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**AMERICAN LUNG ASSOCIATION IN CALIFORNIA**  
**AUDITED FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITOR'S REPORT**  
**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

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**AMERICAN LUNG ASSOCIATION IN CALIFORNIA**

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## **INDEPENDENT AUDITOR'S REPORT**

The Board of Directors  
American Lung Association in California  
Oakland, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of American Lung Association in California (a Non-Profit Organization), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Lung Association in California as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures for County of Alameda Grants is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### ***Report on Summarized Comparative Information***

The financial statements for the year ended June 30, 2014 were audited by us and we expressed an unmodified opinion on them in our report dated October 20, 2014. However, we have not performed any auditing procedures with respect to the June 30, 2014 financial statements since that date.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2015, on our consideration of American Lung Association in California's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering American Lung Association in California's internal control over financial reporting and compliance.

*Polkin & Associates, Ltd.*  
Oakland, California  
October 17, 2015

**AMERICAN LUNG ASSOCIATION IN CALIFORNIA**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2015**  
**(Summarized Totals for 2014)**

<b>ASSETS</b>	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>	
				<u>2015</u>	<u>2014</u>
<b>Current assets:</b>					
Cash (Note 1)	\$ 1,425,748	\$ 300,106	\$	\$ 1,725,854	\$ 2,300,945
Accounts receivable (Note 2)	837,670			837,670	1,177,858
Prepaid expenses and deposits	<u>28,749</u>			<u>28,749</u>	<u>42,898</u>
<b>Total current assets</b>	<u>2,292,167</u>	<u>300,106</u>		<u>2,592,273</u>	<u>3,521,701</u>
<b>Noncurrent assets:</b>					
Long-term investments (Note 3)	11,110,710		28,357	11,139,067	11,070,953
Beneficial interest in perpetual trust (Notes 3 and 5)			15,914,830	15,914,830	16,285,422
Security deposits	26,292			26,292	39,353
Charitable gift annuities (Note 14)	424,034			424,034	502,269
Nonqualified deferred compensation					223,000
Property and equipment, net (Note 6)	<u>815,489</u>	<u>1,300,000</u>		<u>2,115,489</u>	<u>2,337,674</u>
<b>Total noncurrent assets</b>	<u>12,376,525</u>	<u>1,300,000</u>	<u>15,943,187</u>	<u>29,619,712</u>	<u>30,458,671</u>
<b>Total assets</b>	<u>\$ 14,668,692</u>	<u>\$ 1,600,106</u>	<u>\$ 15,943,187</u>	<u>\$ 32,211,985</u>	<u>\$ 33,980,372</u>
 <b>LIABILITIES AND NET ASSETS</b>					
<b>Current liabilities:</b>					
Accounts payable	\$ 710,898	\$	\$	\$ 710,898	\$ 1,193,891
Accrued 403(b) plan liability	6,954			6,954	153,412
Accrued leave	198,862			198,862	233,002
Deferred revenue	333,949			333,949	207,570
Charitable gift annuities (Note 14)	<u>506,219</u>			<u>506,219</u>	<u>557,099</u>
<b>Total current liabilities</b>	<u>1,756,882</u>			<u>1,756,882</u>	<u>2,344,974</u>
Nonqualified deferred compensation (Note 10)	125,427			125,427	223,000
Accrued pension (Note 11)	<u>1,651,853</u>			<u>1,651,853</u>	<u>1,349,286</u>
<b>Total liabilities</b>	<u>3,534,162</u>			<u>3,534,162</u>	<u>3,917,260</u>
<b>Net assets</b>	<u>11,134,530</u>	<u>1,600,106</u>	<u>15,943,187</u>	<u>28,677,823</u>	<u>30,063,112</u>
<b>Total liabilities and net assets</b>	<u>\$ 14,668,692</u>	<u>\$ 1,600,106</u>	<u>\$ 15,943,187</u>	<u>\$ 32,211,985</u>	<u>\$ 33,980,372</u>

