

**AMERICAN LUNG ASSOCIATION
OF THE CENTRAL STATES**

Financial Statements

June 30, 2010 and 2009

AMERICAN LUNG ASSOCIATION
OF THE CENTRAL STATES

Financial Statements
June 30, 2010 and 2009

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report.....	1
Statements of financial position, June 30, 2010 and 2009.....	2
Statement of financial activities, for the year ended June 30, 2010.....	3
Statement of financial activities, for the year ended June 30, 2009.....	5
Statements of cash flows, for the years ended June 30, 2010 and 2009.....	7
Statement of functional expenses, for the year ended June 30, 2010.....	8
Statement of functional expenses, for the year ended June 30, 2009.....	9
Notes to Financial Statements.....	10

Independent Auditor's Report

Board of Directors
American Lung Association of
The Central States

We have audited the accompanying statements of financial position of American Lung Association of the Central States (the Organization) as of June 30, 2010 and 2009, and the related statements of financial activities, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Lung Association of the Central States as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Thomas Stephen & Company, LLP

THOMAS STEPHEN & COMPANY, LLP

September 17, 2010

American Lung Association of the Central States
 Statements of Financial Position
 June 30, 2010 and 2009

	<u>Assets</u>	
	<u>2010</u>	<u>2009</u>
Current assets		
Cash and cash equivalents	\$ 1,095,701	\$ 1,679,470
Accounts receivable	700,169	171,517
Pledges receivable	5,463	23,201
Prepaid expenses	81,959	120,583
Total current assets	<u>1,883,292</u>	<u>1,994,771</u>
Investments	5,226,906	5,206,479
Pledges receivable-non current, net	8,874	18,874
Property and equipment, net	3,408,975	3,565,046
Prepaid pension costs	-	29,331
Long term split-interest agreements	76,387	94,797
Beneficial Interest in a Perpetual Trust	247,894	-
	<u>8,969,036</u>	<u>8,914,527</u>
Total assets	<u>\$ 10,852,328</u>	<u>\$ 10,909,298</u>
	<u>Liabilities and Net Assets</u>	
	<u>2010</u>	<u>2009</u>
Current liabilities		
Accounts payable	\$ 164,862	\$ 217,180
Accrued liabilities	627,103	588,983
Payable to National Office	188,343	387,698
Deferred revenue	164,334	94,076
Mortgages payable- current	30,266	28,157
Total current liabilities	<u>1,174,908</u>	<u>1,316,094</u>
Mortgages payable - long-term	321,704	355,736
Liabilities related to split-interest agreements	<u>109,030</u>	<u>145,803</u>
Total liabilities	<u>1,605,642</u>	<u>1,817,633</u>
Net Assets		
Unrestricted	7,100,124	7,200,734
Temporarily restricted	1,253,349	1,245,612
Permanently restricted	893,213	645,319
Total net assets	<u>9,246,686</u>	<u>9,091,665</u>
Total liabilities and net assets	<u>\$ 10,852,328</u>	<u>\$ 10,909,298</u>

See accompanying notes.

American Lung Association of the Central States
Statement of Financial Activities
for the year ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenue				
Contributions and donations				
Direct mail	\$ 2,666,957	\$ -	\$ -	\$ 2,666,957
Promotions	63,252	-	-	63,252
Special Events, net of direct expense of \$392,343	1,378,690	-	-	1,378,690
Other Contributions				
Workplace giving	628,783	-	-	628,783
Memorials	162,563	-	-	162,563
Bequests	1,321,194	-	-	1,321,194
Trust income	39,289	-	-	39,289
Individual gifts	283,688	-	-	283,688
Corporate gifts	682,122	-	-	682,122
Foundation gifts	73,950	-	-	73,950
In-kind contributions	237	-	-	237
Other contributions	-	-	247,894	247,894
Revenue				
Corporate grants	21,233	-	-	21,233
Foundation grants	298,277	-	-	298,277
Government grants	495,696	-	-	495,696
ALA grants	43,683	-	-	43,683
Interest and dividend income	103,105	35,028	-	138,133
Program service fees	56,968	-	-	56,968
Rental income	11,516	-	-	11,516
Sale of materials	126,607	-	-	126,607
Other	25,594	-	-	25,594
Released from restrictions	147,038	(147,038)	-	-
Total Public Support and Revenue	8,630,442	(112,010)	247,894	8,766,326

See accompanying notes.

