

American Lung Association in California

Financial Statements

Years Ended June 30, 2016 and 2015

American Lung Association in California

Financial Statements
Years Ended June 30, 2016 and 2015

American Lung Association in California

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Tel: 314-889-1100
Fax: 314-889-1101
www.bdo.com

101 South Hanley Road, Suite 800
St. Louis, MO 63105

Independent Auditor's Report

To the Board of Directors
American Lung Association in California
Oakland, California

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, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the American Lung Association in California as of June 30, 2016, 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 Matter - Prior Year Comparative Information

Prior year financial information presented contains only summarized information and is not a presentation in accordance with generally accepted accounting principles. Accordingly, such information, which is presented for comparative purposes only, should be read in conjunction with the financial statements for the year ended June 30, 2015 from which the summarized information was derived.

Other Matter - Prior Year Financial Statements

The financial statements of the American Lung Association in California as of and for the year ended June 30, 2015 were audited by Patel & Associates, LLP. Their report dated October 17, 2015 expressed an unmodified opinion on those financial statements.

BDO USA, LLP

St. Louis, Missouri
October 31, 2016

Financial Statements

American Lung Association in California

Statement of Financial Position

June 30, 2016

(Summarized Totals as of June 30, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2016	2015
Assets					
Current Assets					
Cash	\$ 3,404,115	\$ 273,497	\$ -	\$ 3,677,612	\$ 1,725,854
Accounts receivable	1,658,016	-	-	1,658,016	837,670
Prepaid expenses and deposits	71,491	-	-	71,491	28,749
Total Current Assets	5,133,622	273,497	-	5,407,119	2,592,273
Noncurrent Assets					
Long-term investments	10,669,244	-	26,588	10,695,832	11,139,067
Beneficial interest in perpetual trust	-	-	15,643,793	15,643,793	15,914,830
Security deposits	36,530	-	-	36,530	26,292
Charitable gift annuities	392,968	-	-	392,968	424,034
Property and equipment, net	100,960	1,300,000	-	1,400,960	2,115,489
Total Noncurrent Assets	11,199,702	1,300,000	15,670,381	28,170,083	29,619,712
Total Assets	\$ 16,333,324	\$ 1,573,497	\$ 15,670,381	\$ 33,577,202	\$ 32,211,985
Liabilities and Net Assets					
Current Liabilities					
Accounts payable	\$ 568,690	\$ -	\$ -	\$ 568,690	\$ 710,898
Accrued 403(b) plan liability	5,999	-	-	5,999	6,954
Accrued leave	250,211	-	-	250,211	198,862
Deferred revenue	315,966	-	-	315,966	333,949
Charitable gift annuity liabilities	543,147	-	-	543,147	506,219
Total Current Liabilities	1,684,013	-	-	1,684,013	1,756,882
Noncurrent Liabilities					
Nonqualified Deferred Compensation	104,656	-	-	104,656	125,427
Accrued Pension	2,566,563	-	-	2,566,563	1,651,853
Total Noncurrent Liabilities	2,671,219	-	-	2,671,219	1,777,280
Total Liabilities	4,355,232	-	-	4,355,232	3,534,162
Net Assets	11,978,092	1,573,497	15,670,381	29,221,970	28,677,823
Total Liabilities and Net Assets	\$ 16,333,324	\$ 1,573,497	\$ 15,670,381	\$ 33,577,202	\$ 32,211,985

