
**AMERICAN LUNG ASSOCIATION IN CALIFORNIA
(Formerly American Lung Association of California)**

**AUDITED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

AMERICAN LUNG ASSOCIATION IN CALIFORNIA

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of American Lung Association in California (a Non-Profit Organization) as of June 30, 2012, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of American Lung Association in California's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from American Lung Association in California's 2011 financial statements and, in our report dated October 31, 2011 we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of American Lung Association in California as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2012 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* and should be considered in assessing the results of our audit.

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 on page 19 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Parmi v. Asavadi
Oakland, California
October 24, 2012

AMERICAN LUNG ASSOCIATION IN CALIFORNIA
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012
(Summarized Totals for 2011)

ASSETS	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2012</u>	<u>2011</u>
Current assets:					
Cash (Note 1)	\$ 2,074,414	\$ 121,046	\$	\$ 2,195,460	\$ 1,603,179
Accounts receivable - other (Note 2)	1,356,553			1,356,553	1,912,820
Prepaid expenses and deposits	59,300			59,300	18,609
Total current assets	<u>3,490,267</u>	<u>121,046</u>		<u>3,611,313</u>	<u>3,534,608</u>
Noncurrent assets:					
Certificate of deposit			1,015	1,015	1,015
Bequest receivable (Note 3)	1,800,000			1,800,000	
Long-term investments (Note 4)	7,271,840		24,633	7,296,473	7,663,045
Beneficial interest in perpetual trust (Note 6)			13,923,323	13,923,323	14,014,606
Security deposits	27,749			27,749	29,250
Charitable gift annuities (Note 14)	596,852			596,852	675,280
Other assets	163			163	
Property and equipment, net (Note 7)	1,169,513			1,169,513	1,269,464
Total noncurrent assets	<u>10,866,117</u>		<u>13,948,971</u>	<u>24,815,088</u>	<u>23,652,660</u>
Total assets	<u>\$ 14,356,384</u>	<u>\$ 121,046</u>	<u>\$ 13,948,971</u>	<u>\$ 28,426,401</u>	<u>\$ 27,187,268</u>
 LIABILITIES AND NET ASSETS					
Current liabilities:					
Accounts payable - ALA	\$ 316,435	\$	\$	\$ 316,435	\$ 158,302
Accounts payable - other	1,106,135			1,106,135	618,557
Accrued 403(b) plan liability	125,389			125,389	50,000
Accrued leave	264,050			264,050	211,502
Deferred revenue	203,713			203,713	204,799
Borrowings (Note 8)				-	650,000
Charitable gift annuities (Note 14)	637,712			637,712	657,738
Total current liabilities	<u>2,653,434</u>			<u>2,653,434</u>	<u>2,550,898</u>
Accrued pension (Note 11)	1,359,003			1,359,003	602,700
Total liabilities	<u>4,012,437</u>			<u>4,012,437</u>	<u>3,153,598</u>
Net assets	<u>10,343,947</u>	<u>121,046</u>	<u>13,948,971</u>	<u>24,413,964</u>	<u>24,033,670</u>
Total liabilities and net assets	<u>\$ 14,356,384</u>	<u>\$ 121,046</u>	<u>\$ 13,948,971</u>	<u>\$ 28,426,401</u>	<u>\$ 27,187,268</u>