American Lung Association of the Central States
Statement of Financial Activities (continued)
for the year ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses				
Program Services				
Asthma	\$ 1,566,549	\$ -	\$ -	\$ 1,566,549
Community health	130,837	-	-	130,837
Environmental health	1,139,894	-	-	1,139,894
Tobacco control	2,709,040	-	-	2,709,040
Other lung disease	377,034	-	-	377,034
Research	348,103	-	-	348,103
Total program services	<u>6,271,457</u>	<u>-</u>	<u>-</u>	<u>6,271,457</u>
Supporting Activities				
Fundraising	2,157,290	-	-	2,157,290
Management and general	584,079	-	-	584,079
Total supporting activities	<u>2,741,369</u>	<u>-</u>	<u>-</u>	<u>2,741,369</u>
Total expenses	<u>9,012,826</u>	<u>-</u>	<u>-</u>	<u>9,012,826</u>
Changes in net assets from operations	(382,384)	(112,010)	247,894	(246,500)
Nonoperating activities				
Realized gain (loss) on investments	33,191	(137,645)	-	(104,454)
Unrealized gain (loss) on investments	235,023	257,392	-	492,415
Pension liabilities	(3,000)	-	-	(3,000)
Split interest (loss)	18,773	-	-	18,773
Sale of assets (loss)	(2,213)	-	-	(2,213)
Total change in net assets	(100,610)	7,737	247,894	155,021
Net assets, beginning of year	7,200,734	1,245,612	645,319	9,091,665
Net assets, end of year	<u>\$ 7,100,124</u>	<u>\$ 1,253,349</u>	<u>\$ 893,213</u>	<u>\$ 9,246,686</u>

See accompanying notes.

American Lung Association of the Central States
Statement of Financial Activities
for the year ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenue				
Contributions and donations				
Direct mail	\$ 2,848,071	\$ -	\$ -	\$ 2,848,071
Promotions	162,062	-	-	162,062
Special Events, net of direct expense of \$413,136	1,232,685	-	-	1,232,685
Other Contributions				
Workplace giving	691,858	-	-	691,858
Memorials	170,099	-	-	170,099
Bequests	1,449,749	-	-	1,449,749
Trust income	38,209	-	-	38,209
Individual gifts	254,672	-	-	254,672
Corporate gifts	90,440	-	-	90,440
Foundation gifts	132,317	-	-	132,317
In-kind contributions	2,784	-	-	2,784
Other contributions	30	-	-	30
Revenue				
Corporate grants	66,259	-	-	66,259
Foundation grants	364,364	-	-	364,364
Government grants	557,634	-	-	557,634
ALA grants	95,227	-	-	95,227
Interest and dividend income	165,540	28,476	-	194,016
Program service fees	56,922	-	-	56,922
Rental income	(462)	-	-	(462)
Sale of materials	129,486	-	-	129,486
Membership dues	540	-	-	540
Other	12,803	-	-	12,803
Released from restrictions	170,796	(170,796)	-	-
Total Public Support and Revenue	<u>8,692,085</u>	<u>(142,320)</u>	<u>-</u>	<u>8,549,765</u>

See accompanying notes.

American Lung Association of the Central States
Statement of Financial Activities (continued)
for the year ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses				
Program Services				
Asthma	\$ 1,557,753	\$ -	\$ -	\$ 1,557,753
Community health	285,590	-	-	285,590
Environmental health	903,154	-	-	903,154
Tobacco control	3,060,474	-	-	3,060,474
Other lung disease	397,272	-	-	397,272
Research	827,413	-	-	827,413
Total program services	<u>7,031,656</u>	<u>-</u>	<u>-</u>	<u>7,031,656</u>
Supporting Activities				
Fundraising	2,061,147	-	-	2,061,147
Management and general	1,017,208	-	-	1,017,208
Total supporting activities	<u>3,078,355</u>	<u>-</u>	<u>-</u>	<u>3,078,355</u>
Total expenses	<u>10,110,011</u>	<u>-</u>	<u>-</u>	<u>10,110,011</u>
Changes in net assets from operations	(1,417,926)	(142,320)	-	(1,560,246)
Nonoperating activities				
Realized gain (loss) on investments	(93,359)	9,292	-	(84,067)
Unrealized gain (loss) on investments	(496,934)	(246,930)	-	(743,864)
Pension liabilities	(293,293)	-	-	(293,293)
Split interest (loss)	(51,007)	-	-	(51,007)
Sale of asset gain	164,628	-	-	164,628
Total change in net assets	(2,187,891)	(379,958)	-	(2,567,849)
Net assets, beginning of year	<u>9,388,625</u>	<u>1,625,570</u>	<u>645,319</u>	<u>11,659,514</u>
Net assets, end of year	<u>\$ 7,200,734</u>	<u>\$ 1,245,612</u>	<u>\$ 645,319</u>	<u>\$ 9,091,665</u>

