
AMERICAN LUNG ASSOCIATION IN CALIFORNIA

AUDITED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

AMERICAN LUNG ASSOCIATION IN CALIFORNIA

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-19
SUPPLEMENTARY INFORMATION	
Statement of Expenditures for County of Alameda Grants	20
Schedule of Expenditures of Federal Awards	21
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 <i>GOVERNMENT AUDITING STANDARDS</i>	22-23
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133	24-25
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	26-27
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS	28

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, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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; 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, 2014, 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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statement of expenditures for County of Alameda grants and the *schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are 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, 2013 were audited by us and we expressed an unmodified opinion on them in our report dated October 22, 2013. However, we have not performed any auditing procedures with respect to the June 30, 2013 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 20, 2014, 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.

Patricia A. Assmann, LLP
Oakland, California
October 20, 2014

AMERICAN LUNG ASSOCIATION IN CALIFORNIA
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014
(Summarized Totals for 2013)

ASSETS	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>	
				<u>2014</u>	<u>2013</u>
Current assets:					
Cash (Note 1)	\$ 2,260,884	\$ 40,061	\$	\$ 2,300,945	\$ 3,249,796
Accounts receivable (Note 2)	1,177,858			1,177,858	1,580,605
Prepaid expenses and deposits	<u>42,898</u>			<u>42,898</u>	<u>58,102</u>
Total current assets	<u>3,481,640</u>	<u>40,061</u>		<u>3,521,701</u>	<u>4,888,503</u>
Noncurrent assets:					
Long-term investments (Note 3)	11,046,320		24,633	11,070,953	9,877,703
Beneficial interest in perpetual trust (Notes 3 and 6)			16,285,422	16,285,422	14,808,353
Security deposits	39,353			39,353	30,749
Charitable gift annuities (Note 14)	502,269			502,269	533,440
Nonqualified deferred compensation (Note 5)	223,000			223,000	235,000
Property and equipment, net (Note 7)	<u>1,037,674</u>	<u>1,300,000</u>		<u>2,337,674</u>	<u>1,126,680</u>
Total noncurrent assets	<u>12,848,616</u>	<u>1,300,000</u>	<u>16,310,055</u>	<u>30,458,671</u>	<u>26,611,925</u>
Total assets	<u>\$ 16,330,256</u>	<u>\$ 1,340,061</u>	<u>\$ 16,310,055</u>	<u>\$ 33,980,372</u>	<u>\$ 31,500,428</u>
 LIABILITIES AND NET ASSETS					
Current liabilities:					
Accounts payable - ALA	\$ 141,349	\$	\$	\$ 141,349	\$ 280,339
Accounts payable - other	1,052,542			1,052,542	884,237
Accrued 403(b) plan liability	153,412			153,412	188,866
Accrued leave	233,002			233,002	242,741
Deferred revenue	207,570			207,570	266,405
Charitable gift annuities (Note 14)	<u>557,099</u>			<u>557,099</u>	<u>602,472</u>
Total current liabilities	<u>2,344,974</u>			<u>2,344,974</u>	<u>2,465,060</u>
Nonqualified deferred compensation (Note 5)	223,000			223,000	235,000
Accrued pension (Note 11)	<u>1,349,286</u>			<u>1,349,286</u>	<u>1,370,890</u>
Total liabilities	<u>3,917,260</u>			<u>3,917,260</u>	<u>4,070,950</u>
Net assets	<u>12,412,996</u>	<u>1,340,061</u>	<u>16,310,055</u>	<u>30,063,112</u>	<u>27,429,478</u>
Total liabilities and net assets	<u>\$ 16,330,256</u>	<u>\$ 1,340,061</u>	<u>\$ 16,310,055</u>	<u>\$ 33,980,372</u>	<u>\$ 31,500,428</u>

