u>4,129,655</u>           |
| Less Accumulated Depreciation |             | 894,926                    |
| Net Property and Equipment    |             | <u><u>\$ 3,234,729</u></u> |

**NOTE 8. SPECIAL EVENTS**

During the year the Association had several fund-raising events. The gross receipts from these events were \$1,264,614. Direct expenses consisting of tickets, facilities, and entertainment costs of \$333,858 were charged against these receipts leaving net proceeds of \$930,756.

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

**NOTE 9. ALLOCATION OF JOINT COSTS**

The Association incurred joint costs with various vendors of \$1,124,761 for the year ended June 30, 2009, for the informational materials and activities that included direct mail fund-raising appeals. The following amounts were allocated to the respective functions.

|                   |                            |
|-------------------|----------------------------|
| Fundraising       | \$ 561,998                 |
| Program Services: | 562,763                    |
| Total             | <u><u>\$ 1,124,761</u></u> |

**The American Lung Association of the Southwest**  
*Notes to the Financial Statements, continued*  
**Year Ended June 30, 2009**

**NOTE 10. PROMISES TO GIVE**

Promises to give result from bequests of part of an estate under a valid will. Only the measurable portion of the bequest is included in the financial statements. The organization is named in several valid wills. However, since the value of the estates are not known, these bequests are not included in the financial statements as directed by FASB No. 116.

Unconditional promises to give of \$495,452 were written off in fiscal 2009 because of unexpected changes in value of the promises and the length of time in which the Association would received the funds.

**NOTE 11. UNRESTRICTED NET ASSETS**

At June 30, 2009, unrestricted net assets are as follows:

|                              |                            |
|------------------------------|----------------------------|
| General Operating Net Assets | \$ 4,252,169               |
| Invested in Fixed Assets     | <u>3,234,729</u>           |
| Total                        | <u><u>\$ 7,486,898</u></u> |

**NOTE 12. TEMPORARILY RESTRICTED NET ASSETS**

At June 30, 2009, temporarily restricted net assets are as follows:

|                                 |                          |
|---------------------------------|--------------------------|
| Restricted for Future Projects: |                          |
| Waring Restricted Fund          | \$ 23,643                |
| DeSouza Research Fund           | <u>566,522</u>           |
|                                 | <u><u>\$ 590,165</u></u> |

**NOTE 13. PERMANENTLY RESTRICTED NET ASSETS**

At June 30, 2009, permanently restricted net assets are as follows:

|                 |                          |
|-----------------|--------------------------|
| Perpetual Trust | \$ 289,330               |
| Endowments      | <u>41,714</u>            |
|                 | <u><u>\$ 331,044</u></u> |

**NOTE 14. DE SOUZA RESEARCH FUND**

In February 2003, the Board of Directors established the DeSouza Research Fund created from the generous bequest of Mr. James L DeSouza of Phoenix, AZ. In accordance with the stipulations of the bequest, these funds have been restricted for medical research toward the treatment and cure of *brochiectasis, m. avium and nocardia*. As a result, the Board of Directors created the DeSouza Research Award. This award utilizes funds from the DeSouza Research Fund to annually support clinical laboratory, epidemiological, or any other kind of research that related to *brochiectasis, m. avium and nocardia*. First year of funding for this award began in July 2005. Total funding for the fiscal year ended June 30, 2009 was \$100,000.

**The American Lung Association of the Southwest**  
*Notes to the Financial Statements, continued*  
**Year Ended June 30, 2009**

**NOTE 15: RETIREMENT PLAN**

Fiscal Year Ending: June 30, 2009  
Measurement Date: June 30, 2009

**Change in Benefit Obligation**

|  |                     |
|--|---------------------|
| Benefit obligation at beginning of year                    | \$ 1,890,428        |
| Service cost   | 248,064             |
| Interest cost  | 184,410             |
| Plan participants' contributions                           | -                   |
| Amendments   | -                   |
| Actuarial loss / (gain)                                    | (168,193)           |
| Benefits paid  | (142,616)           |
| Business combinations and (divestitures)                   | 380,916             |
| Curtailments, settlements and special termination benefits | -                   |
| Benefit obligation at end of year                          | <u>\$ 2,393,009</u> |