The accompanying notes are an integral part of these financial statements

**AMERICAN LUNG ASSOCIATION IN CALIFORNIA**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2015**  
**(Summarized Totals for 2014)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2015</u>	<u>2014</u>
<b>PUBLIC SUPPORT AND REVENUES</b>					
Contributions and donations:					
Direct mail:					
Other direct mail	\$ 2,445,028	\$	\$	\$ 2,445,028	\$ 2,616,784
Special events (Note 9)	1,345,570			1,345,570	1,194,473
Other contributions:					
Workplace giving	62,134			62,134	53,967
Memorials	239,467	2,554		242,021	117,562
Bequests	2,400,239	273,497		2,673,736	1,647,742
Other donations	233,248			233,248	269,228
Individual gifts	309,816	25,000		334,816	1,668,773
Total contributions and donations	<u>7,035,502</u>	<u>301,051</u>		<u>7,336,553</u>	<u>7,568,529</u>
Revenues:					
Foundation grants	467,563			467,563	523,083
Government grants	1,910,176			1,910,176	2,452,888
Corporation grants	1,000			1,000	66,189
Interest and dividend	206,054			206,054	224,694
Program service fees and sales	189,183			189,183	256,138
Shareable income	269,744			269,744	457,074
Other revenue	170,026			170,026	541,799
Total revenues	<u>3,213,746</u>			<u>3,213,746</u>	<u>4,521,865</u>
Net assets released from restrictions	407,874	(41,006)	(366,868)		
Total public support and revenues	<u>10,657,122</u>	<u>260,045</u>	<u>(366,868)</u>	<u>10,550,299</u>	<u>12,090,394</u>
<b>EXPENSES</b>					
Program services:					
Lung Cancer, Asthma, and Other Lung Diseases	1,810,846			1,810,846	2,788,331
Environmental health	1,029,665			1,029,665	1,066,659
Tobacco control	4,151,616			4,151,616	4,814,356
Community health services					2,504
Research	665,148			665,148	366,870
Total program services	<u>7,657,275</u>			<u>7,657,275</u>	<u>9,038,720</u>
Supporting services:					
Management and general	1,116,909			1,116,909	910,662
Fundraising	892,192			892,192	857,647
Total supporting services	<u>2,009,101</u>			<u>2,009,101</u>	<u>1,768,309</u>
Payments to national office	1,282,885			1,282,885	1,175,553
Total expenses	<u>10,949,261</u>			<u>10,949,261</u>	<u>11,982,582</u>
Change in net assets from operations	(292,139)	260,045	(366,868)	(398,962)	107,812
<b>NON-OPERATING ACTIVITIES</b>					
Investments:					
Realized gain (loss) on investments	112,738			112,738	102,644
Unrealized gain/(loss) on investments	(331,917)			(331,917)	2,569,005
Pension expense	(288,426)			(288,426)	(145,827)
Change in net assets	(799,744)	260,045	(366,868)	(906,567)	2,633,634
Net assets, beginning - restated (Note 15)	11,934,274	1,340,061	16,310,055	29,584,390	27,429,478
Net assets, ending	<u>\$ 11,134,530</u>	<u>\$ 1,600,106</u>	<u>\$ 15,943,187</u>	<u>\$ 28,677,823</u>	<u>\$ 30,063,112</u>

The accompanying notes are an integral part of these financial statements

**AMERICAN LUNG ASSOCIATION IN CALIFORNIA**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2015**  
**(Summarized Totals for 2014)**

	Program Services						Supporting Services			Total	
	Lung Cancer, Asthma, COPD, and Other Lung Diseases	Environmental Health	Tobacco Control	Community Health Services	Research	Total	Management and General	Fund Raising	Total	2015	2014
Personnel Expenses	\$ 813,191	\$ 655,145	\$ 2,535,684	\$	\$	\$ 4,004,020	\$ 387,520	\$ 262,525	\$ 650,045	\$ 4,654,065	\$ 4,858,372
Program Expenses	657,676	77,175	221,134		665,148	1,621,133	92,647	479,389	572,036	2,193,169	2,327,364
Professional Fees	104,423	149,211	753,496			1,007,130	442,486	27,124	469,610	1,476,740	2,366,215
Interest Expense											37
Supplies	16,129	11,713	48,648			76,490	5,225	3,241	8,466	84,956	122,608
Telephone	14,281	9,319	35,602			59,202	6,540	5,579	12,119	71,321	73,765
Postage & Shipping	10,231	6,587	29,717			46,535	3,158	4,292	7,450	53,985	52,918
Occupancy	76,057	50,139	236,133			362,329	129,072	20,729	149,801	512,130	338,195
Maintenance & Repairs	7,264	5,079	23,152			35,495	1,658	2,152	3,810	39,305	49,623
Equipment Rental	13,014	8,059	37,116			58,189	3,373	3,328	6,701	64,890	56,104
Conferences, Conventions & Meetings	59,062	43,032	159,464			261,558	1,799	22,912	24,711	286,269	271,311
Printing & Publications	29,430	7,363	39,653			76,446	410	3,428	3,838	80,284	105,295
Depreciation	8,732	6,612	28,338			43,682	11,595	2,801	14,396	58,078	89,004
Bad Debt Expense							20,000		20,000	20,000	
Miscellaneous	1,356	231	3,479			5,066	11,426	54,692	66,118	71,184	96,218
	<u>1,810,846</u>	<u>1,029,665</u>	<u>4,151,616</u>		<u>665,148</u>	<u>7,657,275</u>	<u>1,116,909</u>	<u>892,192</u>	<u>2,009,101</u>	<u>9,666,376</u>	<u>10,807,029</u>
Payments to national office	<u>256,577</u>	<u>153,946</u>	<u>115,460</u>	<u>51,315</u>	<u>577,299</u>	<u>1,154,597</u>	<u>76,973</u>	<u>51,315</u>	<u>128,288</u>	<u>1,282,885</u>	<u>1,175,553</u>
Total expenses	<u>\$ 2,067,423</u>	<u>\$ 1,183,611</u>	<u>\$ 4,267,076</u>	<u>\$ 51,315</u>	<u>\$ 1,242,447</u>	<u>\$ 8,811,872</u>	<u>\$ 1,193,882</u>	<u>\$ 943,507</u>	<u>\$ 2,137,389</u>	<u>\$ 10,949,261</u>	<u>\$ 11,982,582</u>
Percent of total functional expenses	<u>19%</u>	<u>11%</u>	<u>39%</u>	<u>0%</u>	<u>11%</u>	<u>80%</u>	<u>11%</u>	<u>9%</u>	<u>20%</u>	<u>100%</u>	<u>100%</u>