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

American Lung Association in California

Statement of Activities

Year End June 30, 2016

(Summarized Totals as of June 30, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2016	2015
Public Support and Revenues					
Contributions and donations:					
Direct mail	\$ 2,320,886	\$ -	\$ -	\$ 2,320,886	\$ 2,445,028
Special events, net of direct expense	1,381,243	-	-	1,381,243	1,345,570
Other contributions:					
Workplace giving	62,658	-	-	62,658	62,134
Memorials	162,833	-	-	162,833	242,021
Bequests	3,114,813	-	-	3,114,813	2,673,736
Other donations	117,573	25,000	-	142,573	233,248
Individual gifts	293,739	-	-	293,739	334,816
Total Contributions and Donations	7,453,745	25,000	-	7,478,745	7,336,553
Revenues:					
Foundation grants	406,953	-	-	406,953	467,563
Government grants	1,551,105	-	-	1,551,105	1,910,176
Corporation grants	25,091	-	-	25,091	1,000
Interest and dividend	180,274	-	-	180,274	206,054
Program service fees and sales	160,136	-	-	160,136	189,183
Payment from former affiliate	1,262,148	-	-	1,262,148	269,744
Gain on sale of property and equipment	2,309,203	-	-	2,309,203	70,693
Other revenue	37,406	-	-	37,406	186,688
Total Revenues	5,932,316	-	-	5,932,316	3,301,101
Net assets released from restrictions	324,415	(51,609)	(272,806)	-	-
Total Public Support and Revenue	13,710,476	(26,609)	(272,806)	13,411,061	10,637,654
Expenses					
Program services:					
Lung Cancer, Asthma, and Other Lung Diseases	1,710,837	-	-	1,710,837	1,810,846
Environmental health	1,174,163	-	-	1,174,163	1,029,665
Tobacco control	4,325,538	-	-	4,325,538	4,151,616
Research	641,943	-	-	641,943	665,148
Total Program Services	7,852,481	-	-	7,852,481	7,657,275
Supporting services:					
Management and general	915,785	-	-	915,785	1,116,909
Fundraising	1,287,417	-	-	1,287,417	892,192
Total Supporting Services	2,203,202	-	-	2,203,202	2,009,101
Payments to national office	1,338,630	-	-	1,338,630	1,282,885
Total Expenses	11,394,313	-	-	11,394,313	10,949,261
Change in net assets from operations	2,316,163	(26,609)	(272,806)	2,016,748	(311,607)
Non-Operating Activities					
Investments:					
Realized gain (loss) on investments	(112,474)	-	-	(112,474)	112,738
Unrealized gain (loss) on investments	(209,028)	-	-	(209,028)	(331,917)
Change in value of beneficial interests in trusts	(272,805)	-	-	(272,805)	283,237
Change in value of charitable gift annuities	(80,994)	-	-	(80,994)	(370,592)
Pension expense	(797,300)	-	-	(797,300)	(288,426)
Change in net assets	843,562	(26,609)	(272,806)	544,147	(906,567)
Net Assets, Beginning	11,134,530	1,600,106	15,943,187	28,677,823	29,584,390
Net Assets, Ending	\$ 11,978,092	\$ 1,573,497	\$ 15,670,381	\$ 29,221,970	\$ 28,677,823

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

American Lung Association in California
Statement of Functional Expenses
Year End June 30, 2016
(Summarized Totals as of June 30, 2015)