The accompanying notes are an integral part of these financial statements

AMERICAN LUNG ASSOCIATION IN CALIFORNIA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014
(Summarized Totals for 2013)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2014</u>	<u>2013</u>
PUBLIC SUPPORT AND REVENUES					
Contributions and donations:					
Direct mail:					
Other direct mail	\$ 2,588,433	\$	\$	\$ 2,588,433	\$ 2,763,477
Special events, net of \$234,541 direct expenses (Note 10)	1,194,473			1,194,473	1,097,196
Other contributions:					
Workplace giving	53,967			53,967	71,757
Memorials	117,562			117,562	104,046
Bequests	1,658,272			1,658,272	3,724,483
Other donations	297,578			297,578	473,857
Individual gifts	368,773	1,300,000		1,668,773	293,625
Total contributions and donations	<u>6,279,058</u>	<u>1,300,000</u>		<u>7,579,058</u>	<u>8,528,441</u>
Revenues:					
Foundation grants	413,958	109,125		523,083	465,596
Government grants	2,452,888			2,452,888	2,643,186
Corporation grants	66,189			66,189	219,543
Interest and dividends	224,694			224,694	229,385
Program service fees and sales	256,138			256,138	120,193
Shareable income	457,074			457,074	330,659
Other revenue	891,375			891,375	403,930
Total revenues	<u>4,762,316</u>	<u>109,125</u>		<u>4,871,441</u>	<u>4,412,492</u>
Net assets released from restrictions	129,824	(129,824)			
Total public support and revenues	<u>11,171,198</u>	<u>1,279,301</u>		<u>12,450,499</u>	<u>12,940,933</u>
EXPENSES					
Program services:					
Lung Cancer, Asthma, and Other Lung Diseases	2,854,750			2,854,750	1,851,740
Environmental health	1,105,112			1,105,112	775,522
Tobacco control	4,961,220			4,961,220	5,673,493
Community health services	2,504			2,504	3,695
Research	405,323			405,323	442,316
Total program services	<u>9,328,909</u>			<u>9,328,909</u>	<u>8,746,766</u>
Supporting services:					
Management and general	949,115			949,115	927,640
Fundraising	889,110			889,110	828,765
Total supporting services	<u>1,838,225</u>			<u>1,838,225</u>	<u>1,756,405</u>
Payments to national office	1,175,553			1,175,553	912,577
Total expenses	<u>12,342,687</u>			<u>12,342,687</u>	<u>11,415,748</u>
Change in net assets from operations	(1,171,489)	1,279,301		107,812	1,525,185
NON-OPERATING ACTIVITIES					
Investments:					
Increase in value of Swall Foundation (Note 6)			1,477,069	1,477,069	885,030
Change in value of gift annuities	14,202			14,202	(28,171)
Gain on asset disposal/donation				-	40,000
Realized gain (loss) on investments	102,644			102,644	1,013,600
Unrealized gain/(loss) on investments	1,077,523			1,077,523	(324,393)
Net loss on value of other assets	211			211	150
Pension expense	(145,827)			(145,827)	(95,887)
Change in net assets	(122,736)	1,279,301	1,477,069	2,633,634	3,015,514
Net assets, beginning	<u>12,535,732</u>	<u>60,760</u>	<u>14,832,986</u>	<u>27,429,478</u>	<u>24,413,964</u>
Net assets, ending	<u>\$ 12,412,996</u>	<u>\$ 1,340,061</u>	<u>\$ 16,310,055</u>	<u>\$ 30,063,112</u>	<u>\$ 27,429,478</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, 2014
(Summarized Totals for 2013)