See accompanying notes.

American Lung Association of the Central States
 Statements of Cash Flows
 for the years ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ 155,021	\$ (2,567,849)
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Depreciation	188,123	183,547
(Gain) loss on sale of property and equipment	2,213	(164,628)
Realized (gain) loss on investments	104,454	84,068
Unrealized (gain) loss on investments	(492,415)	743,864
Decrease (increase) in accounts and pledges receivable	(500,914)	693,902
Decrease (increase) in prepaid expenses	38,624	(7,315)
Decrease in prepaid pension expenses	29,331	122,361
Increase (decrease) in long term split interest asset	18,410	(94,797)
Increase beneficial interest in a perpetual trust	(247,894)	-
Increase (decrease) in shares payable to National Office	(199,355)	104,740
Increase in accounts payable	(52,318)	79,620
Increase in accrued liabilities	38,120	39,187
Increase (decrease) in deferred revenue	70,258	(29,410)
Increase (decrease) in split interest liability	(36,773)	145,803
Net cash used in operating activities	(885,115)	(666,907)
Cash flows from investing activities		
Purchase of investments	(6,372,771)	(5,875,115)
Sale of maturities of investments	6,740,305	5,158,661
Purchase of property and equipment	(34,265)	(88,313)
Proceeds from sale of property and equipment	-	187,056
Net cash used in investing activities	333,269	(617,711)
Cash flows from financing activities:		
Payments on mortgage payable	(31,923)	(29,082)
Net cash used in financing activities	(31,923)	(29,082)
Net decrease in cash	(583,769)	(1,313,700)
Beginning cash	1,679,470	2,993,170
Ending cash	\$ 1,095,701	\$ 1,679,470
Supplemental cash flow information		
Interest paid	\$ 28,858	\$ 37,244
Noncash transaction:		
In-kind donations	\$ 237	\$ 2,784

See accompanying notes.

American Lung Association of the Central States
Statement of Functional Expenses
for the year ended June 30, 2010