The accompanying notes are an integral part of these financial statements

**AMERICAN LUNG ASSOCIATION IN CALIFORNIA**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2015**

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ (906,567)	\$ 2,633,634
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Depreciation and write-offs	58,078	89,004
Gain on disposal of equipment	(65,493)	
Adjustment on pension liability	288,426	
Individual donation - non cash		(1,300,000)
Unrealized (gain)/loss on investments	331,917	(1,077,523)
(Increase) decrease in:		
Accounts receivable	7,664	402,747
Prepaid expenses and other assets	14,149	15,204
Beneficial interest in perpetual trust	(32,017)	(1,477,069)
Gift annuity	29,936	(14,202)
Security deposits	13,060	(8,604)
Accounts payable and accrued leave	(517,133)	19,576
Deferred revenue	126,379	(58,835)
Accrued 403(b) plan	(146,458)	(35,454)
Accrued pension	14,141	(21,604)
Nonqualified deferred compensation	(20,771)	
	<u>(804,689)</u>	<u>(833,126)</u>
Net cash (used) by operating activities		
Cash flows from investing activities:		
Purchase of equipment	(5,201)	
Proceeds from disposal of fixed asset	234,799	
Purchase of investments		(115,725)
	<u>229,598</u>	<u>(115,725)</u>
Net cash provided by/(used) in investing activities		
Net (decrease) in cash	(575,091)	(948,851)
Cash at beginning of the year	<u>2,300,945</u>	<u>3,249,796</u>
Cash at end of the year	<u>\$ 1,725,854</u>	<u>\$ 2,300,945</u>
Supplemental disclosure:		
Cash paid for interest	<u>\$</u>	<u>\$ 37</u>
Non cash activity		
In-kind donations	<u>\$ 147,022</u>	<u>\$ 1,799,185</u>

The accompanying notes are an integral part of these financial statements



**AMERICAN LUNG ASSOCIATION IN CALIFORNIA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization:**

The American Lung Association in California (ALA in CA) is a not-for-profit voluntary health agency dedicated to the conquest of lung disease and the promotion of lung health. ALA in CA conducts programs to inform the public of environmental health issues, smoking and health hazards, lung disease and community health in the State of California. The sources of ALA in CA's income are from shared income of affiliates, public donations and government grants.

**A. Basis of Accounting**

The financial statements of ALA in CA have been prepared on the accrual basis of accounting.

**B. Financial Statement Presentation**

Financial position and activities of ALA in CA are presented according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. A statement of cash flows is also presented.

The costs of providing the various programs and other activities of ALA in CA have been summarized on a functional basis in the statements of activities and functional expenses. Expenses that can be identified with a specific program and support services are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by using consistent allocation percentages which management believes reflect actual time spent by employees or benefits received from expenditures.

**C. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**D. Concentration of Cash**

ALA in CA maintains its cash balances in a financial institution located in Northern California. All deposits maintained in an insured depository institution are insured up to \$250,000 per bank by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2015, ALA in CA had bank accounts with cash balance of \$1,960,244 before reconciling items. The bank balance exceeded FDIC's insurance limit by \$1,710,244. It is the opinion of the management that the solvency of the financial institution is not of particular concern at this time.

**E. Property and Equipment**

Property and equipment are recorded at cost, if purchased. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purchase. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, ALA in CA reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. ALA in CA reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method.