	Program Services							Supporting Services			Total	
	Lung Cancer, Asthma, COPD, Other Lung Diseases	Environmental Health	Tobacco Control	Community Health Services	Research	Total	Management and General	Fund Raising	Total	2016	2015	
Personnel expenses	\$ 800,911	\$ 733,604	\$ 2,737,303	\$ -	\$ -	\$ 4,271,818	\$ 121,572	\$ 503,156	\$ 624,728	\$ 4,896,546	\$ 4,654,065	
Program expenses	559,772	54,779	189,934	-	641,943	1,446,428	80,103	426,995	507,098	1,953,526	2,193,169	
Professional fees	124,540	187,988	617,050	-	-	929,578	645,516	150,344	795,860	1,725,438	1,476,740	
Supplies	18,458	17,726	64,603	-	-	100,787	3,367	9,318	12,685	113,472	84,956	
Telephone	11,454	9,212	36,943	-	-	57,609	2,637	8,906	11,543	69,152	71,321	
Postage and shipping	6,787	6,370	24,303	-	-	37,460	876	5,298	6,174	43,634	53,985	
Occupancy	86,479	78,850	316,982	-	-	482,311	31,946	57,622	89,568	571,879	512,130	
Maintenance and repairs	3,288	2,658	10,289	-	-	16,235	-	2,042	2,042	18,277	39,305	
Equipment rental	8,233	8,102	30,297	-	-	46,632	377	5,731	6,108	52,740	64,890	
Conferences, conventions & meeting	36,986	39,283	140,387	-	-	216,656	8,516	31,173	39,689	256,345	286,269	
Printing and publications	19,993	6,341	39,632	-	-	65,966	452	5,214	5,666	71,632	80,284	
Depreciation	2,864	2,620	9,942	-	-	15,426	6,205	2,011	8,216	23,642	58,078	
Bad debt expense	-	-	-	-	-	-	-	-	-	-	20,000	
Miscellaneous	31,072	26,630	107,873	-	-	165,575	14,218	79,607	93,825	259,400	71,184	
	1,710,837	1,174,163	4,325,538	-	641,943	7,852,481	915,785	1,287,417	2,203,202	10,055,683	9,666,376	
Payments to national office	294,499	120,477	133,863	40,159	615,771	1,204,769	80,318	53,543	133,861	1,338,630	1,282,885	
Total Expenses	\$ 2,005,336	\$ 1,294,640	\$ 4,459,401	\$ 40,159	\$ 1,257,714	\$ 9,057,250	\$ 996,103	\$ 1,340,960	\$ 2,337,063	\$ 11,394,313	\$ 10,949,261	
Percent of total functional expenses	18%	11%	39%	0%	11%	79%	9%	12%	21%	100%	100%	

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

American Lung Association in California

Statement of Cash Flows

Year End June 30, 2016

(Summarized Totals as of June 30, 2015)

Year Ended June 30,	2016	2015
Cash Flows From Operating Activities		
Change in net assets	\$ 544,147	\$ (906,567)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	23,642	58,078
Gain on disposal of assets	(2,309,202)	(65,493)
Realized and unrealized (gain) loss on investments	321,502	331,917
(Increase) decrease in assets:		
Accounts receivable	(820,346)	7,664
Prepaid expenses and other assets	(42,742)	14,149
Beneficial interest in perpetual trust	271,037	(32,017)
Gift annuity	67,994	29,936
Security deposits	(10,238)	13,060
Increase (decrease) in liabilities:		
Accounts payable and accrued leave	(142,208)	(517,133)
Deferred revenue	(17,983)	126,379
Accrued 403(b) plan	(955)	(146,458)
Accrued leave	51,349	-
Accrued pension	914,710	302,567
Nonqualified deferred compensation	(20,771)	(20,771)
Net Cash Used By Operating Activities	(1,170,064)	(804,689)
Cash Flows From Investing Activities		
Sales of investments	13,671,451	-
Purchases of equipment	-	(5,201)
Proceeds from disposal of fixed asset	3,000,089	234,799
Purchases of investments	(13,549,718)	-
Net Cash Provided By Investing Activities	3,121,822	229,598
Net Increase (Decrease) In Cash	1,951,758	(575,091)
Cash at beginning of the year	\$ 1,725,854	\$ 2,300,945
Cash at end of the year	\$ 3,677,612	\$ 1,725,854
Non-cash activities:		
In-kind donations	\$ 22,341	\$ 147,022

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

American Lung Association in California

Notes to Financial Statements

1. Organization and Summary of Significant Accounting Policies

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 affiliates, public donations and government grants.

Basis of Accounting

The financial statements of ALA in CA have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

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. The following is a description of these classes of net assets:

Unrestricted- Those resources over which management and the Board of Directors has discretionary control. Designated amounts represent those resources that the Board has set aside for particular purposes.

Temporarily Restricted- Those resources subject to donor-imposed restrictions that will be satisfied by actions of ALA in CA or the passage of time.

Permanently Restricted- Those resources subject to donor-imposed restrictions that will be maintained permanently by ALA in CA. Income derived from these resources may be used to support specified activities.