	Asthma	Community Health	Environment Health	Tobacco Control	Other Lung Disease	Research	Fundraising	Management and General	Total
Personnel expenses	\$ 779,980	\$ 51,679	\$ 495,189	\$ 1,348,836	\$ 120,010	\$ -	\$ 849,924	\$ 205,221	\$ 3,850,839
Program expenses	109,067	44	31,038	152,178	4,342	-	-	-	296,669
Professional fees	43,050	2,542	221,763	119,776	7,454	-	76,667	90,185	561,437
Interest expense	4,944	328	3,131	8,486	761	-	3,530	7,680	28,860
Supplies	7,734	425	3,921	12,425	1,088	-	14,809	9,760	50,162
Telecommunications	24,076	1,581	15,447	41,821	3,683	-	23,730	8,660	118,998
Postage and shipping	104,080	8,003	67,868	175,600	15,549	-	376,056	29,324	776,480
Occupancy	93,535	6,197	59,239	160,553	14,392	-	91,735	22,016	447,667
Repairs and maintenance	9,400	623	5,972	16,279	1,446	-	11,075	4,986	49,781
Travel and conferences	38,864	2,118	18,924	57,188	4,619	-	55,497	51,767	228,977
Printing and publications	202,197	11,818	109,552	331,626	25,018	-	563,406	11,204	1,254,821
Dues and subscriptions	1,849	122	1,246	3,574	284	-	2,840	411	10,326
Depreciation	39,306	2,604	24,894	67,469	6,048	-	38,550	9,252	188,123
Service fees	5	-	-	387	31	-	27,831	3,917	32,171
Staff development	-	-	-	359	-	-	-	1,007	1,366
Volunteer development	-	-	-	-	-	-	12	105	117
Bad debt expense	10,000	-	-	10,000	-	-	-	-	20,000
Other taxes	-	-	-	-	-	-	732	1,094	1,826
Miscellaneous	-	-	90	-	-	-	-	5,457	5,547
Support to National Research	-	-	-	-	-	252,817	-	-	252,817
Total operating expense	<u>1,468,087</u>	<u>88,084</u>	<u>1,058,274</u>	<u>2,506,557</u>	<u>204,725</u>	<u>252,817</u>	<u>2,136,394</u>	<u>462,046</u>	<u>8,176,984</u>
Payment to National Office	<u>98,462</u>	<u>42,753</u>	<u>81,620</u>	<u>202,483</u>	<u>172,309</u>	<u>95,286</u>	<u>20,896</u>	<u>122,033</u>	<u>835,842</u>
Total expenses	<u>\$ 1,566,549</u>	<u>\$ 130,837</u>	<u>\$ 1,139,894</u>	<u>\$ 2,709,040</u>	<u>\$ 377,034</u>	<u>\$ 348,103</u>	<u>\$ 2,157,290</u>	<u>\$ 584,079</u>	<u>\$ 9,012,826</u>

See accompanying notes.

American Lung Association of the Central States
Statement of Functional Expenses
for the year ended June 30, 2009

	Asthma	Community Health	Environment Health	Tobacco Control	Other Lung Disease	Research	Fundraising	Management and General	Total
Personnel expenses	\$ 778,305	\$ 154,920	\$ 402,973	\$ 1,656,277	\$ 110,347	\$ -	\$ 954,937	\$ 395,643	\$ 4,453,402
Program expenses	115,479	445	42,490	59,135	43,786	-	-	-	261,335
Professional fees	47,491	1,931	156,918	181,525	17,111	-	24,539	132,812	562,327
Interest expense	5,654	1,126	2,927	12,026	802	-	4,507	10,203	37,245
Supplies	30,180	1,048	2,792	16,669	1,214	-	16,208	11,482	79,593
Telephone	15,328	3,011	7,826	32,722	2,144	-	20,631	39,527	121,189
Postage and shipping	108,093	21,430	55,544	228,713	15,223	-	274,886	9,738	713,627
Occupancy	66,704	13,282	34,542	141,873	9,545	-	87,231	80,706	433,883
Maintenance and repairs	6,900	1,374	3,571	14,675	978	-	11,183	7,753	46,434
Volunteer development	-	-	-	-	-	-	129	1,055	1,184
Printing and publications	233,736	35,028	90,427	406,105	24,909	-	506,945	61,503	1,358,653
Dues and subscriptions	939	552	591	2,100	133	-	5,046	9,064	18,425
Depreciation	29,475	5,869	15,257	62,690	4,180	-	38,545	27,532	183,548
Service fees	46	-	54	235	47	-	28,079	6,457	34,918
Travel expenses	24,819	4,852	8,819	50,862	2,731	-	87,331	119,480	298,894
Staff development	820	-	681	145	-	-	700	2,745	5,091
Bad debt expense	-	-	-	-	-	-	-	318	318
Other taxes	-	-	-	-	-	-	200	7,823	8,023
Support of National Research	-	-	-	-	-	248,668	-	-	248,668
Miscellaneous	-	-	-	5,920	-	-	50	3,285	9,255
Total operating expense	<u>1,463,969</u>	<u>244,868</u>	<u>825,412</u>	<u>2,871,672</u>	<u>233,150</u>	<u>248,668</u>	<u>2,061,147</u>	<u>927,126</u>	<u>8,876,012</u>
Payment to National Office	<u>93,784</u>	<u>40,722</u>	<u>77,742</u>	<u>188,802</u>	<u>164,122</u>	<u>578,745</u>	<u>-</u>	<u>90,082</u>	<u>1,233,999</u>
Total expenses	<u>\$ 1,557,753</u>	<u>\$ 285,590</u>	<u>\$ 903,154</u>	<u>\$ 3,060,474</u>	<u>\$ 397,272</u>	<u>\$ 827,413</u>	<u>\$ 2,061,147</u>	<u>\$ 1,017,208</u>	<u>\$ 10,110,011</u>