The accompanying notes are an integral part of these financial statements

AMERICAN LUNG ASSOCIATION IN CALIFORNIA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012
(Summarized Totals for 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012	Total 2011
PUBLIC SUPPORT AND REVENUES					
Contributions and donations:					
Direct mail:					
Other direct mail	\$ 2,832,363	\$	\$	2,832,363	\$ 3,240,035
Special events, net of \$161,381 direct expenses (Note 10)	1,141,756			1,141,756	1,124,048
Other contributions:					
Workplace giving	94,825			94,825	105,374
Memorials	119,591			119,591	141,442
Bequests	4,395,883			4,395,883	2,914,520
Other donations	365,656			365,656	371,382
Individual gifts	285,420			285,420	261,747
Total contributions and donations	<u>9,235,494</u>			<u>9,235,494</u>	<u>8,158,548</u>
Revenues:					
Foundation grants	263,978	242,763		506,741	706,952
Government grants	3,106,192			3,106,192	3,670,864
Corporation grants	116,300			116,300	336,297
Grants from ALA	18,750			18,750	38,847
Interest and dividends	202,614			202,614	312,881
Program service fees and sales	126,728			126,728	135,655
Shareable income	181,962			181,962	31,849
Other revenue	469,865			469,865	573,667
Total revenues	<u>4,486,389</u>	<u>242,763</u>		<u>4,729,152</u>	<u>5,807,012</u>
Net assets released from restrictions	512,102	(512,102)			
Total public support and revenues	<u>14,233,985</u>	<u>(269,339)</u>		<u>13,964,646</u>	<u>13,965,560</u>
EXPENSES					
Program services:					
Asthma	1,578,857			1,578,857	2,055,540
Environmental health	2,101,748			2,101,748	963,441
Tobacco control	4,795,013			4,795,013	6,037,085
Community health services	2,376			2,376	-
Other lung diseases	331,665			331,665	392,941
Research	660,296			660,296	494,079
Total program services	<u>9,469,955</u>			<u>9,469,955</u>	<u>9,943,086</u>
Supporting services:					
Management and general	786,771			786,771	1,043,428
Fundraising	1,209,058			1,209,058	1,494,394
Total supporting services	<u>1,995,829</u>			<u>1,995,829</u>	<u>2,537,822</u>
Payments to national office	787,044			787,044	758,061
Total expenses	<u>12,252,828</u>			<u>12,252,828</u>	<u>13,238,969</u>
Change in net assets from operations	1,981,157	(269,339)		1,711,818	726,591
NON-OPERATING ACTIVITIES					
Investments:					
Increase (decrease) in value of Swall Foundation (Note 6)			(91,283)	(91,283)	1,942,931
Change in value of gift annuities	(58,403)			(58,403)	17,542
Gain on asset disposal/donation	17,110			17,110	406,796
Realized gain (loss) on investments	331,127			331,127	(34,846)
Unrealized gain (loss) on investments	(609,982)			(609,982)	958,431
Net loss on value of other assets	(18,824)		(1,219)	(20,043)	-
Pension expense	(900,050)			(900,050)	(126,198)
Change in net assets	742,135	(269,339)	(92,502)	380,294	3,891,247
Net assets, beginning	9,601,812	390,385	14,041,473	24,033,670	20,142,423
Net assets, ending	<u>\$ 10,343,947</u>	<u>\$ 121,046</u>	<u>\$ 13,948,971</u>	<u>\$ 24,413,964</u>	<u>\$ 24,033,670</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, 2012
(Summarized Totals for 2011)