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.

Use of Estimates

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

Cash

Cash includes cash held in savings and checking accounts at banks or other financial institutions. Money market funds held in investment accounts are reported as investments. ALA in CA maintains its cash balances in a financial institution located in Northern California. All deposits maintained in

American Lung Association in California

Notes to Financial Statements

an insured depository institution are insured up to \$250,000 per bank by the Federal Deposit Insurance Corporation ("FDIC"). At June 30, 2016, ALA in CA had bank accounts with cash balances of \$4,058,095 before reconciling items. The bank balance exceeded the FDIC's insurance limit by \$3,808,095. It is the opinion of the management that the solvency of the financial institution is not of particular concern at this time.

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 30 years.

ALA in CA reviews the carrying value of its long-lived assets, including property and equipment, when events or changes in circumstances indicate the carrying value may not be recoverable. To the extent fair value of a long-lived asset, determined based upon the estimated future cash inflows attributable to the asset less estimated future cash outflows are less than the carrying amount, an impairment loss is recognized. No such losses were recognized during the year.

Investments

U.S. GAAP requires 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.

Gift Annuity Liabilities

Gift annuity liabilities are stated at the actuarial present value of the aggregate liability for annuitants based on life expectancy tables. The discount rate used to determine present value was 1.8% at June 30, 2016 and 2015.

Grants and Contract Revenue Recognition

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

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Notes to Financial Statements

Restricted and Unrestricted Revenue

Contributions including unconditional promises to give are recognized as revenues in the period that promise is received. Restricted contributions, bequests, investment income and gains whose donor restrictions are met in the same reporting period when 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.

Bequests

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

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 materials and services of \$22,341 and \$147,022 for the years ended June 30, 2016 and 2015, which are classified under other revenue in the statement of activities.

Income Taxes

ALA in CA 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. ALA in CA has not taken any uncertain tax position as of June 30, 2016 and 2015.

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

American Lung Association in California

Notes to Financial Statements

America. Accordingly, such information should be read in conjunction with ALA in CA's financial statements for the year ended June 30, 2015, from which summarized information was derived.

Reclassifications

Certain items in the 2015 financial statements have been reclassified to conform to the 2016 presentation.

Subsequent Events

Management has evaluated subsequent events through October 31, 2016, the date the financial statements were available to be issued.

2. Accounts Receivable

A summary of accounts receivable is as follows:

<i>December 31,</i>	2016	2015
Tuberculosis grants	\$ -	\$ 463
Tobacco grants	799,390	582,694
Asthma grants	63,548	52,458
Other receivables	795,078	202,055
Total	\$1,658,016	\$ 837,670

The accounts receivable are considered by management to be fully collectible; therefore, no allowance for uncollectability has been recorded.

3. Long-Term Investments

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

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Investments:				
Money Funds	\$ 1,347,597	\$ 1,347,597	\$ 1,298,732	\$ 1,298,732
Equity and fixed income funds	9,047,504	9,321,647	9,285,937	9,811,978
Unrestricted long-term investments	10,395,101	10,669,244	10,584,669	11,110,710
Investment in San Diego Foundation	26,588	26,588	28,357	28,357
Total long-term investments	10,421,689	10,695,832	10,613,026	11,139,067
Beneficial interest in perpetual trust	11,133,829	15,643,793	11,302,530	15,914,830
Total	\$ 21,555,518	\$ 26,339,625	\$ 21,915,556	\$ 27,053,897

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Notes to Financial Statements

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.

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 Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, *Fair Value Measurements*, 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 ALA in CA 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's 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: money funds, government bonds, corporate bonds, mutual funds and equity.

Money funds are valued at fair value based on an amortized cost valuation method designed to maintain a net asset value ("NAV") of \$1 per share, which approximates fair value (level 1).

Government and corporate bonds are valued at fair value as determined by the ALA in CA's investment broker based on market quotations for similar assets in active markets, outside pricing services, or computerized pricing models (level 2).