ALA in CA follows the practice of capitalizing, at cost, all expenditures for property, furniture and equipment in excess of \$2,000. Depreciation is computed on a straight-line basis over the estimated useful lives of all assets ranging from 3 to 50 years.

**F. Investments**

Generally accepted accounting principles require that non-profit organizations report certain investments at fair value. In accordance with that guidance ALA in CA accounts for its equity securities that have readily determinable market values by recording and reporting those securities at fair value. Information about the fair value of investments and the unrealized gains and losses is discussed in Notes 3 and 4.

**G. Grants and Contract Revenue Recognition**

Revenue from grants and contracts is recognized to the extent of expenses incurred applicable to the grant or contract.

**H. Restricted and Unrestricted Revenue**

Contributions including unconditional promise to give are recognized as revenues in the period the promise is received. Restricted contributions, bequests, investment income and gains whose donor restrictions are met in the same reporting period received are reported as increases in unrestricted net assets. All other donor-restricted contributions, bequests, investment income and gains are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Interest earned on designated funds is used to support the activities of the designated funds.

**I. Bequests**

Bequests are recognized as income at the time an unassailable right to the gift has been established and the proceeds are measurable in amount.

**J. Donated Materials and Services**

Donated services are recognized as contributions if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased by ALA in CA. A substantial number of volunteers have contributed significant amounts of time to ALA in CA. Donated materials are reported at fair market value at the date the contribution is received.

ALA in CA received donated services of \$147,022 and \$499,185 for the years ended June 30, 2015 and 2014 classified under other revenue in the statement of activities. In December of 2013, ALA in CA received a donation of 2 land parcels valued at \$650K each. Donors have indicated a preference that the funds would be used for lung cancer research.

**K. Income Taxes**

ALA in CA is not a private foundation and is exempt from federal income tax under Internal Revenue Code Section 501(c)(3) and from state franchise tax under Revenue and Taxation Code Section 23701(d).

ALA in CA has adopted the accounting guidance related to uncertain tax positions, and has evaluated its tax positions and believes that all of the positions taken by ALA in CA in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. ALA in CA's returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed.

**L. Comparative Financial 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with ALA in CA's financial statements for the year ended June 30, 2014, from which summarized information was derived.

**M. Reclassifications**

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

**NOTE 2: ACCOUNTS RECEIVABLE**

A summary of accounts receivable is as follows:

	<u>2015</u>	<u>2014</u>
Tuberculosis grants	\$ 463	\$ 7,408
Tobacco grants	582,694	592,858
Asthma grants	52,458	68,888
Other receivables	<u>202,055</u>	<u>508,704</u>
Total	<u>\$ 837,670</u>	<u>\$ 1,177,858</u>

The accounts receivable are considered by management to be fully collectible.

**NOTE 3: LONG TERM INVESTMENTS**

Investments in marketable securities are recorded at fair value. The historical cost and fair value are summarized as follows:

	2015			2014		
	Cost	Fair Value	Net Gain	Cost	Fair Value	Net Gain
Investments:						
Money Funds	\$ 1,298,732	\$ 1,298,732	\$	\$ 2,188,944	\$ 2,188,944	\$
Equity and fixed income funds	<u>9,285,937</u>	<u>9,811,978</u>	<u>526,041</u>	<u>7,123,532</u>	<u>8,852,550</u>	<u>1,729,018</u>
Total	10,584,668	11,110,710	526,041	9,312,476	11,041,494	1,729,018
Beneficiary interest in Swall Foundation (Note 5)	11,302,530	15,914,830	4,612,300	11,079,350	16,285,422	5,206,072
Investment in San Diego Foundation	<u>28,357</u>	<u>28,357</u>		<u>29,459</u>	<u>29,459</u>	
Total	<u>\$ 21,915,556</u>	<u>\$ 27,053,897</u>	<u>\$ 5,138,341</u>	<u>\$ 20,421,285</u>	<u>\$ 27,356,375</u>	<u>\$ 6,935,090</u>

ALA in CA has investments in the San Diego Foundation, which are classified as permanently restricted as the investments must be maintained in perpetuity. The funds held at San Diego Foundation are invested in a “Balanced Pool” portfolio, which is structured for long term total return.

**NOTE 4: FAIR VALUE MEASUREMENTS**

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1), and the lowest priority to unobservable inputs (level 3). 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 asset 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 maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

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

Fair values for investments are determined by reference to quoted market prices for similar investments, and other relevant information.