	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	2014	2013
Personnel Expenses	\$ 1,063,532	\$ 707,850	\$ 2,458,902	\$ 218	\$	\$ 4,230,502	\$ 438,890	\$ 188,981	\$ 627,871	\$ 4,858,373	\$ 5,030,883
Program Expenses	296,727	54,602	797,245	2,158	384,990	1,535,722	94,216	623,816	718,032	2,253,754	2,740,573
Professional Fees	1,044,642	163,022	858,294	71	20,333	2,086,362	192,486	33,932	226,418	2,312,780	903,082
Interest Expense	12	5	19			36		1	1	37	
Supplies	29,956	16,262	68,066	5		114,289	5,138	3,180	8,318	122,607	130,804
Telephone	18,754	7,675	33,406	4		59,839	10,122	3,805	13,927	73,766	89,481
Postage & Shipping	13,586	6,786	24,828	3		45,203	4,290	3,425	7,715	52,918	49,893
Occupancy	74,239	25,192	148,209	16		247,656	78,355	7,658	86,013	333,669	304,853
Maintenance & Repairs	12,927	4,534	20,241	3		37,705	10,540	1,378	11,918	49,623	49,020
Equipment Rental	16,290	7,531	26,778	3		50,602	3,933	1,568	5,501	56,103	45,753
Conferences, Conventions & Meetings	54,005	42,560	151,073	11		247,649	4,603	12,141	16,744	264,393	331,194
Printing & Publications	37,042	12,448	52,956	6		102,452	8	2,835	2,843	105,295	92,305
Dues & Subscriptions	2,682	1,090	9,165	1		12,938	200	331	531	13,469	18,645
Depreciation	15,102	6,139	24,875	4		46,120	41,018	1,866	42,884	89,004	89,435
Miscellaneous	175,254	49,416	287,163	1		511,834	65,316	4,193	69,509	581,343	627,250
	<u>2,854,750</u>	<u>1,105,112</u>	<u>4,961,220</u>	<u>2,504</u>	<u>405,323</u>	<u>9,328,909</u>	<u>949,115</u>	<u>889,110</u>	<u>1,838,225</u>	<u>11,167,134</u>	<u>10,503,171</u>
Payments to national office	<u>211,600</u>	<u>152,822</u>	<u>117,555</u>	<u>47,022</u>	<u>528,999</u>	<u>1,057,998</u>	<u>70,533</u>	<u>47,022</u>	<u>117,555</u>	<u>1,175,553</u>	<u>912,577</u>
Total expenses	\$ <u>3,066,350</u>	\$ <u>1,257,934</u>	\$ <u>5,078,775</u>	\$ <u>49,526</u>	\$ <u>934,322</u>	\$ <u>10,386,907</u>	\$ <u>1,019,648</u>	\$ <u>936,132</u>	\$ <u>1,955,780</u>	\$ <u>12,342,687</u>	\$ <u>11,415,748</u>
Percent of total functional expenses	<u>25%</u>	<u>10%</u>	<u>41%</u>	<u>0%</u>	<u>8%</u>	<u>84%</u>	<u>8%</u>	<u>8%</u>	<u>16%</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, 2014

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,633,634	\$ 3,015,514
Adjustments to reconcile change in net assets to net cash (used)/provided by operating activities:		
Depreciation and write-offs	89,004	89,435
Gain on asset disposal/donation		(40,000)
Individual donation - non cash	(1,300,000)	
Unrealized (gain)/loss on investments	(1,077,523)	324,393
(Increase) decrease in:		
Accounts receivable	402,747	(224,052)
Bequest receivable		1,800,000
Prepaid expenses and other assets	15,204	1,361
Value of trusts	(1,477,069)	(885,030)
Gift annuity	(14,202)	28,171
Security deposits	(8,604)	(3,000)
Accounts payable and accrued leave	19,576	(279,303)
Deferred revenue	(58,835)	62,692
Accrued 403(b) plan	(35,454)	63,477
Accrued pension	(21,604)	11,887
	<u>(833,126)</u>	<u>3,965,545</u>
Net cash (used)/provided by operating activities		
Cash flows from investing activities:		
Purchase of equipment, net of disposals		(6,602)
Purchase of investments	<u>(115,725)</u>	<u>(2,904,607)</u>
	<u>(115,725)</u>	<u>(2,911,209)</u>
Net cash used in investing activities		
Net (decrease)/increase in cash	(948,851)	1,054,336
Cash at beginning of the year	<u>3,249,796</u>	<u>2,195,460</u>
Cash at end of the year	<u>\$ 2,300,945</u>	<u>\$ 3,249,796</u>
Supplemental disclosure:		
Cash paid for interest	<u>\$ 37</u>	<u>\$ -</u>
Non cash activity		
Gift of land	<u>\$ 1,300,000</u>	<u>\$ -</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, 2014 AND 2013**