**Change in Plan Assets**

|  |                    |
|--|--------------------|
| Fair value of plan assets at beginning of year           | \$ 1,620,030       |
| Actual return on plan assets                             | (159,331)          |
| Employer contributions                                   | -                  |
| Plan participant' contributions                          | -                  |
| Benefits paid  | (142,616)          |
| Expenses paid  | (38,876)           |
| Transfers in / (out)                                     | -                  |
| Business combinations and (divestitures)                 | 378,846            |
| Curtailments, settlements & special termination benefits | -                  |
| Fair value of assets at end of year                      | <u>\$1,658,053</u> |

**Funded status at end of year** \$ (734,956)

**Amounts recognized in the statement of financial position consist of:**

|                         |              |
|-------------------------|--------------|
| Non-current assets      | \$ -         |
| Current liabilities     | -            |
| Non-current liabilities | \$ (734,956) |

**Amounts recognized in accumulated other comprehensive income consist of:**

|                                 |                   |
|---------------------------------|-------------------|
| Transition obligation / (asset) | \$ -              |
| Prior service cost / (credit)   | (5,411)           |
| Net actuarial loss / (gain)     | 759,133           |
| Total                           | <u>\$ 753,722</u> |

**Accumulated benefit obligation at end of year** \$ 1,933,910

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

|                                |              |
|--------------------------------|--------------|
| Projected benefit obligation   | \$ 2,393,009 |
| Accumulated benefit obligation | 1,933,910    |
| Fair value of plan assets      | 1,658,053    |

**The American Lung Association of the Southwest**  
*Notes to the Financial Statements, continued*  
**Year Ended June 30, 2009**

**NOTE 15: RETIREMENT PLAN (CONTINUED)**

**Components of Net Periodic Benefit Cost and Other Amounts Recognized in OCI**

**Components of Net Periodic Benefit Cost**

|   |                   |
|---|-------------------|
| Service cost                                    | \$ 198,451        |
| Interest cost                                   | 147,367           |
| Expected return on plan assets                  | (154,467)         |
| Amortization of transition obligation / (asset) | -                 |
| Amortization of prior service cost / (credit)   | (1,200)           |
| Recognized net loss / (gain)                    | 41,418            |
| Recognition due to settlement or curtailment    | 315,221           |
| Net periodic benefit cost                       | <u>\$ 546,790</u> |

**Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income:**

|   |                   |
|---|-------------------|
| FAS158 transition adjustment                    | N/A               |
| New transition obligation / (asset)             | \$ -              |
| New prior service cost / (credit)               | -                 |
| New net loss / (gain)                           | 513,104           |
| Amortization of transition obligation / (asset) | -                 |
| Amortization of prior service cost / (credit)   | 1,200             |
| Amortization of net loss / (gain)               | (41,418)          |
| Total recognized in other comprehensive income  | <u>\$ 472,886</u> |

**Total recognized in net periodic benefit cost and other comprehensive income:**

\$ 1,019,676

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

|                      |       |
|----------------------|-------|
|                      | 2009  |
| Discount rate        | 6.25% |
| Rate of compensation | 3.00% |

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

|                                |       |
|--------------------------------|-------|
|                                | 2009  |
| Discount rate                  | 6.25% |
| Rate of compensation           | 3.00% |
| Expected return on plan assets | 8.00% |

**Asset Allocation**

|                         |                |
|-------------------------|----------------|
| <i>Asset Category</i>   | 2009           |
| Equity securities       | 22.82%         |
| Debt securities         | 70.20%         |
| Real Estate             | 5.16%          |
| Cash & cash equivalents | 1.82%          |
| Total                   | <u>100.00%</u> |

**Expected Employer Contributions to be Paid for Fiscal Year Beginning July 1**

\$ -

**Benefits Expected to be Paid for Fiscal year Beginning July 1**

|           |                     |
|-----------|---------------------|
| 2009      | \$ 500,946          |
| 2010      | \$ 160,945          |
| 2011      | \$ 20,593           |
| 2012      | \$ 161,655          |
| 2013      | \$ 71,525           |
| 2014-2018 | <u>\$ 1,304,011</u> |