Mutual funds and equities are valued at quoted market prices of shares held at year-end (level 1).

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, 2016. ALA in CA considers the measurements

American Lung Association in California

Notes to Financial Statements

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, 2016 and 2015.

The following table sets forth by Level within fair value hierarchy, ALA in CA's assets at fair value as of June 30, 2016 and 2015:

	2016			
	Level 1	Level 2	Level 3	Total
Long-term investments:				
Money funds	\$ 1,347,597	\$ -	\$ 370,803	\$ 1,718,400
Government bonds	-	1,136,239	143,523	1,279,762
Corporate bonds	-	1,227,887	1,262,488	2,490,375
Mutual funds	-	-	7,513,269	7,513,269
Equities	6,957,521	-	5,939,157	12,896,678
Foreign Equities	-	-	414,553	414,553
Investment in San Diego Foundation	26,588	-	-	26,588
Total assets	\$ 8,331,706	\$ 2,364,126	\$ 15,643,793	\$ 26,339,625

	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
Foreign Equities	-	-	217,924	217,924
Investment in San Diego Foundation	28,357	-	-	28,357
Total assets	\$ 8,753,242	\$ 2,385,825	\$ 15,914,830	\$ 27,053,897

There were no transfers between level 1, level 2 or level 3 during the years ended June 30, 2016 and 2015.

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Notes to Financial Statements

The following table sets forth a summary of changes in the fair value of level 3 assets for the years ended June 30, 2016 and 2015:

	2016	2015
Balance, beginning of year	\$ 15,914,830	\$ 16,285,422
Interest/dividend income (reinvested)	819,907	249,896
Unrealized losses	(485,716)	(653,074)
Payments to beneficiaries	(775,552)	(1,743,497)
Realized gains	271,533	1,933,021
Fees and other expenses	(101,209)	(156,938)
Balance, end of year	\$ 15,643,793	\$ 15,914,830

A summary of liabilities at June 30, 2016 measured at estimated fair value on a recurring basis were as follows:

	2016			
	Total	Level 1	Level 2	Level 3
Charitable gift annuity liabilities	\$ 543,147	-	\$ 543,147	-

A summary of liabilities at June 30, 2015 measured at estimated fair value on a recurring basis were as follows:

	2015			
	Total	Level 1	Level 2	Level 3
Charitable gift annuity liabilities	\$ 506,219	-	\$ 506,219	-

5. Beneficial Interest in Perpetual Trust

After the last residual beneficiary individual of the Earle Swall Trust ("the Trust") died in 2007, ALA in CA became 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:

<i>June 30,</i>	2016	2015
Balance, beginning of year	\$15,914,830	\$ 16,285,422
Net decrease in beneficial interest	(271,037)	(370,592)
Balance, end of year	\$15,643,793	\$ 15,914,830

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6. Property and Equipment

A summary of property and equipment is as follows:

<i>June 30,</i>	2016	2015
Land	\$ 1,361,620	\$ 1,913,207
Building and improvements	184,860	558,525
Leasehold improvements	19,290	199,460
Office furniture and equipment	335,280	335,280
	<u>1,901,050</u>	<u>3,006,472</u>
Less accumulated depreciation	(500,090)	(890,983)
	<u>\$ 1,400,960</u>	<u>\$ 2,115,489</u>

Depreciation expense amounted to \$23,642 and \$58,078 for the years ended June 30, 2016 and 2015, respectively.

Included in the land is \$1,300,000 of donated land received in fiscal year 2014. The donor's restriction on the land will expire in January 2017. In addition, during the year ended June 30, 2016, ALA in CA disposed of its San Diego office building at a gain of \$2,448,502.

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, 2016. This line of credit was renewed on December 17, 2015 with a maturity date of December 15, 2016.