	Program Services							Supporting Services			Total	
	Asthma	Environmental Health	Tobacco Control	Community Health Services	Other Lung Diseases	Research	Total	Management and General	Fund Raising	Total	2012	2011
Personnel Expenses	\$ 635,032	\$ 754,212	\$ 2,806,487	\$ 389	\$ 183,329	\$ -	\$ 4,379,449	\$ 386,271	\$ 70,249	\$ 456,520	\$ 4,835,969	\$ 5,597,741
Program Expenses	508,914	987,981	249,673	1,790	22,753	660,296	2,431,407	-	1,097,942	1,097,942	3,529,349	1,008,562
Professional Fees	128,302	161,479	611,919	87	42,761	-	944,548	143,592	18,647	162,239	1,106,787	1,289,988
Interest Expense	-	-	-	-	-	-	-	6,384	-	6,384	6,384	33,053
Supplies	32,642	13,920	92,576	6	3,094	-	142,238	9,373	1,169	10,542	152,780	151,495
Telephone	8,703	10,767	47,704	8	6,418	-	73,600	6,827	3,648	10,475	84,075	96,364
Postage & Shipping	5,545	7,179	24,953	5	1,453	-	39,135	3,268	815	4,083	43,218	939,871
Occupancy	39,137	46,396	200,375	40	22,053	-	308,001	66,306	7,196	73,502	381,503	581,837
Maintenance & Repairs	4,317	5,118	16,812	4	1,327	-	27,578	13,098	799	13,897	41,475	79,835
Equipment Rental	6,456	7,734	29,264	6	2,827	-	46,287	7,217	1,081	8,298	54,585	67,909
Conferences, Conventions & Meetings	39,748	46,933	229,649	24	12,346	-	328,700	1,701	4,605	6,306	335,006	443,913
Printing & Publications	13,761	6,146	71,574	4	2,983	-	94,468	159	654	813	95,281	1,211,348
Dues & Subscriptions	1,253	1,485	11,555	1	313	-	14,607	-	232	232	14,839	17,925
Depreciation	8,419	9,983	30,681	9	2,101	-	51,193	47,414	1,558	48,972	100,165	157,191
Miscellaneous	146,628	42,415	371,791	3	27,907	-	588,744	95,161	463	95,624	684,368	803,876
	<u>1,578,857</u>	<u>2,101,748</u>	<u>4,795,013</u>	<u>2,376</u>	<u>331,665</u>	<u>660,296</u>	<u>9,469,955</u>	<u>786,771</u>	<u>1,209,058</u>	<u>1,995,829</u>	<u>11,465,784</u>	<u>12,480,908</u>
Payments to national office	<u>112,645</u>	<u>149,951</u>	<u>342,105</u>	<u>170</u>	<u>23,663</u>	<u>83,741</u>	<u>712,275</u>	<u>62,649</u>	<u>12,120</u>	<u>74,769</u>	<u>787,044</u>	<u>758,061</u>
Total expenses	\$ <u>1,691,502</u>	\$ <u>2,251,699</u>	\$ <u>5,137,118</u>	\$ <u>2,546</u>	\$ <u>355,328</u>	\$ <u>744,037</u>	\$ <u>10,182,230</u>	\$ <u>849,420</u>	\$ <u>1,221,178</u>	\$ <u>2,070,598</u>	\$ <u>12,252,828</u>	\$ <u>13,238,969</u>
Percent of total functional expenses	<u>14%</u>	<u>18%</u>	<u>42%</u>	<u>0%</u>	<u>3%</u>	<u>6%</u>	<u>83%</u>	<u>7%</u>	<u>10%</u>	<u>17%</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, 2012

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ 380,294	\$ 3,891,247
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and write-offs	100,165	157,191
Gain in asset disposal	(17,110)	(406,796)
Unrealized/realized loss (gain) on investments	609,982	(958,431)
(Increase) decrease in:		
Accounts receivable	556,267	(79,298)
Bequest receivable	(1,800,000)	-
Prepaid expenses	(40,691)	74,720
Value of trusts	91,283	(1,942,931)
Gift annuity	58,403	(17,542)
Security deposits	1,501	(721)
Accounts payable and accrued leave	698,259	(98,493)
Deferred revenue	(1,086)	(233,224)
Accrued 403(b) plan	75,389	50,000
Accrued pension	756,303	(126,198)
	<u>1,468,959</u>	<u>309,524</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchase of equipment, net of disposals	(20,256)	(20,134)
Proceeds from disposal of fixed asset	36,988	1,673,000
Proceeds from (purchase of) investments	(243,410)	305,492
	<u>(226,678)</u>	<u>1,958,358</u>
Net cash provided by (used in) investing activities		
Cash flows from financing activities:		
Payment for borrowings	(650,000)	(1,000,000)
	<u>(650,000)</u>	<u>(1,000,000)</u>
Net cash used in financing activities		
Net increase in cash	592,281	1,267,882
Cash at beginning of the year	<u>1,603,179</u>	<u>335,297</u>
Cash at end of the year	\$ <u><u>2,195,460</u></u>	\$ <u><u>1,603,179</u></u>
Supplemental disclosure:		
Cash paid for interest	\$ <u><u>6,384</u></u>	\$ <u><u>33,053</u></u>