Fair values for beneficial interests in perpetual trust are measured using the fair value of the assets held in the trust reported by the trustee as of June 30, 2015. ALA in CA considers the measurements of its beneficial interest in the perpetual trust to be a level 3 measurement within the fair value measurement hierarchy because even though that measurement is based on the unadjusted fair value of trust assets reported by the trustee, ALA in CA will never have the ability to direct the trustee to redeem them.

There have been no changes in the methodologies used at June 30, 2015 and 2014:

The following table sets forth by Level within fair value hierarchy, ALA in CA's assets at fair value as of June 30, 2015 and 2014.

	Assets at Fair Value as of June 30, 2015			
	Level 1	Level 2	Level 3	Total
Long-term investments:				
Money funds	\$ 1,298,732	\$	\$ 509,398	\$ 1,808,130
Government bonds	519,128		174,657	693,785
Corporate bonds	1,866,697		1,516,684	3,383,381
Mutual funds			7,730,377	7,730,377
Equities	7,426,153		5,765,790	13,191,943
Non-US securities			217,924	217,924
Investment in San Diego Foundation	28,357			28,357
Total assets	\$ 11,139,067	\$	\$ 15,914,830	\$ 27,053,897

	Assets at Fair Value as of June 30, 2014			
	Level 1	Level 2	Level 3	Total
Long-term investments:				
Money funds	\$ 2,188,944	\$	\$ 174,916	\$ 2,363,860
Government bonds	251,665		217,590	469,255
Municipal bonds			6,025	6,025
Corporate bonds	1,987,284		1,738,632	3,725,916
Mutual funds	1,082,946		7,614,584	8,697,530
Equities	5,530,655		6,189,223	11,719,878
Non-US securities			344,452	344,452
Investment in San Diego Foundation	29,459			29,459
Total assets	\$ 11,070,953	\$	\$ 16,285,422	\$ 27,356,375

There were no transfers between level 1 and level 2 during the years ended June 30, 2015 and 2014.

During the year ended June 30, 2014, there was a transfer in of \$1,913,182 and no transfer out, and during the year ended June 30, 2015, there were no transfers in and out of level 3.

The following table sets forth a summary of changes in the fair value of level 3 assets for the year ended June 30, 2015:

	<u>Total</u>
Balance, beginning of year	\$ 16,285,422
Sales	(8,987,134)
Maturities/ Redemptions	(630,000)
Other income	(653,074)
Purchases	8,063,161
Interest/Dividend Reinvested	249,896
Payments to Beneficiaries	1,743,497
Other disbursements	59,618
Fees	<u>(216,556)</u>
Balance, end of year	<u>\$ 15,914,830</u>

**NOTE 5: BENEFICIAL INTEREST IN PERPETUAL TRUST**

After the last residual beneficiary individual of the Earle Swall Trust (the Trust) deceased in 2007, ALA in CA is one of the five charitable beneficiaries that receive investment income distributions from the Trust. Assets in the Trust were entirely transferred to the Swall Foundation in 2008. The following schedule summarizes the investment return and fair value of ALA in CA's beneficial interest in the Swall Foundation at June 30, 2015 and 2014.

	<u>2015</u>	<u>2014</u>
Balance, beginning of year	\$ 16,285,422	\$ 14,808,353
Net (decrease)/increase in beneficial interest	<u>(370,592)</u>	<u>1,477,069</u>
Balance, end of year	<u>\$ 15,914,830</u>	<u>\$ 16,285,422</u>

**NOTE 6: PROPERTY AND EQUIPMENT**

A summary of property and equipment is as follows:

	<u>2015</u>	<u>2014</u>
Land	\$ 1,913,207	\$ 1,913,207
Building and improvements	558,525	994,970
Leasehold improvements	199,460	335,124
Office furniture and equipment	<u>335,280</u>	<u>1,039,864</u>
Total	3,006,472	4,283,165
Less: Accumulated depreciation	<u>(890,983)</u>	<u>(1,945,490)</u>
Total	<u>\$ 2,115,489</u>	<u>\$ 2,337,674</u>

Depreciation expense amounted to \$58,078 and \$89,004 for the years ended June 30, 2015 and 2014, respectively.

Included in the land is the \$1,300,000 of donated land received in fiscal year 2014. The donor's restriction on the land will expire in January 2016.

**NOTE 7: BORROWINGS**

ALA in CA has a \$500,000 line of credit with Bank of the West and had no outstanding balance drawn on this line of credit at June 30, 2015. This line of credit matured on July 1, 2015 and was renewed on October 10, 2015 with maturity date of July 1, 2016.