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, 2014, ALA in CA had bank accounts with cash balance of \$2,298,255 before reconciling items. The bank balance exceeded FDIC's insurance limit by \$2,048,255. 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. Amounts for these contributed services are not reflected in the accompanying financial statements since the above criteria were not met. Donated materials are reported at fair market value at the date the contribution is received.

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. New Functional Expense Category

A new functional expense category, "Lung Cancer, Asthma, COPD and Other Lung Disease", was created for Fiscal Year 2014. This category incorporated what was previously the expense categories "Asthma" and "Other Lung Disease", but now also included expenses related to Lung Cancer. This change reflected American Lung Association's commitment to defeating lung cancer, as the LUNG FORCE Movement Kicked off in 2014 with increased focus on Lung Cancer initiatives.

M. 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, 2013, from which summarized information was derived.

NOTE 2: ACCOUNTS RECEIVABLE

A summary of accounts receivable is as follows:

	<u>2014</u>	<u>2013</u>
Tuberculosis grants	\$ 7,408	\$ 226,471
Tobacco grants	592,858	681,043
Asthma grants	68,888	92,246
Other receivables	<u>508,704</u>	<u>580,845</u>
Total	<u>\$ 1,177,858</u>	<u>\$ 1,580,605</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:

	<u>2014</u>			<u>2013</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Net Gain</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Net Gain</u>
Investments:						
Money Funds	\$ 2,188,944	\$ 2,188,944	\$	\$ 1,967,385	\$ 1,967,385	\$
Equity funds	<u>7,123,532</u>	<u>8,852,550</u>	<u>1,729,018</u>	<u>7,314,480</u>	<u>7,883,517</u>	<u>569,037</u>
Total	9,312,476	11,041,494	1,729,018	9,281,865	9,850,902	569,037
Beneficiary interest in Swall Foundation (Note 6)	11,079,350	16,285,422	5,206,072	11,024,826	14,808,353	3,783,527
Investment in San Diego Foundation	<u>29,459</u>	<u>29,459</u>	<u></u>	<u>26,801</u>	<u>26,801</u>	<u></u>
Total	<u>\$ 20,421,285</u>	<u>\$ 27,356,375</u>	<u>\$ 6,935,090</u>	<u>\$ 20,333,492</u>	<u>\$ 24,686,056</u>	<u>\$ 4,352,564</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, 2014. 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, 2014 and 2013:

The following table sets forth by Level within fair value hierarchy, ALA in CA's assets at fair value as of June 30, 2014 and 2013.

	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	1,987,284		6,025	1,993,309
Corporate bonds			1,738,632	1,738,632
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

	Assets at Fair Value as of June 30, 2013			
	Level 1	Level 2	Level 3	Total
Long-term investments:				
Money funds	\$ 1,995,114	\$	\$ 194,206	\$ 2,189,320
Government bonds			280,626	280,626
Municipal bonds	2,280,111		12,042	2,292,153
Corporate bonds			1,749,922	1,749,922
Mutual Funds	974,260		6,909,257	7,883,517
Equities	4,601,417		5,662,300	10,263,717
Investment in San Diego Foundation	26,801			26,801
Total assets	\$ 9,877,703	\$	\$ 14,808,353	\$ 24,686,056

There were no transfers between level 1 and level 2 during the years ended June 30, 2014 and 2013.

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, 2013, there was no transfer 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, 2014:

	Total
Balance, beginning of year	\$ 14,808,353
Purchases	2,215,359
Sales	(2,433,594)
Interest/Dividend	589,391
Payments to Beneficiaries	(721,394)
Other disbursements	(3,279)
Fees	(82,596)
Transfer	1,913,182
Balance, end of year	\$ 16,285,422

NOTE 5: 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. Payout is made from operations. At June 30, 2014, balance for unfunded retirement liability was \$223,000.