The accompanying notes are an integral part of these financial statements

**AMERICAN LUNG ASSOCIATION IN CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012 AND 2011**

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.

In May 2010, ALA in CA changed its name from American Lung Association of California to American Lung Association in California.

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 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). From December 31, 2010 through December 31, 2012, at all FDIC-insured institutions, deposits held in noninterest-bearing transaction accounts are fully insured regardless of the amount in the account. At June 30, 2012, ALA in CA had cash balance of \$2,195,460, all of which was noninterest-bearing and fully FDIC insured.

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 Note 3.

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. Contributions, bequests, investment income and gains that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. 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.

K. Fair Value of Financial Instruments

ALA in CA believes that the carrying value of its financial instruments approximates their fair values in accordance with FASB Accounting Standards Codification 820 *Fair Value Measurements and Disclosures* (ASC 820). ASC 820 applies to all financial assets and liabilities that are being measured and reported on a fair value basis and requires such assets and liabilities to be classified and disclosed in one of the following three categories to enable readers of the financial statements to assess the inputs used to develop those measurement:

Level 1 Quoted market prices unadjusted in active markets for identical assets or liabilities.

Level 2 Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 Unobservable inputs that are not corroborated by market data.

The financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, ALA in CA uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as considers nonperformance risk in its assessment of fair value.

The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while ALA in CA believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. See Note 5.

L. 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 for years ended June 30, 2011, 2010 and 2009 are subject to examination by federal and state taxing authorities generally for three years after they are filed.

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, 2011, from which summarized information was derived.

NOTE 2: ACCOUNTS RECEIVABLE

A summary of accounts receivable - other is as follows:

	<u>2012</u>		<u>2011</u>
Tuberculosis grants	\$ 92,442	\$	391,230
Tobacco grants	727,522		638,972
Asthma grant	28,574		216,129
Other receivables	<u>508,015</u>		<u>666,489</u>
Total	<u>\$ 1,356,553</u>	\$	<u>1,912,820</u>

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

NOTE 3: BEQUEST RECEIVABLE

ALA in CA is a beneficiary of the Carlson Trust bequest. The fair value of this bequest is estimated to be \$2.25 million. ALA in CA received an initial distribution of \$450K in June 2012, with the remaining \$1.8 million reported as a receivable. This outstanding balance of \$1.8 million is expected to be received in 2012-2013, pending liquidation of real property and valuation of mutual funds that are in the trust.

NOTE 4: LONG TERM INVESTMENTS

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

	2012			2011		
	<u>Cost</u>	<u>Fair Value</u>	<u>Net Gains (Loss)</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Net Losses</u>
Investments:						
Money Funds	\$ 6,417,000	\$ 7,270,911	\$ 853,911	\$ 893	\$ 893	\$ -
Equity funds	<u>6,417,000</u>	<u>7,270,911</u>	<u>853,911</u>	<u>7,143,721</u>	<u>7,636,300</u>	<u>492,879</u>
Total	6,417,000	7,270,911	853,911	7,144,314	7,637,193	492,879
Beneficiary interest in Swall Foundation (Note 6)	11,141,898	13,923,323	2,781,425	11,328,946	14,014,606	2,685,660
Investment in San Diego Foundation	<u>25,562</u>	<u>25,562</u>	<u>-</u>	<u>25,852</u>	<u>25,852</u>	<u>-</u>
Total	<u>\$ 17,584,460</u>	<u>\$ 21,219,796</u>	<u>\$ 3,635,336</u>	<u>\$ 18,499,112</u>	<u>\$ 21,677,651</u>	<u>\$ 3,178,539</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 5: FAIR VALUE MEASUREMENTS