**NOTE 8: LEASE COMMITMENTS****Non-Cancellable Operating Leases**

ALA in CA has non-cancellable operating leases for its office spaces at various locations in California. Details are as follows:

<u>Location</u>	<u>Annual Lease Expense</u>	<u>Expiration Date</u>
Oakland - State office	\$ 86,198	January 31, 2022
Sacramento	\$ 80,794	March 31, 2018
Bakersfield	\$ 31,152	August 31, 2018
Los Angeles	\$ 75,076	November 30, 2017
Orange	\$ 15,300	June 30, 2017
Chico	\$ 9,240	May 15, 2016
Fresno	\$ 7,070	November 30, 2016

ALA in CA also leases equipment and postage machines as follows:

<u>Location</u>	<u>Monthly Payments</u>	<u>Expiration Date</u>
Oakland - State office	\$ 530	July 26, 2017
San Bernadino	\$ 401	July 10, 2018
Bakersfield	\$ 689	October 17, 2018
Fresno	\$ 883	October 17, 2018
Los Angeles	\$ 610	October 17, 2018
Sacramento	\$ 319	July 26, 2017
San Diego	\$ 838	December 24, 2016
Orange	\$ 283	March 11, 2019

Minimum future annual rental payments under non-cancellable operating leases (for office spaces) having remaining payments as of June 30, 2015 are:

<u>Fiscal Years Ending June 30,</u>	<u>State Office</u>	<u>Sacramento</u>	<u>Bakersfield</u>	<u>Los Angeles</u>	<u>Orange</u>	<u>Chico</u>	<u>Fresno</u>	<u>Total</u>
2016	\$ 102,450	\$ 83,379	\$ 32,247	\$ 77,328	\$ 15,960	\$ 9,240	\$ 12,400	\$ 333,004
2017	105,523	85,965	33,343	79,648	16,620		5,250	326,349
2018	108,689	65,928	34,438	33,594				242,649
2019	111,950		5,770					117,720
2020	115,308							115,308
2021	118,768							118,768
2022	71,236							71,236
	<u>\$ 733,924</u>	<u>\$ 235,272</u>	<u>\$ 105,798</u>	<u>\$ 190,570</u>	<u>\$ 32,580</u>	<u>\$ 9,240</u>	<u>\$ 17,650</u>	<u>\$ 1,325,034</u>

**NOTE 9: SPECIAL EVENTS - NET OF DIRECT EXPENSES**

The following is a summary of special events income:

	<u>2015</u>	<u>2014</u>
Gross revenue	\$ 1,604,240	\$ 1,429,014
Direct expenses	<u>(258,670)</u>	<u>(234,541)</u>
	<u>\$ 1,345,570</u>	<u>\$ 1,194,473</u>



**NOTE 10: NONQUALIFIED DEFERRED COMPENSATION**

ALA in CA has been making monthly payments since May 2009 in the amount of approximately \$1,730 to its former CEO for the services the CEO rendered to ALA in CA before his retirement in 2005. The contribution will continue indefinitely through the CEO's remaining life. The payment is defined as nonqualified deferred compensation, which is accounted for by ALA in CA as an unfunded general obligation. At June 30, 2015 and 2014, balance for unfunded retirement liability was \$125,427 and \$223,000 respectively.

**NOTE 11: PENSION PLAN**

ALA in CA has a non-contributory defined benefit plan (Plan) covering all employees who meet the eligibility requirements. To be eligible, an employee must be 21 years of age but less than 60 years at hire and have completed one year of service. Plan assets primarily consist of listed securities. Changes in these values attributable to differences between actual and assumed returns on plan assets are deferred as unrecognized gains or losses and amortized in the determination of net pension expense over time. The measurement date used to determine the pension measurements for the majority of plan assets and benefit obligations was June 30 of each year.

The following table, as provided by the Plan's outside administrator, sets forth the Plan's funded status and amounts recognized in ALA in CA's financial statements at June 30, 2015 and June 30, 2014.

	<u>2015</u>	<u>2014</u>
<b>Change in benefit obligation</b>		
Benefit obligation at beginning of year	\$ 6,231,216	\$ 5,940,450
Interest cost	252,488	257,663
Actuarial loss (gain)	103,957	377,960
Settlements	( 532,998)	
Benefits paid	( 197,111)	(344,857)
	<u>\$ 5,857,552</u>	<u>\$ 6,231,216</u>
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	\$ 4,881,930	\$ 4,569,560
Net return on plan assets	(81,122)	489,798
Employer contributions	135,000	167,429
Settlements	(532,998)	
Benefits paid	(197,111)	(344,857)
	<u>\$ 4,205,699</u>	<u>\$ 4,881,930</u>

Funded status at end of year	\$ (1,651,853)	\$ (1,349,286)
Amount recognized in the statement of financial position consist of :		
Non-current liabilities	(1,651,853)	(1,349,286)
Accumulated benefit obligation at end of year	6,260,546	6,231,216