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	\$ 102,450	January 31, 2022
Sacramento	83,379	March 31, 2018
Bakersfield	32,247	August 31, 2019
Los Angeles	77,328	November 30, 2017
Orange	15,960	June 30, 2017
Chico	4,725	May 15, 2017
San Diego	71,960	December 31, 2018
Fresno	12,400	November 30, 2016

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

Location	Monthly Lease Expense	Expiration Date
Oakland - State Office	\$ 47	June 30, 2019
San Bernardino	125	July 10, 2019
San Bernardino 2	60	March 30, 2017
Bakersfield	36	June 30, 2019
Bakersfield 2	501	October 17, 2018
Fresno	180	December 31, 2016
Fresno 2	501	October 17, 2018
Los Angeles	45	June 30, 2019
Los Angeles 2	501	October 17, 2018
Sacramento	78	June 30, 2019
Sacramento 2	783	July 31, 2017
San Diego	106	June 30, 2019
San Diego 2	489	January 31, 2019
Orange	255	March 11, 2019

Minimum future annual rental payments under non-cancellable operating leases (for office spaces and postage machines) having remaining payments as of June 30, 2016 are:

Years Ending June 30,	State Office	Sacramento	Bakersfield	Los Angeles	Orange	Chico	San Diego	Fresno	Postage Machine	Total
2017	\$ 105,523	\$ 85,965	\$ 33,343	\$ 79,648	\$ 16,620	\$ 4,725	\$ 110,099	\$ 5,250	\$ 43,209	\$ 484,382
2018	108,689	65,928	34,438	33,594	-	-	113,402	-	29,128	385,179
2019	111,950	-	35,534	-	-	-	57,829	-	10,473	215,786
2020	115,308	-	5,953	-	-	-	-	-	125	121,386
2021	118,768	-	-	-	-	-	-	-	-	118,768
2022	71,236	-	-	-	-	-	-	-	-	71,236
	\$ 631,474	\$ 151,893	\$ 109,268	\$ 113,242	\$ 16,620	\$ 4,725	\$ 281,330	\$ 5,250	\$ 82,935	\$ 1,396,737

9. Special Events - Net of Direct Expenses

The following is a summary of special events income:

	2016	2015
Gross revenues	\$ 1,679,248	\$ 1,604,240
Direct expenses	(298,005)	(258,670)
	\$ 1,381,243	\$ 1,345,570

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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, 2016 and 2015, the balance of the unfunded retirement liability was \$104,656 and \$125,427, respectively.

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 and have completed one year of service. Plan assets primarily consist of listed securities. Changes in the 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, 2016 and June 30, 2015:

	2016	2015
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 5,857,552	\$ 6,231,216
Interest cost	253,515	252,488
Actuarial loss	977,459	103,957
Settlements	(426,943)	(532,998)
Benefits paid	(234,642)	(197,111)
	\$ 6,426,941	\$ 5,857,552
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 4,205,699	\$ 4,881,930
Net return on plan assets	203,164	(81,122)
Employer contributions	113,100	135,000
Settlements	(426,943)	(532,998)
Benefits paid	(234,642)	(197,111)
	\$ 3,860,378	\$ 4,205,699
Funded status at end of year	\$ (2,566,563)	\$ (1,651,853)
Amount recognized in the statement of financial position consists of:		
Non-current liabilities	(2,566,563)	(1,651,853)
Accumulated benefit obligation at end of year	6,426,941	6,260,546

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

Projected benefit obligation	6,426,941	5,857,552
Accumulated benefit obligation	6,426,941	6,260,546
Fair value of plan assets	3,860,378	4,205,699

Net periodic benefit cost and other changes in unrestricted net assets

Net periodic benefit cost	222,410	157,241
Recognized net loss	990,538	439,049
Prior service credit	(185,138)	(158,723)
	\$1,027,810	\$ 437,567

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

	2016	2015
Discount rate	4.50%	4.25%
Expected return on plan assets	5.50%	5.50%

Asset allocation

Equity securities	19.97%	21.94%
Debt securities	65.70%	63.75%
Real estate mutual funds	7.22%	11.95%
Cash and cash equivalents	7.11%	2.36%
	100%	100%