Information related to ALA in CA’s assets measured at fair value on a recurring basis at June 30, 2012 and 2011 are as follows:

	Assets at Fair Value as of June 30, 2012			
	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Long-term investments:				
Money funds	\$ 195,014	\$ 99,933	\$ -	\$ 95,081
Government bonds	421,435	-	-	421,435
Municipal bonds	2,331,214	2,313,158	-	18,056
Corporate bonds	1,875,513	-	-	1,875,513
Funds	7,270,110	915,777	-	6,354,333
Equities	9,100,948	3,942,043	-	5,158,905
Investment in San Diego Foundation	<u>25,562</u>	<u>25,562</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 21,219,796</u>	<u>\$ 7,296,473</u>	<u>\$ -</u>	<u>\$ 13,923,323</u>

Assets at Fair Value as of June 30, 2011

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Long-term investments:				
Money funds	\$ 587,885	\$ 893	\$	\$ 586,992
Government bonds	591,371			591,371
Municipal bonds	64,310			64,310
Corporate bonds	1,856,565			1,856,565
Funds	5,925,709			5,925,709
Equities	12,625,960	7,636,300		4,989,659
Investment in San Diego Foundation	25,852	25,852		
Total assets	\$ <u>21,677,651</u>	\$ <u>7,663,045</u>	\$ <u></u>	\$ <u>14,014,606</u>

Fair values for investments and interests in perpetual trusts are determined by reference to quoted market prices and other relevant information generated by market transactions. There were no transfers between level 1 and level 2 during the years ended June 30, 2012 and 2011.

During the years ended June 30, 2012 and 2011 there were no transfers in and out of Level 3. The reconciliation of activities in 2012 and 2011 for assets measured at fair value based on significant unobservable (non-market) information is shown in Note 6.

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, 2012 and 2011.

	2012	2011
Balance, beginning of year	\$ 14,014,606	\$ 12,071,675
Net (decrease)/increase in beneficial interest	(91,283)	1,942,931
Balance, end of year	\$ <u>13,923,323</u>	\$ <u>14,014,606</u>

NOTE 7: PROPERTY AND EQUIPMENT

A summary of property and equipment is as follows:

	2012	2011
Land	\$ 613,207	\$ 613,207
Building and improvements	954,970	954,970
Leasehold improvements	335,124	335,124
Office furniture and equipment	1,038,005	1,086,689
Total	2,941,306	2,989,900
Less: Accumulated depreciation	(1,771,793)	(1,720,526)
Total	\$ <u>1,169,513</u>	\$ <u>1,269,464</u>

Depreciation expense amounted to \$100,165 and \$157,191 for the years ended June 30, 2012 and 2011, respectively.

NOTE 8: BORROWINGS

- (a) In June 2009 ALA in CA signed a \$500,000 line of credit with Bank of the West. There was no outstanding balance drawn on this line of credit at June 30, 2012. ALA in CA did renew the credit line for \$500,000 on July 25, 2012 which matures on July 1, 2013.
- (b) ALA in CA is obligated on a margin loan dated May 2010 margined against ALA in CA's investment assets, in the amount of \$400,000, payable to Fidelity Investments. In September 2010, ALA in CA obtained additional margin loan from Fidelity Investment in the amount of \$250,000. The loan bears interest at the rate of 2.5% per annum, and is open-ended with no maturity date, until the balance is paid off. The entire outstanding amount of \$650,000 was paid off during 2012 and therefore there was a zero balance at June 30, 2012.