NOTE 6: 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, 2014 and 2013.

	<u>2014</u>	<u>2013</u>
Balance, beginning of year	\$ 14,808,353	\$ 13,923,323
Net increase in beneficial interest	<u>1,477,069</u>	<u>885,030</u>
Balance, end of year	<u>\$ 16,285,422</u>	<u>\$ 14,808,353</u>

NOTE 7: PROPERTY AND EQUIPMENT

A summary of property and equipment is as follows:

	<u>2014</u>	<u>2013</u>
Land	\$ 1,913,207	\$ 613,207
Building and improvements	994,970	994,970
Leasehold improvements	335,124	335,124
Office furniture and equipment	<u>1,039,864</u>	<u>1,039,864</u>
Total	4,283,165	2,983,165
Less: Accumulated depreciation	<u>(1,945,490)</u>	<u>(1,856,485)</u>
Total	<u>\$ 2,337,674</u>	<u>\$ 1,126,680</u>

Depreciation expense amounted to \$89,004 and \$89,435 for the years ended June 30, 2014 and 2013, respectively.

Included in the land is the \$1,300,000 of donated land received in fiscal year 2014, which will be held for three years according to the agreement with the donors.

NOTE 8: 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, 2014. This line of credit matured on July 1, 2013 and was renewed on October 10, 2014 with maturity date of July 1, 2015.

NOTE 9: 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 Payments</u>	<u>Expiration Date</u>
Oakland - State office	\$ 99,708	January 31, 2022
Sacramento	\$ 78,208	March 31, 2018
Bakersfield	\$ 30,272	August 31, 2014
Los Angeles	\$ 72,889	November 30, 2017
Orange	\$ 8,750	June 30, 2017

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	\$ 464	July 26, 2017
San Bernadino	\$ 347	July 10, 2018
Bakersfield	\$ 575	October 17, 2018
Fresno	\$ 701	October 17, 2018
Los Angeles	\$ 537	October 17, 2018
Sacramento	\$ 464	July 26, 2017
San Diego	\$ 759	December 24, 2016
Orange	\$ 255	March 11, 2019

Minimum future annual rental payments under non-cancellable operating leases (for office spaces) having remaining payments as of June 30, 2014 are:

<u>Fiscal Years</u>	<u>State Office</u>	<u>Sacramento</u>	<u>Bakersfield</u>	<u>Los Angeles</u>	<u>Orange</u>	<u>Total</u>
Ending June 30,						
2015	\$ 41,545	\$ 80,794	\$31,152	\$ 75,076	\$ 8,904	\$ 237,471
2016	102,450	83,379	32,247	77,328	8,904	304,308
2017	105,523	85,965	33,343	79,648	8,904	313,383
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	<u>71,236</u>					<u>71,236</u>
	<u>\$ 775,469</u>	<u>\$ 316,066</u>	<u>\$ 136,950</u>	<u>\$ 265,646</u>	<u>\$ 26,712</u>	<u>\$1,520,843</u>

NOTE 10: SPECIAL EVENTS - NET OF DIRECT EXPENSES

The following is a summary of special events income:

	<u>2014</u>	<u>2013</u>
Gross revenue	\$ 1,429,014	\$ 1,249,111
Direct expenses	<u>(234,541)</u>	<u>(151,915)</u>
	<u>\$ 1,194,473</u>	<u>\$ 1,097,196</u>

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, 2014 and June 30, 2013.