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

Projected benefit obligation	5,857,552	6,231,216
Accumulated benefit obligation	6,260,546	6,231,216
Fair value of plan assets	4,205,699	4,881,930

**Net periodic benefit cost and other changes in unrestricted net assets**

Net periodic benefit cost	157,241	39,485
Recognized net loss	439,049	119,841
Prior service credit	(158,723)	(13,501)
Total	\$ <u>437,567</u>	\$ <u>145,825</u>

**Weighted average assumptions used to determine net periodic benefit costs for the year ended June 30,**

Discount rate	4.25%	4.75%
Salary scale	N/A	N/A
Expected return on plan assets	5.50%	5.50%

**Asset allocation**

Asset category		
Equity securities	21.94%	23.86%
Debt securities	63.75%	65.58%
Real estate	11.95%	7.95%
Cash and cash equivalents	2.36%	2.61%
	<u>100%</u>	<u>100%</u>

**Benefits expected to be paid for fiscal Year beginning July 1**

2016	\$	448,447
2017		589,116
2018		450,913
2019		304,615
2020		322,968
2021-2025		1,608,817

The following are the major categories of plan assets at fair value as of June 30, 2015 and 2014:

	June 30, 2015		
	Level 1	Level 2	Total
Equity mutual funds	\$ 1,000,858	\$	\$ 1,000,858
U.S. Treasury bonds		439,800	439,800
Corporate and foreign bonds		2,654,810	2,654,810
Municipal obligations		110,231	110,231
Total	<u>\$ 1,000,858</u>	<u>\$ 3,204,841</u>	<u>\$ 4,205,699</u>

  

	June 30, 2014		
	Level 1	Level 2	Total
Money funds	\$ 95,809	\$	\$ 95,809
Equity mutual funds	1,172,538		1,172,538
U.S. Treasury bonds	386,355		386,355
Corporate and foreign bonds		3,124,890	3,124,890
Municipal obligations		102,338	102,338
Total	<u>\$ 1,654,702</u>	<u>\$ 3,227,228</u>	<u>\$ 4,881,930</u>

**Rate of return on assets assumption:**

Effective July 1, 2014, the expected long term rate of return on assets assumption is 5.50%. As defined in ASC 715-20 *Compensation - Retirement Benefits*, this assumption represents the rate of return on plan assets reflecting the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the benefit obligation. The assumption has been determined by reflecting expectations regarding future rates of return for the investment portfolio, with consideration given to the distribution of investments by asset class and historical rates of return for each individual asset class.

**Investment strategy:**

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

Specifically, the primary objective in the investment management of plan assets 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 plan 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 ALA in CA are preservation of capital and minimization of costs.

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

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

**NOTE 12: ALLOCATION OF JOINT COSTS OF INFORMATIONAL MATERIAL AND ACTIVITIES ASSOCIATED WITH FUND RAISING APPEALS**

ALA in CA incurred joint costs of \$1,544,125 and \$1,818,363 for informational materials and activities that included fundraising appeals as part of ALA’s in CA direct mail campaigns for the years ended June 30, 2015 and 2014 respectively. The Association follows the accounting guidance for joint costs contained in Topic 958 of the FASB Codification. These costs were allocated as follows:

- To program services to the extent they are intended to inform or educate the public concerning respiratory health.
- To supporting services including fund raising to the extent they are intended to induce the contribution of financial resources or enhance the image of ALA in CA.

The following is an allocation of these costs:

	<u>2015</u>	<u>2014</u>
Program services	\$ <u>972,798</u>	\$ <u>966,155</u>
Support services:		
Management and general – sharable direct mail fees	92,648	285,081
Fundraising	<u>478,679</u>	<u>567,127</u>
	<u>571,327</u>	<u>852,208</u>
Total	\$ <u><u>1,544,125</u></u>	\$ <u><u>1,818,363</u></u>

**NOTE 13: RELATED PARTY TRANSACTIONS**

The ALA in CA, as a chartered association, participates in the American Lung Association’s national direct response program. The American Lung Association National Office provides research, materials, publications, and various fundraising services to ALA in CA. In addition, the association pays a portion of contributions to the American Lung Association as a sharable payment. The cost of these services and the sharable payment is charged to program and supporting services.