See accompanying notes

American Lung Association of the Central States
Notes to Financial Statements
June 30, 2010 and 2009

1. Nature of Activities

American Lung Association of the Central States (the “Organization”) is a nonprofit, charitable organization committed to fighting lung disease, a leading cause of preventable death and disability, and promoting lung health through education, advocacy, research and community programs for all residents of the central states, including Arkansas, Texas, Oklahoma, Missouri, Nebraska and Kansas. The majority of the Organization’s income is derived from contributions from the general public.

2. Summary of Significant Accounting Policies

This summary of significant accounting policies of American Lung Association of the Central States is presented to assist in understanding the Organization’s financial statements. The financial statements and notes are representations of the Organization’s management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Basis of Presentation

The Organization reports information regarding its financial activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted net assets - Unrestricted net assets represent resources that are not subject to donor imposed restrictions. Unrestricted net assets result from operating revenues, unrestricted contributions, unrestricted dividend and interest income, less expenses incurred in operations, to raise contributions and for administrative functions. Unrestricted net assets may be designated for specific purposes by the board of directors.

Temporarily restricted net assets - Temporarily restricted net assets represent resources which are temporarily restricted by donor-imposed limitations. When the donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of financial activities as net assets released from restrictions.

Permanently restricted net assets - Permanently restricted net assets represent resources which are permanently restricted by the donor. Generally, the donors of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes.

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation.

Estimates

The preparation of the Organization’s financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

American Lung Association of the Central States
Notes to Financial Statements
June 30, 2010 and 2009

2. Summary of Significant Accounting Policies (continued)

Estimates (continued)

Actual results could differ from those amounts. Significant estimates and assumptions include the valuation of investments and receivables, the lives used to depreciate fixed assets, defined benefit pension obligations, and the allocation of functional expenses.

Cash and Cash Equivalents

The statements of cash flows are prepared using the indirect method. For purposes of this statement, the Organization considers as cash and cash equivalents all cash on hand, cash in checking, money market and liquid investments with maturities at acquisition of three months or less. The Company occasionally will have amounts on deposit at financial institutions that exceed the FDIC insurance limit. The Company believes there is no significant risk with respect to these deposits.

Investments

Investments are carried at fair value. Realized and unrealized gains or losses on investments are determined by comparison of specific costs of acquisition to proceeds at the time of disposal, or market values at the date of statement of financial position, respectively, and are reported in the statement of financial activities.

The Organization has an investment policy that sets guidelines and constraints to ensure that the portfolio is appropriately diversified.

Receivables

The reserve method is used in accounting for bad debts. The allowance for bad debts is evaluated quarterly primarily by reviewing accounts greater than 90 days old and the allowance is adjusted as deemed necessary based on experience. An account is deemed to be a bad debt when collection by internal collection efforts is determined to be unlikely. Management considers all receivables at June 30, 2010 to be collectible.

Property and Equipment

Property and equipment are stated at cost or at the fair value at the date of donation in the case of donated assets. Purchases under \$1,000 and the cost of repair and maintenance are expensed as incurred.

Depreciation of property and equipment are provided using the straight-line method over the estimated useful lives of the assets. Lives used in computing depreciation by asset category are as follows:

Category	Lives
Buildings	40 years
Building improvements	10–15 years
Automobiles	4 - 5 years
Office equipment, furniture and fixtures	3 - 12 years

Long lived assets, such as property and equipment are reviewed for impairment when impairment is indicated. Impairment is based on a comparison of carrying value against undiscounted future cash flows. If impairment is identified, the assets' carrying amounts are adjusted to fair value. There were no such adjustments during the years ended June 30, 2010 and 2009.

American Lung Association of the Central States
Notes to Financial Statements
June 30, 2010 and 2009

2. Summary of Significant Accounting Policies (continued)

Deferred Revenue

The Organization receives grants which are distributed through advance payments. Grant revenue is recorded at the time the expenses are incurred. Any funds that are received prior to the work being performed is recorded as deferred revenue. If not used for the specific purposes, these funds are required to be returned to the grantor.