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>
State office	\$ 1,827	April, 2014
Sacramento	\$ 95,803	December, 2012
Bakersfield	\$ 26,956	August, 2014
Los Angeles	\$ 78,274	November, 2012

ALA in CA also leases equipment as follows:

<u>Location</u>	<u>Monthly Payments</u>	<u>Expiration Date</u>
State office	\$ 783	July, 2017
San Bernadino	\$ 178	May, 2017
Bakersfield	\$ 506	February, 2013
Fresno	\$ 325	August, 2014
Los Angeles	\$ 458	January, 2014
San Diego	\$ 453	March, 2015

Minimum future annual rental payments under non-cancellable operating leases (for office spaces) having remaining terms in excess of one year as of June 30, 2012 are:

Fiscal Years Ending June 30,	State office	Bakersfield	Los Angeles	Sacramento	Total
2013	\$ 1,827	\$ 29,143	\$ 32,510	\$ 48,523	\$ 112,003
2014	1,523	29,143			30,665
2015		4,857			4,857
	<u>\$ 3,350</u>	<u>\$ 63,143</u>	<u>\$ 32,510</u>	<u>\$ 48,523</u>	<u>\$ 147,525</u>

NOTE 10: SPECIAL EVENTS - NET OF DIRECT EXPENSES

The following is a summary of special events income:

	2012	2011
Gross revenue	\$ 1,303,137	\$ 1,356,802
Direct expenses	<u>(161,381)</u>	<u>(232,754)</u>
	<u>\$ 1,141,756</u>	<u>\$ 1,124,048</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, 2012 and June 30, 2011.

	2012	2011
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 4,974,765	\$ 5,476,600
Net interest cost	1,214,292	111,636
Benefits paid	<u>(144,185)</u>	<u>(613,471)</u>
Benefit obligation at end of year	<u>\$ 6,044,872</u>	<u>\$ 4,974,765</u>

Change in plan assets		
Fair value of plan assets at beginning of year	\$ 4,372,065	\$ 4,737,702
Net return on plan assets	285,240	235,226
Employer contributions	172,749	12,608
Benefits paid	(144,185)	(613,471)
	<hr/>	<hr/>
Fair value of assets at end of year	\$ 4,685,869	\$ 4,372,065
	<hr/>	<hr/>
Funded status at end of year	\$ (1,359,003)	\$ (602,700)
Amount recognized in the statement of financial position consist of :		
Non-current liabilities	(1,359,003)	(602,700)
Accumulated benefit obligation at end of year	6,044,872	4,974,765
Information for pension plans with an accumulated benefit obligation in excess of plan assets		
Projected benefit obligation	6,044,872	4,974,765
Accumulated benefit obligation	6,044,872	4,974,765
Fair value of plan assets	4,685,869	4,372,065
Net periodic benefit cost and other changes in unrestricted net assets		
Net periodic benefit cost	31,940	(9,872)
Recognized net loss	897,112	(113,646)
	<hr/>	<hr/>
Total	\$ 929,052	\$ (123,518)
	<hr/>	<hr/>
Weighted average assumptions used to determine benefit obligation as of June 30,		
Discount rate	4.25%	5.75%
Rate of compensation increase	N/A	3%
Weighted average assumptions used to determine net periodic benefit costs for the year ended June 30,		
Discount rate	5.75%	5.50%
Rate of compensation increase	N/A	3%
Expected return on plan assets	6.00%	6.50%
Asset allocation		
Asset category		
Equity securities	30.00%	17.11%
Debt securities	67.00%	76.52%
Real estate	0.00%	5.10%
Cash and cash equivalents	3.00%	1.27%
	<hr/>	<hr/>
	100%	100%
	<hr/>	<hr/>

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

2012	\$	721,421
2013		547,261
2014		482,127
2015		333,077
2016		500,019
2017-2021		1,508,219

The following are the major categories of plan assets at fair value as of June 30, 2012 and 2011:

	June 30, 2012		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Money funds	\$ 104,124	\$	\$ 104,124
Common stocks	727,802		727,802
U.S. Treasury bonds	721,295		721,295
Corporate bonds		2,974,490	2,974,490
Joint venture		158,185	158,185
Total	<u>\$ 1,553,221</u>	<u>\$ 3,132,675</u>	<u>\$ 4,685,896</u>

	June 30, 2011		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Money funds	\$ 56,403	\$	\$ 56,403
Common stocks	760,639		760,639
U.S. Treasury bonds	1,231,384		1,231,384
Corporate bonds		2,170,035	2,170,035
Joint venture		153,604	153,604
Total	<u>\$ 2,048,426</u>	<u>\$ 2,323,639</u>	<u>\$ 4,372,065</u>

Rate of return on assets assumption:

Effective July 1, 2012, the expected long term rate of return on assets assumption is 6.50%. 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 for the plan is:

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

The secondary objective in the investment management of assets is:

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

Additional objectives for 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, 2012, benefit obligation increased by approximately \$1,000,000 during fiscal year 2012.

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>2012</u>	<u>2011</u>
Program services	\$ <u>884,294</u>	\$ <u>1,027,006</u>
Support services:		
Management and general	332,989	371,539
Fundraising	<u>812,776</u>	<u>946,227</u>
	<u>1,145,765</u>	<u>1,320,766</u>
Total	\$ <u><u>2,030,059</u></u>	\$ <u><u>2,347,772</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 13% of the shareable income to finance ALA office and program activities. ALA in CA paid \$787,044 and \$758,061 in shareable income fees for fiscal years 2012 and 2011, 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 year ended June 30, 2012. Asset and liability associated with charitable gift annuities is \$596,852 and \$675,280, respectively, at June 30, 2012.

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, 2012 through October 24, 2012, 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, 2012**

Master Contract: Consolidated PHSVC 900665

Contract Number:	900665	900665	900665	
Encumbrance/File Number:	*	*	*	
Contract Period:	07/1/11-6/30/12	07/1/11-6/30/12	07/1/11-6/30/12	
	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>125,000</u>	\$ <u>90,000</u>	\$ <u>257,000</u>
Salaries	24,810	25,135	58,535	108,480
Fringe benefits and payroll taxes	5,570	5,966	13,937	25,473
Consultants/Community grants	-	81,998	-	81,998
Communications	159	100	991	1,250
Staff and volunteer travel	287	42	397	726
Conferences, conventions, and meetings	-	271	340	611
Printing and publications	75	156	215	446
Postage	112	272	69	453
Website	4,035	-	-	4,035
Office supplies	625	-	221	846
Equipment rental and maintenance	70	125	155	350
Promotional Items/Incentives	707	-	38	745
Indirect (admin) cost	<u>5,180</u>	<u>7,521</u>	<u>10,663</u>	<u>23,364</u>
 Total expenses	 <u>41,630</u>	 <u>121,586</u>	 <u>85,561</u>	 <u>248,777</u>
 Amount reimbursed by the County of Alameda	 \$ <u><u>34,928</u></u>	 \$ <u><u>79,005</u></u>	 \$ <u><u>75,387</u></u>	 \$ <u><u>189,320</u></u>

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

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

We have audited the financial statements of American Lung Association in California (a Non-Profit Organization) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered American Lung Association in California's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of American Lung Association in California's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and other Matters

As part of obtaining reasonable assurance about whether American Lung Association in California's financial statements are free of 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*.

This report is intended solely for the information and use of management, audit committee, the board of directors, others within the organization, and regulatory body and is not intended to be and should not be used by anyone other than these specified parties.

Patricia A. Aguirre
Oakland, California
October 24, 2012

**AMERICAN LUNG ASSOCIATION IN CALIFORNIA
FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2012**

No findings are reportable in the current year.

**AMERICAN LUNG ASSOCIATION IN CALIFORNIA
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2012**

No matters were reported.