Summary of the revenue and costs of the transactions with The American Lung Association National Office that occurred in the year ended June 30, 2015 and 2014 is set out as follows:

	<u>2015</u>	<u>2014</u>
National Direct Response Program:		
Revenue received	\$ 2,445,028	\$ 2,616,784
National Direct Response Program Costs	<u>(1,544,125)</u>	<u>(1,627,500)</u>
Net Program revenue	<u>900,903</u>	<u>989,284</u>
Direct Mail fee for service paid to National Office by 30%	270,271	296,785
Other Shareable Costs paid to National Office	<u>1,012,614</u>	<u>878,768</u>
Total payments made to National Office	<u>\$ 1,282,885</u>	<u>\$ 1,175,553</u>

**NOTE 14: CHARITABLE GIFT ANNUITIES**

Charitable gift annuity agreements require periodic payment of either the income earned or a fixed percentage of the assets to designated beneficiaries and terminate either at a specific time, or upon the death of the designated individual. ALA in CA's gift annuity agreements are currently administered through Comerica. An asset for each gift annuity is established at the fair value of the gift. A liability is also recorded for each gift annuity based upon an actuarial calculation at a discount rate of 3 % and 3.2% during the years ended June 30, 2015 and 2014 respectively. Asset and liability associated with charitable gift annuities is \$424,034 and \$506,219 at June 30, 2015 and \$502,269 and \$557,099 at June 30, 2014 respectively.

**NOTE 15: RESTATEMENT OF BEGINNING BALANCE OF UNRESTRICTED NET ASSETS**

The beginning balance of unrestricted net assets has been restated as a result of correcting accounting errors in the prior year. The effect of this restatement is as follows:

Balance, beginning of the year as previously reported	\$ 12,412,996
Nonqualified deferred compensation	(146,198)
Variance in accounts receivables posted from prior years	<u>(332,524)</u>
Restated beginning balance of unrestricted net assets	<u>\$ 11,934,274</u>

**NOTE 16: EVALUATION OF SUBSEQUENT EVENTS**

The management of ALA in CA have reviewed the results of operations for the period of time from its year end June 30, 2015 through October 17, 2015, the date the financial statements were available to be issued and have determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.

**SUPPLEMENTARY INFORMATION**

**AMERICAN LUNG ASSOCIATION IN CALIFORNIA  
STATEMENT OF EXPENDITURES FOR COUNTY OF ALAMEDA GRANTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**Master Contract: Consolidated PHSVC 900665**

<b>Contract Number:</b>	<b>900665</b>	<b>900665</b>	<b>900665</b>	
<b>Encumbrance/File Number:</b>	*	*	*	
<b>Contract Period:</b>	<b>07/1/14-6/30/15</b>	<b>07/1/14-6/30/15</b>	<b>07/1/14-6/30/15</b>	
	<b>Tobacco Coalition <u>2502</u></b>	<b>Tobacco Community <u>2503</u></b>	<b>Tobacco Cessation <u>2504</u></b>	<b><u>Total</u></b>
Contract Amount	\$ <u>42,000</u>	\$ <u>110,000</u>	\$ <u>95,000</u>	\$ <u>247,000</u>
Salaries	27,350		59,345	86,695
Fringe benefits and payroll taxes	4,923		10,682	15,605
Consultants/Community grants		100,000		100,000
Rent			4,500	4,500
Communications	600		840	1,440
Staff and volunteer travel	355		1,400	1,755
Conferences, conventions, and meetings	850		200	1,050
Duplicating	300		500	800
Printing and publications			100	100
Postage	150		100	250
Internship stipends			3,750	3,750
Website expenses	900			900
Program awards	300			300
Media and Promotions			495	495
Office supplies	200		402	602
Health Educational Materials			100	100
Promotional Items/Incentives	594		690	1,284
Indirect (admin) cost	<u>5,478</u>	<u>10,000</u>	<u>12,391</u>	<u>27,869</u>
 Total expenses	 <u>42,000</u>	 <u>110,000</u>	 <u>95,495</u>	 <u>247,495</u>
 Amount reimbursed by the County of Alameda	 <u>\$ <u>42,000</u></u>	 <u>\$ <u>110,000</u></u>	 <u>\$ <u>95,000</u></u>	 <u>\$ <u>247,000</u></u>

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

The Board of Directors  
American Lung Association in California  
Oakland, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of American Lung Association in California (a Non-Profit Organization), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 17, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered American Lung Association in California's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of American Lung Association in California's internal control. Accordingly, we do not express an opinion on the effectiveness of American Lung Association in California's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether American Lung Association in California's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Palmieri Associates, Ltd*  
Oakland, California  
October 17, 2015

**AMERICAN LUNG ASSOCIATION IN CALIFORNIA  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED JUNE 30, 2015**

No findings are reportable in the current year.

**AMERICAN LUNG ASSOCIATION IN CALIFORNIA  
STATUS OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2015**

There were no findings reported in the prior year.