Contributions

The Organization accounts for contributions in accordance with Financial Accounting Standards Board (“FASB”) ASC 958. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. All donor restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction.

When a stipulated time restriction ends or purpose of the restriction is accomplished, temporarily restricted or permanently restricted net assets are reclassified to unrestricted net assets and reported in the statement of financial activities as net assets released from restrictions. If the restriction is met or expires in the same year the contribution is received, the amount is classified as unrestricted.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal income tax has been recorded in the accompanying financial statements.

In 2010, the Organization adopted FASB ASC 740-10 “Accounting for Uncertainty in Income Taxes”. Although ASC 740-10 was adopted by the Organization in fiscal 2010, the Organization is not aware of any uncertain tax provisions, as of June 30, 2010, that would be subject to the recognition provisions of ASC 740-10. Generally, the three prior years remain open for federal income tax examination.

The Organization is exempt from state margin taxes. Accordingly, no provision for state margin tax has been recorded in the accompanying financial statements.

Functional Expenses

The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program or support service activity are allocated directly according to their natural classification. Other expenses that are common to several functions are allocated by management’s estimate of resources devoted to the program or support service activity.

3. Investments

Financial Accounting Standards Board (FASB) ASC 820, *Fair Value Measurements*, effective for financial statements for fiscal years beginning after November 15, 2007, establishes a framework for measuring value. That framework provides a fair value hierarchy

American Lung Association of the Central States
Notes to Financial Statements
June 30, 2010 and 2009

3. Investments (continued)

that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives highest priority to unadjusted quote prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- If the asset or liability has a specified (contractual term), the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The assets or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

US Government obligations: Valued using quoted prices for investments with similar yields.

Equity Securities: Quoted market prices.

Mutual Funds: Valued at the net asset value (NAV) of shares at year end.

Debt Securities: Valued using quoted prices for investments with similar yields and bond ratings.

Beneficial interest in perpetual trusts: Consists of U.S. Government obligations which are valued using quoted prices for investments with similar yields and equity securities which are quoted at market prices.

The preceding methods described may produce fair value calculation that may not be indicative of net realized value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

American Lung Association of the Central States
Notes to Financial Statements
June 30, 2010 and 2009

3. Investments (continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value:

	Level 1	Level 2	Level 3	Total
US Gov. obligations	\$ -	\$ 591,860	\$ -	\$ 591,860
Equity securities	1,091,385	-	-	1,091,385
Debt securities	-	1,022,997	-	1,022,997
Mutual funds	2,520,664	-	-	2,520,664
Beneficial interest in perpetual trusts	151,050	96,844	-	247,894
Total	\$3,763,099	\$1,711,701	\$ -	\$5,474,800

Investment income includes the following:

	2010	2009
Interest and dividends	\$ 138,133	\$ 194,016
Realized gain (loss)	(104,454)	(84,067)
Unrealized gain (loss)	492,415	(743,864)
Total	\$ 526,094	\$ (633,915)

4. Beneficial Interest in Perpetual Trust

The Association is a beneficiary of a perpetual trust, whereby the Association has the irrevocable right to receive a portion of the income earned on the trust's assets in perpetuity. The value of this interest has been recorded in the statement of financial position at the fair value of the Association's interest in the trust's assets. Cash receipts are recorded as income when received.

5. Unconditional Promises to Give

Unconditional promises to give includes the follows:

	2010	2009
Pledges receivable due in less than one year	\$ 5,463	\$ 23,201
Pledges receivable due in one to five years	11,409	21,409
Less: discounts on pledges	(2,535)	(2,535)
Total	\$ 14,337	\$ 42,075

American Lung Association of the Central States
Notes to Financial Statements
June 30, 2010 and 2009

6. Property and equipment

Property and equipment by major class are as follows:

	<u>2010</u>	<u>2009</u>
Land	\$ 391,331	\$ 513,840
Building and improvements	2,422,085	3,736,510
Furniture and equipment	1,210,010	1,199,708
Automobile	66,191	66,191
Land held for sale	122,509	-
Building and improvements held for sale	1,318,696	-
	<u>\$5,530,822</u>	<u>\$5,516,249</u>
Less: accumulated depreciation	<u>(2,121,847)</u>	<u>(1,951,203)</u>
Total	<u>\$3,408,975</u>	<u>\$3,565,046</u>

Depreciation expense for the years ended June 30, 2010 and 2009 was \$188,123 and \$183,548, respectively.