	<u>2014</u>	<u>2013</u>
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 5,940,450	\$ 6,044,872
Interest cost	257,663	234,118
Actuarial loss (gain)	377,960	(33,208)
Benefits paid	<u>(344,857)</u>	<u>(305,332)</u>
Benefit obligation at end of year	<u>\$ 6,231,216</u>	<u>\$ 5,940,450</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 4,569,560	\$ 4,685,869
Net return on plan assets	489,798	26,166
Employer contributions	167,429	162,857
Benefits paid	<u>(344,857)</u>	<u>(305,332)</u>
Fair value of assets at end of year	<u>\$ 4,881,930</u>	<u>\$ 4,569,560</u>
Funded status at end of year	\$ (1,349,286)	\$ (1,370,890)

Amount recognized in the statement of financial position consist of :

Non-current liabilities	(1,349,286)	(1,370,890)
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Accumulated benefit obligation at end of year	6,231,216	5,940,450
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Information for pension plans with an accumulated benefit obligation in excess of plan assets

Projected benefit obligation	6,231,216	5,940,450
Accumulated benefit obligation	6,231,216	5,940,450
Fair value of plan assets	4,881,930	4,569,560

Net periodic benefit cost and other changes in unrestricted net assets

Net periodic benefit cost	39,485	45,269
Recognized net loss	119,841	144,641
Prior service credit	(13,501)	(15,166)
Total	\$ 145,825	\$ 174,744

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

Discount rate	4.75%	4.25%
Rate of compensation increase	N/A	N/A
Expected return on plan assets	5.50%	5.00%

Asset allocation

Asset category		
Equity securities	23.86%	19.40%
Debt securities	65.58%	72.43%
Real estate	7.95%	3.69%
Cash and cash equivalents	2.61%	4.48%
	100%	100%

Benefits expected to be paid for fiscal Year beginning July 1

2014	\$ 496,520
2015	374,315
2016	528,313
2017	415,499
2018	567,407
2019-2023	1,432,945

The following are the major categories of plan assets at fair value as of June 30, 2014 and 2013:

	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	\$ 1,654,702	\$ 3,227,228	\$ 4,881,930

	June 30, 2013		
	Level 1	Level 2	Total
Money funds	\$ 231,794	\$	\$ 231,794
Common stocks	883,858		883,858
U.S. Treasury bonds	353,810		353,810
Corporate bonds		3,086,361	3,086,361
Joint venture		13,737	13,737
Total	\$ 1,469,462	\$ 3,100,098	\$ 4,569,560

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 *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.

Freeze of Plan Benefit Accruals:

In May 2009, ALA in CA’s management decided to implement a freeze of future Plan benefit accruals effective June 30, 2009 in light of ALA in CA’s current financial situation, the reductions in staff, and the organizational structure. As set forth in the Plan’s funded status as of June 30, 2014, benefit obligation decreased by approximately \$100,000 during fiscal year 2014.

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

Included in functional expenses are joint costs of activities, which are 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>2014</u>	<u>2013</u>
Program services	\$ <u>966,155</u>	\$ <u>1,007,262</u>
Support services:		
Management and general – sharable direct mail fees	285,081	313,583
Fundraising	<u>567,127</u>	<u>588,742</u>
	<u>852,208</u>	<u>902,325</u>
Total	\$ <u><u>1,818,363</u></u>	\$ <u><u>1,909,587</u></u>

NOTE 13: RELATED PARTY TRANSACTIONS

ALA in CA carries out the mission of American Lung Association (ALA) in the state of California. Some of the board members of ALA in CA are also on the Board of ALA. ALA in CA has entered into an agreement with ALA. ALA in CA pays shareable direct mail expenses and bundled payments to finance ALA office and program activities. ALA in CA paid \$1,175,553 and \$912,577 in shareable income fees for fiscal years 2014 and 2013, respectively.

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 3.2% during the years ended June 30, 2014 and 2013. Asset and liability associated with charitable gift annuities is \$502,269 and \$557,099, respectively, at June 30, 2014 and is \$533,440 and \$602,472 at June 30, 2013.