**The American Lung Association of the Southwest**  
*Notes to the Financial Statements, continued*  
**Year Ended June 30, 2009**

NOTE 15: RETIREMENT PLAN (CONTINUED)

**Estimated amortizations amounts in next fiscal year:**

|                                       |            |
|---------------------------------------|------------|
| Amort transition obligation / (asset) | \$ -       |
| Amort prior service cost / (credit)   | \$ (1,200) |
| Amort net loss / (gain)               | \$ 30,110  |

**Rate of Return on Assets Assumption:**

Effective July 1, 2009, the expected long-term rate of return on assets assumption is 7.50% (previously 8.00%). As defined in FAS 87, this assumption represents the rate of return on plan assets reflections the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the benefit obligation. The assumption has been determined by reflecting expectations regarding future rates of return for the investment portfolio, with consideration given to the distribution of investments by asset class and historical rates of return for each individual asset class.

**Investment Strategy:**

In order to meet its needs, the investment strategy of the Association emphasizes total return; that is, the aggregate return from capital appreciation, dividend income, and interest income.

Specifically, the primary objective in the investment management for the plan is:

Income and Growth - To achieve a balanced return of current income and appropriate growth of principal.

The secondary objective in the investment management of assets is:

Preservation of Purchasing Power After Spending - To achieve returns in excess of the rate of inflation plus spending over the investment horizon in order to preserve the purchasing power of plan assets.

Additional objectives for the Association are preservation of capital and minimization of costs.

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

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

**The American Lung Association of the Southwest**  
*Notes to Financial Statements, continued*  
**Year Ended June 30, 2009**

**NOTE 16. TAX DEFERRED ANNUITY PLAN**

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

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

The Association matching contribution for the year was \$57,217.

**NOTE 17. CONTRIBUTED SERVICES AND EQUIPMENT**

The Association received donated services from a variety of volunteers. No amounts have been recognized in the accompanying statements of activities in keeping with the criteria established in Statement No. 116. The Association did receive in-kind a copier valued at \$5,000 and computer software valued at \$42,119, for a total of \$47,119.

**NOTE 18. CONCENTRATION OF CREDIT RISK**

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

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

**The American Lung Association of the Southwest**  
*Notes to Financial Statements, continued*  
**Year Ended June 30, 2009**

**NOTE 19. COMMITMENT AND CONTINGENT LIABILITY**

The Association is subject to contract with the National American Lung Association to remit 30% of net direct mail revenue and an assessment based on TPI (total personal income) of residents in each state of \$320,554 to the national lung organization.

The Association is committed to participating in the national direct mail program and will pay \$1,033,575 in fiscal 2010 for this service as a merged entity, American Lung Association of the Southwest. As of June 30, 2009 the accounts payable balance to the National Lung Association was \$139,572.

The Association leases certain operating equipment, has service contract agreements, and rental agreements. Future minimum commitments at June 30, 2009 are as follows:

| Year  | Amount     |
|-------|------------|
| 2010  | \$ 219,094 |
| 2011  | 74,004     |
| 2012  | 25,056     |
| 2013  | 20,567     |
| 2014  | 14,964     |
| Total | \$ 353,685 |

Lease expense for fiscal year 2009 was \$275,581.

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

**NOTE 20. CONTRIBUTIONS RECEIVABLE AND RENTAL INCOME**

The Association Contributions Receivable amount is \$911,382; \$790,105 from government grants, \$5,673 from special events revenue, \$13,877 from the vehicle donation program, \$22,874 from direct mail, \$42,607 from other grants, \$15,000 from property management, and \$21,246 from other sources. The Association believes this amount to be fully collectible therefore no allowance for uncollectible was recorded.

The Association has a non-cancellable rental agreement through November 30, 2011. Future rental income at June 30, 2009 is \$20,223 in 2010, \$20,829 in 2011, and \$8,786 in 2012.