7. Mortgage Payable

The Organization has a mortgage note payable to a bank secured by real property in Tulsa, Oklahoma with interest at 7.5% per annum and monthly payments of \$4,666.17 until December 20, 2021. The maturity schedule is as follows:

<u>Year Ending June 30,</u>	
2011	\$ 30,267
2012	32,586
2013	35,216
2014	37,990
2015	40,981
Thereafter	<u>174,930</u>
Total	<u>\$ 351,970</u>

Interest expense for the years ended June 30, 2010 and 2009 was \$28,238 and \$37,245, respectively.

8. Related Parties

As a constituent of the National American Lung Association (“National”) for 2009, the Organization entered into an agreement which provides for sharing 13% of certain support revenues and 30% of net revenue from direct mails. For 2010, the Organization has entered into an agreement which provides for sharing of certain support revenues based on the proportionate cost of the National American Lung Association budget and 30% of net revenue from direct mail. Shared revenue and supports paid to the National American Lung Association was \$1,002,707 and \$1,233,999 for the years ended June 30, 2010 and 2009, respectively. The Organization also paid to National shared costs of direct mail of \$1,820,624 and \$1,943,895 for the years ended June 30, 2010 and 2009, respectively. In addition, the Organization received grants from National totaling \$43,683 and \$95,227 for the years ended June 30, 2010 and 2009, respectively.

American Lung Association of the Central States
Notes to Financial Statements
June 30, 2010 and 2009

8. Related Parties (continued)

As of June 30, 2010 and 2009, the receivable from National was \$0 and \$7,832 which were included in accounts receivable. The payable to National was \$188,344 and \$387,698 as of June 30, 2010 and 2009, respectively.

9. Restricted Net Assets

Temporarily restricted net assets at June 30, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Research	\$1,253,349	\$1,216,247
Income from Hughes Memorial	-	29,365
Total temporarily restricted net assets	<u>\$1,253,349</u>	<u>\$1,245,612</u>

Permanently restricted net assets at June 30, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Hughes memorial fund	\$ 31,466	\$ 31,466
Camp SuperKids	15,680	15,680
Research fund	598,173	598,173
Beneficial interest in perpetual trust	<u>247,894</u>	<u>-</u>
Total permanently restricted net assets	<u>\$ 893,213</u>	<u>\$ 645,319</u>

10. Operating Leases

The Organization leases office space and various office equipment in the normal course of business. The Organization receives free rent for certain periods. The Organization amortizes these rents over the life of the lease. As of June 30, 2010 and 2009, the unamortized liability is \$37,775 and \$35,321, respectively.

Future minimum rents for the fiscal years ending June 30 are as follows:

2011	\$ 295,682
2012	262,118
2013	202,066
2014	143,603
2015	<u>9,609</u>
Total	<u>\$ 913,078</u>

Total occupancy and rental expenses were \$372,874 and \$360,953 for the years ended June 30, 2010 and 2009, respectively.

11. In-Kind Donations

Donated materials and services of \$237 and \$2,784 for the years ended June 30, 2010 and 2009 were recorded at fair value at the date of donation, and have been included in public support and expenses for the year.

American Lung Association of the Central States
Notes to Financial Statements
June 30, 2010 and 2009

12. United Way Joint Campaign

The Organization has contracted with the United Way of Greater St. Louis, Oklahoma City and Tulsa (“United Way”) to conduct an annual campaign named “Joint Campaign in Business and Industry” (the “Campaign”). The agreements call for the United Way to act as the primary fundraising agent with business and industry on behalf of the Organization. Workplace giving of \$628,783 and \$691,858 are related to those campaigns for the years ended June 30, 2010 and 2009, respectively.

13. Missouri Thoracic Society

The Organization serves as the fiscal agent of Missouri Thoracic Society for all funds received and disbursed in the name of the Society. The Society had no program revenues or expenses for the years ended June 30, 2010 and 2009.