NOTE 15: 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, 2014 through October 20, 2014, 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, 2014**

Master Contract: Consolidated PHSVC 900665

Contract Number:	900665	900665	900665	
Encumbrance/File Number:	*	*	*	
Contract Period:	07/1/13-6/30/14	07/1/13-6/30/14	07/1/13-6/30/14	
	Tobacco Coalition <u>2502</u>	Tobacco Community <u>2503</u>	Tobacco Cessation <u>2504</u>	<u>Total</u>
Contract Amount	\$ <u>42,000</u>	\$ <u>100,800</u>	\$ <u>111,200</u>	\$ <u>254,000</u>
Salaries	29,400		60,729	90,129
Fringe benefits and payroll taxes	3,890		9,940	13,830
Consultants/Community grants		94,800		94,800
Communications	494		940	1,434
Staff and volunteer travel	78		945	1,023
Conferences, conventions, and meetings			426	426
Duplicating	393		407	800
Printing and publications	13		1,691	1,704
Postage	102		148	250
Website	720			720
Media and Promotions			10,078	10,078
Office supplies	121		921	1,042
Health Educational Materials			112	112
Promotional Items/Incentives	531		2,703	3,234
Indirect (admin) cost	<u>5,048</u>	<u>9,480</u>	<u>13,889</u>	<u>28,417</u>
Total expenses	<u>40,790</u>	<u>104,280</u>	<u>102,929</u>	<u>247,999</u>
Amount reimbursed by the County of Alameda	<u>\$ 34,974</u>	<u>\$ 97,506</u>	<u>\$ 77,177</u>	<u>\$ 209,657</u>

**AMERICAN LUNG ASSOCIATION IN CALIFORNIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2014**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>Department of Health and Human Services:</u>			
Pass-Through Programs From:			
Public Health Institute -			
Public Prevention Health Fund - Community Transformation Grant	93.531	194-164-6278-A1	\$ 159,623
County of Los Angeles - Department of Public Health Chronic Disease and Injury Prevention	93.531	PH-002144	<u>96,532</u>
			<u>256,154</u>
County of Riverside - Health Services Agency			
Tuberculosis Education and Prevention	93.116	FEDS1213ISIT	<u>286,723</u>
Tuberculosis Prevention and Control - refugee health	93.576	12-33-90840-00	<u>78,738</u>
			<u>621,615</u>
Total Pass-Through			<u>621,615</u>
Total Department of Health and Human Services			<u>621,615</u>
<u>Environmental Protection Agency</u>			
<u>Direct Program</u>			
Asthma Grant	66.034		<u>28,187</u>
Total Environmental Protection Agency			<u>28,187</u>
Total Expenditures of Federal Awards			\$ <u><u>649,802</u></u>

Note 1: Basis of Presentation

The above schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of American Lung Association in California under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Government, and Non-Profit Organizations. Because the schedule presents only a selected portion of the operations of American Lung Association in California, it is not intended to and does not present the financial position, changes in net assets or cash flows of American Lung Association in California.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Pass-through entity identifying numbers are presented where available.

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, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 20, 2014.

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, LLP
Oakland, California
October 20, 2014

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited American Lung Association in California's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of American Lung Association in California's major federal programs for the year ended June 30, 2014. American Lung Association in California's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of American Lung Association in California's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about American Lung Association in California's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of American Lung Association in California's compliance.

Opinion on Each Major Federal Program

In our opinion, American Lung Association in California complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of American Lung Association in California is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered American Lung Association in California's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of American Lung Association in California's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Patricia A. Aronowitz, LLP
Oakland, California
October 20, 2014.

**AMERICAN LUNG ASSOCIATION IN CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	<i>Unmodified</i>
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weaknesses identified?	No
• Significant deficiencies identified?	None reported
Type of auditor's report issued on compliance for major programs:	<i>Unmodified</i>
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.576	Tuberculosis Prevention and Control - Refugee Health
93.531	Public Prevention Health Fund – Community Transformation Grant
93.531	Department of Public Health – Chronic Disease and Injury Prevention
93.116	Tuberculosis Education and Prevention

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

**AMERICAN LUNG ASSOCIATION IN CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

SECTION II - FINANCIAL STATEMENTS FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

**AMERICAN LUNG ASSOCIATION IN CALIFORNIA
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2014**

No matters were reported.