Benefits expected to be paid for fiscal year beginning July 1,

2017	\$ 533,705
2018	521,119
2019	395,863
2020	360,644
2021	358,264
2022-2026	1,732,858

The following are the major categories of plan assets at fair value:

	2016		Total
	Level 1	Level 2	
Equity mutual funds	\$ 777,058	\$ -	\$ 777,058
Corporate and foreign bonds	-	2,117,814	2,117,814
Money market funds	245,827	-	245,827
Municipal obligations	-	51,921	51,921
U.S. Government agencies	-	69,906	69,906
U.S. Treasury bonds	-	597,852	597,852
	\$ 1,022,885	\$ 2,837,493	\$ 3,860,378

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	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
	\$ 1,000,858	\$ 3,204,841	\$ 4,205,699

Rate of return on assets assumption

Effective July 1, 2014, the assumed long-term rate of return on assets 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 American Lung Association Retirement Plan "D" (the "Plan") emphasizes total return; that is, 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 the Plan 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.

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12. Allocation of Joint Costs of Informational Material and Activities Associated with Fund Raising Appeals

ALA in CA incurred joint costs of \$1,388,262 and \$1,544,125 for informational materials and activities that included fundraising appeals as part of ALA in CA's direct mail campaigns for the years ended June 30, 2016 and 2015, respectively. The Association follows the accounting guidance for joint costs contained in FASB ASC 958, *Not-for-Profit Entities*. 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:

	2016	2015
Program services	\$ 882,240	\$ 972,798
Support services:		
Management and general - shareable direct mail fees	80,103	92,648
Fundraising	425,919	478,679
	<u>\$ 1,388,262</u>	<u>\$ 1,544,125</u>

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 ALA in CA pays a portion of contributions to the American Lung Association National Office 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 during the years ended June 30, 2016 and 2015 is set out as follows:

	2016	2015
National Direct Response Program:		
Revenue received	\$ 2,320,886	\$ 2,445,028
National Direct Response Program costs	(1,388,262)	(1,544,125)
Net program revenue	<u>932,624</u>	<u>900,903</u>
Direct Mail fee for service paid to National Office at 30%	283,491	270,271
Other shareable costs paid to National Office	1,055,139	1,012,614
Total payments made to National Office	<u>\$ 1,338,630</u>	<u>\$ 1,282,885</u>

In addition, during the years ended June 30, 2016 and 2015, ALA in CA received contributions totaling \$59,184 and \$62,322, respectively, from its Board of Directors.

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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% for the years ended June 30, 2016 and 2015. The asset and liability associated with charitable gift annuities is \$392,968 and \$543,147 at June 30, 2016 and \$424,034 and \$506,219 at June 30, 2015, respectively.

15. Restricted Net Assets

Temporarily restricted net assets were available for the following purposes:

<i>June 30,</i>	2016	2015
Home Visitation	\$ -	\$ 1,609
Land Donation Los Gatos	1,300,000	1,300,000
Leigh Bernstein CRUT bequest	273,497	273,497
Hoehn family Charitable Trust	-	25,000
	\$ 1,573,497	\$ 1,600,106

Permanently restricted net assets at June 30, 2016 and 2015 are restricted to investment in perpetuity:

<i>June 30,</i>	2016	2015
Beneficial interest in Perpetual Trust (Note 5)	\$ 15,643,793	\$ 15,914,830
Investment in San Diego Foundation	26,588	28,357
	\$ 15,670,381	\$ 15,943,187

16. Unrestricted Net Assets

Certain unrestricted net assets have been designated for specific purposes by the Board of Directors. The Board of Directors retains control over such assets and may at its discretion subsequently use them for other purposes. Designated and undesignated unrestricted net assets are as follows:

<i>June 30,</i>	2016	2015
Operating fund - undesignated	\$ 10,353,445	\$ 9,509,883
Board Designated for special purposes fund	1,624,647	1,624,647
	\$ 11,978,092	\$ 11,134,530