14. Missouri Partnership on Smoking or Health

The Organization serves as fiscal agent for MPSH, a statewide tobacco use prevention coalition. There are no revenues or expenses included in the statements of financial activities for the years ended June 30, 2010 and 2009 that are directly related to MPSH activities.

15. Defined Contribution Retirement Plan

After the merger, the Organization combined all previous defined contribution pension plans into one for the Central States. It is under Internal Revenue Code Section 403(b) and covers substantially all of its employees. Employees may contribute a percentage of their salary to the plan, subject to certain limitations imposed by the Internal Revenue Code. The Organization matches these contributions upon six months of service. \$99,944 and \$150,252 was included in the statement of financial activities in matching contributions for the years ended June 30, 2010 and 2009, respectively.

16. Defined Benefit Retirement Plan

The Organization had three noncontributory defined benefit retirement plans for employees in Missouri, Kansas and Oklahoma who have been employed for one year and have attained age 21. As of June 30, 2007, the plans were merged into one plan.

In 2008, the Board of Directors voted to terminate these plans and froze the assets of the plans. During fiscal year 2009, the Board approved liquidating the plan effective June 30, 2009. The Internal Revenue Service approved the plan termination for June 30, 2009. In July and August 2009, the plan assets were distributed to a holding account for subsequent distribution to participants.

The following table shows the funded status of the Organization’s pension plan as of June 30:

	<u>2009</u>
Benefit obligation	<u>\$ 927,964</u>
Accumulated benefit obligation	\$ 92,764
Fair value of plan assets	<u>\$ 957,295</u>
Excess of fair value of plan assets over projected benefit obligation	<u>\$ 29,331</u>
Prepaid benefit cost	<u>\$ 29,331</u>
Minimum liability	<u>\$ -</u>

American Lung Association of the Central States
Notes to Financial Statements
June 30, 2010 and 2009

16. Defined Benefit Retirement Plan (continued)

For the years ended June 30:

	<u>2010</u>	<u>2009</u>
Benefit cost	\$ -	\$ 31,625
Employer contributions	\$ -	\$ -
Participant contributions	\$ -	\$ -
Benefits paid	\$ -	\$ 388,342

Assumptions used in the computation for the year ended June 30, 2009:

	<u>2009</u>
Assumed discount rate	6.25%
Expected return on plan assets	8.00%
Rate of compensation increase	3.00%

For 2009, the expected long-term rate of return on assets assumption is 7.5% (previously 8.0%). As defined in ASC 958, 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 was 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.

17. Allocation of Joint Costs

Joint costs are the costs of conducting joint activities that are not identifiable with a particular component of the activity. The Organization incurred joint costs for the distributions of informational materials in the direct mail campaign. Of the costs, \$944,531 and \$1,127,132 for the years ended June 30, 2010 and 2009, respectively, was allocated to program services and \$856,093 and \$816,763 was allocated to supporting services for the year ended June 30, 2010 and 2009, respectively.

18. Future Events

In June 2009, the American Lung Association of the Central States Board approved a memorandum of understanding with American Lung Association of the Mid South to implement a merger effective for the new fiscal year beginning July 1, 2010. As of June 18, 2010, the merger was accepted by the State of Missouri, effective July 1, 2010.

American Lung Association of the Mid South is comprised of three states: Louisiana, Mississippi and Alabama. The new agency name will be American Lung Association of the Plains - Gulf Region and shall serve nine states.

American Lung Association of the Central States
Notes to Financial Statements
June 30, 2010 and 2009

19. Gift Annuities

The Organization administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the Organization's use. The portion of the trust attributable to the present value of the future benefits to be received by the Organization is recorded in the statement of activities as a temporarily restricted contribution in the period the trust is established. Such contributions totaled \$0 in 2010. Assets held in the charitable remainder trusts totaled \$76,387 at June 30, 2010 and are reported at fair market value in the Organization's statement of financial position. On an annual basis, the Organization revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments is \$109,030 at June 30, 2010 is calculated using a discount rate of 3.5% and applicable mortality tables.

20. Subsequent Events

The Organization has evaluated subsequent events through September 17, 2010, the date which the financial statements were available to be issued. In August 2010, the Board sold a building located in Austin, Texas.